

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

**Review of Community Outreach
Payments**

Report No. 09-AUD-07

August 20, 2009



Review of Community Outreach Payments
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Metro

**Los Angeles County
Metropolitan Transportation Authority**

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DATE: August 20, 2009

TO: Board of Directors
Chief Executive Officer

FROM: 
Jack Shigetomi
Deputy Inspector General - Audits

SUBJECT: Review of Community Outreach Payments (Report No. 09-AUD-07)

INTRODUCTION

Public Utilities Code Section 130051 requires that the Inspector General report quarterly to the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors on certain miscellaneous expenses for travel, meals, and conferences memberships, and other expenses. As part of this requirement, we performed a supplemental review of Community Outreach payments.

During Fiscal Year 2008, Metro made 135 payments to 92 organizations, communities, and businesses totaling \$178,460 under account number 50999 of Miscellaneous Expenditures – Others for Community Outreach Activities.

We found that some of the payments reviewed lacked documentation or evidence that showed the payments had a public transportation purpose and Metro received some benefit. Also, account definition in the Chart of Accounts Descriptions does not provide sufficient information to users to determine the purpose of community outreach expenditures.

OBJECTIVES AND SCOPE OF REVIEW

The objectives of our review were to determine whether:

- Policies or procedures were in place for the payment of community outreach activities including contribution to community organizations or sponsorships.
- Payments were adequately supported by invoices, proper approvals, and other appropriate documentation.

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- The payments were not made for any political, lobbying or campaign activities.
- The payments to community organizations and sponsorships served the purpose to promote public transportation.

To achieve the above objectives, we:

- Researched Metro's Intranet for policies and procedures related to community outreach activities including contributions to charity or community.
- Reviewed Metro's chart of accounts.
- Interviewed and discussed the purpose of community outreach expenditures with the Executive Officer, Administration, and Principal Deputy County Counsel, Transportation Division.
- Examined and analyzed Metro's database of payments for miscellaneous – community outreach expenditures including sponsorships and community organizations from July 1, 2007 to June 30, 2008.
- Conducted detailed tests on the payments of various community outreach activities for sampled transactions.
- Analyzed and re-calculated the selected transactions to ascertain the correctness of the payments.
- Reviewed and analyzed 63 payments that were judgmentally selected from 135 payments in the Miscellaneous – Community Outreach account made during Fiscal Year 2008.

The results of this review were based on the examination of 63 payments that were judgmentally selected from 135 payments made during Fiscal Year 2008.

The audit was conducted in accordance with Government Auditing Standards and included such tests of the procedures and records, as we considered necessary under the circumstances. During the audit, we did not test the reliability and accuracy of the Financial Information System, which processed the transactions we reviewed. Our conclusions are based on the review results and are limited to the sampled payments we reviewed.

BACKGROUND

State Auditor

In 2004, the California State Auditor issued a report¹ on the Metropolitan Water District (MWD) of Southern California. The audit report found that:

“...the lack of specificity in its [MWD] collective policies has allowed the district substantial discretion, resulting in expenses that have a questionable link to the district’s authorized purposes and do not always appear to be reasonable or necessary.”

“...the California Constitution prohibits a public agency such as the district from making a gift of public funds. To avoid violating this prohibition, when the district provides public money or resources to another entity, it must ensure that the money will be used to further the specific public purposes for which the district was created. Because it does not sufficiently ensure that funds given to other entities promote the district’s authorized purposes, we question whether it has violated the prohibition against making a gift of public funds.”

The State Auditor’s report recommended:

“Provide specific limitations on the types of activities it sponsors to ensure that it funds only those organizations whose activities have a direct link to authorized district purposes. The district also should include a requirement to document and publicly disclose any contributions it provides to other entities by describing the nature of the public benefit achieved by the support and the relationship to the district’s authorized purposes.”

