



Board Report

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**FINANCE, BUDGET, AND AUDIT COMMITTEE
JANUARY 20, 2021**

**SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF APRIL 1, 2020 TO
JUNE 30, 2020**

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Office of Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of April 1, 2020 to June 30, 2020.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from April 1, 2020 to June 30, 2020. This audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses, such as travel, meals, refreshments, and membership fees.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). 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 payment for miscellaneous expenses.

This audit covered a review of Metro miscellaneous expenses for the period of April 1, 2020 to June 30, 2020. For this period, miscellaneous expenses totaled \$1,902,336 with 730 transactions. We selected 53 expense transactions totaling \$586,063 for detail testing.

DISCUSSION

Findings

The miscellaneous expenses we reviewed for the period of April 1, 2020 to June 30, 2020 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for three of the expenses reviewed, requirements were not followed regarding the compliance with policies on business meals and travel expenses. A few transactions were recorded to incorrect accounts, which were corrected after we brought the issue to the attention of Accounting and the staff involved.

As stated in our previous report on the audit of miscellaneous expenses for the period of January to March 2020, Metro is facing unprecedented financial challenges due to the Covid-19 pandemic. On April 20, 2020, the Chief Executive Officer instructed the Senior Leadership Team to implement immediate cost saving actions and one of them is to cease expenditure in travel, seminar, business meal, training, membership, advertising, and other miscellaneous expenses.

Our review of miscellaneous expenses for the period of April to June 2020 disclosed that management and staff complied with the CEO's directive. The payments made were either for expenses incurred in the prior quarters or for expenses deemed essential .

Recommendations

We recommend that:

OPERATIONS (Bus Warranty) and PROGRAM MANAGEMENT (Executive Office, Transit Project Delivery):

1. Continue to remind staff to submit Travel and Business Expense (TBE) Reports timely and accurately; require staff to attend TBE training before travelling and be familiar with Metro's travel policy FIN 14.

OFFICE OF BOARD SECRETARY:

2. We reiterate our recommendations given in our prior report for the audit of miscellaneous expenses for the period January to March 2020 (21-AUD-01):
 - a) Indicate details and other pertinent information when business meals expenses are incurred, in compliance with Metro Policy ACC-01. Evaluate and negotiate prices with vendors providing business meals to obtain the best reasonable price.
 - b) Work with Accounting to formulate a policy on business meals expenses during meetings to set a maximum meal allowance per attendee amount considering the GSA standards and local average costs.
3. Remind the P-Cardholder to monitor the invoices/billings to facilitate prompt payment. Keep detailed records to facilitate monitoring of credit card charges and to avoid overdue invoices from the meal vendors.

FINANCIAL IMPACT

There is no financial or budgetary impact by accepting the report, but compliance with the recommendations would contribute in minor respects to cost savings and controls.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendations support strategic plan goal no. 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship.

NEXT STEPS

Metro management will implement corrective action plans.

ATTACHMENTS

Attachment A: Final Report on Statutorily Mandated Audit of Miscellaneous Expenses for the Period April 1, 2020 to June 30, 2020 (Report No. 21-AUD-03)

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(213) 244-7310

Reviewed by: Karen Gorman, Inspector General, (213) 922-2975

Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General

Statutorily Mandated Audit of
Miscellaneous Expenses for the Period
April 1, 2020 to June 30, 2020

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Metro

DATE: December 29, 2020

TO: Metro Board of Directors
Metro Chief Executive Officer

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

SUBJECT: Final Report on Statutorily Mandated Audit of Metro Miscellaneous Expenses
From April 1, 2020 to June 30, 2020 (Report No. 21-AUD-03)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from April 1, 2020 to June 30, 2020. This audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses, such as travel, meals, refreshments, and membership fees.

We found that the transactions reviewed generally complied with Metro policies, were reasonable, and adequately supported by required documents. However, we noted the following issues on three of the 53 expenses reviewed:

- Various issues on business meals
- Non-compliance with Travel and Business Expense Policy

OBJECTIVES, METHODOLOGY AND SCOPE OF AUDIT

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures.
- Expenses had proper approval, receipts, and other supporting documentation.
- Policies and procedures were adequate and followed to ensure that expenses were documented and properly accounted for.

