

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

**Audit of Miscellaneous Expenses and
Check Requests for the Period
January 1, 2018 to March 31, 2018**

Report No. 19-AUD-05

December 21, 2018



TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT	1
BACKGROUND	2
RESULTS OF AUDIT	2
A. Miscellaneous Expenses Sample Results	2
B. Check Requests Sample Results	6
CONCLUSION	8
RECOMMENDATIONS	8
METRO MANAGEMENT COMMENTS	9
EVALUATION OF METRO MANAGEMENT COMMENTS	9
APPENDICES	
A. Summary of Sampled Expenses Audited	10
B. Management Comments to Draft Report	11
C. Final Report Distribution	13



Metro

DATE: December 21, 2018

TO: Metro Chief Executive Officer
Metro Board of Directors

FROM: Yvonne Zheng, Senior Manager, Audit
Office of the Inspector General 

SUBJECT: Audit of Miscellaneous Expenses and Check Requests
For the Period January 1 to March 31, 2018, Report No. 19-AUD-05

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of miscellaneous expense transactions processed from January 1, 2018 to March 31, 2018. This audit was performed pursuant to Public Utilities Code Section 130051.28(b), which requires the OIG to report quarterly to the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors on miscellaneous expenses, such as travel, meals, refreshments, and membership fees. We also reviewed a sample of check requests processed from January 1, 2018 to March 31, 2018.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objectives of the audit were to determine if miscellaneous expenses and check requests were adequately supported by appropriate documentation and complied with Metro policies, procedures, and guidelines. To accomplish these objectives, we obtained a listing of 523 miscellaneous expenses¹ totaling \$3.0 million processed from January 1, 2018 to March 31, 2018. We statistically selected a random sample of 30 expenses totaling \$207,443 to review. (See Appendix A for details.) In addition, we also reviewed a sample of 10 check requests processed from January 1, 2018 to March 31, 2018.

The audit samples covered numerous types of expenses, such as business meals, conference/seminars, business travel, and other miscellaneous expenses. We reviewed invoices, receipts, justification memos, and other supporting documentation for each transaction. We reviewed policies, procedures, and guidelines applicable to these transactions. We also interviewed several Metro employees, including staff in Accounting, Construction Management, Travel Program, Highway Capital, Public Relations, Office of Civil Rights, Metro Art and Design, Information Technology Services (ITS), and Procurement Departments.

¹ This total does not include transactions that were \$200 or less, credits, and OIG or Ethics transactions.

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System. Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards (P-Card), purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines. The Accounting Department's Accounts Payable Section is responsible for the accurate and timely processing of payments for miscellaneous expenses.

RESULTS OF AUDIT

The audit found that most of the miscellaneous expenses and check requests reviewed were properly approved, justified, supported, accurate, and in compliance with Metro policies, procedures, and guidelines. However, we found issues with four miscellaneous expenses and three check requests:

Miscellaneous Expenses

- Noncompliance with travel expense policy.
- P-Card logs were not submitted to Accounting in a timely manner.
- Procurement file for a purchase order was missing.
- An employee was underpaid for travel.

Check Request Transactions

- Check request policy for justification memos was not enforced.
- Travel costs were not supported.

A. Miscellaneous Expenses Sample Results

1. Noncompliance with Travel Policies

Criteria. Metro's Travel and Business Expense policy (FIN 14) requires traveling employees to submit a completed and signed travel request/authorization (TA) form in a timely manner to the Travel Program Administrator for processing. It also requires employees to request reimbursement for travel expenses by submitting a travel & business expense report (TBE)

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

with their receipts within 30 calendar days after returning from travel and requires the Travel Program Administrator to review the TBE documentation for completeness.

TA Was Not Submitted Before Travel and TBE Was Submitted Late. A Metro employee attended a seminar in August 2017 in San Francisco, CA to get recertified in construction inspections. However, the Traveler did not submit the required TA form for supervisory approval nor consult with the Travel Program Administrator for assistance before his travel. His TBE was not submitted until January 2018 (nearly 5 months later). This happened because the Traveler, who works in Construction Management, was unfamiliar with Metro's FIN 14 policy and had never travelled before. The Traveler said he was not aware that he was supposed to make his travel arrangements through the Travel Program Administrator. He also stated that people in his section, including his supervisor, were unfamiliar with FIN 14 as well because they rarely travel for work. He did not learn of the requirements until he sought to get reimbursed. The Travel Program Administrator explained the FIN 14 requirements to him and worked with him to get the required forms filled out.

