

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

**Statutorily Mandated Audit of
Miscellaneous Expenses for the Period
October 1, 2019 to December 31, 2019**

Report No. 20-AUD-11

June 18, 2020



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Metro

DATE: June 18, 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 October 1, 2019 to December 31, 2019 (Report No. 20-AUD-11)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from October 1, 2019 to December 31, 2019. This audit was performed pursuant to Public Utilities Code section 130051.28(b), which requires the OIG to report quarterly on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) including its Board of Directors 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 seven of the 45 expenses reviewed:

- Business Meals Paid without Proper Justification Memo
- Non-Compliance with Policies on Professional Membership
- Incorrect Recording of Purchase Card Transactions
- Professional Membership Incorrectly Recorded as Corporate Membership

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 are adequate to ensure that expenses are documented and properly accounted for.

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

- Obtained and reviewed applicable policies and procedures;
- Interviewed Metro personnel including staff in Accounting, System Security and Law Enforcement, Information Technology Services, and others.
- Reviewed invoices, receipts, justification memos, and other supports.

This audit covered a review of Metro miscellaneous expenses for the period of October 1, 2019 to December 31, 2019. For this period, miscellaneous expenses totaled \$1,619,696¹ with 801 transactions. We selected 45 expense transactions totaling \$486,679 for detail testing. Thirty of the expense transactions were randomly selected, 3 were selected due to their large dollar amounts, 3 were judgmentally selected to represent other accounts and the remaining 9 were judgmentally selected for an expanded review of Corporate Membership (Account 50905), which was the focus of this quarter's review. As a result, 10 of the 45 transactions examined were for corporate membership expenses totaling \$245,065. 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 seven transactions.

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

1. Business Meals Paid without Proper Justification Memo

Our review found that a check for \$4,927.50 was made on October 25, 2019 to pay Salt of the Earth, Inc. for catering services at Metro’s Women’s Business Summit held on October 30, 2019. The justification memo attached to the check request from Board Relations, Policy and Research Department, was a memo for Purchase Card transactions, not for check payments. The check was issued to the vendor despite of the absence of the proper justification memo.

Section 1.1 (aa) of Accounting Procedures and Guidelines for Check Requests (ACC-01) states that disbursements for business meals for events and business meetings may be processed via check request in accordance with established signature authority limit. *“Such expenses must be accompanied with receipts, account coding and a detailed justification memo signed by the responsible department head.”*

After we raised this issue to Accounting Department, the Principal Accountant acknowledged that there was an oversight. After we brought this issue to her attention, on April 3, 2020, she asked the Department’s Senior Manager, Transportation Planning, to submit the required memo signed by the authorized officer. An email was received on April 14, 2020 indicating the approval of the Chief Policy Officer on the said check request. The Senior Manager will submit the actual justification memo when she gets the wet signature of the Chief Policy Officer.²

It is important that check payments for business meals are supported by a justification memo to make sure that disbursements are reasonable, allowable, and have valid business-related purpose.³

Accounting should ensure that all expense transactions are in accordance with Metro’s policies and procedures before processing payment. As discussed in Section 3 of ACC-01, Accounting is responsible for the review of the check request for completeness, charges to proper accounts, authorized signatories, availability of funds, and compliance with the Check Request procedures and guidelines.

2. Non-Compliance with Policies on Corporate and Professional Membership

Our review found that a professional membership of \$215 for Chief Administrative Analyst, System Security and Law Enforcement Department, in the American Society for Industrial Security International was paid through Purchase Card on September 17, 2019. The membership form was signed and approved by the Department Head on September 12, 2019

² Note that Metro should consider abandoning wet signatures for digital signatures to enable timely processing of documents in Covid-19 era and similar circumstances

³ Note that during the Covid-19 era, any expenses for meals may be disallowed.

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but it was not approved by the Training and Development (T&D) Department, as required in HR 6 policy. According to the employee, she believes that she got the signature of T&D on the form but could not find the documentation.

The Membership form was later signed and approved by T&D Department on March 10, 2020, after we brought the issue to the P-Cardholder's attention.

Section 2.2 of the Corporate and Professional Membership (HR 6) Policy states, "*The requesting employee must complete and submit to T&D the Corporate and Professional Membership Information form, membership application or renewal notice, and method of payment (electronic check request or Purchase Card).*"

The policy requires that individual professional membership should be signed and approved by the Department Head and T&D.

