



Board Report

File #: 2022-0453, **File Type:** Informational Report

Agenda Number: 15.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
SEPTEMBER 14, 2022**

**SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JANUARY 1, 2022
TO MARCH 31, 2022**

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2022 to March 31, 2022.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1, 2022 to March 31, 2022. 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 January 1, 2022 to March 31, 2022. For this period, miscellaneous expenses totaled \$759,388 with 335 transactions. We selected 46 expense transactions totaling \$328,800 for detail testing.

DISCUSSION

Findings

The miscellaneous expenses we reviewed for the period of January 1 to March 31, 2022 generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found two instances of non-compliance with the Purchase Card policy: (a) no written pre-approval of purchases and (b) a restricted purchase was made.

The staff explained that their non-compliance was due to the urgency of the transaction where immediate payment was required.

The Office of the Inspector General provided recommendations to address the aforementioned issues.

Recommendations

We recommend that:

Finance and Budget

1. Require the Purchase Cardholder and Approving Official to comply with the pre-approval policy; the Cardholder should only make purchases which are pre-approved in writing.

Operations (Maintenance and Engineering)

2. Instruct staff to review the Purchase Card policy and ensure that no restricted purchases are made through P-Card.

All Cost Centers

Instruct all employees to use their Metro's email address when they register for seminars or trainings that will be paid by Metro.

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.

EQUITY PLATFORM

It is OIG's opinion that there is no equity consideration or impact in this audit.

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 January 1, 2022 to March 31, 2022
(Report No. 23-AUD-01)

File #: 2022-0453, **File Type:** Informational Report

Agenda Number: 15.

Prepared by: Asuncion Dimaculangan, Senior Auditor, (213) 244-7311
Yvonne Zheng, Senior Manager, Audit, (213) 244-7301
George Maycott, Senior Director, Special Projects, (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
January 1, 2022 to March 31, 2022**

Report No. 23-AUD-01

August 3, 2022



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Metro

DATE: August 03, 2022

TO: Metro Board of Directors
Metro Chief Executive Officer

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

**E-SIGNED by George Maycott
on 2022-08-30 15:26:43 PDT**

SUBJECT: Final Report: Statutorily Mandated Audit of Metro Miscellaneous Expenses
January 1, 2022 to March 31, 2022 (Report No. 23-AUD-01)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1, 2022 to March 31, 2022. 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 were adequately supported by required documents. However, we noted the following issues on two of the sampled expenses reviewed:

- No written pre-approval of cardholder purchases
- Purchase card was used for a restricted purchase

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; and
- Policies and procedures were adequate and followed to ensure that expenses were documented and accounted for properly.

Statutorily Mandated Audit of Miscellaneous Expenses

January 1, 2022 to March 31, 2022

Office of the Inspector General

Report No. 23-AUD-01

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

- Obtained and reviewed applicable policies and procedures;
- Interviewed Metro personnel including staff in Accounting, Human Capital and Development, Management Audit Services, Operations, Planning, Program Management, and Vendor/Contract Management; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit covered a review of Metro miscellaneous expenses for the period of January 1, 2022 to March 31, 2022. For this period, miscellaneous expenses totaled \$759,388¹ with 335 transactions. We selected 46 expense transactions totaling \$328,800 for detail testing. Twenty-nine (29) of the expense transactions were randomly selected, four (4) were selected due to their large dollar amounts, and thirteen (13) were selected to add more samples for Miscellaneous Expenses - Others (Account 50999) and to sample other accounts. See Attachment A 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 transactions:

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

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January 1, 2022 to March 31, 2022

Office of the Inspector General

Report No. 23-AUD-01

1. No Written Pre-Approval of Cardholder Purchases

The P-Card statement for December 2021 of Cost Center 4430, Finance and Budget, included purchases of \$3,960.59 for equipment and materials used in Metro’s Low-Income Fare is Easy (LIFE) Pop-Up events. Out of this amount, almost \$2,000 was spent for shirts and sweaters of the volunteers who were from Finance and other departments. We did not find any written approval prior to the purchase.

Metro P-Card policy requires that *“the Approving Official must explicitly pre-approve all purchases made by Cardholders in writing. This may be done individually before each purchase, or by providing precise guidelines concerning types or categories of items, and/or by specifying the supplier(s) allowed, etc.”*

The P-Cardholder explained that they were not able to get a pre-approval for these purchases since *“these events were put together very quickly [...] to double the enrollment of the LIFE program and put a big emphasis on public outreach during the Covid-19 pandemic. We were having a difficult time obtaining these supplies from the Metro Facilities Department, so we took the initiative to order the required equipment.”* The P-Cardholder added that he was given verbal authority by the P-Card Approving Official to order the equipment, shirts and sweaters for the teams working at these events.