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

- Obtained and reviewed applicable policies and procedures;

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Report No. 21-AUD-03

- Interviewed Metro personnel including staff in Accounting, Communications, Human Capital and Development, Vendor Contract Management, Office of the Board Secretary, and Operations; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit covered a review of Metro miscellaneous expenses for the period of April 1, 2020 to June 30, 2020. For this period, miscellaneous expenses totaled \$1,902,336¹ with 730 transactions. We selected 53 expense transactions totaling \$586,063 for detail testing. Thirty of the expense transactions were randomly selected, eight were selected due to their large dollar amounts, six were selected to sample other accounts and the remaining nine were judgmentally selected for an expanded review of Travel and Business Expense (Account 50917), which was the focus of this quarter's review. As a result, we examined 24 travel and business expenses totaling \$24,255 from the 53 samples mentioned above. See Attachment B for details.

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

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). 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 payment for miscellaneous expenses.

RESULTS OF AUDIT

The audit found that the transactions reviewed generally complied with policies, were reasonable, and adequately supported by required documents. However, we noted issues on the following three transactions:

1. Various issues on Business Meal Expenses

¹ This total does not include transactions that were \$200 or less, offsetting debits/credits, and transactions from the OIG and Transit Court Departments.

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Employees are normally prohibited to use the Purchase Card (P-Card) for food purchases. However, the exception for the Office of the Board Secretary was justified with valid reasons and it was approved by the Chief Vendor/Contract Management. Meals were purchased for board meetings, committee meetings, board staff briefings, Chair's meetings, and for other business functions.

Our sample included business meals charged to Cost Center 1010 (Board Office) for P-Card statement dated 3/23/2020 for \$3,980.69. We noted the following issues:

- a) The P-Card log did not include details such as nature of meeting, number of attendees, and other information as required by the Accounting Procedures and Guidelines for Check Request (ACC-01).

Section 1.1.1(aa) of ACC-01 requires that that business meals for events and business meetings *“must be accompanied with receipts, account coding and a detailed justification memo signed by the responsible department which documents attendees, name and title, affiliation, subject discussed, purpose and benefit to LACMTA.”*

Upon our request, the P-Cardholder provided the nature of meetings and number of attendees for each meeting. The P-Cardholder explained that this policy has not been used to govern expenditures by the Board in the past. Instead, an annual justification memo has been used in its place for the past five years.

As mentioned in our prior audit report for miscellaneous expenses for the period January to March 2020 (21-AUD-01), we reiterate that it is important to include pertinent information, as required by ACC-01 to ascertain that the business meals incurred were reasonable and justifiable.

- b) We also noted that the meal per person expended appears to exceed the per diem rate published by the U.S. General Services Administration (GSA).

In our prior audit report for miscellaneous expenses for the period January to March 2020 (Report No. 21-AUD-01), the same findings were identified as items (a) and (b), and we recommended: (1) Indicate details and other pertinent information when business meal expenses are incurred, in compliance with ACC-01. Evaluate and negotiate prices with vendors providing business meals to obtain the best reasonable price, and (2) work with Accounting to formulate a policy on business meal expenses during meetings to set a maximum meal allowance per attendee amount considering the GSA standards and local average costs.

In the Board Secretary's response to the findings in Report No. 21-AUD-01, she agreed with the above recommendations. For recommendation no. (2) above, she suggested using a two-year average per meal for Accounting purposes.

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We don't think averaging is a workable method, so we reiterate the recommendations stated in our prior report and we will follow up for their implementation that needs to apply to staff, board members, and other guests.

- c) The P-Card statement for March 2020 included charges for two invoices dated November 21, 2019 (\$769) and December 12, 2019 (\$286), which had not been paid until February and March 2020, respectively. The P-Cardholder explained that the bills were paid late due to an oversight.

Based on P-Card guidelines, *“the Cardholder is responsible for record keeping and reconciliation of charges made on his/her P-Card.”*

This is not significantly late, but it is important the P-Card holders make an effort to promptly pay, since it affects the accounting department's attempts to meet its prompt pay goals. It also ensures that expenses are charged in the proper budget period.

