



United States
General Accounting Office
Washington, D.C. 20548

Office of Special Investigations

B-255043

November 22, 1993

The Honorable John J. Duncan, Jr.
House of Representatives

Dear Mr. Duncan:

This letter responds to your September 8, 1992, request that we investigate allegations of fraud, waste, and abuse related to the Los Angeles Metro System. As subsequently discussed with your office, we selected and reviewed areas of administrative abuse as reported in a March 10, 1992, Los Angeles Times article and the May 4, 1992, Limited Financial Review that Los Angeles city and county auditors conducted from March 27 through April 15, 1992. We focused on alleged abuses related to vehicle use, travel, entertainment, credit cards, and the purchase of coffee and doughnuts. We selected these particular allegations for investigation because, as discussed with your office, we are not reporting any information that may be related to ongoing investigations. On April 7, 1993, we briefed your staff on our findings; and on May 21, 1993, you requested this letter.

The Los Angeles County Transportation Commission (LACTC),¹ created in 1976, is the principal transportation authority for Los Angeles County that oversees all planning and funding for the Los Angeles Metro System. The system's 300 miles of light rail, heavy rail (subways), and commuter rail are scheduled for completion in 2020. The Red Line project--the core of the metro system--is scheduled for completion in December 1998 at a projected cost of approximately \$5.3 billion for its planned 21.7 miles. Federal funds for the project are estimated at over \$1.4 billion.

In brief, we found that LACTC has discontinued certain practices that led to reports of questionable spending and initiated actions to prevent spending abuses in the future. For example, an LACTC official told us that LACTC no longer

¹On April 1, 1993, the LACTC merged with the Southern California Rapid Transit District to become the new Los Angeles County Metropolitan Transportation Authority.

funds catered lunches, nongasoline credit card purchases, or doughnut purchases. In addition, new policies and procedures have been established to regulate travel and to control vehicle use and maintenance.

LACTC HAS INITIATED CORRECTIVE ACTIONS

Our examination of the Limited Financial Review and our on-site investigation at LACTC indicated that new procedures have been implemented in some of the problem areas and certain LACTC practices have been discontinued. LACTC officials advised us in October 1992 that LACTC had hired a Director of Management Services and Accounting in October 1990 to correct deficiencies that existed before her appointment and that later were identified in the Limited Financial Review. In November 1990, an internal audit department was established at LACTC; and shortly thereafter, the department instituted formal policies and procedures related to travel, business expenses, and other administrative matters. LACTC officials told us that the information in the Los Angeles Times article was "history" and that new procedures to correct those problems were already in place or in the process of being initiated.

The Los Angeles Times had reported that nearly all of LACTC's 81 automobiles were assigned to individual staff members who could drive them home weeknights and weekends. During our inspection of LACTC's vehicle records on February 23, 1993, an LACTC representative told us LACTC had 58 vehicles and that 56 of them were leased, maintained, and insured by a leasing company. An LACTC representative provided us a document that lists 22 individuals with permission to take vehicles home because of the "on call or emergency response" nature of their positions. In addition, 35 identically-numbered gasoline credit cards, based on the same account, were available to LACTC employees for fueling vehicles. An LACTC representative advised that LACTC had initiated action to establish separate numbered accounts for each of its gasoline credit cards for tighter control and as a security measure. In addition, we found that various LACTC vehicle files lacked appropriate documentation, such as vehicle usage logs and monthly maintenance and mileage records.

According to an LACTC official, on September 17, 1992, LACTC implemented new travel procedures that disallow business or first-class travel for all LACTC employees, unless approved by the travel coordinator. The LACTC travel coordinator advised us that per diem and lodging

B-255043

expenses are consistent with federal government travel regulations.

Regarding the reports that LACTC officials had incurred substantial expenses at the Los Angeles Athletic Club, an LACTC official told us that catered lunches are no longer ordered from the club but that the club still is used periodically for business meetings at a cost of about \$200 a month. Safeguards against the reported abuse of entertainment funds for client business meals are outlined in the September 17, 1992, LACTC Policies and Procedures Manual. The manual states, in part, that "LACTC will not provide any reimbursement for personal entertainment expenses, personal items, or other items not deemed necessary to business purposes."

According to the Limited Financial Review, LACTC had 16 Mastercard accounts, including several floater cards, with credit limits ranging from \$3,000 to \$10,000. The auditors reported that LACTC paid credit card statements without subjecting them to scrutiny, such as requiring employees to verify the validity of their charges.

According to an LACTC representative, the credit cards that were reportedly issued to LACTC officials to purchase items other than gasoline were discontinued in August 1991. The official told us that after August 1991, a limited number of American Express cards were issued to officials and those accounts were closed in spring 1992. She told us that the only credit cards still being used at LACTC were the 35 gasoline credit cards for vehicles and the one Diners Club card used by LACTC's travel coordinator to book all travel.

An LACTC representative told us that the practice of purchasing doughnuts for employees with LACTC funds has been eliminated but that the purchase of coffee for employees will continue. The Limited Financial Review found that in the 3-month period ending March 31, 1992, LACTC had paid \$17,725 to a coffee supply service company to provide coffee and related sundries. The LACTC Commissioners decided on June 24, 1992, to continue funding the purchase of coffee but at a cost not to exceed \$40,800 for fiscal year 1993. In making the decision, the LACTC Commissioners recognized that supplying coffee, tea, and sundries could contribute to employee morale and productivity.

- - - - -

B-255043

During our review, conducted between September 1992 and April 1993, we interviewed LACTC employees, management officials, and legal counsel. We also examined the May 4, 1992, Limited Financial Review that the Los Angeles city and county auditors conducted and the March 10, 1992, Los Angeles Times newspaper article on questionable LACTC spending practices. In addition, we inspected LACTC vehicle records and reviewed internal policies on travel and business entertainment expenses.

We are sending copies of this letter to the Secretary of Transportation; Inspector General, U.S. Department of Transportation; and Executive Director of the Los Angeles County Metropolitan Transportation Authority. We will also make copies available to others upon request. If you have any questions concerning these issues, please contact me, or Assistant Director Houston Fuller of my staff, on (202) 512-6722.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Richard C. Stiener". The signature is written in a cursive style with a large initial "R".

Richard C. Stiener
Director

(600272)

Los Angeles Metro Rail System GAO/OSI-94-6R