Metro Ethics Department

The Ethics Department had advised management in the past that various state statutes make it clear that government employees may not make a gift of public funds. The general rule is that Metro can make payments to community organizations or sponsorships provided that (1) the expenses are Metro related, that is whether it concerns transportation, such as an APTA conference; or (2) the expenses are within an individual’s job responsibilities to enhance skills. Metro cannot pay for expenses that are only of a personal nature or interest.

¹ “Metropolitan Water District of Southern California,” 2003-136, June 2004.

RESULTS OF REVIEW

A. Criteria for Community Outreach Payments

Our research of Metro policies found that guidelines had not been developed for the purpose and criteria for payment of community outreach expenditures. The Chart of Accounts Descriptions only provides the following brief definition for the Miscellaneous – Community Outreach account:² “includes contributions to charitable or community.” This definition does not provide sufficient information to users to determine the purpose of this account. In addition, it should not include the word “charitable” and should include business outreach payments. To determine the criteria for community outreach expenditures, we contacted officials at the Administration Department and County Counsel.

- The Executive Officer, Administration, advised us that: *“There is no policy on sponsorships or charitable contributions. The general guideline has been: if the event or organization that is sponsoring it is transit related, legal, and Metro receives some benefits from it, and there are funds in the budget, a department or Strategic Business Unit (SBU) might choose to sponsor an event.”*
- The Principal Deputy County Counsel, Transportation Division, advised us that: *“assuming they are not political, lobbying or campaign activities, I’m not aware of any federal or state law that would prevent MTA from sponsoring or making contributions to a charitable organization, if our sponsorship/contribution serves some public transportation purpose...”*
- The Chief Ethics Officer, Ethics Department, advised us that they have counseled management that (1) there should be a nexus to transportation or further Metro’s purposes, and (2) payments must be legally permissible, within budget, and beneficial to Metro. Also, if Metro purchases 10 tickets or seats to an event, management should intend on using all 10 tickets/seats.

It is important that Metro develop specific written guidance on the use of community outreach expenses to ensure that funds are being used to further the specific purposes for which Metro was created. This is consistent with the conclusions of the State Auditor’s Report and Metro’s Ethics Department as previously discussed.

B. Review of Payments

Based on the above guidelines, we reviewed 63 judgmentally selected payments for community outreach and found:

² This account is part of Account 50999, Miscellaneous – Expenditures – Others.

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- Payments were generally adequately supported by invoices, proper approvals, and other appropriate documentation.
- There was no evidence that the payments were made for political, lobbying or campaign activities.
- Most payments had documentation to show that the payments had a public transportation purpose and Metro received some benefit.

However, we found that 8 of the 63³ payments reviewed lacked documentation or evidence that showed the payments had a public transportation purpose and Metro received some benefit.

Cost Center	Invoice Date	Payee	Description of Payment	Amount
2130	02/05/08	Greater Los Angeles African American Chamber of Commerce	Annual Economic Awards Dinner Silver Table Sponsor	\$5,000
2130	02/5/08	NAWBOLA	Corporate Table – 2008 Leadership & Legacy Awards Luncheon	\$5,000
2130	11/07/07	NAMC of So. CA	Silver Sponsor: One Table with Seating at Dinner for 10 Guest, Listed in program Book as Table Sponsor	\$3,750
2130	02/22/08	UCLA Black Alumni Association	UBAA 39 th Annual Scholarship Dinner	\$2,500
7160	09/07/07	NALEO Education Fund	Sponsorship of NALEO reception in Honor of President Adolfo Carrion	\$2,500
7160	10/23/07	Santa Cecilia Restaurant	Food Service for Santa Cecilia Festival	\$2,000
7160	09/17/07	East Los Angeles Community Youth Center	Patrons Circle	\$1,500
7160	07/07/07	Girls Today Women Tomorrow	Friend Sponsorship	\$1,000

³ One of the 63 payments for \$5,000 to the Economic Alliance was a Corporate Membership, and was mischarged to the Community Outreach account.

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After we contacted the related Cost Center Managers for further documentation, they provided documentation to justify their payments for the community outreach activities.

