

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

**Statutorily Mandated Audit of
Miscellaneous Expenses for the Period
April 1, 2017 to June 30, 2017**

Report No. 18-AUD-06

June 29, 2018



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Metro

**Los Angeles County
Metropolitan Transportation Authority**

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DATE: June 29, 2018

TO: Metro Chief Executive Officer
Metro Board of Directors

FROM: Yvonne Zheng, Senior Manager, Audit 

SUBJECT: Statutorily Mandated Audit of Miscellaneous Expenses
For the Period April 1, 2017 to June 30, 2017, Report No. 18-AUD-06

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of miscellaneous expense transactions processed from April 1, 2017 to June 30, 2017. 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, private club dues, and membership fees.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objectives of the audit were to determine if miscellaneous expenses were adequately supported by appropriate documentation and complied with Metro policies, procedures, and guidelines. To accomplish these objectives, we obtained a listing of 1,298 miscellaneous expenses¹ totaling \$3.3 million processed from April 1, 2017 to June 30, 2017. We statistically selected a random sample of 31 expenses totaling \$517,805 to review. (See Appendix A for details.) The audit sample covered four types of expenses: 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, Revenue Collections, Public Relations, and Procurement 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.

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

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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, 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 reviewed were properly approved, justified, supported, accurate, and in compliance with Metro policies, procedures, and guidelines. However, for 2 of the 31 expenses reviewed, we found several issues:

Expense #1

- A training facilitator was inappropriately paid for with a check request.
- A check request justification memo was inadequate and was not provided to the Procurement Department as required by policy.

Expense #2

- P-Card Cardholder did not get the required prior approval for an expense.
- P-Card Cardholder inappropriately used two different payment methods to pay an expense.
- A check request justification memo was inadequate and was not provided to the Procurement Department as required by policy.
- P-Card logs were not submitted to Accounting in a timely manner.
- Accounting did not perform timely reconciliations to identify delinquent submissions of Monthly Purchase Card Logs.

Issue 1: Check Request Was Used to Pay for a Prohibited Expense

Criteria. Metro's policy, "Accounting Procedures and Guidelines - Check Request (ACC-01)", January 2016, specifically prohibited paying "training facilitators" by check requests and stated such disbursements should be processed through the regular procurement process:

"1.2 UNACCEPTABLE USES OF CHECK REQUESTS

The following disbursements may not be processed via a Check Request and should go through the regular procurement process:

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- a. *Purchases greater than \$3,000 (unless accompanied by a memo of justification and approved by the appropriate Executive Officer with a copy to the Executive Director, Vendor/Contract Management).*
- b. *Professional services*
- c. *Training facilitators”*

“1.1.2. The following items, up to a value of \$3,000, may be purchased via a Check Request:

- a. *Goods or supplies*
- b. *Training services (excluding facilitators)*
- c. *Film and film processing*

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.”

The Executive Officer, Finance/Controller, confirmed that Metro’s policy prohibits the use of check requests to pay for training facilitator services and stated training facilitators should not be paid by check requests under any circumstances. The services must be obtained through the Procurement Department. The Executive Officer, Finance/Controller feels it is important that Metro continues to follow this policy because some incidents occurred in the past, such as the hiring of friends as facilitators or using facilitators in order to avoid hiring them as permanent Metro staff.

Background. In March 2017, Revenue Collection hired Organic Communications to provide a facilitator for team building workshops from April to September 2017. According to the former Deputy Executive Officer (DEO) for Finance, the facilitator did not provide standard classroom training. He said the facilitator acted as a coach and counselor and helped participants develop goals and strategies to improve the cohesiveness of the team.

Check Request Used. The total cost for all of the workshops was \$17,600. In April 2017, Revenue Collection inappropriately used a check request to make a \$10,000 payment as well as the subsequent \$7,600 payment. We asked the DEO why they used a check request instead of going through the Procurement Department. He stated that the Accounting Manager told him he only needed to get written approval (justification memo) from his Executive Officer to be exempt from the \$3,000 check request threshold. The Accounting Manager confirmed this conversation with the DEO and told us that she believed that the check request policy allowed waivers to the \$3,000 threshold for training facilitators. The Accounting Manager’s

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interpretation is incorrect. The policy prohibits the use of check requests for all training facilitator services regardless of the dollar amount.

