



Metro

*One Gateway Plaza, Los Angeles, CA 90012,
3rd Floor, Metro Board Room*

Agenda - Final Revised

Thursday, January 16, 2025

10:00 AM

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Finance, Budget and Audit Committee

Tim Sandoval, Chair

Lindsey Horvath, Vice Chair

Kathryn Barger

James Butts

Gloria Roberts, non-voting member

Stephanie Wiggins, Chief Executive Officer

***DUE TO THE CURRENT STATE OF EMERGENCY, THE COMMITTEE WILL MEET
VIRTUALLY.***

METROPOLITAN TRANSPORTATION AUTHORITY BOARD AGENDA RULES
(ALSO APPLIES TO BOARD COMMITTEES)

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The public may also address the Board on non-agenda items within the subject matter jurisdiction of the Board during the general public comment period, which will be held at the beginning and /or end of each meeting. Each person will be allowed to speak for one (1) minute during this General Public Comment period or at the discretion of the Chair. Speakers will be called according to the order in which their requests are submitted. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

Notwithstanding the foregoing, and in accordance with the Brown Act, this agenda does not provide an opportunity for members of the public to address the Board on any Consent Calendar agenda item that has already been considered by a Committee, composed exclusively of members of the Board, at a public meeting wherein all interested members of the public were afforded the opportunity to address the Committee on the item, before or during the Committee's consideration of the item, and which has not been substantially changed since the Committee heard the item.

In accordance with State Law (Brown Act), all matters to be acted on by the MTA Board must be posted at least 72 hours prior to the Board meeting. In case of emergency, or when a subject matter arises subsequent to the posting of the agenda, upon making certain findings, the Board may act on an item that is not on the posted agenda.

CONDUCT IN THE BOARD ROOM - The following rules pertain to conduct at Metropolitan Transportation Authority meetings:

REMOVAL FROM THE BOARD ROOM - The Chair shall order removed from the Board Room any person who commits the following acts with respect to any meeting of the MTA Board:

- a. Disorderly behavior toward the Board or any member of the staff thereof, tending to interrupt the due and orderly course of said meeting.
- b. A breach of the peace, boisterous conduct or violent disturbance, tending to interrupt the due and orderly course of said meeting.
- c. Disobedience of any lawful order of the Chair, which shall include an order to be seated or to refrain from addressing the Board; and
- d. Any other unlawful interference with the due and orderly course of said meeting.

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The State Political Reform Act (Government Code Section 84308) requires that a party to a proceeding before an agency involving a license, permit, or other entitlement for use, including all contracts (other than competitively bid, labor, or personal employment contracts), shall disclose on the record of the proceeding any contributions in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any officer of the agency, additionally PUC Code Sec. 130051.20 requires that no member accept a contribution of over ten dollars (\$10) in value or amount from a construction company, engineering firm, consultant, legal firm, or any company, vendor, or business entity that has contracted with the authority in the preceding four years. Persons required to make this disclosure shall do so by filling out a "Disclosure of Contribution" form which is available at the LACMTA Board and Committee Meetings. Failure to comply with this requirement may result in the assessment of civil or criminal penalties.

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323.466.3876

x2 *Español (Spanish)*

x3 *中文 (Chinese)*

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Dial-in: 888-978-8818 and enter
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Public comment will be taken as the Board takes up each item. To give public comment on an item, enter #2 (pound-two) when prompted. Please note that the live video feed lags about 30 seconds behind the actual meeting. There is no lag on the public comment dial-in line.

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Please include the Item # in your comment and your position of "FOR," "AGAINST," "GENERAL COMMENT," or "ITEM NEEDS MORE CONSIDERATION."

Email: BoardClerk@metro.net

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Board Administration

One Gateway Plaza

MS: 99-3-1

Los Angeles, CA 90012

CALL TO ORDER

ROLL CALL

50. SUBJECT: STATE OF EMERGENCY - AUTHORIZATION TO MEET VIRTUALLY [2025-0016](#)

RECOMMENDATION

AS A RESULT of the current state of emergency as proclaimed by the Governor, meeting in person would present imminent risks to the health and safety of the attendees.

Attachments: [Attachment A - Proclamation of a State of Emergency](#)

18. SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JANUARY 1, 2024, TO MARCH 31, 2024 [2024-1098](#)

RECOMMENDATION

RECEIVE AND FILE the Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2024, to March 31, 2024.

Attachments: [Attachment A - Final Report on Audit of Misc Exp. 010124-033124 \(25-AUD-03\) Presentation](#)

19. SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS [2024-1039](#)

RECOMMENDATION

RECEIVE AND FILE The Fiscal Year 2026 (FY26) Budget Development Process.

Attachments: [Attachment A - FY25-30 Near-Term Cost Growth Drivers Presentation](#)

- SUBJECT: GENERAL PUBLIC COMMENT [2024-1158](#)

RECEIVE General Public Comment

GENERAL PUBLIC COMMENT

Consideration of items not on the posted agenda, including: items to be presented and (if requested) referred to staff; items to be placed on the agenda for action at a future meeting of the Committee or Board; and/or items requiring immediate action because of an emergency situation or where the need to take immediate action came to the attention of the Committee subsequent to the posting of the agenda.