Our review also found that a payment of \$3,304 for Knott's Berry Farm consignment tickets was incorrectly charged to the Miscellaneous – Community Outreach account. We advised the Accounting Department of this error so that they could take appropriate corrective action. The Director of Accounting advised us that this matter will be reviewed and any necessary corrections will be made.

RECOMMENDATIONS

We recommend that Metro:

1. Require that community outreach expenditures be documented to describe the nature of the public benefit achieved and the relationship of the expenditures to Metro's public transit purposes. The documentation could be incorporated in the check request, invoice, or other documents recorded into the Financial Information System.
2. Revise the Chart of Accounts Description for the Miscellaneous – Community Outreach account to provide sufficient information for users to determine the purpose of the account. In this regard, the account description should be revised to state that expenditures include community or business outreach, and expenditures should have a direct link to Metro purposes, be transit-related, and Metro receives some benefit from the event, activity, or sponsorship.

MANAGEMENT COMMENTS

Metro management generally concurred with the findings in the report. Metro provided an action plan that implemented the recommendations in the report.

- The Department of Diversity and Economic Opportunity will include more detailed information with the invoices and check requests for all future Small Business Outreach expenditures.
- Community Relations will include Memorandums of Justifications when invoices for Community Outreach activities are submitted to Accounts Payable for processing.
- The chart of accounts has been updated to provide sufficient information for users to determine the purpose of the account. The new description states: "MISC – COMMUNITY OUTREACH – the expenditures include community or business

outreach, and expenditures should have a direct link to Metro purposes, be transit-related, and Metro receives some benefit from the event, activity, or sponsorship.”

See Attachment A for the full text of management comments.

EVALUATION OF MANAGEMENT COMMENTS

Metro management has implemented the recommendations in this report. Therefore, we consider all issues related to the findings and recommendations in the report resolved based on actions taken.

Copy of Management Comments to Draft Report



Metro

Interoffice Memo

Date	August 7, 2009
To	Karen Gorman Acting Inspector General
Through	Arthur T. Leahy  Chief Executive Officer
From	Terry Matsumoto Chief Financial Services Officer & Treasurer Lonnie Mitchell  Chief Administrative Services Officer Matt Raymond  Chief Communications Officer
Subject	Response to OIG Draft Report on Review of Community Outreach Payments (Report No. 09-AUD-07)

OVERVIEW

We have reviewed the results of the subject draft report, and generally concur with the findings in the report. I recognize that actions must be taken to correct the findings and implement the recommendations in the report.

RECOMMENDATIONS AND PROPOSED CORRECTIVE ACTIONS (ITALICS)

Recommendation #1: Require that community outreach expenditures be documented to describe the nature of the public benefit achieved and the relationship of the expenditures to Metro's public transit purposes. The documentation could be incorporated in the check request, invoice, or other documents recorded in the Financial Information System.

The Department of Diversity and Economic Opportunity will include more detailed information with the invoices and check requests for all future Small Business Outreach expenditures.

Community Relations will include Memorandums of Justification (MOJ's) when invoices for Community Outreach activities are submitted to Accounts Payable for processing.

This recommendation has already been implemented.

Copy of Management Comments to Draft Report

Recommendation #2: Revise the Chart of Accounts Description for the Miscellaneous - Community Outreach account to provide sufficient information for users to determine the purpose of the account. In this regard, the account description should be revised to state that the expenditures include community or business outreach, and expenditures should have a direct link to Metro purposes, be transit-related, and Metro receives some benefit from the event, activity, or sponsorship.

The chart of accounts has been updated to provide sufficient information for users to determine the purpose of the account. The new description states:

MISC - COMMUNITY OUTREACH – the expenditures include community or business outreach, and expenditures should have a direct link to Metro purposes, be transit-related, and Metro receives some benefit from the event, activity, or sponsorship.

This recommendation has been implemented.

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

Thank you.

Final Report Distribution

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