

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

**Statutorily Mandated Audit of
Miscellaneous Expenses for the Period
January 1 to March 31, 2016**

The expenses we reviewed generally complied with policies, were reasonable, and were adequately supported. However, a few expenses were charged to incorrect accounts, and some Travel Authorizations as well as employee relocation assistance lacked justification memos.

Report No. 17-AUD-02

January 30, 2017



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Metro

Los Angeles County
Metropolitan Transportation Authority

Office of the Inspector General
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DATE: January 30, 2017

TO: Board of Directors
Chief Executive Officer

FROM: George Maycott, Acting Senior Director, Inspector General - Audits

SUBJECT: Statutorily Mandated Audit of Miscellaneous Expenses
For the Period January 1, 2016 to March 31, 2016
Report No. 17-AUD-02

INTRODUCTION

The Office of the Inspector General (OIG) performed the mandated audit of miscellaneous expenses for the period of January 1, 2016 through March 31, 2016. This audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires that the Inspector General report to the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors on miscellaneous expenses including travel, training, meals, private club dues, and membership fees.

Our audit found that the amounts incurred for the 30 statistically sampled expenses and seven judgmentally sampled expenses were supported by invoices or receipts. However, we found that certain expenses were charged to incorrect accounts, some Travel Authorizations lacked required justifications, and some employee relocation assistance expenses were apparently not within policy and lacked documented justification.

OBJECTIVES, SCOPE, AND METHODOLOGY OF AUDIT

The objectives of the audit were to determine whether sampled miscellaneous expenses incurred were:

- Reasonable and in accordance with Metro policies and procedures;
- Adequately supported with receipts, proper approvals, and other appropriate documentation; and
- Charged to the appropriate account as defined in the Metro Chart of Accounts.

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Metro's miscellaneous expenses for the period January 1, 2016 through March 31, 2016 totaled \$1,380,399¹ (see Attachment A). We reviewed a statistical sample of 30 expenses totaling \$48,236. We also reviewed seven employee relocation assistance expenses totaling \$73,000.

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

- Obtained and reviewed Metro's policies: Travel and Business Expenses (FIN-14), Purchase Card (P-Card) Program, and Check Request (ACC-01);
- Interviewed personnel in the Accounting Department to obtain an understanding of the processes for paying business travel;
- Contacted the Purchase Card Program Administrator regarding policies and rules;
- Reviewed Metro's Chart of Accounts;
- Determined whether proper approvals were obtained, expenses were justified, and required supporting documentation was submitted;
- Reviewed a statistical sample of all expenses and supporting documents such as receipts, monthly Purchase Card Logs, Travel and Business Expense (T&BE) Reports, Travel Request/Authorization Forms, monthly purchase card statements, and other documents.

The 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions according to the audit objectives.

BACKGROUND

Metro uses three options to pay for miscellaneous expenses: (1) Metro's Purchase Cards, (2) employee reimbursement through Travel and Business Expense (TBE) reports, and (3) Check Requests including purchase orders. Each option has its own applicable policies, procedures, or guidelines. The Accounts Payable Section in the Accounting Department is responsible for the accurate and timely processing of payments for these expenses. The Payroll Department processes relocation assistance payments to employees.

RESULTS OF AUDIT

The 37 total expense transactions we audited generally complied with Metro policies, were reasonable, and were adequately supported. However, we found that a few expenses were charged to an incorrect account using a Purchase Card, and two Travel Authorizations lacked the

¹ These totals do not include transactions that were \$200 or less, credit amounts, and transactions incurred by the OIG or the Ethics Department.

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required justification memos. We expanded our review to review all Business Meals in our sample in more detail, and seven employee relocation assistance expenses during the quarter.

A. Expenses were Charged to an Incorrect Account.

We found four of five expense items on one P-Card statement totaling \$867 were charged to Account 50999, “Miscellaneous Expenses – Others,” in the Financial Information System (FIS). One expense item for \$125 was for a membership fee which was appropriately charged to Account 50999. However, the remaining four items totaling \$742 were to pay for meals catered by the Metro Café, which should have been charged to Account 50903, “Misc – Business Meals,” rather than Account 50999.

The card approving official stated that the food is considered as part of a regular event, which is budgeted in Account 50999, and it is their custom to include the food purchases in Account 50999.

The Chart of Accounts defines Account 50903 “Misc – Business Meals” as “meals and food incurred while participating in industry conferences and other related business meetings.” Because of the nature of the expenses and the definition in the Chart of Accounts, we believe that the correct account to record food purchases is 50903.

Accounts are created to track the expense category and inappropriately lumping expenses into Account 50999, “Miscellaneous Expenses – Others,” defeats that purpose. When we brought this matter to the attention of Accounting, we were advised that these food expenses should have been charged to “Business Meals,” Account 50903. Accounting staff told us that they had corrected this error. We also discussed the issue with the relevant department and were told that they would charge the meals to Account 50903 in the future.