The Approving Official who has since retired explained: *“Many of my approvals were more in the form of directives while we were at the events themselves and I recognized an immediate need and I directed the P-Cardholder to move forward.”*

It is important and Metro’s policy to obtain a written pre-approval to ensure that all purchases are authorized and valid. If a verbal directive is given in exigent circumstances, immediate follow up in writing should occur.

2. Purchase Card Was Used for a Restricted Purchase

On January 20, 2022, Cost Center 3910, Executive Director, Maintenance & Engineering, paid Safety LMS \$6,870 through its P-Card; the payment consisted of \$5,370 for training on tower climbing (6 staff at \$895 per head) and \$1,500 for the Training Instructor’s travel fee. This was a restricted purchase, as indicated in the P-Card policy.

The P-Card policy lists all restricted commodities which includes, among others, payments to “consultants, instructors, speakers.”

The documents we obtained showed that the Deputy Executive Officer, Wayside Systems Engineering and Maintenance, informed the Director, Wayside Systems Rail Communications that a Purchase Order should be generated first before the training. However, no Purchase Order was obtained, but instead, the payment was made through use of a P-Card.

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The P-Card Approving Official explained that the Director (who is no longer with Metro) informed her on 1/12/2022 that there was an urgent need for the instructor lead training. She stated that *“On the same day, the P-Cardholder requested the Director to provide the necessary documents (Statement of Work, Independent Cost Estimate, etc.) to be able to submit the requisition. We never received the documentation and therefore, was unable to get a requisition in the system. Given that they had to secure the training dates of 2/16 & 2/17, payment to vendor was required.”*

The P-Card Approving Official added that they did not realize that this training was a restricted purchase with a P-Card.

This type and amount of training is not allowed on a P-Card and should be covered by a Purchase Order since it is subject to the procurement processes that are the sole responsibility of Metro’s Contracting Officers. A Purchase Order protects both Metro and its vendors and it ensures that Metro obtains the best possible price and services/commodities.

OBSERVATIONS

1. Personal Email Address Used in Registration for Seminar

We noted that an employee used his personal email address in the registration for seminar/conference paid through Metro’s P-Card. He explained that it was the same email address he used when he became a member of the professional group which organized the seminar. He added that because of the volume of emails coming from this organization, he prefers to have the emails directed to his personal email address to keep his Metro’s email account cleaner and not cluttered with these types of email messages.

For security reason, we recommend that all employees use their Metro email address when they register for any seminar or training that will be paid by Metro. Arrangements may need to be made for this with the seminar provider.

2. Comparison of Miscellaneous Expenses for the Current Period with Prior Period/Year

In the course of our audit, we noted the following when comparing the miscellaneous expenses for this quarter with the prior period. (Note: All amounts were based on audit population.)

a. **Current Quarter (FY22 Q3) vs. Prior Quarter (FY22 Q2) Miscellaneous Expenses**

Miscellaneous expenses this quarter decreased by \$51,841 or 6% as compared to the prior quarter. This was mainly attributed to the decrease in advertising and in account # 50999 (Miscellaneous - Others) which is also a component of Miscellaneous expenses.

Last quarter’s advertising of \$226,125 consisted of payments for Metro’s NextGen media plan and Request for Proposals and Public Notices. Also, account number 50999

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(Miscellaneous - Others) was higher last quarter due to payments made for community outreach and sponsorship in various organizations. See Table 1.

Table 1: Current Quarter vs. Prior Quarter

Account	Jan-Mar 2022	Oct-Dec 2021	Increase (Decrease)
Advertising	\$ 172,558	\$ 226,125	\$ (53,567)
Business Meals	18,883	33,914	(15,031)
Business Travel	22,014	28,098	(6,084)
Corporate Membership	192,334	145,346	46,988
Professional Membership	12,483	13,626	(1,143)
Seminar and Conference Fee	64,788	34,433	30,355
Miscellaneous (50999) *	256,790	315,690	(58,900)
Others (Mileage and Parking, etc.)	19,538	13,997	5,541
Total	\$ 759,388	\$ 811,229	\$ (51,841)
Decrease from Prior Quarter			-6%

