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SUMMARY

The District controls costs on purchases, force account expenditures,
construction projects and major capital improvements by use of three
accounting devices: authorization for expenditure (AFE); open requisi-
tion; and memorandum work order.

The District has experienced recently some cost overruns in these areas
for several reasons: insufficient procedures for monitoring costs;
failure to amend the authorized budget ceiling in advance when necessary;
"rush" jobs causing increased labor costs; and inaccuracy of cost
estimates.

This report is an analysis of these accounting mechanisms and includes
draft policies which assign cost monitoring and control responsibility
while defining related practices and procedures.

## INTRODUCTION

This report is the result of an assignment from Executive Staff to review existing procedures and develop policies to control expenditures in the use of authorization for expenditures (AFE's), memorandum work orders and open requisitions.

The District utilizes AFE's for the accumulation of costs for those projects or acquisitions to be capitalized. AFE accounts are established with a projected budget limit. In any given month there are between twenty and thirty active AFE projects, ranging from bus acquisitions to facility improvement projects.

Memorandum work orders also establish accounts for the accumulation of cost data based on projects or functions, but are non-capitalized projects. Work orders may be used by any department wishing to accumulate cost data by function and can be of use for billing purposes or for the compilation of cost data for planning and analysis within the concerned department. However, of primary concern in this report are those projects with a budget limit and which are billed to an outside agency, such as SCAG or Caltrans. Currently, there are approximately fifty active work orders with budget limits.

Open requisitions are requisitions to procure a frequent supply of non-standard items which cannot practically be carried in stock at centralized stores. Procurement could be for many different items from one vendor, but no more than $5,000 for any one item or group of items. Open requisitions may also be utilized for certain services needed by the District, as determined by the Purchasing Department. Open requisitions are utilized, for example, by Maintenance for non-stock parts or by Marketing for printing services. There are currently about 170 active open requisitions.

These three accounting processes have a common need for cost monitoring which brings them within the scope of this report.

RECOMMENDATIONS:  DISCUSSION

1.  Proposed Policies

Authorization for expenditures, work orders and open requisitions
are complicated accounting tools which involve a great deal of detail
work, coordination and administrative follow-through between sev-
eral departments at any given time in a project's life.

It is recommended that policy be implemented including the follow-
ing major elements:

● assignment of cost-monitoring responsibility;

● assignment of AFE preparation responsibility;

● designation of a "lead" department to coordinate AFE projects;

● procedures for anticipating possible cost overruns;

● procedures for and assignment of responsibility for budget
amendments;

● frequency and use of Accounting Department reports; and

● identification of potential problem projects for Executive Staff
review.

2.  AFE Project Control

One of the primary difficulties in developing an effective control
procedure for insuring that expenditures do not exceed the budgeted
ceiling stems from the fact that responsibility is necessarily divided
along department lines. As many as five or six departments can be
involved with various aspects of project cost and control, although
no one department might have responsibility for overall budget
monitoring.

The following simple example typifies the course of an AFE project.
Operations identifies a need for an improvement to an existing
facility. Bus Facilities Engineering prepares an estimate of
engineering, construction and equipment costs. The decision is
made to submit a capital grant application, prepared by Grants
Administration, with total estimated cost approved by the Board

of Directors. UMTA then considers and approves the application. The AFE is then prepared by Grants Administration. Subsequently, requisitions are prepared by Bus Facilities, supported by plans, specifications and bid documents, and forwarded through the Purchasing Department to the Purchasing Committee, and onto the Board of Directors for approval. Work then proceeds through the request-for-proposal and bid process. After bids are opened and reviewed by Bus Facilities, Operations, Purchasing, Legal, Safety and other departments on the Purchasing Committee, a recommendation for contract award is made by the Purchasing Committee to the Board; the Board of Directors may then award the contract.

Construction is then commenced, monitored by Bus Facilities and Grants Administration to ensure that work continues within the scope of the contract as let. The Accounting Department receives invoices for the work as it proceeds, obtaining approval from Bus Facilities before payment. Charges are then posted by Accounting to the AFE line item through the appropriate UMTA "MACS" (Management Accounting and Control System) code number.

In this process, Operations has an interest in ensuring the project satisfies their needs; Grants Administration has an interest in being responsible to the funding sources; Bus Facilities has an interest in ensuring that the contractor has satisfied the contract; and Accounting, in properly posting project costs for later capitalization of the project. Although all these interests are interrelated, current policies and procedures do not assign responsibility for cost monitoring from inception to completion to any one department or function.