Justification Memo Was Not Adequate. Even if obtaining a waiver to pay a training facilitator with a check request had been allowable, the justification memo was inadequate. Metro check request policy stated that the memos should document the “extraordinary circumstances” that necessitated using a check request for these purchases instead of going through the Procurement Department and required that the memo be sent to the Executive Officer, Procurement (now known as Vendor/Contract Management).

Revenue Collection’s memo did not explain the extraordinary circumstances that necessitated using a check request for these purchases instead of going through the procurement process. It only asked for approval to hire Organic Communications as a facilitator for \$17,600 and stated that upon approval, a check request would be submitted.

The department’s administrative staff told us that the justification memo was sent to the Executive Officer, Vendor/Contract Management through interoffice mail; however, the Executive Officer stated that she had no record of receiving the memo. As a result, the Procurement Department was not aware of this procurement and, therefore, did not have the opportunity to review the procurement for compliance with procurement policies. We suggested to the administrative staff that future justification memos should be emailed with a “read receipt” to verify that the Vendor/Contract Management had received the memos. Administrative staff agreed to do this in the future.

Prior Accounting Management Action. 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-AUD-02, February 28, 2018). As a result of our 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. The Accounting Department plans to provide this training on a regular basis.

Issue 2: P-Card Compliance Issues

As part of our sample, we reviewed a Public Relations Department P-Card transaction for a \$2,180 deposit for a hotel conference facility used to hold a stakeholder meeting on September 29, 2016.² The supporting invoice showed a total cost of \$6,762 for the facility, which included the deposit. Although this transaction was justified and supported, we found the following issues with this expense.

² This September 2016 purchase was in our April – June 2017 review because the September 2016 P-Card log was not completed until the end of March 2017 and processed by Accounting until April 2017.

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A. Prior Approval Not Obtained for Hotel Conference Space.

Metro's P-Card policy prohibits the use of P-Cards to pay for hotel rooms. However, the rental of hotel conference facilities is allowed when prior approval is obtained from the Agency Program Coordinator.³ The Cardholder acknowledged that he did not seek prior approval for the renting the conference facility. He said it was an oversight because he was in a rush to reserve the room. He agreed that it would not have taken very long to obtain the required approval from the Agency Program Coordinator.

It is important that the Agency Program Coordinator receives, reviews, and approves requests for exceptions of restricted purchases to ensure there is a valid business need for the purchase in order to maintain the integrity of the P-Card program. The Cardholder said in the future he will seek approval from the Agency Program Coordinator to reserve hotel conference facilities.

B. Two Payment Methods Used For A Single Expense.

The Cardholder paid for the \$6,762 cost of the hotel conference facility by charging his P-Card \$2,180 to reserve the facility in September 2016 and submitting in December 2016, a check request for the remaining \$4,582. Metro's 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. A further problem with using multiple payment methods is staff could circumvent Metro policy that prohibits the splitting of P-Card purchases or avoid the \$3,000 check request limit. Both the Cardholder and the Approving Official said they were unaware that the P-Card policy did not allow paying a single expense using multiple payment methods.

The Approving Official plans to (1) inform her Cardholders to cease the practice of putting deposits on credit cards and paying for the remainder with check requests and (2) instruct them to use only one payment method for the purchase.

C. Justification Memo Was Inadequate.

As mentioned previously, a check request was used to pay the hotel \$4,582. Since this amount was over the \$3,000 check request threshold, Public Relations provided Accounts Payable a justification memo signed by the Executive Officer. However, the memo did not explain the extraordinary circumstances that necessitated using a check request for this purchase instead of going through the Procurement Department. Also, the memo was not sent to the Executive Officer, Vendor/Contract Management, as required by Metro policy. As discussed earlier in

³ Agency Program Coordinator, formerly known as the P-Card Coordinator, oversees the Purchase Card Program for Metro.