*Miscellaneous - Others (account number 50999) is used for miscellaneous expenses incurred that cannot be classified under accounts 50901 to 50940, including payments made to cover the expenditure of fines and penalties incurred by Metro, books and periodicals used in the normal operation of Metro's business, recruitment expenses, community outreach, postage, and others. (Source: Metro's Descriptive Chart of Accounts)

**b. Current Quarter (FY22 Q3) vs. Same Quarter of Prior Year (FY21 Q3)
Miscellaneous Expenses**

Miscellaneous expenses for the current quarter posted a significant decrease of \$550,262 or 42% as compared to the same quarter of FY21 mainly because of advertising and account # 50999 (Miscellaneous - Others) which decreased by almost \$400,000 and \$340,000, respectively. Advertising in Quarter 3 of FY21 included approximately \$300,000 payment for "Metro's COVID-19 Response" and "Return to Service" campaigns. Account number 50999 (Miscellaneous - Others) was higher in January – March 2021 than the current quarter because of a payment of \$270,000 in February 2021 for 30,000 TAP cards with two-day passes which were given to seniors to help them get to vaccine centers. See Table 2.

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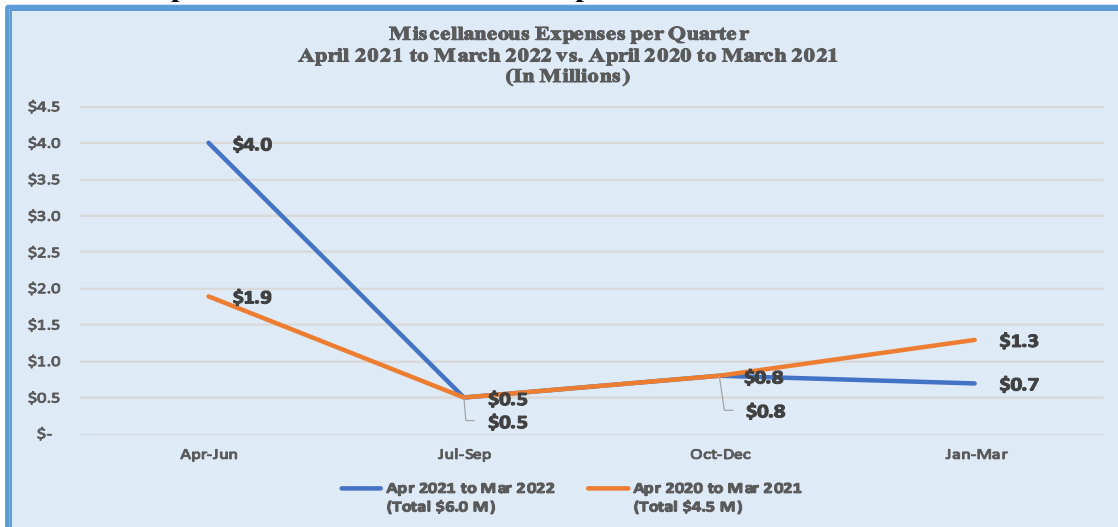
Table 2: Current Quarter vs. Same Quarter of Prior Year

Account	Jan-Mar 2022	Jan-Mar 2021	Increase (Decrease)
Advertising	\$ 172,558	\$ 572,451	\$ (399,893)
Business Meals	18,883	2,912	15,971
Business Travel	22,014	2,730	19,284
Corporate Membership	192,334	79,779	112,555
Professional Membership	12,483	10,435	2,048
Seminar and Conference Fee	64,788	32,170	32,618
Miscellaneous (50999) *	256,790	596,972	(340,182)
Others (Mileage & Parking, etc.)	19,538	12,201	7,337
Total	\$ 759,388	\$ 1,309,650	\$ (550,262)
Decrease from Same Quarter of Prior Year			-42%

c. April 2021 to March 2022 vs. April 2020 to March 2021

Miscellaneous expenses of \$6 million for the period of April 2021 to March 2022 was \$1.5 million or 33% higher than miscellaneous expenses of \$4.5 million from April 2020 to March 2021. This was mainly due to the increase in advertising, especially during the quarter ended June 30, 2021, in which 80% or \$3.2 million out of \$4 million total miscellaneous expenses was spent for advertising. The average amount per quarter was \$1.5 million and \$1.1 million for both periods, respectively. See Figure 1.