It is important that written authorization for travel is obtained before a trip because it ensures the traveler's department head and Executive Officer have verified that the travel is for valid business purposes. It also makes the Travel Program Administrator aware of the travel and gives her an opportunity to ensure the travel arrangements are the most economical choice and follow FIN 14 policy, such as allowable lodging rates. TBEs should be submitted in a timely manner to allow Accounting to allocate expenses in the proper period to ensure the financial records accurately reflect the expenses that were incurred during that time period. The Traveler is confident that he now understands the FIN 14 requirements. However, the Chief Program Management Officer should ensure that all Construction Management staff are aware of FIN 14 in case they need to travel in the future.

Inadequate Support. The Traveler's TBE form showed two costs associated with the recertification: \$500 and \$320. With the TBE, he provided an invoice for the \$500 registration fee for the class. He also provided a copy of a \$320 personal check written out to the organization but did not provide any documentation, such as an invoice, to support what expense the \$320 covered. The Traveler stated that because he had never travelled before for Metro, he did not know what documents were needed.

The Travel Program Administrator considered the copy of the personal check to be sufficient and stated she was hesitant to ask for more support because the TBE had already been approved by the Traveler's supervisor. The copy of the check was not adequate because there was no way to verify that the amount paid was accurate or required. It is important that support, such as invoices, be provided with TBEs to ensure Metro is paying for valid expenses. At our request, the Traveler was able to quickly obtain a copy of the invoice from the organization. It showed that the \$320 was the fee to take an examination following the class. After our review, the Travel Program Administrator agreed that the copy of the check was not sufficient

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

and will ensure that all TBEs have proper support in the future. She is also considering requiring that TBEs be sent to her for review before going to the supervisor for approval so that she can ensure all proper documentation is attached.

2. P-Card Logs Were Late

Criteria. Cardholders are required to complete a Monthly Purchase Card Log of purchases made on the P-Cards and attach the supporting receipts. The documentation is reviewed and signed by the Approving Official and submitted to Accounts Payable. Completing this log is important to ensure:

- all purchases on the monthly P-Card log are reconciled to the receipts and each transaction is supported,
- all purchases on the monthly P-Card log are reconciled to the credit card statement for accuracy, and
- credits, credit card statement errors, or disputed items are identified.

The P-Card policy requires Cardholders to submit their Monthly Purchase Card Logs to their Approving Official within five working days of receipt of the credit card statement². By the 15th of the following month, the P-Card log is required to be submitted to Accounting.

P-Card Logs Were Consistently Late. In our sample, we reviewed an Office of Civil Rights P-Card transaction of \$550 for a conference registration. This payment was listed on the Cardholder's October 2017 P-Card log. The P-Card log was not submitted to Accounting until mid-January 2018 (2 months late). We reviewed 10 additional months of P-Card logs for the Cardholder and found the Cardholder was late 7 of the 10 months (70 percent). The Cardholder acknowledged that she "gets backed up" in submitting the logs. It is important that the logs are submitted timely so Accounts Payable staff can perform reviews to ensure purchases comply with policy. In addition, if Cardholders are delinquent with their logs, their cost center's account balances are not current because they do not reflect all the purchases made.

We reported in a prior audit, *Statutorily Mandated Audit of Miscellaneous Expenses for the Period April 1, 2017 to June 30, 2017, Report No. 18-AUD-06, June 29, 2018* that Accounts Payable staff were not sending out required monthly reminder emails to delinquent Cardholders or notifying the Agency Program Coordinator of the delinquent logs due to lack of resources. The Executive Officer, Finance/Controller and an Accounting Manager reported that as of July 2018 they have addressed the issue and are sending out the reminders monthly.

Management Action. We discussed this matter with the Cardholder's current Approving Official (who is also the Chief Civil Rights Program Officer) who replaced the former Approving Official in March 2018. He stated that if lateness becomes an issue, he plans to

² U.S. Bank Credit Card Statements are usually sent around the 22nd of each month.