Pursuant to HR 6 policy, T&D Department is tasked to approve request for professional membership and maintain logs of member organizations, among other responsibilities. It should be noted that if T&D Department is bypassed, it cannot analyze and update its list of member organizations. Therefore, the System Security and Law Enforcement Department should ensure that all transactions related to professional memberships obtain the proper approval from the T&D Department.⁴

3. Incorrect Recording of Purchase Card Transactions

We found that two Purchase Card (P-Card) transactions in the Information Security Department for the month of November 2019 were incorrectly recorded.

Pursuant to a discussion with the P-Cardholder, who is a Senior Manager, Systems Projects, he wrote the correct account numbers for all transactions in the P-Card log. The first two transactions in the P-Card log showed credit card charges of \$2,068.25 for the purchase of equipment (account number 53102) and \$275.00 for a professional membership (account number 50912). However, when he posted them to the automated P-Card system, he inadvertently interchanged the account numbers for the said transactions, thereby resulting in an understatement of \$1,793.25 in the Acquisition-Equipment account and an overstatement in the professional membership account for the same amount.

We brought this issue to Accounting Department for the correction of the error.

⁴ Note that during the Covid-19 era, any payments for professional membership may be disallowed unless required by the Agency as a job requirement.

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4. Professional Membership Erroneously Recorded as Corporate Membership

For this quarter, which covers the period from October 1, 2019 to December 31, 2019, we performed an expanded review of Corporate Membership. The total Corporate Membership expense for the quarter was \$268,170, from which we sampled 10 transactions in the amount of \$245,065 and examined their supporting documents.

The following is the summary of Corporate Membership by Cost Center from October 1, 2019 to December 31, 2019:

Cost Center	Organization	Corporate Membership	
		Population	Sample
(2410) Board Relations, Policy & Research			
	American Public Transp Association (APTA)	\$ 138,500	\$ 138,500
	LA Area Chamber of Commerce	23,955	11,800
	Los Angeles Business Council	500	-
	Los Angeles County Business Federation	50,000	50,000
	Los Angeles Economic Development Corp.	10,000	-
	Monrovia Chamber of Commerce	450	-
	SCLC, Southern California	20,000	20,000
	Sub-Total	243,405	220,300
(4410) Strategic Financial Planning			
	Coalition For America's Gateways & Trade Corridors	6,500	6,500
(6240) Talent Acquisition			
	Human Capital Institute	17,200	17,200
Other Cost Centers - (Reclassified - See Below)		1,065	1,065
Total		\$ 268,170	\$ 245,065

Our review of Corporate Membership expense found that the 10 sampled transactions generally complied with Metro policies. However, we found four transactions with a total amount of \$1,065.00 that were incorrectly recorded as Corporate Membership, instead of Professional Membership, as shown below:

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Cost Center	Organization	Amount
Major Capital Proj. Eng.	American Society of Civil Engineers (ASCE)	\$ 300
Systems Engineering	American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE)	280
Engineering Management	American Society of Civil Engineers (ASCE)	245
System Sec. & Law Enforcement	American Society for Industrial Security (ASIS)	240
	Total	\$ 1,065

The above transactions were incorrectly recorded as Corporate Membership, instead of Professional Membership, due to misinterpretation of the nature of the membership. The staff assumed that membership in an organization should be posted to Corporate Membership or Account # 50905.

Based on Metro’s Chart of Accounts, “*Corporate Membership is used for membership fees or dues paid wherein Metro is a member in public transportation related organizations. This account excludes professional membership fees or dues paid by Metro for its employees.*”

Professional Membership (Account # 50912), as described on the Membership Form, “*is a job-related membership maintained by an LACTMA employee in a professional, technical or industry trade organization that is job-related, required for professional certification, or is in alignment with the agency’s vision, mission and goals.*”

Metro’s Chart of Accounts describes each account and staff should use the correct account to ensure accurate and reliable financial data.

We advised the staff in the concerned departments about the incorrect account and they agreed to comply and use the correct account in the future. We communicated these transactions with Accounting, which promptly made reclassification to the correct account. Since the above transactions were timely corrected, we will not make recommendations on this miscoding issue.

CONCLUSION

The miscellaneous expenses we reviewed for the period of October 1, 2019 to December 31, 2019 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for two of the expenses we reviewed, requirements were not followed concerning compliance with policies on check requests and professional membership, and five transactions were incorrectly recorded.