In addition, we found one expense coded to Account 50903, which was actually the Meals and Incidental Expense portion for travel by one employee. This should have been coded to Business Travel, Account 50917. When we brought the issue to Accounting’s attention, Accounting staff took action to correct the coding error.

Since Accounting has corrected the miscoding errors, we are not making any recommendations for this issue in this report. However, we will review this matter in our audit of miscellaneous expense in the future to ensure that similar errors do not occur again.

B. Some Travel Authorizations Lacked Detailed Justification Memos.

Metro Policy FIN 14, Travel and Business Expense, requires a detailed justification memo to be submitted for travel authorizations with the Travel Request/Authorization Form (TA Form, ACCT-147). FIN 14, paragraph 1.1.4 states:

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“Trip documentation such as conference schedules, completed registration forms and mailing envelopes, business itineraries as well as a detailed travel justification memo must be attached. ...”

In addition, the TA form itself, in the area of “Purpose,” includes the statement “Attach Written Justification.” This should remind travelers to make sure that a written justification is prepared and submitted.

In our statistical sample of 30 expenses, we found five related to travel. Of these five expenses, two did not have a justification attached to the Travel Authorization Form.

Our prior audit of Business Expenses (Report 16-AUD-07, dated July 22, 2016) found similar discrepancies regarding the lack of justification memos attached to the Travel Authorization form. We spoke with the Travel Program Administrator who stated that the previous Administrator indicated that Metro only needed a travel justification memo when an agenda was not provided. The Administrator became aware that a justification memo was always needed as specified in FIN 14 due to the result of a previous audit by the OIG. The Administrator advised us that, during the time period covered by our audit, some might have slipped through without the justifications. Currently, Metro is working on revising the form to either have a bigger box to indicate the purpose of the travel or modernize the entire process by going electronic. Since the Travel Program Administrator became aware of this requirement, she has re-enforced that a justification memo is to be attached to every approved TA form.

Due the fact that the Travel Program Administrator has taken corrective action based on our prior audit report, we are not making any recommendation on this issue in this audit report.

C. Documentation for Some Business Meal Expenses was Lacking.

We reviewed 5 business meal expenses totaling \$2,245 to determine if the payment of business meal expenses met Metro policies. Policy FIN 14, paragraph 1.4.1, states that business meal reimbursement must include original receipts, documentation of attendees, date, name, title, affiliation, subject discussed, amount paid, purpose and benefit to LACMTA business. A separate justification memo may be attached to provide sufficient detail. In addition, no alcoholic beverages are allowed. Our review found:

- One expense was miscoded and should have been coded as Account 50917, Business Travel. When we brought this instance to Accounting’s attention, staff took action to change the account code.
- One expense was processed through a check request and not subject to FIN 14, but to Accounting Policy ACC-01, Check Requests. ACC-01 requires receipts and justification/approval but does not require a list of attendees.

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- The other 3 expenses lacked the list of attendees. When we informed Accounting, staff requested the lists from the relevant department.

Since Accounting has taken action to correct the above documentation deficiencies, we are not making any recommendation on this issue in this audit report.

D. Justification for Some Employee Relocation Assistance Expenses was not Consistent with Policy.

Metro policy HR 42, Employee Relocation Assistance, states that Metro may provide relocation assistance when a new employee's permanent residence is more than 100 miles outside the Los Angeles metropolitan area and one of the following applies:

- when the recruitment is designated a state or nationwide search;
- the vacancy is at the pay grade level "P" or above; or
- the vacancy is a technical and/or hard-to-fill position.

We examined seven payments totaling \$73,000 for relocation assistance paid during the quarter. In accordance with the policy, the signed "Employee Relocation Assistance Authorization Forms" were completed for the seven payments, and all seven employees lived more than 100 miles from the Los Angeles area. However, there appears to be no basis within the policy for two of the employees.

We discussed these expenses with Talent Development Department staff. They were able to provide justification memos for five of the seven employees. For the other two employees (neither was grade P or higher), documentation of the employee relocation assistance justifications was not found. There is no indication these were hard-to-fill positions. We found:

- For one employee, there was no justification memo. The Human Resources Analyst who processed the hiring of the employee stated that she had never seen a justification memo for the relocation assistance. Talent Management was not able to provide a justification memo for this employee's relocation assistance, however, the authorization form was signed by the Executive Officer, Talent Development, the Chief Financial Officer (as head of the hiring department), and the Chief Executive Officer.
- For the other employee, Talent Development could not locate the justification memo, though the authorization form was signed by the Executive Officer, Talent Management, and the hiring department head. The Principal Human Resources Analyst who handled the procurement informed us that this position was hard-to-fill. However, there was no memo to file to explain what factors constitute hard-to-fill.