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

counsel the Cardholder and will include the submission of the P-Card logs in the Cardholder's individual performance plan.

3. Purchase Order Compliance Issues

Two of our sample items were for invoices from Fred's Car Wash. One was for \$627 for car washing services provided in October 2017, and one was for \$539 for car washing services provided in December 2017. These invoices were paid through a Purchase Order (PO) that was executed in September 2012. We found the following issues with these procurements:

No Documentation. Procurement Department staff could not find the procurement file for Fred's Car Wash. The only documentation they had was an electronic copy of the PO. Vehicle Operations (the requesting department) paid Fred's Car Wash a total of \$5,511 in 2017. Metro's procurement policy requires a written record of procurement history for purchases above the \$3,000 micro-purchase threshold. The Procurement Department has a template/checklist of documents that should be included in the procurement files, such as a copy of the PO and any amendments, statement of work, sole-source justification, modifications, and price quotes. The current Contract Administrator acknowledged that there should have been a procurement file and documentation that listed the agreed upon services and prices. Because he inherited the procurement after it had been established by another contract administrator, he could not explain where the procurement file was or why there was no pricing documentation.

In our two sample transactions, Fred's Car Wash invoices listed three prices for car washing services that were charged for Metro vehicles: \$16, \$14, and \$5. The \$16 was charged for SUVs that received air freshener, the \$14 was charged for SUVs without air freshener, and the \$5 was charged to Sedans. However, because the Procurement Department did not have any documentation about pricing, there is no assurance that the invoice prices that Metro paid were the prices agreed to when the PO was created.

No Price Quotes Obtained. The Contract Administrators added funding seven times to the same PO used for Fred's Car Wash from September 13, 2012 until September 7, 2017 (5 years). Because there was no documentation, we could not determine the PO's expiration date. However, the Contract Administrator acknowledged that he should have considered executing a new PO during the 5 years and said it "slipped through the cracks" because the individual invoice amounts were relatively small. As a result of not executing a new PO, there was no open competition, price quotes were not obtained from other vendors, and the department may not have obtained the best price or value. A DEO in Procurement stated that it is important that Contract Administrators periodically review options available to ensure Metro is getting the best services at a reasonable price.

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

The Contract Administrator informed Vehicle Operations that he will have to issue a new PO in the future if they want to continue getting car washes. The Contract Administrator said he will ensure any future PO and procurement files include key information, such as the services and prices.

Management Action. We reported similar procurement issues in our report, *Audit of Procurement of Subscription Services, Report No. 18-AUD-02, February 28, 2018*. As a result of that review, the Chief Vendor/Contract Management Officer provided refresher training on June 13, 2018 to contract administration staff regarding purchase order procedures and the importance of maintaining procurement files. This training addressed the current findings of this audit.

4. Incorrect Reimbursement Was Made

The Accounts Payable Section is responsible for the accurate and timely processing of payments for miscellaneous expenses. We reviewed 10 TBEs related to travel and found that one of them resulted in an underpayment. The Travel Program Administrator made a handwritten note on the TBE that the Traveler was to be reimbursed \$264. The Accounts Payable staff misread the handwriting and paid the Traveler \$244. After we brought the underpayment to their attention, Accounts Payable staff immediately reimbursed the Traveler the \$20 balance due. The Travel Program Administrator stated she will be more careful with her penmanship in the future.

B. Check Requests Sample Results

We reviewed a sample of 10 check requests processed between January 1, 2018 and March 31, 2018. We found issues with three of them.

1. Justification Memos Were Not in Compliance with Policy

Criteria. Metro’s check request policy states that purchases greater than \$3,000 are not allowed “unless accompanied by a memo of justification approved by the Chief Officer of the user department initiating the check request with copy to an Executive Officer, Vendor/Contract Management who will ensure that all exception justification memos are reviewed for compliance with Metro’s Procurement Policies and Procedures.” It also requires that the “extraordinary circumstances” that necessitated using a check request for the purchase instead of going through the Procurement Department are documented in a justification memo. Accounts Payable staff review the justification memos and the check requests to determine if they meet criteria and are eligible to be processed.

