

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

**Statutorily Mandated Audit of
Miscellaneous Expenses –
Training and Seminars Accounts**

The expenses we reviewed for the training and seminars generally complied with Metro policies, were reasonable, and were supported by documentation. To improve upon this, Accounting and the Office of Management and Budget need to resolve their understanding on the definition and use of the training program account.

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Metro

Los Angeles County
Metropolitan Transportation Authority

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DATE: May 5, 2016

TO: Metro Chief Executive Officer
Metro Board of Directors

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

SUBJECT: Statutorily Mandated Audit of Miscellaneous Expenses –
Training and Seminars Accounts, Report No. 16-AUD-04

INTRODUCTION

The Office of the Inspector General (OIG) performed a statutorily mandated audit of two miscellaneous expense accounts for Training and Seminars. This audit was performed pursuant to 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 certain miscellaneous expenses such as training and seminars, which are the focus of this audit.

The audit found that the expenses we reviewed for training, seminars, and conferences generally complied with Metro policies, were reasonable, and were supported by invoices or receipts. To improve upon this, Accounting and the Office of Management and Budget need to resolve their understanding on the definition and use of training program account. This will help to ensure that expenditures are charged to the proper account.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objectives of the audit were to focus on reviewing Metro's expenses for training and seminars to determine whether expenses incurred were:

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

The scope of this audit covered the period of October 1, 2014, to March 31, 2015. We audited Account 50213, Fringe Benefits Training Program, and Account 50915, Seminar and Conference Fees. These expenses were as follows:¹

¹ These totals do not include transactions that were \$50 or less, credit amounts, and transactions incurred by the OIG or the Ethics Department.

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<u>Account</u>	<u>\$50 to \$2,999</u>		<u>\$3,000 or More</u>		<u>Total</u>	
	<u>Expenses</u>	<u>Amount</u>	<u>Expenses</u>	<u>Amount</u>	<u>Count</u>	<u>Amount</u>
50213	27	\$20,529.10	5	\$33,726.40	32	\$54,255.50
50915	169	\$104,395.73	6	\$26,820.00	175	\$131,215.73
Total	196	\$124,924.83	11	\$60,546.40	207	\$185,471.23

We reviewed 41 expenses totaling \$77,358.78 from both accounts. This included 11 expenses of \$3,000 or more (large expenses) totaling \$60,546.40; and 30 expenses (\$16,812.38) were selected from a universe of 196 expenses totaling \$124,924.83 from \$50 to \$3,000 each (smaller expenses).

Our sampled expenses included the following methods for purchases:

<u>Payment Methods</u>	<u>Number of Large Expenses</u>	<u>Number of Smaller Expenses</u>	<u>Total Number of Expenses</u>	<u>Total Amount</u>
Purchase Card	3	21	24	\$28,672.38
Reimbursements	0	1	1	\$60.00
Check Requests	8	8	16	\$48,626.40
Total	11	30	41	\$77,358.78

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

- Reviewed a judgmental and statistical sample of expenses in Accounts 50213 and 50915, and supporting documents such as receipts, monthly Purchase Card Logs, Travel and Business Expense (TBE) Report, monthly purchase card statements, and other documents,
- Reviewed appropriate Accounting and Purchase Card Program policies and procedures,
- Reviewed the appropriate definitions in the Metro Chart of Accounts,
- Contacted appropriate employees in Accounting, and Office of Management and Budget to clarify issues related to this audit, and
- Contacted selected user department Purchase cardholders to verify transactions.

The 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 according to our audit objectives.

We relied on computer-processed data that were provided to us, which detailed information on actual expenses for the period of our review for these two accounts. We did not note any errors

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that would preclude us from using the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

BACKGROUND

Metro employees may use three options to pay for training and seminars: by Metro's Purchase Cards, by personal funds then receiving reimbursement through travel and business expense (TBE) reports, and by check requests including purchase orders. The following Metro policies, procedures, or guidelines are applicable to these procurement options:

- Metro Policy FIN 14 (Travel and Business Expense)
- Metro Policy ACC 01 (Check Request)
- Purchase Card Program Rules and Guidelines

The Accounts Payable Section in the Accounting Department is responsible for the accurate and timely processing of payments for these miscellaneous expenses.