Without documentation of the reason the employee qualified for relocation assistance, it is difficult to determine how the relocation assistance paid to the employee meets Metro policies.

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RECOMMENDATION

We recommend that the Talent Management Department consider revising policy HR 42 to include the requirement of documenting the reasons/criteria that the employee qualifies for the relocation assistance and what constitutes “hard-to-fill.”

MANAGEMENT COMMENTS TO RECOMMENDATION

On December 22, 2016, we provided Metro Management a draft report. The recommendation was addressed to the Talent Management Department. On January 17, 2017, the Chief Human Capital & Development Officer completed a response that agreed with the recommendation in this report (see Attachment A).

OIG EVALUATION OF MANAGEMENT RESPONSE

Management’s proposed corrective actions are responsive to the findings and recommendation in the report. We, therefore, consider all issues related to the recommendation resolved based on the corrective actions taken and planned. However, MAS should follow up on actions taken to complete implementation of the recommendation.

Copy of Management Comments



Metro

Interoffice Memo

| | |
|----------------|--|
| Date | January 17, 2017 |
| To | George Maycott, Acting Sr. Director, Inspector General – Audits |
| From | Joanne Peterson, Chief Human Capital & Development Officer |
| Subject | Response to Recommendation in OIG Audit Report No. 17-AUD-02 |

Audit Report Recommendations

OIG Audit Report No. 17-AUD-02 (“Report”), Statutorily Mandated Audit of Miscellaneous Expenses for the Period January 1, 2016 to March 31, 2016, recommended the following revisions to Employee Relocation Assistance (HR 42) (“Policy”):

1. Include the requirement of documenting the reasons/criteria that the employee qualifies for the relocation assistance, and
2. Define “hard-to-fill” position.

Response

1. As to the justification for providing relocation assistance, the Policy is in the process of being clarified to address this recommendation, and the revision will be complete on or before January 31, 2017.
2. As to the definition of “hard-to-fill”, the Policy was revised on December 22, 2016 to address this recommendation.

Each recommendation is discussed below in detail.

Justification for Qualification

Although it is common practice for departments to submit a justification memo detailing the reasons relocation assistance is being granted, the current Policy does not explicitly require a justification memo. In furtherance of the Report’s recommendations, the Policy is in the process of being clarified to add language requiring a justification memo to be submitted along with the Authorization Form. This clarification to the Policy will be finalized on or before January 31, 2017. The updated policy is proposed to read (changes underlined in red font):

1.1 Eligibility

To be eligible for employee relocation assistance, a recruitment must involve the following conditions: a new employee’s permanent residence is more than 100 miles

Copy of Management Comments

from LACMTA headquarters at Union Station (Gateway Bldg.), and one of the following applies:

- The recruitment is designated a state or nationwide search;
- The vacancy is at pay grade level "P" or above; and/or
- The vacancy is a technical and/or hard to fill position.

Hiring departments requesting employee relocation assistance for a candidate must provide written justification for the request. The justification must include one or more of the above reasons, and be approved by the Department Chief. [...]

3.0 RESPONSIBILITIES [...]

The hiring Department Head is responsible for submitting all paperwork, including a justification approved by the Department Chief, and approving all relocation, including the amount and form of assistance.

"Hard-to-Fill" Positions

The Policy has been revised to define "hard-to-fill" positions and was approved by the CEO on December 22, 2016. The Policy now reads:

2.0 DEFINITION OF TERMS [...]

Technical and/or Hard-to-Fill Positions – Positions which require unique skills and qualifications. Examples include Director/Executive-level positions, and other positions considered mission-critical to the agency. Candidates with these specific skills may be difficult to find locally because they are in high demand.

Summary of Expenses Audited

For the Period from January 1, 2016 to March 31, 2016

| Account | Account Description | Total Amount | Sample Amount |
|---------------|---|----------------------------|--------------------------|
| 50213 | Training Program ⁽¹⁾ | \$ 37,874 | \$ 0 |
| 50903 | Business Meals | 93,316 | 2,245 |
| 50908 | Employee Relocation | 146,000 | 73,000 |
| 50910 | Mileage / Parking ⁽¹⁾ | 7,834 | 0 |
| 50914 | Schedule Checkers ⁽¹⁾ | 3,000 | 0 |
| 50915 | Seminar and Conference Fee | 123,495 | 2,099 |
| 50917 | Business Travel | 164,881 | 15,470 |
| 50930 | Employee Activities and Recreation ⁽¹⁾ | 481 | 0 |
| 50999 | Other Miscellaneous Expenses | <u>803,518</u> | <u>18,422</u> |
| Totals | | <u>\$ 1,380,399</u> | <u>\$ 111,236</u> |

The above amounts do not include transactions that were \$200 or less, credit adjustments, and expenses incurred by the OIG or the Ethics Department.

Note

(1) The random selection process did not result in selection of an item in this account.

Final Report Distribution

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