Prior Audit. We reported the issue of Accounting staff accepting insufficient justification memos in a prior OIG report (*Audit of Procurement of Subscription Services, Report No. 18-*

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

AUD-02, February 28, 2018). As a result of this audit, the Accounting Department conducted training on July 25, 2017, in which they reminded Accounts Payable staff to check to ensure that a copy of the memo is sent to the Executive Officer of Vendor/Contract Management. The training also included what information should be in the memo.

Check Request Noncompliance Issues. Of the 10 sample transactions reviewed in our current audit, 3 were over \$3,000 and required a justification memo in order to use a check request for payment. These three purchases were for upgrading software, hiring a vendor to instruct Metro staff on the use of a software program, and parking at an event. Justification memos for all three transactions did not comply with the check request policy.

- The three justification memos were not submitted to the Executive Officer, Vendor/Contract Management as required. As a result, the Procurement Department was not aware of these procurements and, therefore, did not have the opportunity to review the procurements for compliance with Metro's procurement policies.
- Two of the three justification memos (for the software upgrade and the software training) did not explain the extraordinary circumstances that necessitated using a check request for these purchases instead of going through the procurement process.

A Senior Director of Accounting explained that the Accounts Payable staff did not think the transactions in our sample warranted going through the Procurement Department and, as a result, did not require the requesting departments to explain why they were not using the Procurement Department or to submit the justification memo to the EO, Vendor/Contract Management. He acknowledged that staff did not follow the policy. We believe it is important for the Accounts Payable staff to enforce the policy because they are not necessarily aware of which transactions should go through the Procurement Department. For example, one of the three sample transactions was for hiring a vendor to provide training on a software the vendor sells. However, there were several vendors who could have provided the training on the software. Because Accounts Payable staff did not require the justification memo to be submitted to the EO, Vendor/Contract Management for review, it did not allow Procurement the opportunity to advise the department on the best method or vendor for procuring the needed services. A further negative impact to not involving the Procurement Department in purchases when appropriate is Federal and state requirements and Metro goals regarding disadvantaged and small business enterprises could potentially be violated.

Management Action. The Senior Director of Accounting agreed that Accounts Payable staff should comply with the check request policy. As a result of our audit, on September 18, 2018, Accounting Management instructed the Accounts Payable staff to comply with the policy for justification memos and provided the Accounts Payable staff a checklist of information that must be on the justification memos and examples of acceptable justification memos. The requesting departments (Highway Capital, Public Relations, and Metro Art & Design) told us

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

they were not aware of the justification memo requirements and stated they will comply in the future.

2. Travel Costs Were Not Supported

Background. We reviewed a sample transaction of \$3,200 paid to a vendor to come to Gateway for one day and instruct Metro Art & Design staff on the use of a software program. The vendor issued an invoice in February 2018 for \$3,200: \$3,000 for training services and \$200 for travel costs. According to the Senior Manager in Signage & Environment Graphic Design who was responsible for the procurement, the vendor insisted on being paid before the training, so Accounting issued a check to the vendor for \$3,200 in March 2018.

Actual Travel Costs Not Obtained. The invoice stated “travel costs will be billed at actual expenses, not to exceed \$200.” The vendor’s office location was in Pasadena, CA—11 miles away from Gateway (or 22 miles round trip). Paying \$200 for a round trip between Pasadena and Gateway seems excessive. If Metro reimbursed the vendor at the IRS 2018 mileage rate of 54.5 cents per mile, the total cost would have been \$11.99 (22 miles x 54.5 cents), plus there would have been an \$8 parking fee at Gateway. Accounting staff noticed the clause on the invoice and believed that the vendor would provide a refund of any overpayments for travel after the training was completed. The training was conducted on May 2, 2018. As of September 2018, the Senior Manager had not received or requested the vendor’s actual expenses. She stated that she was new to doing procurements and did not realize this was something she needed to follow up on. It is important that Metro only pays for expenses that are valid. After our discussion, she plans to ask the vendor for their actual travel expenses.

CONCLUSION

We found most miscellaneous expenses were properly supported and in compliance with Metro policies. However, we found several issues with 4 miscellaneous expenses of the 30 (13 percent) reviewed and 3 of the 10 check requests (30 percent) reviewed. Metro needs to strengthen compliance with P-Cards, procurements, travel, and check request policies.

