

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

**Audit of Procurement of
Subscription Services**

Report No. 18-AUD-02

February 28, 2018



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Metro

**Los Angeles County
Metropolitan Transportation Authority**

Office of the Inspector General
818 West 7th Street, Suite 500
Los Angeles, CA 90017

213.244.7300 Tel
213.244.7318 Fax

DATE: February 28, 2018

TO: Metro Chief Executive Officer
Metro Board of Directors

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

SUBJECT: Audit of Procurement of Subscription Services (Report No. 18-AUD-02)

INTRODUCTION

The Office of Inspector General performed an audit of procurement procedures for subscription services. This audit was conducted as part of our ongoing program to assist Metro in improving the efficiency of operations and implementing an effective internal control system and to deter fraud, waste, and abuse.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objective of the audit was to determine if Metro's policies and procedures were followed in procuring subscription services. We reviewed 19 miscellaneous expense subscriptions processed from July 1, 2016 to June 30, 2017. We also reviewed invoices, justification memos, and applicable policy and procedures. In addition, we interviewed Metro officials in the Real Estate, Emergency Management, Procurement, and Accounting Departments.

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

Metro acquisitions are conducted in accordance with applicable federal and state laws, regulations, and Metro policies. The Procurement Department is responsible for the efficient and cost effective acquisition of goods and services. The Accounting Department's

Accounts Payable Section is responsible for the accurate and timely processing of payments of expenses.

RESULTS OF AUDIT

We reviewed 19 purchases that were for subscription services (such as periodicals and access to online databases) paid for from July 1, 2016 to June 30, 2017. We found 16 of the 19 subscriptions had been properly procured. However, for the remaining three purchases, procurement and accounting policies were not followed (two Real Estate subscriptions and an Emergency Management subscription).

Finding 1: Costar Subscription

Costar is a company that sells subscriptions to a comprehensive database of current and active commercial real estate information, such as sales and vacant land. Five Real Estate Department employees have access to the Costar database and use it daily.

A. The Procurement Department Should Have Procured the Services.

Criteria. According to Metro’s check request policy,¹ electronic check requests can be used for the processing of payments for certain incidental items costing \$3,000 or less. The aggregate total of purchases (such as annual subscriptions) must be calculated in order to determine if an expense is above or below the \$3,000 threshold. Purchases that are over \$3,000 should be submitted to the Procurement Department which assigns Contract Administrators who are responsible for determining the most suitable, efficient, and economical method for procurement.

Background. The Real Estate Department began procuring subscription services with Costar in 2002 and had renewed the subscription annually. Purchase orders executed by the Procurement Department were used to pay for the services from 2002 to 2013 (12 years). In 2013, the Real Estate Department began paying for the services using check requests instead of a purchase order and continued to do so through 2016. The annual subscription costs ranged from \$9,207.36 in 2002 to \$23,931.32 in 2017.

Contract Administrator Misunderstood the Policy. The Contract Administrator acknowledged that in 2013 he mistakenly instructed Real Estate staff to use check requests to pay for this expense. The Contract Administrator stated that he only read the first part of the check request policy where it stated that check requests could be used to pay for subscriptions. He did not read the section that stated: “The procurement of goods or services

¹ Accounting Procedures & Guidelines, “Check Requests”, (ACC-01), effective March 2, 2016.

over \$3,000 is subject to the procurement processes that are the sole responsibility of Metro's Contracting Officers." After we made him aware of this requirement, he agreed that check requests should not have been used for these purchases and that these subscriptions should have gone through the procurement process. The Deputy Executive Officer (DEO) of Procurement stated the Contract Administrator should have sought advice from a supervisor before giving Real Estate staff instructions on a topic with which he was unfamiliar.

Potential issues that could occur when proper procurement procedures are not followed include:

- Metro might not obtain the best price or value.
- Metro could be found in non-compliance with Federal requirements during a Federal Transit Administration (FTA) audit.
- Federal and state requirements and Metro goals regarding disadvantaged and small business enterprises could potentially be violated.
- Vendors could complain of unfair anti-competitive practices to the Metro Board and FTA.

Management Action. After we discussed this matter with the current Real Estate Project Manager for this subscription, he worked with the Procurement Department and executed a new purchase order with Costar.