It is recommended that policy be implemented including the following:

● assign a Project Manager, as outlined in the AFE draft policy for all AFE projects to coordinate all matters affecting project costs (See Appendix, page A-2);

● Project Manager should be responsible for monitoring all expenditures to ensure they do not exceed the project's budgeted ceiling, which can be done by using Accounting's monthly summary report and by maintaining a daily, running estimate of expenses when projects are nearing completion or are of short duration.

3. Open Requisition Cost Control

Open requisition cost overruns have occurred as a result of poor monitoring of expenses. The Accounting Department, until recently, has issued no monthly report of expenditures and no records are necessarily kept by the concerned department at the time that orders are placed. In addition, there is a considerable delay by the time the invoices are authorized, payments made, and expenses are recorded in Accounting.

As a result of this, cost overruns have occurred which were un-anticipated until total expenditures exceeded the authorized budget ceiling.

It is recommended that policy be implemented including the following:

● A Requisition Coordinator be identified by the originating department to coordinate all matters affecting each open requisition.

● The Requisition Coordinator should be responsible for monitoring all expenditures to ensure they do not exceed the requisition's budgeted ceiling, which can be done by using Accounting's monthly report when it is adequate and by maintaining a daily running estimate of expenses for projects which are nearing completion or which are of short duration.

● Further, the Requisition Coordinator has the responsi-bility of identifying possible overruns and of notifying the department head and the Purchasing Department. By offi-cially assigning responsibility to monitor costs at the de-partmental source, overruns can be anticipated (see draft Open Requisition policy, Appendix B ).

4. Monthly Open Requisition Reports

The Accounting Department has developed and implemented a monthly running report of expenditures which are applied to open requisitions. This report is similar to those which are compiled for AFE and memorandum work order expenditures.

It is recommended that these reports be continued and used by the Requisition Coordinators. These reports should be dis-tributed to the Executive Staff, Purchasing Department and Requisition Coordinators.

5. Work Order Cost Control

As is the case with AFE projects, work order projects are frequently inter-departmental in nature, without a responsible person to monitor cost at the source. Work charged to the project can exceed the budgeted amount before final accounting work is completed.

It is recommended that policy be implemented including the following:

● A Project Manager be assigned for all work order projects as outlined in the draft policy.

● The Project Manager's basic responsibility is to monitor cost in order to identify possible overruns in advance (see draft Memorandum Work Order policy, Appendix C).

6. Accounting Report Highlights

Use of the monthly Accounting Department report on AFE, open requisition and work order expenditures, supplemented by the Project Manager or Requisition Coordinator's rough, daily running total when necessary, will serve to highlight actual or potential cost overruns with sufficient time to amend the project budget before funds are committed.

As an additional control device, the use of "milestones" to draw special attention to particular projects which have expended the major portion of their budget would identify those projects which may require immediate attention.

It is recommended that the Accounting Department notify the lead department when a project has reached approximately 80% of its approved budget. It is further recommended that the monthly Accounting reports include a means of highlighting projects which are between 80% and 100% of their budget and projects which have expenditures in excess of their approved budget. This ready identification should be used to encourage a monthly Executive Staff review of potential or actual overrun problems.

## RECOMMENDATIONS: SUMMARY

The following list summarizes the recommendations made in the previous section.

It is recommended that:

1) Policies be established with the following elements: assignment of cost-monitoring and AFE preparation responsibility, the identification of AFE "lead departments," procedures for anticipating possible cost overruns, procedures for budget amendments, monthly account reports and the identification of potential problem projects for Executive Staff review.

2) A Project Manager be assigned for all AFE projects, as outlined in the draft AFE policy, to monitor all expenditures to ensure they do not exceed the project budget.

3) A Requisition Coordinator be assigned for all open requisitions, as outlined in the draft Open Requisition policy, to monitor all expenditures in accordance with its requisition budget.

4) Monthly open requisition reports continue to be made by the Accounting Department and distributed to Executive Staff and Requisition Coordinators.

5) A Project Manager be assigned for all work order projects, as outlined in the draft Memorandum Work Order policy, to monitor all expenditures in accordance with the work order project budget.

6) The Accounting Department notify the lead department when a project has reached 80% of its approved budget and in its monthly report, highlight projects which are between 80% and 100% of their budget.

## CONCLUSION

The recommendations made in this report address critical accounting cost monitoring and control procedures which are central to completing purchases and projects within their budget limitations.

This control is necessary in order to maintain effective policy direction for the Board of Directors and the District's top management.