COMMENTS FROM THE PUBLIC ON ITEMS OF PUBLIC INTEREST WITHIN COMMITTEE'S
SUBJECT MATTER JURISDICTION

Adjournment



Metro

Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Board Report

File #: 2025-0016, **File Type:** Proclamation

Agenda Number: 50.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
JANUARY 16, 2025**

SUBJECT: STATE OF EMERGENCY - AUTHORIZATION TO MEET VIRTUALLY

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AS A RESULT of the current state of emergency as proclaimed by the Governor, meeting in person would present imminent risks to the health and safety of the attendees.

**EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA**

PROCLAMATION OF A STATE OF EMERGENCY

WHEREAS on January 7, 2025, the Palisades Fire ignited in Los Angeles County, burning over 1,200 acres as of the time this Proclamation is issued; and

WHEREAS high winds, low humidity, and dry conditions have increased the intensity and spread of the Palisades Fire, causing imminent threat to life with Red Flag warnings in effect in Los Angeles and Ventura Counties and widespread dangerous windstorm conditions with damaging wind gusts of 50 to 80 mph forecasted; and

WHEREAS the Palisades Fire and windstorm conditions threaten structures, homes, and critical infrastructure, including power lines and water tanks, and have prompted evacuation orders and warnings and impacted the access route to the Palisades Highlands community; and

WHEREAS in response to a request from the Governor's Office of Emergency Services, the Federal Emergency Management Agency approved a Fire Management Assistant Grant to assist with the mitigation, management, and control of the Palisades Fire on January 7, 2025; and

WHEREAS under the provisions of Government Code section 8558(b), I find that conditions of extreme peril to the safety of persons and property exist due to impacts of the Palisades Fire and windstorm conditions in Los Angeles and Ventura Counties; and

WHEREAS under the provisions of Government Code section 8558(b), I find that the conditions caused by the Palisades Fire and windstorm conditions, by reason of their magnitude, are beyond the control of the services, personnel, equipment, and facilities of any single local government and require the combined forces of a mutual aid region or regions to appropriately respond; and

WHEREAS under the provisions of Government Code section 8625(c), I find that local authorities are inadequate to cope with the magnitude of the damage caused by the Palisades Fire and windstorm conditions; and

WHEREAS under the provisions of Government Code section 8571, I find that strict compliance with various statutes and regulations specified in this Proclamation would prevent, hinder, or delay the mitigation of the effects of the Palisades Fire and windstorm conditions.

NOW, THEREFORE, I, GAVIN NEWSOM, Governor of the State of California, in accordance with the authority vested in me by the State Constitution and statutes, including the California Emergency Services Act, and in particular, Government Code section 8625, **HEREBY PROCLAIM A STATE OF EMERGENCY** to exist in Los Angeles and Ventura Counties due to the Palisades Fire and windstorm conditions.

IT IS HEREBY ORDERED THAT:

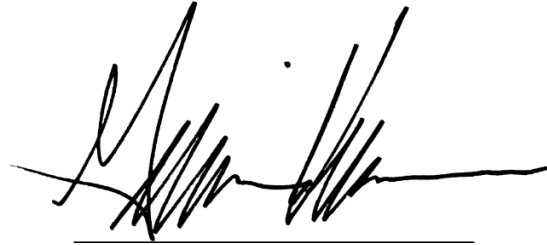
1. All agencies of the state government utilize and employ state personnel, equipment, and facilities for the performance of any and all activities consistent with the direction of the Office of Emergency Services and the State Emergency Plan. Also, all residents are to obey the direction of emergency officials with regard to this emergency in order to protect their safety.
2. The Office of Emergency Services shall provide assistance to local governments, if appropriate, under the authority of the California Disaster Assistance Act, Government Code section 8680 et seq., and California Code of Regulations, Title 19, section 2900 et seq.
3. As necessary to assist local governments and for the protection of public health and the environment, state agencies shall enter into contracts to arrange for the procurement of materials, goods, and services necessary to quickly assist with the response to and recovery from the impacts of this emergency. Applicable provisions of the Government Code and the Public Contract Code, including but not limited to travel, advertising, and competitive bidding requirements, are suspended to the extent necessary to address the effects of this emergency.
4. The California National Guard may be mobilized under Military and Veterans Code section 146 to support disaster response and relief efforts, as directed by the Office of Emergency Services, and to coordinate with all relevant state agencies and state and local emergency responders and law enforcement within the impacted areas. Sections 147 and 188 of the Military and Veterans Code are applicable during the period of participation in this mission, exempting the California Military Department from applicable procurement rules for specified emergency purchases, and those rules are hereby suspended.
5. Adequate state staffing during this emergency is necessary for all state agencies and departments with an assigned response and/or recovery role. Consistent with applicable federal law, work hour limitations for retired annuitants, permanent and intermittent personnel, and state management and senior supervisors, are suspended. Furthermore, reinstatement and work hour limitations in Government Code sections 21220, 21224(a), and 7522.56(b), (d), (f), and (g), and the time limitations in Government Code section 19888.1 and California Code of Regulations, title 2, sections 300-303 are suspended. All other restrictions must be adhered to for retired annuitants. The Director of the California Department of Human Resources must be notified of any individual employed in state government pursuant to these suspensions. The suspension of statutes identified in this Paragraph shall also apply to local governments, as applicable, to ensure adequate staffing to appropriately respond to this emergency in Los Angeles and Ventura Counties. Local governmental agencies shall notify the California Public Employees' Retirement System of any individual employed by an agency pursuant to this Paragraph.