**Figure 1: Miscellaneous Expenses per Quarter
April 2021 to March 2022 vs. April 2020 to March 2021**



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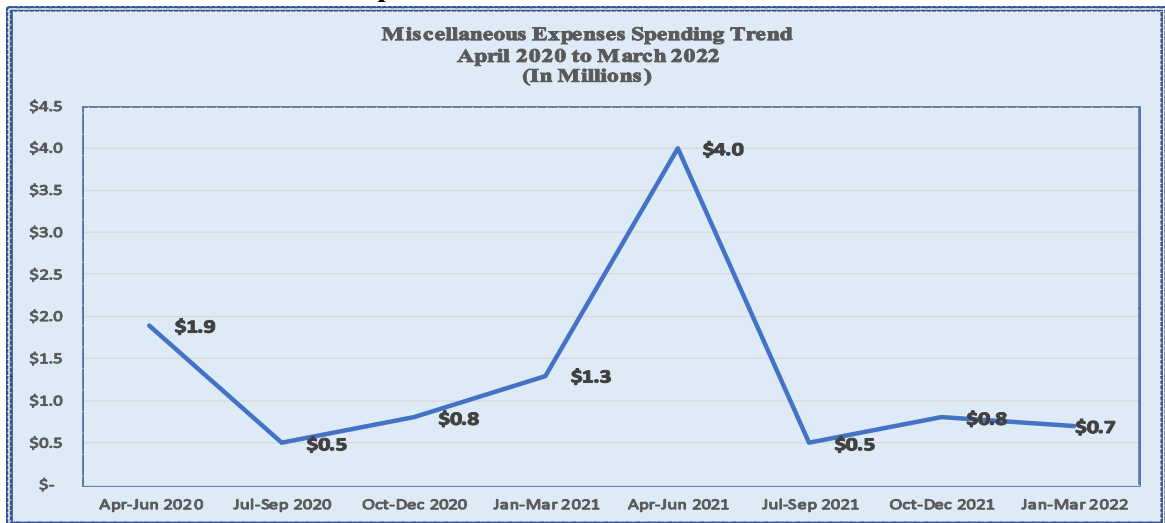
Report No. 23-AUD-01

From \$1.9 million in April-June 2020, miscellaneous expenses decreased significantly to \$500K in July-September 2020 due to the cost reduction programs implemented during that period due to the pandemic. Similarly, miscellaneous expenses of \$4 million for the quarter of April-June 2021 dipped to \$500K in July-September 2021 which was attributed to high advertising cost recorded in June 2021.

Miscellaneous expenses for the quarters ended September 30 and December 31, 2020 and 2021 posted the same amounts at \$500K and \$800K, respectively.

Figure 2 below shows the spending trend for miscellaneous expenses for the last two years:

**Figure 2: Miscellaneous Expenses Spending Trend
April 2020 to March 2022**



As discussed in the section Observation (c) above, out of \$4 million expenses for the quarter ended June 30, 2021, \$3.2 million or 80% was spent for advertising on media campaigns on Micro Transit, “Return to Service” bus operator recruitment, ridership, and others.

CONCLUSION

The miscellaneous expenses we reviewed for the period of January 1 to March 31, 2022 generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found two instances of non-compliance with the Purchase Card policy: (1) no written pre-approval of purchases and (2) a restricted purchase was made.

The staff explained that their non-compliance with the policy was due to the urgency of the transaction where immediate payment was required.

Statutorily Mandated Audit of Miscellaneous Expenses

January 1, 2022 to March 31, 2022

Office of the Inspector General

Report No. 23-AUD-01

The Office of the Inspector General provided recommendations to address the aforementioned issues.

RECOMMENDATIONS

We recommend the following:

Finance and Budget

1. Require the Purchase Cardholder and Approving Official to comply with the pre-approval policy; the Cardholder should only make purchases which are pre-approved in writing.

Operations (Maintenance and Engineering)

2. Instruct staff to review the Purchase Card policy and ensure that no restricted purchases are made through their P-Card.

All Cost Centers

3. Instruct all employees to use their Metro's email address when they register for seminars or trainings that will be paid by Metro.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On July 19, 2022, we provided Metro Management a draft report. By August 2, 2022, Metro Management had submitted their responses summarizing 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
January 1, 2022 to March 31, 2022**

<i>Account</i>	<i>Account Description</i>	<i>Audit Population</i>	<i>Sample Amount</i>
50213	Training Program	\$ 15,699	\$ 6,870
50903	Business Meals	18,883	13,924
50905	Corporate Membership	192,334	121,000
50908	Employee Relocation <a>	0	0
50910	Mileage and Parking	3,604	336
50912	Professional Membership	12,483	1,251
50914	Schedule Checkers Travel	235	235
50915	Seminar and Conference Fee	64,788	13,174
50917	Business Travel	22,014	815
50918	Advertising	172,558	52,678
50930	Employee Activities & Recreation <a>	0	0
50999	Miscellaneous Expenses - Others	<u>256,790</u>	<u>118,517</u>
	Total	<u>\$759,388</u>	<u>\$328,800</u>

<a> No expenses incurred for this quarter.