B. Expired Purchase Order Used For Six Years

Expired Purchase Order Extended. In 2006, the Procurement Department executed a purchase order with Costar at the set price of \$12,000 for the year. Although this purchase order expired in November 2007, three Contract Administrators continued to add funding to the expired purchase order until June 2013 (6 years). The DEO of Procurement stated that purchase orders should only be extended once.

No Price Quotes. As a result of not executing new purchase orders, 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. Although the current Real Estate Project Manager believed that Costar was the only company that could provide the desired services, there was no evidence market research had been performed to determine if there were other potential vendors. The DEO of 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.

Training Needed. We asked one of the three Contract Administrators why he added funding to the expired purchase order instead of issuing a new purchase order. He explained that he was new to Metro at the time and "let it through." The DEO of Procurement stated that all Contract Administrators should be aware that they should not extend purchase orders more than once. He also stated that Contract Administrators have an option to execute a multi-

year contract with 1 to 2-year options and that the Costar procurement might have been a candidate for this type of contract. He acknowledged that some Contract Administrators may not be aware of this option. The Chief Officer and Executive Officer of Vendor/Contract Management stated they will ensure all the Contract Administrators receive training on these topics.

C. Payments for an Expense Was Inappropriately Split Using Two Payment Methods

In July 2016, the former Real Estate Project Manager submitted a memo to the Accounting Department, requesting recurring (monthly), automatic payments of \$1,896.51 to Costar from August 1, 2016 to June 30, 2017. Accounting paid this amount each month via electronic checks. In November 2016, Costar increased the monthly price to \$1,980.31 (an \$83.80 increase). Instead of submitting a new memo to change the recurring monthly payments to \$1,980.31, the former Real Estate Project Manager, paid the \$502.80 difference (\$83.80 x 6 months) using his Metro purchase card (P-Card). Metro's P-Card policy states that P-Cards "may not be used in combination with any other forms of payment for the same transaction." According to the Executive Officer, Finance/Controller, paying an invoice using two payment methods increases the risk of an overpayment or incorrect payment to vendors. When we discussed this issue with the DEO of Real Estate Services, she said she would counsel the P-Cardholder and the approving official of the requirement prohibiting the use of two payment methods for an expense.

Finding 2: Digital Map Products Subscription

In January 2008, the Real Estate Department began procuring yearly access to "Landvision" from Digital Map Products. Landvision is a system that provides parcel maps and ownership records obtained from the Los Angeles County Tax Assessor's offices and also provides a Geographical Information System which is a mapping system that enables Real Estate staff to design custom maps and exhibits for real estate projects. We found the check request policy was not followed.

A. Procurement Department Was Bypassed.

Criteria. Check requests are limited to \$3,000, but certain exceptions to this limit can be requested. Check requests are used to pay "certain incidental items that are minor, time sensitive, and/or not generally bid or quoted." Accounting management agreed it would not be appropriate to use check requests for recurring yearly purchases that have time to go through the procurement process.

Check Request Was Used. From 2008 to 2012, two purchase orders were used to purchase the yearly subscription for Landvision. However, in 2013, the Real Estate Department began paying for the services with a check request through the Accounting Department instead of

obtaining a purchase order through the Procurement Department. From 2013 to 2016, the annual subscription payment increased from \$4,750 to \$5,500.

The former Real Estate Project Manager stated that he could not recall why they bypassed the Procurement Department and began using check requests in 2013. The Contract Administrator believes that after he mistakenly told the Real Estate Department to use check requests for the Costar purchase, the Real Estate Department decided that check requests could also be applied to this subscription too. This purchase should have gone through the procurement process to ensure full and open competition and compliance with agency policy. We discussed the issue with the current Real Estate Project Manager. He agreed that not competing the procurement could have had negative consequences, such as a vendor filing a complaint regarding anti-competitive practices.

Opportunity to Obtain Free Services. The current Real Estate Project Manager learned before our audit that Real Estate could get services comparable to Landvision through the Metro Information Technology Services Department which is participating in the Los Angeles Region Imagery Acquisition Consortium (LARIAC) Program. This program is a collaborative acquisition program for digital aerial imagery data in which 10 County departments, 30 municipalities, and 4 other public agencies participate. The Project Manager is exploring using this program as a replacement for the services Digital Map Products provides. However, he plans to contact the Procurement Department to seek to continue to procure the Landvision services for another year in order to give the Real Estate staff time to test the LARIAC program to ensure it will work for their needs.

