



**Metro**

Los Angeles County  
Metropolitan Transportation Authority

Office of the Inspector General  
818 West 7<sup>th</sup> Street, Suite 500  
Los Angeles, CA 90017

213.922.8888 Tel  
metro.

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**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE**

**July 21, 2005**

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

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file subject report.

**ISSUE**

The 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 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 Metro management for increased accountability and improvement of organizational performance.

A large measure of the OIG audit focus is to provide the Board of Directors and Metro 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 has issued the following audit reports:

- Vendor Cash Discounts
- Advisory Report on Processing Credit Change Order 25.00 on Metro Orange Line
- Audit of Miscellaneous Expenses for the Period July 1, to September 30, 2004
- Audit of Miscellaneous Expenses for the Period October 1, to December 31, 2004

These audit reports were previously submitted to the Board and Metro management in their entirety.

### **Vendor Cash Discounts**

Our review of invoices and payments made to three vendors showed that about 30 percent of the dollar amounts of discounts offered were not taken. This occurred primarily because Accounts Payable received invoices too late to take many discounts. Metro used the invoice date to compute the discount period, and in many instances the invoices were received after the discount period had expired. For example, two invoices were received 40 days after the invoice date.

Metro could take additional vendor discounts by revising the terms and conditions on purchase orders. We found that some states, local governments, and universities used a different criterion to define the discount period. Specifically, these institutions are using the invoice receipt date to compute the discount period.

We recommended that Metro revise the terms and conditions on purchase orders to state that discount period will be computed from the date of receipt of items or the date of receipt of a correct invoice by the Accounts Payable Department, whichever is later. This would provide Accounts Payable with additional time to take cash discounts.

Management agreed with the findings and recommendations, and initiated the recommended corrective actions.

We believe that other government agencies could also benefit from the results of our audit. We provided copies of our audit report to the City of Los Angeles, County of Los Angeles, and several other cities.

### **Advisory Report on Processing Credit Change Order 25.00 on Metro Orange Line**

The Office of the Inspector General (OIG) is monitoring the ongoing construction project of the Metro Orange Line being built by the Shimmick/Obayashi, Joint Venture (SOJV). Our review of Change Order 25.00, issued on November 10, 2003, with a credit Not-to-Exceed value of (\$441,115) found that SOJV had not incorporated the change order into its monthly pay estimates (invoices) for payment although the work had been completed. As a result, Metro has not yet benefited from the cost savings attributable to the credit amount in Change Order 25.00.

On May 24, 2005, we discussed this matter with the Project Control Manager. On May 26, 2005, the Construction Manager issued a letter to the contractor that stated: "In Pay Estimate No. 25 (May 2005), please incorporate all executed Contract Modifications and Change Orders that have been executed by the MTA. This would include, Unilateral Change Order No. 25.00 with a value of (\$441,115). This amount is to be deducted from the Project 800112 Contract Value. However, for the 'Current' earning period, the deduct amount will only be (\$203,473) for Project 800112, which was SOJV's proposed value engineering reduction in CRE-1317, dated

March 18, 2004. We need to meet and resume negotiations to reconcile the difference between SOJV's proposal and MTA's estimate."

The contractor included a credit amount of (\$203,473) for Change Order 25.00 in Pay Estimate No. 25 for the period ending May 27, 2005.


**Audit of Miscellaneous Expenses**

The expenses we reviewed generally complied with policies, were reasonable, and were adequately supported. However, we found Metro should clarify policy on the meal per diem amount for partial travel days.

Metro paid the full meal per diem for partial travel days. Our audit showed that five employees claimed and were paid the full-day meal per diem rate although they were on travel status for only part of their first and last days of travel. The policy was not clear on the criteria for determining the meal per diem amount for partial travel days.

Management agreed and initiated corrective action.

Prepared by: Jack Shigetomi, Deputy Inspector General - Audits

  
WILLIAM WATERS  
Inspector General