In light of the Covid-19 era and Metro's current financial circumstances, we recommend that miscellaneous expenses are reviewed at the highest levels and consider eliminating, renegotiating down or deferring for future consideration.

RECOMMENDATIONS

We recommend:

1. Board Relations, Policy and Research Department, submit a detailed justification memo signed by a responsible department head, along with other required documents, when preparing check requests for business meals.
2. Accounting Department continue to ensure that all requirements under the Procedures and Guidelines for Check Requests Policy (ACC-01) are adhered to before processing a check request.
3. System Security and Law Enforcement Department make sure that their staff is aware of all the requirements under policy HR 6, including obtaining the approval of the Training and Development Department for all professional membership forms before submitting for payment.
4. The P-Cardholder in the Information Security Department exercise due care in recording the Purchase Card transactions and the Approving Official should continue to review the entries in the P-Card system to minimize, if not totally eliminate, any error.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On June 5, 2020, we provided Metro Management a draft report. On June 16, 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 October 1, 2019 to December 31, 2019**

<i>Account</i>	<i>Account Description</i>	<i>Total Amount</i>	<i>Sample Amount</i>
50213	Training Program	\$ 32,443	\$ 6,930
50903	Business Meals	86,620	5,904
50905	Corporate Membership	268,170	245,065
50908	Employee Relocation	0	0
50910	ER Mileage / Parking	3,969	0
50912	Professional Membership	13,955	2,193
50914	Schedule Checkers	1,116	0
50915	Seminar and Conference Fee	117,212	1,460
50917	Business Travel	202,715	3,663
50918	Advertising	470,458	109,782
50930	Employee Activities and Recreation	575	575
50999	Other Miscellaneous Expenses	<u>422,463</u>	<u>111,107</u>
	Total	<u>\$1,619,696</u>	<u>\$ 486,679</u>

Management Comments to Draft Report



Metro

Interoffice Memo

Date	June 16, 2020
To	Yvonne Zheng Senior Manager, Audit, Office of Inspector General
From	Robert Green, Chief System Security and Law Enforcement Officer <i>Ra</i> Elba Higueros, Chief Policy Officer <i>EH</i> Jesse Soto, Executive Officer, Finance/Controller <i>Jesse Soto</i>
Subject	Draft report: Statutorily Mandated Audit of Miscellaneous Expense (Report No. 20- AUD-11)

OVERVIEW

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

We recognize that corrective action must be taken to ensure that requirements must be followed concerning compliance with policies on check request and professional membership, and that professional membership and Corporate membership are to be recorded correctly.

PROPOSED CORRECTIVE ACTIONS

The audit recommends that:

1. Board Relations, Policy and Research Department, submit a detailed justification memo signed by a responsible department head, along with other required documents, when preparing check request for business meals.

Management Response: Agree

The Senior Manager, Transportation Planning will ensure that a detailed justification memo signed by the responsible department head and other required documents are submitted when preparing a check request.

2. Accounting Department continue to ensure that all requirements under the Procedures and Guidelines for Check Request Policy (ACC-01) are adhered to before processing a check request.

Management Response: Agree

Management Comments to Draft Report

The Senior Director of Accounting will continue to ensure that the staff continues to adhere to the Check Request Policy (ACC-01) before processing a check request.

3. System Security and Law Enforcement Department make sure that their staff is aware of all requirements under policy HR 16, including obtaining the approval of the Training and Development Department for all professional membership forms before submitting for payment.

Management Response: Agree

The Manager, Administration and Financial Services will ensure that the staff is aware of the requirements under policy HR 6 and that approval of the Training and Development Department for all professional membership forms is obtained before submitting for payment.

4. The P-Cardholder in the Information Security Department exercise due care in recording the Purchase Card transactions and the Approving Official should continue to review the entries in the P-Card system to minimize, if not eliminate, any error.

Management Response: Agree

The Manager, Administration and Financial Services will ensure that the P-Cardholder in the Information Security Department exercise due care in recording the Purchase Card transactions.

The Approving Official will continue to review the entries in the P-Card system to reduce and prevent the risk of error.

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

CC: Nalini Ahuja, Chief Financial Officer, Finance and Budget
Juan Cordero, Senior Director of Accounting
Juliet Glindro, Manager, Accounting
Aston Greene, EO, Operations Admin. System Security & Law Enforcement
Imelda Hernandez, Chief Admin Analyst, System Security & Law Enforcement
Claudia Galicia, SR Manager, Transportation Planning

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