RECOMMENDATIONS

We recommend that:

1. The Chief Program Management Officer should ensure that Construction Management staff are made aware of Metro’s Travel and Business Expense (FIN 14) policy.
2. The Chief Civil Rights Program Officer should ensure the Cardholder submits P-Card logs in a timely manner.

**Audit of Miscellaneous Expenses and Check Requests for the Period
January 1 to March 31, 2018**

Office of the Inspector General

Report No. 19-AUD-05

3. The Chief Communications Officer should require the Senior Manager, Signage & Environment Graphic Design to obtain the vendor's actual travel costs and obtain a refund, if appropriate.

METRO MANAGEMENT COMMENTS

Metro management agreed with the recommendations in this report and took the following corrective actions. (See Attachment B for details of actions implemented.)

- Chief Program Management Officer plans to ensure that Construction Management staff are made aware of Metro's travel and business expense policy by January 31, 2019.
- The Chief Civil Rights Program Officer plans to monitor the timeliness of the P-Card logs on an ongoing basis.
- The Chief Communications Officer plans to have staff obtain the vendor's actual travel costs and obtain a refund if appropriate by January 31, 2019.

EVALUATION OF METRO MANAGEMENT COMMENTS

Metro management's proposed corrective actions are responsive to the findings and recommendations in the report. The OIG will monitor the planned actions and follow up on implementation of the recommendations until all proposed actions are completed.

**Summary of Sampled Expenses Audited
For the Period from January 1 to March 31, 2018**

<i>Account</i>	<i>Account Description</i>	<i>Total Amount</i>	<i>Sample Amount</i>
50213	FB Training Program	\$5,607	\$ 0
50903	Business Meals	\$46,263	\$537
50905	Corporate Membership	\$77,074	\$0
50908	Employee Relocation	\$21,881	\$0
50910	Mileage / Parking	\$7,629	\$0
50912	Professional Membership	\$ 20,195	\$1,197
50914	Schedule Checkers Travel	\$ 1,994	\$0
50915	Seminar/Conference Fee	\$178,425	\$4,495
50917	Business Travel	\$112,144	\$6,531
50920	Business Interruption Fund	\$2,083,788	\$183,736
50999	Other Miscellaneous Expenses	<u>\$ 480,468</u>	<u>\$10,947</u>
	<i>Totals</i>	<u>\$ 3,035,468</u>	<u>\$ 207,443</u>

Management Comments to Draft Report



Metro

Interoffice Memo

Date	December 14, 2018
To	Yvonne Zheng, Senior Manager, Audit, Office of Inspector General
From	Richard Clark ^e <i>RFC</i> Chief Program Management Officer Daniel Levy, Chief Civil Rights Programs Officer <i>D.L.</i> Pauletta Tonilas, Chief Communications Officer <i>P.T.</i>
Subject	Draft Report: Audit of Miscellaneous Expenses and Check Requests from January 1, 2018 to March 31, 2018 (Report No. 19-AUD-05)

OVERVIEW

We have reviewed the results of the subject audit report and concur with the recommendations in the report.

PROPOSED CORRECTIVE ACTIONS

The audit recommends that:

1. The Chief Program Management Officer should ensure that Construction Management staff are made aware of Metro's Travel and Business Expense (FIN 14) policy.

Management Response: Agree.

Program Management agrees with the recommendation, and the Executive Officer, Project Control and Administration, shall ensure that Construction Management staff are made aware of Metro's Travel and Business Expense (FIN 14) policy by January 31, 2019.

2. The Chief Civil Rights Program Officer should ensure the Cardholder submits P-Card logs in a timely manner.

Management Response: Agree

The Chief Civil Rights Programs Officer agrees with the recommendation and shall ensure the Cardholder submits P-Card logs in a timely manner by actively monitoring the P-Card logs and taking corrective action if required. This will be an ongoing process.

Management Comments to Draft Report

3. Chief Communications Officer should require the Senior Manager, Signage & Environment Graphic Design to obtain the vendor's actual travel costs and obtain a refund, if appropriate.

Management Response: Agree

Communications agrees with the recommendation, and the Senior Manager, Signage & Environmental Graphic Design, shall obtain the vendor's actual travel costs and obtain a refund if appropriate by January 31, 2019.

Should you have any questions about regarding the response, please feel free to contact Richard Clark, Daniel Levy, or Pauletta Tonilas.

Final Report Distribution

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