RESULTS OF AUDIT

Our audit found that, overall, the amounts of the 41 sampled expenses totaling \$77,378.78 for training, seminars, and conferences were supported by receipts or other documentation. However, we found that the definition and purpose of Account 50213 in the Chart of Accounts needs to be analyzed and clarified.

Use of Account 50213, Fringe Benefits Training Program, Should Be Clarified

We found that there is a different understanding between Accounting and OMB regarding the definition and use of Account 50213, Fringe Benefits Training Program, and the purpose of the account.

Chart of Accounts Definitions

Account 50213 appears in the Fringe Benefits section of Metro's Chart of Accounts and Account 50915 appears in the Miscellaneous section. The cost centers select which account to charge when submitting the invoice for payment. Office of Management and Budget (OMB) staff stated that Account 50213 is for mandatory training for union employees. However, the definition of Account 50213 (Fringe Benefit Training Program) in the Metro Chart of Accounts shown below does not state that the use of the account is only for union employees or mandatory training:

FRINGE BENEFITS (FB) - GENERAL – "Fringe Benefits" are expenses to insurance companies, government agencies and others on behalf of an employee or expenses made

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directly to an employee. These expenses are in addition to “wage” costs. Expenses for these accounts are part of the fringe benefit expense allocation burden. (Summary Account 50200).

50213 FB TRAINING PROGRAM – expense for off-site contracted training programs.

Review of Expenses Charged to Account 50213

We found that, during the 6 month period covered by this audit, there were 32 expenses totaling \$54,255.50 charged to Account 50213. Of this total, 11 expenses were in our sample charged to Account 50213 totaling \$36,361.40. We found that cost centers with no union employees had budget amounts in Account 50213 (Fringe Benefits Training Program), and they were using funds from this account to pay for training. Only 2 of the 11 expenses were for union employees as shown in the table below:

Sampled Training Expenses Charged to Account 50213	Number	Amount
Union Employees	2	\$110.00
Non-Contract Employees	3	\$4,570.00
Non-Contract Employees; however, the P-Card Log stated Account 50915 should be charged, but accounting found insufficient funds, so the department agreed to charge the expense to Account 50213	1	\$220.00
Other ²	1	\$880.00
Expenses not associated with any individual but to purchase a system or a training portion of a system	4	\$30,581.40

We discussed the above expenses with the purchase cardholders or the non-contract individuals who went to training. They informed us of the following:

- One department charged training for non-contract staff to Account 50213. Staff at this department informed us that they choose this account based on whichever account had the budgetary funding to cover the expense.
- A second department also charged training for non-contract staff to Account 50213. Staff at this department were unaware of the restriction to use this account for only union employees.
- A third department charged training for a non-contract employee to Account 50213. The individual who went to the training told us he was not aware of the restriction to use this account for only union employees.

² This was a check payment to the vendor but the invoice does not identify the employee(s) receiving training.

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Discussions with Accounting and Office of Management and Budget Staff

We discussed the purpose and use of Accounts 50213 and 50915 with Accounting and Office of Management and Budget (OMB) staff.

- Office of Management and Budget – OMB staff told us that Account 50213 is a Fringe Benefit account created to capture union member mandatory training. They also said that all other training for non-contract employees and/or for non-mandatory training should be charged to Account 50915, Seminar and Conference Fees, based on their recall of why this account was established many years ago. They said that documents related to the establishment of this account are no longer available, and they are not aware of any current specific use or reason for having this account in addition to Account 50213.
- Accounting – We were informed that Accounts Payable staff processes training expenses in either Accounts 50213 or 50915 as cited by the cost centers. Upon further review, Accounting staff determined that of 53 transactions charged to Account 50213,³ 16 should have been charged to Account 50213 and the rest should have been charged to other accounts. Accounting informed us that they found the “off-site contracted training programs” definition is somewhat vague. They believe that Account 50213 includes off-site training where an executed contract exists between Metro and the service provider for a specific training program using the provider’s facilities and resources. On the other hand, they believe that expenses for Account 50915 include seminars, conferences, training for professional certifications, and other training (also off-site).