B. Accounting Staff Did Not Ensure Policy Was Followed

Criteria. Metro check request policy in effect at the time of the Digital Map Products procurements (2013 – 2016) stated:

“The procurement of goods or supplies over \$3,000 is subject to the procurement processes that are the sole responsibility of Metro’s Contracting Officers per Section 10, Metro Procurement Policies and Procedures. Exceptions to the \$3,000 limitation may be processed when the extraordinary circumstances are documented in a memorandum of justification approved by the appropriate Executive Officer with a copy to the Executive Officer, Procurement.”²

Justification Memos Were Not Adequate. In 2013, 2014, 2015, and 2016, the Real Estate Department submitted justification memos to Accounting. However, these memos did not explain the extraordinary circumstances that necessitated using a check request for these purchases instead of going through the procurement process. The memos only explained why they chose Digital Map Products over two other potential vendors. Accounting

² The title of “Executive Officer, Procurement” is now known as “Executive Officer, Vendor/Contract Management.”

management agreed that Accounting staff should have reviewed the justification memos to ensure they explained the “extraordinary circumstances” for which a check request was needed instead of going through the normal procurement process.

Justification Memos Were Not Properly Signed and Forwarded to Vendor/Contract Management. Three of the Real Estate justification memos were not signed by an Executive Officer as required:

- The 2015 memo was signed by the Director of Real Property Management & Development.
- The 2014 memo was signed by the DEO of Real Estate.
- The memo submitted in 2013 was actually a copy of a memo dated October 2, 2012 that had been sent to the Contracting Officer to justify extending the purchase order in 2012. The memo was signed by the Director of Real Property Management & Development. In August 2013, Real Estate submitted this same October 2012 memo to Accounting as support for requesting a check request, and Accounting staff accepted it without questioning the sufficiency.

None of these three justification memos were 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 and to counsel the department on a better course of action.

The Executive Officer, Finance/Controller stated that staff probably mistakenly accepted the copy of the 2012 memo as being support that Procurement was aware of the check requests for the 2013 procurement as well as for the subsequent procurements. He also stated there were numerous changes in Accounts Payable management and a high turnover in Accounting staff at the time of these memos which may partly explain why Accounting staff accepted these deficient memos. It is also possible that some staff were not aware of the policy. We interviewed an accounting clerk who handles check requests and justification memos. She did not know that sending the memo to the Executive Officer of Vendor/Contract Management was a requirement prior to training she received in July 2017.

Management Actions. After bringing these matters to the attention of Accounting management, the Accounting Department conducted training on July 25, 2017, in which they instructed staff who can approve check request justification memos and reminded them 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 should be in the justification memo, such as an explanation of why a check request exception is needed instead of going through the procurement process. They plan to provide this training on a regular basis. In addition, on July 19, 2017, the Accounting Department revised their check request policy to require the

requester's Chief Officer (higher ranking than an Executive Officer) to sign/approve the justification memo.

Finding 3: Emergency Management Subscription

In 2015, the Procurement Department executed a purchase order with Early Warning Labs. This agreement covered the installation of the U.S. Geological Survey ShakeAlert Early Earthquake Warning System (EEWS), training to use the system, and a license/subscription to use the system. The subscription was for a one-year period, April 2016 to March 2017.

Check Request Was Used. The Emergency Management Project Manager renewed the subscription for \$12,000 with a check request in March 2017. We discussed this with the Executive Officer of Vendor/Contract Management. She stated that the renewal of this subscription should have been processed through the Procurement Department. She further stated that not procuring this through a purchase order with its insurance requirements leaves Metro vulnerable and without recourse in the event of an incident (for example, if the vendor's system caused Metro's other computer systems to crash). We asked the Emergency Management Project Manager why he used a check request instead of going through the Procurement Department. He responded that since the original purchase order had expired, he thought using a check request would be appropriate and was not aware that he should have gone to the Procurement Department.