While these recommendations do provide the basis for more effective policy and procedures, they do not reduce the complete and ultimately crucial need for sound management on the part of District personnel. Budget amendments or costs shifted to produce what appears to be an effectively managed project are not substitutes or solutions for poor control, inaccurate cost estimates, or inadequate project descriptions.

APPENDICES

Appendix A

Authorization For Expenditure

Draft Executive Policy

Purpose

This bulletin outlines policy on obtaining approval for capital expenditures, defines classifications of capital purchases, assigns responsibility for preparation of authorization for expenditures, outlines the responsibility of lead departments and project managers, and describes procedures for amending authorization for expenditures.

General Policy

1.  All capital expenditure proposals must be submitted on form 22-73, Authorization For Expenditure, and must include cost estimates and project descriptions.

2.  A capital expense is defined, for the purpose of this policy, as any expenditure for any real property, plant or equipment that is an acquisition or an addition, alteration, or betterment which has a service life of at least one year, with the following exceptions:

    a)  when the cost per unit is less than $500, except for buses or automobiles when the cutoff test is $1,000 per unit;

    b)  when such expenditure is classified as an operating expense.

3.  It is District policy that all capital expenditures be estimated and identified by the originating department and approved in advance by the concerned Executive Staff member for expenditures under $5,000, by the General Manager for expenditures over $5,000 but under $10,000, and by the Board of Directors for expenditures exceeding $10,000.

4.  Approval of all capital expenditures in an Authorization For Expenditure is legally required of the District. No funds in excess of the formally approved amount can be expended.

5.  Real property, plant, and equipment acquisitions should be planned in advance and included in grant applications to UMTA (see policy on Grants Administration).

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## Definitions

1.  Capital expenditures include such costs as labor, materials, supplies, cash funds and equipment which are used in completing a capital project or acquisition.

2.  Real property, plant and equipment includes such items as real property, furniture, fixtures, shop machinery and equipment, and automotive and revenue equipment.

3.  Any questions as to whether a particular expenditure should be submitted on an Authorization For Expenditure (AFE) or classified as an operating expense should be referred to the Controller/Auditor.

## Procedure

1.  The AFE shall be initiated by Grants Administration when federal funds are involved; by Bus Facilities for non-federally funded construction projects; and by Purchasing for all other projects.

2.  The department responsible for the project and performing the technical work required in describing the project and estimating project costs shall function as the lead department and shall designate a Project Manager to coordinate with all other concerned departments in planning the project and in preparing the grant application, AFE, requisitions and contracts, when applicable.

3.  When Grants Administration is the initiator of an AFE, it shall inform the lead department of the grant approval and the preparation of the AFE. Grants Administration shall coordinate with the Project Manager to promptly revise the grant budget and to amend the AFE when necessary.

## Project Manager

1.  The Project Manager is specifically responsible to monitor expenditures and to ensure that they do not exceed the approved AFE limit.

2.  In order to monitor expenditures, the Project Manager may use the monthly report on expenditures provided by the Accounting Department. This monthly report should be supplemented by a rough daily, running total for projects expected to be completed within a month and for longer projects which have expended approximately 80% of their budget.

3.  When a Project Manager determines that a project may exceed its budget, he/she should immediately consult with the concerned Executive Staff or department head to assess the situation and agree upon a resolution.

4.  In the event that it is decided to continue the project, it is necessary that the AFE and project requisition be amended before expenditures exceed the project budget. It is the responsibility of the Project Manager to see that this is done through the department which initiated the original AFE.

## Monthly Accounting Reports

1.  The Accounting Department is responsible for producing a monthly report of AFE project expenditures and distributing this report to all Executive Staff members and Project Managers.

2.  The Accounting Department shall notify the concerned Executive Staff, department head and Project Manager when a project's budget is approximately 80% expended.

3.  For purposes of Executive Staff review, AFE projects which have expended between approximately 80% and 100% of their budget shall be identified on Accounting's monthly list. Projects which have exceeded 100% of their approved AFE limit shall be further identified in an easily recognized manner.

Appendix B

Open Requisitions

Draft Executive Policy

Purpose

This bulletin outlines the District's policy on the use of open requisitions and defines the procedures to be followed and the responsibilities of the concerned departments.

Open requisitions are requisitions to procure a frequent supply of non-standard items which cannot practically be carried in stock at centralized stores. Procurement could be for many different items from one vendor but no more than $5,000 for any one item or group of items. Open requisitions may also be utilized for certain services needed by the District, as determined by the Purchasing Department.

General Policy

1.  Departments desiring an open requisition shall initiate a request to the Purchasing Department on a Purchase Requisition (form 37-19).

