

**Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General**

**Statutorily Mandated Audit of
Miscellaneous Expenses for the Period
January 1 to March 31, 2017**

Report No. 18-AUD-01

October 5, 2017



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Metro

Los Angeles County
Metropolitan Transportation Authority

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DATE: October 5, 2017

TO: Board of Directors
Chief Executive Officer

FROM: Yvonne Zheng, Senior Manager, Audit 

SUBJECT: Statutorily Mandated Audit of Miscellaneous Expenses
For the Period January 1 to March 31, 2017, Report No. 18-AUD-01

INTRODUCTION

The Office of the Inspector General (OIG) performed the statutorily mandated audit of miscellaneous expenses for the period January 1 to March 31, 2017.

This audit was performed pursuant to California Public Utilities Code section 130051.28(b) which requires that the Inspector General report to the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors on miscellaneous expenses including travel, training, meals, private club dues, and membership fees.

Our audit found that the amounts incurred for the 31 statistically sampled expenses were supported by invoices or receipts. However, we found that (a) there was insufficient transparency of large, recurring Business Interruption Fund expenses, and (b) two cardholders did not always follow the Purchase Card Program guidelines and restrictions.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objectives of the audit were to determine whether miscellaneous expenses incurred were:

- Reasonable and in accordance with Metro policies and procedures;
- Adequately supported by receipts, proper approvals, and other appropriate documentation; and
- Charged to the appropriate account as defined in the Metro Chart of Accounts.

To achieve the audit objectives, we performed the following procedures:

- Reviewed Metro policies on Travel and Business Expenses (FIN-14), Purchase Card Program, and Check Request (ACC-01).
- Interviewed personnel in the Accounting Department to obtain an understanding of the processes for paying expenses.
- Contacted the Purchase Card Program Administrator regarding policies and rules.

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- Discussed business travel related issues with Travel Program Coordinator.
- Reviewed Metro’s Chart of Accounts.
- Examined supporting documents for payments to determine whether proper approvals were obtained, expenses were justified, and required supporting documentation was submitted.
- Reviewed a statistical sample of all expenses and supporting documents such as receipts, monthly Purchase Card Logs, Travel and Business Expense (T&BE) Reports, Travel Request/Authorization Forms, monthly purchase card statements, and other financial documents.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions according to the audit objectives.

Metro’s miscellaneous expenses for the period January 1 to March 31, 2017, totaled \$2,820,449¹ (see Attachment A). We reviewed a statistical sample of 31 randomly selected expenses totaling \$275,485 (see Attachment A).

BACKGROUND

Metro uses three options to pay miscellaneous expenses: (1) Metro’s Purchase Cards, (2) employee reimbursement through Travel and Business Expense reports, and (3) Check Requests. Each option has its own applicable policies, procedures, or guidelines. The Accounts Payable Section in the Accounting Department is responsible for the accurate and timely processing of payments for these expenses.

RESULTS OF AUDIT

A. Separate Account Was Not Established for Business Interruption Fund Expenses.

We found that large, recurring Business Interruption Fund (BIF) expenses were recorded in the Account 50999, “Misc. – Expenses-Others,” which is typically used for infrequent, small, and/or non-reoccurring expenses that do not fit other accounts. The definition in Metro’s Descriptive Chart of Accounts states that account 50999 is for “miscellaneous expenses incurred that cannot be classified under Accounts 50901 to 50940...”

¹ These totals do not include transactions that were \$200 or less, credit amounts, and transactions incurred by the OIG or the Ethics Department.

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In 2014, the Metro Board established the BIF for mitigating the financial impact of rail construction on small businesses by awarding grants to help these businesses continue to thrive throughout construction and post construction. The annual estimate for BIF payments is \$10 million. Since the inception of this program, the Accounting Department has recorded BIF expenses in Account 50999 because a separate account had not been established for this program. In our opinion, recording large, recurring BIF expenses in Account 50999 obscures transparency of BIF program payments because Account 50999 consists of many small and/or non-reoccurring expenses.