Although the 2017 invoice referenced the expired purchase order and the check request was over the \$3,000 threshold, Accounting staff did not require the Project Manager to submit a justification memo as required by check request policy. Accounting staff accepted a memo that Emergency Management staff addressed to the Executive Officer of Finance/Controller and was signed by the Manager of Emergency & Homeland Security Preparation that explained what the subscription was for, but did not state why using a check request was necessary instead of going through the procurement process. Accounting management believed the Accounting staff mistakenly thought this subscription was exempt from the justification memo requirement of approval by the requester's Executive Officer and a copy being sent to the Executive Officer for Vendor/Contract Management.

Management Action. As a result of our discussion, the Project Manager plans to submit future EEWS subscription renewals to the Procurement Department. As discussed previously, the Accounting Department conducted training on July 25, 2017, in which they instructed staff on the justification memo requirements. Further, Accounting management plans to revise the check request policy to make it clear that any computer-related subscriptions (such as data warehouses, online access, etc.) over \$3,000 must go through the Procurement Department or a justification memo meeting policy requirements must be provided.

Finding 4: Procurement File Documentation

Metro's procurement policy requires a written record of procurement history for purchases above the \$3,000 micro-purchase threshold. The file should contain documents such as the rationale for the method of procurement, reasons for contractor selection or rejection, and the basis for the contract price. The Procurement Department has a template/checklist of documents that should be included in the procurement files, such as a copy of the purchase order and any amendments, statement of work, sole-source justification, modifications, and price quotes. When procurements are completed, Contract Administrators are required to give the hardcopy procurement files to the Procurement File Room for storage.

Costar. The DEO of Procurement stated that there should be documentation in the procurement files when purchase orders are extended. However, the Costar procurement file only consisted of the 2006 purchase order. There was no purchase order modification or other document to explain why it had been extended numerous times. Further, there was no documentation to indicate if the procurement had been sole-sourced or competed. If it was sole-sourced, there should have been a written justification. If it was competed, there should have been price quotes. Further, there was no documentation of the basis for the determination that the price was fair and reasonable.

Digital Map Products. The Procurement Department could not find the procurement files for the two purchase orders with Digital Map Products executed in 2008 and 2012. The Procurement File Room had no record of these purchase orders.

The last Contract Administrator who worked on both the Digital Map Products and Costar procurements could not explain what happened to the documentation or files. The Contract Administrator joined Metro in July 2011 and was fairly new to Metro when he worked on the procurements.

Management Action. The Chief Officer and Executive Officer of Vendor/Contract Management stated they will provide training to Contract Administrators to emphasize that record keeping is critical and to turn in the files to the Procurement File Room when the procurements are completed.

CONCLUSION

We found that three subscription purchases were paid for with check requests through the Accounting Department and should have been processed by the Procurement Department. Also, the Procurement Department extended an expired purchase order numerous times and needed to improve the file documentation and the maintenance of procurement files. Real Estate staff split the payments for an expense using two methods which is a violation of Metro policy. In addition, Accounting staff did not review check request justification memos

for sufficiency or compliance with policy. It is important that staff follow Metro's procurement and accounting policies to ensure the integrity of procurement process. Based on this and other reviews conducted by the OIG in the past, it is also important that policy is written to avoid general confusion on when it is appropriate to use check requests.

RECOMMENDATIONS

We recommend that:

1. Chief Planning Officer:
 - a. follow through with plans to contact the Procurement Department regarding procuring subscription services currently provided by Digital Map Products.
 - b. counsel the Real Estate staff not to use multiple methods of payment for a single expense.
2. The Chief, Vendor/Contract Management Officer should follow through on plans to provide refresher training to Contract Administrators for:
 - a. not extending purchase orders beyond one year (unless there is a multi-year option),
 - b. considering multi-year contracts as an option for recurring services, and
 - c. ensuring procurement files contain required documents and are sent to the Procurement File Room for storage when the procurements are completed.
3. The Executive Officer, Finance/Controller should follow through on plans to update the check request policy to require that computer-related subscriptions over \$3,000 should go through the Procurement process or a justification memo meeting policy requirements must be provided.