2.  In accordance with the Rules and Regulations, the Purchasing Department has the exclusive authority for performing all purchasing. However, the Purchasing Department may authorize other departments to make purchases of non-standard or non-stockable items within the strict material and budget limits of an open requisition.

3.  The initiating department is responsible for monitoring and controlling expenses within the approved budget.

4.  The Accounting Department is responsible for tabulating invoices on open requisitions as they are received, obtaining the approval of the initiating department for payment, paying invoices and issuing a monthly report on the status of all open requisitions.

Procedure

1.  Departments desiring open requisitions should initiate a requisition as outlined in the policy on "Procedures Covering Goods and Services" with the approval signature of the department's Executive Staff member.

2. After the necessary approvals and authorizations are obtained, the Purchasing Department will obtain and identify the most cost-effective bids or request-for-proposals based on:

   a) location of vendor in relationship to District facilities;

   b) lines, variety and completeness of vendor's stock;

   c) quality of service and workmanship; and

   d) price.

3. The initiating department will be notified by the Purchasing Department when they can commence the requisition ordering.

## Requisition Coordinator

The initiating department should designate a Requisition Coordinator for the open requisitions. This person is responsible for:

   a) all ordering on open requisitions;

   b) monitoring all expenditures, using monthly accounting reports with rough, running totals of expenses as incurred for requisitions expected to be completed within a month or which have expended approximately 80% of its budget;

   c) projecting the progress of the requistion to anticipate the need for additional funds;

   d) authorizing payment of invoices; and

   e) notifying the department head and the Purchasing Department in sufficient time if the budget for the requisition needs to be amended.

## Monthly Accounting Reports

1. The Accounting Department will, on a monthly basis, prepare a report of all expenses incurred on the open requisitions, highlighting those projects which have exceeded between 80% and 100% of their budget. This report should be sent to the Executive Staff, Purchasing Department and all Requisition Coordinator.

2. The Accounting Department shall notify the Requisition Coordinator when an open requisition's budget is approximately 80% expended. Accounting will cease payment of all invoices in excess of the budgeted amount of the requisition and shall so notify Purchasing and the Requisition Coordinator.

Appendix C

Memorandum Work Orders

Draft Executive Policy

Purposes

This bulletin outlines the District's policy in utilizing memorandum work orders and defines the responsibilities of the departments involved and procedures to follow in initiating and using a work order.

Memorandum work orders are requests for the establishment of accounts for the accumulation of cost data based on function or project.

General Policy

1. The initiating department is responsible for monitoring and controlling charges to a work order account within the approved budget. It is also the initiating department's responsibility, when necessary, to amend the work order budget.

2. The Accounting Department is responsible for tabulating costs, obtaining approval of the initiating department for payment of invoices, payment of the invoices and issuing a monthly report on the status of all work orders.

Procedure

1. Departments desiring to establish a work order for the accumulation of costs should contact the Accounting Department.

2. Work orders are required for the accumulation of costs for those projects that are accountable to an outside agency, such as SCAG, Caltrans, etc.

3. When a work order is established for a billable project, certain indirect costs should be added to the incurred direct costs. These costs are for fringe benefits of the labor applied to this project and general administrative costs. The initiating department should consult the Accounting Department for the indirect cost rates currently in use.

4. It is the initiating department's responsibility to include indirect costs in the work order project budget.

## Project Manager

The department initiating the work order should designate one person to serve as Project Manager. It is the Project Manager's responsibility to:

a)   monitor all expenditures of labor, supplies, materials and equipment which are accountable to the work order;

b)   monitor monthly accounting reports on the status of the work order and supplement these reports with rough, running totals of expenditures as incurred for those work orders expected to be completed within a month or which have expended approximately 80% of their budget;

c)   project the progress of expenditures against the allowed budget;

d)   authorize payment of invoices;

e)   consult with concerned Executive Staff or department head if a work order project may exceed its budget, to develop a solution;

f)   if the project is to continue, amend work orders before they exceed budgeted expenditures; and

g)   inform the Auditor when the project activity is complete.

## Monthly Accounting Reports

1.   The Accounting Department is responsible for the monthly issuance of a report on costs incurred on each work order. This report should be sent to all Executive Staff members and Project Managers.

2.   The Accounting Department shall notify the Project Manager when a work order budget is approximately 80% expended.

3.   For purposes of Executive Staff review, work orders which have expended between 80% and 100% of their budget shall be identified on Accounting's monthly report. Projects which have exceeded 100% of their budget shall be further identified in an easily recognized manner.