2. Non-Compliance with Travel and Business Expense Policy

For the quarter of April 1, 2020 to June 30, 2020, we performed an expanded review of Travel and Business expense². The total Travel and Business expense for the quarter was \$375,121. We sampled 24 transactions totaling \$24,255 and examined the supporting documents.

The following is the summary of Travel and Business expense by Cost Center for the quarter ended June 30, 2020:

Cost Center	Travel and Business Expense	
	Population	Sample Amount
Vehicle Tecnology & Acquisition	\$ 31,011	\$ 364
Rail Vehicle Acquisition	29,489	7,486
Project Management, Transit	16,705	1,130
Office of Extraordinary Innovation	14,473	292
Government Relations	14,471	443
Board Office	13,087	407
Congestion Reduction	12,075	427
Systems Architecture & Technology Integration	11,610	1,809
Talent Acquisition	8,366	394
System Security & Law Enforcement	8,277	408
Strategic Financial Planning	8,257	2,162
Other Cost Centers - Population Below \$8K	207,300	8,933
Total	\$ 375,121	\$ 24,255

² Note that during the Covid-19 era, any expense for travel and business expense may be disallowed.

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Our review of Travel and Business expense (TBE) found two instances that the TBE reports were submitted late:

- a. The Warranty and Equipment Mechanic Leader, Bus Warranty, traveled to the New Flyer Facility in St. Cloud, Minnesota from January 7 to 11, 2020 for the final bus inspection. He submitted his Travel & Business Expense report on May 15, 2020, which was four months later. The employee explained that he had difficulty in finding time to prepare and submit the report as his department was understaffed.
- b. The Director, Engineering, Executive Office, Transit Project Delivery, traveled to Golden, Colorado to attend a short course in Colorado School of Mines from October 14 to 17, 2019. She submitted the TBE report on April 28, 2020, which was more than five months late. She explained that it was an oversight on her part, as she was very busy working on the Westside Purple Line Extension – Section 3.

Section 1.2.1 of the Travel & Business Expense Policy (FIN 14) states: *“The TBE Report must be completed, approved and delivered to the Travel Program Administrator within 30 calendar days of the date of returning from travel, or from date of credit card statement.”*

It is important that TBE reports are submitted in a timely manner in order for the expense to be recorded in the proper accounting period and for their department’s budget balances to be updated. Furthermore, the possibilities of errors and omission or loss of receipts may increase if the employee submits the TBE report several months after his/her travel. Management should continue to encourage employees to attend the training on TBE and remind them of Metro’s travel policy.

3. Observation on Various Miscellaneous Expenses

In the course of our audit, we had the following observations:

a. Issues on Modified Electronic Purchase Card Workflow System

We identified a few technical issues with the P-card approval system during this period of review and informed the Accounting Department. The Accounting Director stated that the Accounts Payable (AP) team responds to all P-card user inquiries and processes issues on a timely basis to ensure statements are submitted on time for clearing and compliance with the policy. He added that AP and Information Technology Services (ITS) work closely together to review and resolve both user and system issues. They currently have seven service requests pending with ITS to improve the user experience.

b. Some transactions recorded to incorrect accounts.

Our review found some transactions were miscoded or recorded to incorrect accounts, such as:

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- Technical services recorded as fringe benefit – training, instead of professional and technical services
- Recruitment ads recorded as professional membership, instead of miscellaneous
- Lapel pins for awards recorded as employee activities and recreation, instead of miscellaneous

We brought these transactions to the attention of the cost center heads, who explained that the incurred errors were due to miscoding or misinterpretation of the account description. We informed Accounting Department about these instances and the entries were promptly corrected.

CONCLUSION

The miscellaneous expenses we reviewed for the period of April 1, 2020 to June 30, 2020 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for three of the expenses reviewed, requirements were not followed regarding the compliance with policies on business meals and travel expenses. A few transactions were recorded to incorrect accounts, which were corrected after we brought the issue to the attention of Accounting and the staff involved.

As stated in our previous report on the audit of miscellaneous expenses for the period January to March 2020, Metro is facing unprecedented financial challenges due to the Covid-19 pandemic. On April 20, 2020, the Chief Executive Officer instructed the Senior Leadership Team to implement immediate cost saving actions and one of them is to cease expenditure in travel, seminar, business meal, training, membership, advertising, and other miscellaneous expenses.