Our review found that \$202,129 (77.3%) of the \$261,597 in Account 50999 we sampled was for BIF expenses. For the entire quarter, 9 BIF expenses totaled \$1.97 million, which accounted for 80% of the \$2.45 million charged to Account 50999.

We discussed this matter with the Accounting management. They agreed that to be more transparent, BIF expenses should have a separate account rather than being charged to Account 50999. On June 26, 2017, Accounting established a new Account, 50920, for the Business Interruption Fund, and reclassified all \$8.5 million of BIF expenses for Fiscal Year 2017 to this new account. Since Metro has taken action to address this matter, a recommendation is not included in this report.

B. Purchase Card Program Requirements Were Not Always Followed.

Our review of 31 sampled expenses including 12 Purchase Card (P-Card) transactions found that two cardholders did not always follow Program requirements.

1. Purchase Cards were used to purchase food without authorization.

Two P-Card expenses for purchasing food did not have the required authorizations on file. Both of these purchases were from the same department but made by different cardholders. One expense totaling \$495.30 was for three separate food purchases,² and the other expense was for a single food purchase of \$644.80.

The Purchase Card Program Restrictions state that:

“Food items may be purchased if there is an advanced approval from Purchase Card Program in support of approved business meetings. Only the Chief of a department may issue a request in writing via inter-office memo to the Purchase Card Program requesting the use of a PCard to purchase food.”

Our review did not find the required advance approvals for the two food purchases reviewed. We asked the two cardholders to provide us copies of the authorizations to purchase food using their P-Card. They provided copies of outdated documents, which they believed were still valid:

² For recording purposes, Accounting compiles all lines (purchases) with the same accounting citation (fund, cost center, account, and project) into one expense for that month.

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one was 2 years old and the other was 5 years old. A P-Card Program manager disagreed that the prior authorizations were still valid and said all authorizations must clearly state that they are for one-time use only or have a specific expiration date. He further stated that he would ensure that future authorizations have an expiration date. We discussed this matter with the Deputy Executive Officer of the user department who said he would request an approval from the Purchase Card Program for all future food purchases. Since actions have been taken to clarify the requirement for advanced approval of food purchases, a recommendation is not included in this report.

2. Monthly Purchase Card Log was not completely filled out as required.

While we were reviewing documentation for the \$644.80 P-Card purchase discussed above, we found that the cardholder had left the Date of Purchase column blank on the Monthly Purchase Card Log. Further review found that the cardholder left the dates blank for all 25 expenses listed on this log totaling \$13,808.52. The cardholder told us that the reason for leaving the dates blank was that the dates could be found on the receipts. However, the Purchase Card Program Procedures state:

“Monthly Purchase Card Log must be used to record all transactions, to reconcile with the Bank Statement, and to process payment authorization...All fields must be completely filled out.”

We discussed this requirement with the cardholder, who stated she would record all required information on the log in the future. Since the cardholder has agreed to correct the deficiency, a recommendation is not included in this report.

Summary of Expenses Audited

For the Period from January 1, 2017 to March 31, 2017

Account	Account Description	Total Amount	Sample Amount
50213	Training Program	\$ 45,877	\$ 4,416
50903	Business Meals	44,432	1,827
50905	Misc – Corporate Membership ^(*)	13,052	0
50908	Employee Relocation ^(*)	30,000	0
50910	ER Mileage / Parking ^(*)	8,825	0
50912	Misc – Professional Membership ^(*)	3,295	0
50914	Schedule Checkers	2,180	423
50915	Seminar and Conference Fee	97,725	2,145
50917	Business Travel	123,750	5,077
50930	Employee Activities and Recreation ^(*)	855	0
50999	Other Miscellaneous Expenses	<u>\$ 2,450,458</u>	<u>\$ 261,597</u>
Totals		<u>\$ 2,820,449</u>	<u>\$ 275,485</u>

The above amounts do not include transactions that were \$200 or less, credit adjustments, and expenses incurred by the OIG or the Ethics Department.

Note

(*) The random selection of 31 expenses did not result in selection of an expense in this account.

Final Report Distribution

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