



**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE**  
**January 20, 2005**

**OFFICE OF THE  
INSPECTOR GENERAL**

LA County Metropolitan  
Transportation Authority

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**SUBJECT: OFFICE OF INSPECTOR GENERAL (OIG) AUDIT  
ACTIVITIES REPORT**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file subject report.

**ISSUE**

The MTA Board of Directors requested the OIG to report on audit activities.

**BACKGROUND**

The OIG Charter mandated the creation of a unit to report directly to the MTA Board of Directors. The OIG has numerous responsibilities as defined in the Charter, and the OIG Audit Unit has a broad responsibility for oversight in a cooperative support mode with MTA management for increased accountability and improvement of MTA organizational performance.

A large measure of the OIG audit focus is to provide the MTA Board of Directors and MTA management with independent analyses, evaluations, and appraisals of performance effectiveness, accuracy of information, efficient use of resources, and adequacy of internal controls. In addition, the Audit Unit is charged with the detection and analysis of those items indicative of fraud, waste, or abuse.

**DISCUSSION**

The OIG recently issued the following audit reports:

1. Review of Contract for Workers' Compensation Claims Administration
2. Controls Over Administrative Time
3. Advisory Report on Status of Issues Involving Construction Contract Changes on the Metro Orange Line
4. Advisory Report on the Status of Audit Issues Involving Mark-ups on Contractor Change Costs on the Metro Orange Line

5. Review of Hydraulic Oil Usage
6. Follow-up Review on Controls Over Accounts Receivable and Employee Travel Advances
7. Audit of MTA Miscellaneous Expenses, January 1, to March 31, 2004

The above audit reports were previously submitted to the Board and MTA management in their entirety.

### **Review of Contract for Workers' Compensation Claims Administration**

We found that, in many instances, contract terms and procurement policies were not followed or were circumvented. Immediately after the contract was awarded, the contractor claimed it was losing money on the rates in the contract. When faced with the contractor's claim, former Risk Management officials relied upon verbal agreements to increase the labor rates in the contract rather than following required contract change and modification procedures. As a result, Risk Management officials approved the contractor's invoices for payment although the labor rates, job classifications, and overtime charged did not conform to contract terms. Our review found that MTA paid \$822,859 for services that were not authorized by the terms of the contract. Specifically, MTA paid:

- \$351,785 for higher hourly rates that were not authorized by the terms of the contract;
- \$368,601 for job classifications that were not listed in the contract; and
- \$102,473 for overtime that was not authorized by the terms of the contract.

During our review, the contract was formally amended on June 23, 2004, to reflect higher rates for some job classifications, add new job classifications, and address overtime issues. Our review of two job classifications (Junior Examiner and Claims Assistant) showed that if the contract had been amended in September 2001 when the verbal agreement began, MTA probably would have saved \$219,633.

The problems discussed above were not corrected for over 2½ years although key staff knew about the problems earlier and had numerous opportunities to correct them. In our opinion, the conditions we found indicate that top management needs to strengthen the control environment within the Authority to ensure that managers and operating staff do not just simply ignore established rules and regulations.

We also found that information on timesheets that supported the invoices was incomplete. In addition to the \$822,859 paid for services not authorized in the contract, \$276,235 was paid to the contractor although the timesheets did not identify the employees' job classification,

which is used to determine the correct hourly rate, while other timesheets were not signed by supervisors. Moreover, our review identified that improvements were needed in the areas of:

- contractor invoices and supporting documentation,
- task orders,
- solicitation and Pre-Award Contract Files, and
- processing changes to the contract.

### **Controls Over Administrative Time**

During 2001 to 2003, employees were paid a total of \$752,273 for 33,758 hours of administrative time. We found that MTA needed to establish written guidelines and strengthen controls to ensure that administrative time is adequately controlled, consistently applied, and not abused.

- Policies and procedures for administrative time had not been established.
- In the absence of written policies, there was inconsistent use and inadequate control over administrative time. In many instances, administrative time was used to pay operators for non-bus driving hours such as administrative duties, attending committee meetings, organizing division parties, and other non-driving assignments.
- Administrative time earning codes were incorrectly used.

### **Advisory Report on Status of Issues Involving Construction Contract Changes on the Metro Orange Line**

In April 2004, we reported that the contractor's price proposals for changes were inadequate, and contract audit reports questioned a high percentage of the contractor's proposed costs. The contractor's price proposals included costs that were not allowed by the terms of the contract, and costs that were inadequately supported.

Our subsequent review of six contract changes showed that the overall percentage of questioned costs had decreased, but the dollar value of costs not supported by the contractor was still substantial.

Although the recent decline in the overall percentage of questioned costs appears favorable, we do not know whether the decline was due to any MTA management action, or whether this is a meaningful reduction. For a variety of factors, the percentage of questioned costs on future changes could decrease or increase. We believe that MTA staff should continue to emphasize the areas identified in our prior report to ensure that contract changes are processed in a timely manner and adequate safeguards are in place. This report provides additional information, which we believe will allow MTA staff to increase and focus their efforts to ensure that the contractor's cost proposals for changes are adequately supported and contract terms are enforced.

## **Advisory Report on the Status of Audit Issues Involving Mark-ups on Contractor Change Costs on the Metro Orange Line**

Our prior reports concerning the contractor's cost proposals for the Metro Orange Line identified an issue that pertained to the contractor applying mark-ups on change proposals that were not in accordance with contract terms. We performed additional analysis and follow-up work concerning mark-ups. We found three areas where additional management attention was needed to ensure that the contractor applies mark-ups in accordance with contract terms, and questioned costs are resolved.

- The contractor continued to apply mark-ups that were not allowed by the contract terms.
- A process was not established to resolve any disagreements concerning questioned costs.
- The contract needed clarification on the applicability of the 5% mark-up to subcontractors.

### **Review of Hydraulic Oil Usage**

We found that there has been a history of high hydraulic oil usage at some divisions. MTA staff was aware of this issue and related concerns, and has taken actions to address problems with oil leaks. At divisions where leaks were found, MTA has initiated actions such as installing catch basins to trap any leaking oil, replacing defective underground pipelines with above-ground lines, demolishing concrete pits to remove and replace leaking cylinders, shutting down leaking lift systems, and using portable lifts. MTA has recently replaced 4 lifts and has awarded a contract to replace an additional 38 lifts.

Although MTA has initiated actions to address problems with oil leaks, we believe that staff should continue to monitor hydraulic oil consumption to identify any changing conditions. It is important to periodically update oil consumption data because additional leaks could significantly increase usage within a short period without being detected visually.

### **Follow-up Review on Controls Over Accounts Receivable and Employee Travel Advances**

We found that MTA management has taken adequate corrective actions to implement the four recommendations in our prior audit report. Specific actions taken included:


- Written policies and procedures for all these areas have been developed and completed.
- Review and follow up on collections of receivables are performed on a regular basis.
- Accounting Department has performed monthly reconciliations between the subsidiary balances and the General Ledger control balances.
- The current employee travel report shows that there were no past due travel advances from employees.

**Audit of MTA Miscellaneous Expenses, January 1, to March 31, 2004**

We found that the expenses (travel, business meals, professional and corporate memberships, training, conferences, and other miscellaneous expenses) reviewed for the period January 1, 2004 to March 31, 2004, generally complied with MTA policies, were reasonable, and were adequately supported.

MTA Management agreed with the findings and recommendations discussed in the reports discussed above and initiated the recommended corrective actions.

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