Our review of miscellaneous expenses for the period of April to June 2020 disclosed that management and staff complied with the CEO's directive. The payments made were either for expenses incurred in the prior quarters or for expenses deemed essential .

All business travel expense for the current audit period were for travels made in the previous quarters which were paid in the current quarter. No travel was made after the implementation of the cost cutting measures.

We noted few payments made for seminars held in the current quarter; however, these seminars were either deemed essential or the contracts for which were executed before the CEO's mandate.

While advertising showed an increase of \$96,000 from \$926,000 to \$1,022,000, we verified that all the sampled transactions we examined were for contracts approved before the cost reduction measures were implemented.

We recommend that management continue to strictly comply with the CEO's mandate to control miscellaneous expenses, identify cost saving opportunities, and eliminate unnecessary expenses.

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Office of the Inspector General

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RECOMMENDATIONS

We recommend that:

OPERATIONS (Bus Warranty) and PROGRAM MANAGEMENT (Executive Office, Transit Project Delivery):

1. Continue to remind staff to submit Travel and Business Expense (TBE) Reports timely and accurately; require staff to attend TBE training before travelling and be familiar with Metro's travel policy FIN 14.

OFFICE OF BOARD SECRETARY:

2. We reiterate our recommendations given in our prior report for the audit of miscellaneous expenses for the period January to March 2020 (21-AUD-01):
 - a) Indicate details and other pertinent information when business meals expenses are incurred, in compliance with Metro Policy ACC-01. Evaluate and negotiate prices with vendors providing business meals to obtain the best reasonable price.
 - b) Work with Accounting to formulate a policy on business meals expenses during meetings to set a maximum meal allowance per attendee amount considering the GSA standards and local average costs.
3. Remind the P-Cardholder to monitor the invoices/billings to facilitate prompt payment. Keep detailed records to facilitate monitoring of credit card charges and to avoid overdue invoices from the meal vendors.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On December 7, 2020, we provided Metro Management a draft report. On December 23, 2020, the management completed their responses that summarized their corrective actions, as shown in Attachment B.

OIG EVALUATION OF MANAGEMENT RESPONSE

Metro Management's responses and corrective actions taken are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations resolved and closed based on the corrective actions taken.

**Summary of Sampled Expenses Audited
For the Period from April 1, 2020 to June 30, 2020**

<i>Account</i>	<i>Account Description</i>	<i>Total Amount</i>	<i>Sample Amount</i>
50213	Training Program	\$ 43,883	\$ 20,689
50903	Business Meals	18,256	4,080
50905	Corporate Membership	44,000	44,000
50908	Employee Relocation	13,042	13,042
50910	ER Mileage / Parking	2,751	1,520
50912	Professional Membership	11,461	2,875
50914	Schedule Checkers	1,946	0
50915	Seminar and Conference Fee	54,881	2,840
50917	Business Travel	375,121	24,255
50918	Advertising	1,022,171	459,208
50930	Employee Activities and Recreation	585	585
50999	Other Miscellaneous Expenses	<u>314,239</u>	<u>12,969</u>
	Total	<u>\$1,902,336</u>	<u>\$ 586,063</u>

Management Comments to Draft Report


Metro

Interoffice Memo

Date	December 23, 2020
To	Karen Gorman Inspector General
From	James T. Gallagher Chief Operations Officer <i>JTG.</i>
Subject	Management Response to the Audit of Metro Miscellaneous Expenses (Report # 21- AUD-03)

Operations Management has received and reviewed the Audit of Metro Miscellaneous Expenses for transactions processed from April 2020 - June 2020 in Vehicle Engineering & Acquisition department within Operations. The report includes the following recommendation:

1. Vehicle Engineering & Acquisition - Bus Warranty: Remind staff to submit Travel & Business Expense (TBE) Reports timely and accurately; require staff to attend TBE training before travelling and be familiar with Metro's travel policy FIN14.

Response: Agree; Warranty & Equipment Mechanic Leader, submitted his TBE report 4 months late due to lack of time available to prepare his reports as the department was and is still experiencing understaffing issues related to COVID leaves/exposures. This employee has been re-issued the travel policy FIN14 and has been advised of his responsibility to adhere to all aspects of the policy for travel & business funded by Metro and/or other external agencies. Further, the employee has been advised to attend the next scheduled training class for the use and application of the FIN14 policy.