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

Management Comments to Draft Report



Metropolitan Transportation Authority

Metro**Interoffice Memo**

Date:	August 2, 2022
To:	Yvoone Zheng, Senior Manager, Audit Office of the Inspector General
From:	Cosette Stark, Deputy Executive Officer, Finance & Budget, Local Programming <i>CS</i>
Subject:	Office of the Inspector General (OIG) Audit of Jan. 1 – March 31, 2022 Misc. Expenses

ISSUE

This serves as Management Response to the finding contained in the OIG's Statutorily Mandated Audit of Miscellaneous Expenses incurred from Jan. 1 - March 31, 2022, Draft Report No. 23-AUD-01, regarding no written pre-approval of cardholder purchases made by the Local Programming Unit (Cost Center 4430) of the Office of Management and Budget.

Finding and Management Response

The OIG Audit found that the Local Programming P-Card statement of December 2021 included purchases of \$3,960.59 for equipment and materials used to conduct the Metro Low-Income Fare is Easy (LIFE) Pop-Up events. Out of that amount, \$2,000 was spent on shirts and sweaters to be used by volunteers working the Pop-Up events but no written approval prior to the purchase was found. However, verbal approval had been provided by the Deputy Executive Officer prior to purchases being made. The report stated that "Metro P-Card policy requires that *the Approving Official must explicitly pre-approve all purchases made by Cardholders in writing. This may be done individually before each purchase, or by providing precise guidelines concerning types or categories of items, and/or by specifying the supplier(s), etc.*" The report also stated that "It is important and Metro's policy to obtain a written pre-approval to ensure that all purchases are authorized and valid. If a verbal directive is given in exigent circumstances, immediate follow up in writing should occur."

Staff agrees with the audit report finding and recommendation and the Deputy Executive Officer of Local Programming will ensure that written approval will be provided prior to purchases being made using the Department's P-Card either individually or through a memo that provides guidelines on types of common purchases and suppliers that are pre-approved. If you have further questions regarding this response, please contact me at (213) 922-2822.

cc: Nalini Ahuja, Chief Financial Officer
Michelle Navarro, Senior Executive Officer, Finance, Office of Management & Budget
Jesse Soto, Senior Executive Officer, Finance, Accounting
Armineh Saint, Director, Budget, Local Programming
Juan Miranda, Principal Transportation Planner, Local Programming

Management Comments to Draft Report


Metro

Interoffice Memo

Date	July 29, 2022
To	Karen Gorman Inspector General
From	Conan Cheung Chief Operations Officer
Subject	Operations Management Response to the Audit of Metro Miscellaneous Expenses (Report # 23-AUD-01)

Operations Management has received and reviewed the Audit of Metro Miscellaneous Expenses for transactions processed from January 1, 2022 to March 31, 2022 in Maintenance & Engineering unit within Operations. The report includes the following recommendation for Operations:

2. Instruct staff to review the Purchase Card Policy and ensure that no restricted purchases are made through their P-Card.

Response: Agree; Maintenance & Engineering staff have been advised that they must review and comply with P-Card Policies to ensure that no restricted purchases are made using their P-cards, which in this case was for training for consultant services for safety related training. In fact, the P-card holder expressed that she understands that Training and Seminars involving having to pay for instructor travel is prohibited. Since this violation was brought to her attention, she has taken the P-Card Program Refresher training (May 2022) and will ensure that as the Business Unit Coordinator for Maintenance & Engineering, this unit does not pay for such training on P-Card again.

CC: Yvonne Zheng, Sr. Mgr., Audit
Lilia Montoya, DCOO, Operations Administration & Development
Errol Taylor, DCOO, Infrastructure Maintenance & Engineering
Nancy Alberto-Saravia, Director, Finance & Administration

Final Report Distribution

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Metro

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Audit of Miscellaneous Expenses January to March 2022

OIG Report No. 23-AUD-01
Karen Gorman, Inspector General

September 14, 2022



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 accounted for properly



Results

❖ Staff generally complied with Metro policies but we found the following issues:

- No written pre-approval of cardholder purchases
- Purchase card was used for a restricted purchase

Non-compliance was due to the urgency of the transaction where immediate payment was required.

❖ **OIG provided three recommendations.**