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this report, the Accounting Department has taken steps to prevent inadequate justification memos from being accepted by Accounts Payable staff in the future.

D. P-Card Logs Were Not Submitted For Several Months.

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 statement⁴. By the 15th of the following month, the P-Card log is required to be submitted to Accounting. For our sample item, the Public Relations Cardholder received the credit card statement in September 2016 but did not turn in the P-Card log until March 2017 (6 months later). Further review found that the Cardholder did not submit the August 2016, September 2016, October 2016, November 2016, December 2016, and January 2017 logs until the end of March 2017 after Accounts Payable reminded him they were outstanding. The Cardholder acknowledged that he was late in submitting his logs and said he got behind because he was handling numerous duties, such as administrative, budgetary, and communication officer tasks. He said that he no longer handles the communication officer tasks except on occasion, and he is current on submitting the P-Card logs.

Management Action. We discussed this issue with his Approving Official. She stated that in April 2017 when she realized the Cardholder was significantly behind in submitting P-Card logs, she counselled him about the requirement to submit the logs in a timely manner and included the submission of the logs in his individual performance plan. She stated he has been timely with submitting the logs since then, and delinquencies are no longer a problem.

E. Reconciliations Were Not Performed Timely.

The P-Card policy states that Accounting will create and distribute a list of P-Card logs that have not been submitted by the deadline to the Accounting Supervisor and the Agency Program Coordinator. Accounting calls this process “reconciliation.” Accounts Payable identifies Cardholders who have not submitted their monthly P-Card logs, emails them a

⁴ U.S. Bank Credit Card Statements are usually sent around the 22nd of each month.

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reminder, and adds the Agency Program Coordinator to the email distribution. Although the policy does not address the frequency of the reconciliation, the Executive Officer, Finance/Controller, told us he expected it to be done monthly. We found instances where the reconciliations were not done for 6 months or longer.

The current Agency Program Coordinator was assigned to the position in October 2017. In April 2018, he stated that he had never received a listing of late Cardholders from Accounts Payable. The Accounting Manager acknowledged they are behind on the reconciliations and said it was because of staff shortages and other workload requirements. Failing to submit monthly P-Card logs on time violates policy and is subject to penalties, such as having their P-Card taken away. It is important for the Agency Program Coordinator to be aware of delinquent Cardholders so he can take appropriate corrective actions. In addition, 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.

Management Action. The Executive Officer, Finance/Controller was not aware that Accounts Payable was not performing the reconciliations monthly. As a result of our audit, he instructed the Accounting Manager to inform her supervisor whenever Accounts Payable does not have the resources to complete the monthly reconciliations. He stated that in those instances, extra support will be provided. To facilitate timely reconciliations, he is also exploring ways to automate the process of identifying Cardholders who have not turned in a monthly P-Card log.

CONCLUSION

We found most miscellaneous expenses were properly supported and in compliance with Metro policies. However, we found several issues with 2 expenses of the 31 reviewed. Metro needs to strengthen controls over training facilitator procurements and compliance with P-Card policy.

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RECOMMENDATIONS

We recommend that:

1. The Executive Officer, Finance/Controller, should ensure:
 - a. The Accounting Manager is aware that Metro's policy prohibits paying for training facilitator services using check requests.
 - b. Accounts Payable completes their reconciliation of delinquent Cardholders every month.
2. Chief Communications Officer should require the Approving Official to ensure:
 - a. The Cardholder seeks approval from the Agency Program Coordinator to reserve hotel conference facilities.
 - b. The Cardholder does not use multiple methods to pay a single expense.
 - c. Future justification memos to exceed the \$3,000 threshold for check requests:
 - i. describe the extraordinary circumstances that necessitate the need for a check request and reasons why the purchase cannot be made through the Procurement Department and
 - ii. is sent to the Executive Officer, Vendor/Contract Management, as required by policy.

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.)