METRO MANAGEMENT COMMENTS

Metro management agreed with the recommendations in this report and has initiated the following corrective actions:

- The Chief Planning Officer reported that they plan to contact the procurement department if they decide to continue to procure the services that were provided by Digital Map Products. She also reported that the cardholder who used multiple methods of payment for a single expense and his approving official were counselled on the need to follow Metro's policies regarding paying for expenses.
- The Chief, Vendor/Contract Management Officer plans to provide refresher training to contract administration staff regarding the extension of purchase orders, multi-year contracts, and procurement files.
- The Executive Officer, Finance/Controller plans to make revisions to the check policy to require computer-related subscriptions over \$3,000 go through the procurement process or that a proper justification memo is provided. (See Attachment A for copy of management's response.)

EVALUATION OF METRO MANAGEMENT COMMENTS

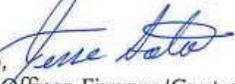
Metro management's proposed corrective actions are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations in the report resolved based on the corrective action plan. Although the recommendations are resolved, staff must follow up on the recommendations that are still open until all corrective actions are completed.

Management Comments to Draft Report



Metro

Interoffice Memo

Date	January 23, 2018
To	Yvonne Zheng Senior Manager, Audit, Office of Inspector General
From	Therese McMillan, Chief Planning Officer  Debra Avila,  Chief, Vendor/Contract Management Officer Jesse Soto,  Executive Officer, Finance/Controller
Subject	Draft report: Audit of Procurement of Subscription Services (Report No. 18- AUD-02)

OVERVIEW

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

We recognize that corrective action must be taken to ensure that Metro staff follows Metro's procurement and accounting policies to ensure the integrity of Metro's procurement process.

PROPOSED CORRECTIVE ACTIONS

The audit recommends that

1. Chief Planning Officer:

- a. **Follow through with plans to contact the procurement department regarding procuring subscription services currently provided by Digital Map Products.**

Management Response: Agree

The Digital Map Products subscription expired in September 2017. It has not yet been renewed. If it is renewed, the appropriate employees will work with Vendor/Contract Management to follow proper procurement procedures.

Management Comments to Draft Report

- b. **Counsel the Real Estate staff not to use multiple methods of payment for a single expense.**

Management Response: Agree

The DEO, Real Estate Asset Management and the Director of Real Property Management and Development met with the applicable employees on August 11, 2017 to review the procurement protocol and discussed the need for Real Estate employees to follow Metro's policies regarding paying for expenses.

2. **The Chief of Vendor /Contract Management Officer follow through on plans to provide refresher training to Contract Administrators to:**

- a. **Not extend purchase orders beyond one year (unless there is a multi-year option),**

Management Response: Agree

As a best practice, review requests to extend purchase orders beyond the initial term to determine if the request complies with the current Acquisition Procedures,

- b. **Consider multi-year contracts as an option for recurring services.**

Management Response: Agree

When appropriate, issue Indefinite Delivery Vehicles with options to address multi-year needs. If a request is received by V/CM for access to or for the use of technology whether by software or website, consult with ITS prior to taking any action for approval.

- c. **Ensure procurement files contain required documents and are sent to the Procurement File Room for storage when the procurements are completed.**

Management Response: Agree

Ensure procurement files contain required documents and are sent to the Procurement File Room for storage when the procurements are completed.

Refresher training covering the above will be done by the Executive Officer of Administrative Services at the Vendor/Contract Management Q1 All-Hands meeting.

3. **The Executive Officer, Finance/Controller follow through on plans to update the check request policy to require that computer-related subscriptions over \$3,000 go through the procurement process or a justification memo meeting policy requirements must be provided.**

Management Response: Agree

Management Comments to Draft Report

The Senior Director of Accounting will ensure that the check request policy is updated to require that computer-related subscriptions over the \$3,000 limit should go through the procurement process or that a justification memo meeting the policy requirements is provided by January 31, 2018.

The policy will also be updated to specifically address computer related subscriptions as different and distinct from subscriptions to magazines and newspapers.

Should you have any questions regarding the response to this report, please feel free to contact Therese McMillan, Debra Avila or Jesse Soto.

CC: Nalini Ahuja, Chief Financial Officer, Finance and Budget
Juan Cordero, Senior Director of Accounting
Juliet Glindro, Manager, Accounting

Final Report Distribution

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