Based on the above, it appears to us that departments have different understanding about the use of this account.

None of the documentation we reviewed shows whether the training was mandatory or not. Also, training expenses for non-contract employees were charged to Account 50213. Therefore, we concluded that this account does not accurately capture the information for the purpose intended by OMB (mandatory training for union employees). Based on our observations, we believe that the Accounting Department and OMB should jointly analyze the use and purpose of Account 50213, clarify the account definition, and notify all departments of types of expenses that should be charged to this account. In addition, since Fiscal Year 2016 is more than half over, OMB should use the revised definition beginning with the Fiscal Year 2017 budget cycle. Users and budget analysts in every department need to know what account to budget and expense against according to any new definitions agreed upon.

³ This Accounting review included all transactions for Account 50213, including 19 transactions we did not include in our audit. See footnote 1, page 2, for a list of the types of transactions we excluded from our audit.

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RECOMMENDATIONS

We recommend that:

1. The Accounting Department work with Office of Management and Budget to:
 - a. Analyze the use and purpose of Account 50213, Fringe Benefits Training Program,
 - b. Determine whether the Account 50213 is needed,
 - If the account is needed, clarify and update the definition of Account 50213, and inform all Departments of the revised definition and appropriate use of Account 50213.
 - If the account is not needed, advise departments to budget all training requirements to Account 50915 for the FY 2017 budget cycle.
2. The Office of Management and Budget implement any appropriate revisions to Account 50213 in the Fiscal Year 2017 budget process.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On March 23, 2016, the Accounting Department agreed with the recommendation and provided a copy of the updated definition for Account 50213 to clarify the definition. The target date for completion is June 30, 2016. (See Attachment A for a copy of management response.)

On April 4, 2016, the Office of Management and Budget informed us via e-mail that:

We understand the confusion and will publish any clarification that conforms to Accounting Department's Chart of Accounts policy. The input to the FY 2017 budget is concluded. We will clarify the rule in the next budget cycle.

EVALUATION OF MANAGEMENT COMMENTS

Management's proposed corrective actions are responsive to the findings and recommendations in the report. We, therefore, consider all issues related to the recommendations resolved based on the corrective action plan.

Copy of Management Response from Accounting Department



Metro

Interoffice Memo

Date	April 4, 2016
To	Jack Shigetomi Deputy Inspector General
From	Jesse Soto <i>Jesse Soto</i> Executive Officer, Finance/Controller
Subject	Response to OIG Draft Report on Statutory Mandated Audit of Miscellaneous Expenses (Report No. 16-AUD-04)

OVERVIEW

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

PROPOSED CORRECTIVE ACTIONS

On Recommendation No. 1a

Agree. Accounting has analyzed the definition and purpose of Account 50213 and will update the Descriptive Chart of Accounts to read as follows:

- o 50213 - FB TRAINING PROGRAM– fees paid for off-site contracted training for which there exists a written agreement between Metro and a consultant for a specific training/training programs required by Metro. This account applies to both contract and non-contract employees. However, (A) travel expenses incurred by employees in attending such training are charged to Account 50917 – MISC BUSINESS TRAVEL, and (B) expenses paid to individuals or organizations contracted to provide in-house trainings for contract or non-contract employees are charged to account 50316 - SERV-PROFESSIONAL AND TECHNICAL SERVICES.

On Recommendation No. 1b

Accounting determined that Account 50213 is needed and the Director of Accounting will ensure that following measures are implemented:

- o The Descriptive Chart of Accounts will be updated by June 30, 2016 to clarify the use and purpose of Account 50213 as noted in Recommendation No. 1a above.
- o Accounting will inform all Departments of the revised definition and appropriate use of Account 50213. A memo will be issued on or before June 30, 2016.

Copy of Management Response from Accounting Department

Should you have any questions, please feel free to call me.

Thank you.

CC: Nalini Ahuja, Executive Director, Finance and Budget
Jane Mohsin, Director of Accounting
Alex Perez, Director of Accounting
Mark Penn, DEO Procurement

Final Report Distribution

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