The Executive Officer, Finance/Controller informed us that:

- The Accounting Manager is now aware that Metro's policy prohibits the use of check requests to pay for training facilitator services, and the Senior Director of Accounting will continue to ensure that training is provided to Accounts Payable staff on check request policy compliance.
- The Senior Director of Accounting will ensure that reconciliations of the delinquent Cardholders is completed monthly and a list is sent to the Agency Program Coordinator.

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The Chief Communications Officer informed us that the Approving Official will:

- ensure the Cardholder seeks approval from the Agency Program Coordinator to reserve hotel conference facilities,
- only use one method of payment for purchases, and
- ensure justification memos state why the purchases cannot be made through the Procurement Department and copy will be sent to the Executive Officer, Vendor/Contract Management as required by policy.

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 report recommendations resolved.

**Summary of Sampled Expenses Audited
For the Period from April 1 to June 30, 2017**

<i>Account</i>	<i>Account Description</i>	<i>Total Amount</i>	<i>Sample Amount</i>
50213	Training Program	\$ 95,632	\$ 0
50903	Business Meals	122,012	3,282
50910	ER Mileage / Parking	100,000	0
50914	Schedule Checkers	8,867	0
50915	Seminar and Conference Fee	2,546	0
50917	Business Travel	272,040	13,413
50930	Employee Activities and Recreation	650,383	15,213
50999	Other Miscellaneous Expenses	<u>2,048,377</u>	<u>485,897</u>
	<i>Totals</i>	<u>\$ 3,299,857</u>	<u>\$ 517,805</u>

Management Comments to Draft Report



Metro

Interoffice Memo

Date	June 21, 2018
To	Yvonne Zheng Senior Manager, Audit, Office of Inspector General
From	Pauletta Tonilas, Chief Communications Officer <i>P.T.</i> Jesse Soto, <i>Jesse Soto</i> Executive Officer, Finance/Controller
Subject	Draft report: Statutorily Mandated Audit of Miscellaneous Expense (Report No. 18- AUD-06)

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 strengthen its controls over training facilitator procurements and compliance with P-Card policy.

PROPOSED CORRECTIVE ACTIONS

The audit recommends that

1. The Executive Officer, Finance/Controller:
 - a. The Accounting Manager is aware that Metro's policy prohibits paying for training facilitator services using a check request.

Management Response: Agree.

During this audit the Accounting Manager was made aware that Metro's policy prohibits the use of check request to pay for training facilitator services under any circumstances.

The Senior Director of Accounting will continue to ensure that regular training is provided to the Accounts Payable staff for compliance to the check request policy.

- b. Accounts Payable completes their reconciliation of delinquent Cardholders every month.

Management Response: Agree.

Management Comments to Draft Report

The Senior Director of Accounting will ensure that the reconciliation of the delinquent Cardholders is completed monthly and that a list of P-Card holders who have not submitted their P-Card logs by the deadline is distributed to the Agency's P-Card Program Coordinator.

2. Chief Communications Officer should require the Approving Official to ensure:

- a. The Cardholder seeks approval from the Agency Program Coordinator to reserve hotel conference facilities.

Management Response: Agree.

The Approving Official will ensure that the Cardholder seeks approval from the Agency Program Coordinator to reserve hotel conference facilities.

- b. The Cardholder does not use multiple methods to pay a single expense.

Management Response: Agree

The Approving Official has already informed the Cardholder to use only one method of payment for purchases.

- c. Future justification memos to exceed the \$3,000 threshold for check requests:

- i. describe the extraordinary circumstances that necessitate the need for a check request and reasons why the purchase cannot be made through the Procurement Department and,
- ii. is sent to the Executive Officer, Vendor/Contract Management, as required by policy.

Management Response: Agree

The Approving Official will ensure all justifications memos that exceed the \$3,000 threshold explain the reason for the check request and why the purchase cannot be made through the procurement process. A copy of the memo will be sent to the Executive Officer, Vendor and Contract Management as per the Check Request policy.

Should you have any questions regarding the response to this report, please feel free to contact Pauletta Tonilas or Jesse Soto.

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

Final Report Distribution

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