CC: Yvonne Zheng, Sr. Mgr., Audit
 Jess Montes, Sr. EO, Vehicle Engineering & Acquisition
 Marc Manning, Sr. Director, Sr. Director, Vehicle Engineering & Acquisition
 Jim Jenson, Equipment Engineering Supervisor
 Diane Corral-Lopez, EO, Operations Administration
 Nancy Alberto-Saravia, Director, Finance & Administration

Management Comments to Draft Report



Metro

Interoffice Memo

Date	December 22, 2020
To	Yvonne Zheng Senior Manager, Audit Office of Inspector General (OIG)
From	Richard F. Clarke <i>RF Clarke</i> Chief Program Management Officer
Subject	Response to OIG Audit No. 21-AUD-03

This memo is in response to the Office of Inspector General audit, 21-AUD-03, which found Program Management noncompliant with Metro Policy FIN 14 Travel and Business Expense (TBE).

Based on the audit recommendations the following actions were taken:

1. The audit recommended Program Management remind staff to submit accurate Travel and Business Expense reports in a timely manner. To address the audit recommendation, an interoffice memo was sent via email, on December, 17, 2020, reminding all staff that business related travel expense reports must comply with Metro's Policy FIN 14 Travel.
2. The audit recommended Program Management require staff to attend TBE training prior to traveling. To address this recommendation, Program Management reached out to the Travel Office to arrange a TBE/ FIN 14 Travel and Business Expense virtual training, during calendar year 2021. The specific date for the training is being coordinated at this time.

Please reachout to me if you would like to discuss or require additional information.

Attachments:

December 17, 2020 Interoffice Memo to Program Management Staff

Management Comments to Draft Report



Metro

Interoffice Memo

Date	December 23, 2020
To	Yvonne Zheng, Senior Manager, Audit Office of the Inspector General
From	Michele Jackson, Board Secretary
Subject	Draft Report: Audit of Metro Miscellaneous Expenses From April 1, 2020 to June 30, 2020 (Report No.21-AUD-03)

OVERVIEW

The results of the audit have been reviewed and concur with the recommendations.

Corrective actions must be taken to ensure that Metro policies are followed concerning timely submission of Purchase Card logs and sufficient documentation is properly logged for all business meals expenses.

PROPOSED CORRECTIVE ACTIONS

The audit recommends that:

1. Remind the P-Cardholder to monitor the invoices/billings to facilitate prompt payment.

Management Response: Agree

The Board Secretary will ensure that the P-Cardholder will monitor the invoices/billings to facilitate prompt payment.

2. Indicate details and other pertinent information when business meal expenses are incurred, in compliance with ACC-01. Evaluate and negotiate prices with vendors providing business meals to obtain the best reasonable price.

Management Response: Agree

The Board Secretary will work with the P-Cardholder to evaluate and negotiate prices with vendors providing business meals to obtain the best reasonable price.

Management Comments to Draft Report

3. Work with Accounting to formulate a policy on business meal expenses during meetings to set a maximum meal allowance per attendee amount considering the GSA standards and local average costs.

The Board Office will notify the incoming Chair of the recommendations suggested by the Audit Department with regards to meal spending allocations.

Should you have any questions regarding the response to this report, please feel free to contact me.

Final Report Distribution

Board of Directors

Kathryn Barger
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Board Deputy on behalf of vacant North County Selection Member

Metro

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Chief Vendor/Contract Management Officer
Chief Operations Officer
Chief Auditor (Interim)
Audit Support Manager
Manager, Records & Information Management

Audit of Miscellaneous Expenses
April to June 2020
OIG Report No. 21-AUD-03

Karen Gorman, Inspector General

January 21, 2021



Objectives

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures.
- Expenses had proper approval, receipts, and other supporting documentation.
- Policies and procedures are adequate to ensure that expenses are documented and properly accounted for.

Results

Based on our sample reviews for the covered period, the expenses incurred generally complied with policies, were reasonable, and adequately supported by required documents.

However, we found that for three of the expenses reviewed, requirements were not followed regarding the compliance with policies on business meals and travel expenses.

We made three recommendations to improve the monitoring and payment of Metro miscellaneous expenses.