6. The limitation for the period of employment for State Personnel Board emergency appointments, as provided in Government Code section 19888.1, is suspended for positions required for emergency response and/or recovery operations related to this emergency in Los Angeles and Ventura Counties. The requirements and period of employment for such appointments will be determined by the Office of Emergency Services, but shall not extend beyond the termination date of the State of Emergency.

I FURTHER DIRECT that as soon as hereafter possible, this Proclamation be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this Proclamation.

This Proclamation is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 7th day of January 2025.



GAVIN NEWSOM
Governor of California

ATTEST:

SHIRLEY WEBER, PH.D.
Secretary of State



Board Report

File #: 2024-1098, **File Type:** Informational Report

Agenda Number: 18.

FINANCE, BUDGET, AND AUDIT COMMITTEE JANUARY 16, 2025

**SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JANUARY 1, 2024,
TO MARCH 31, 2024**

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2024, to March 31, 2024.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1, 2024, to March 31, 2024. This audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses such as travel, meals, refreshments, and membership fees.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines.

The Accounting Department's Accounts Payable Section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

This audit covered a review of Metro's miscellaneous expenses for the period of January 1, 2024, to March 31, 2024. For this period, miscellaneous expenses totaled \$1,976,723 with 619 transactions. We selected 65 expense transactions totaling \$1,018,922 for detail testing.

DISCUSSION

FINDINGS

The miscellaneous expenses we reviewed for the period of January 1, 2024, to March 31, 2024, generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found exceptions related to Metro's P-Card Rules and Regulations, Non-Travel Business Expense Policy (FIN14) and Business Travel Guidelines (GEN 65).

Purchase Card holders should be reminded to comply with all P-Card Rules and Regulations. All Employees should be instructed to complete Part II of the Travel Business Expense (TBE) Report in accordance with Metro's Non-Travel Business Expense Policy (FIN 14) when submitting non-travel business expenses for reimbursement. Employees returning from travel should ensure that the TBE Report is completed and submitted in accordance with Metro's Business Travel Guidelines (GEN 65)

The staff's non-compliance with Metro policy was due to oversight, lack of planning, and inattention of some staff to thoroughly review the transactions.

Metro paid for staff to attend an expensive Certification Program, with no policy in place that would require employee to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.

OIG EVALUATION TO MANAGEMENT RESPONSE

Metro Management responses and corrective actions taken are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations resolved and closed based on the corrective actions taken.

However, we suggest that Vendor/Contract Management reconsider the change that was made to the P-Card Guidelines after the completion of this audit, related to P-Cardholders no longer being required to sign the P-Card Log. Prior to the change, P-Card Rules and Guidelines stated: *"Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use."*

We recommend that Vendor/Contract Management reinstate this Best Practice because it provides acknowledgement by the cardholder who prepares the log that all goods and services listed on the log have been received and used for Metro purpose and are in accordance with Metro policy.

RECOMMENDATIONS

We recommend the following:

Transit Security

1. Cardholders should sign and date each page of the P-Card Log as required by P-Card Policies.

2. Approving Officials should ensure cardholders have prepared the P-Card Log and attachments in accordance with P-Card log guidelines before approving.
3. Monitor the need for temporary spending limit increases and ensure a written request is prepared and submitted to the P-Card Administration in accordance with P-Card Policy.
4. Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
5. Approving officials should ensure that TBE Reports are accompanied by required receipts and documents, and information has been completed in accordance with Metro Policy.

Program Management

6. Cardholders should sign and date each page of the P-Card Log as required by P-Card Policies.
7. Approving officials should ensure cardholders have prepared the P-Card Log and attachments in accordance with P-Card Log guidelines before approving.

Vendor/Contract Management - Purchase Card Program

8. Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

Chief People Office and Accounting

9. Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
10. Consider the possible expansion of Account 50915 - Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Talent Development

11. Communicate to employees the importance of using the most current TBE Form.
12. Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Accounting

13. Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

Workforce Services

14. Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).

15. In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

16. Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro's Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

FINANCIAL IMPACT

There is no financial or budgetary impact by accepting the report, but compliance with the recommendations would contribute to cost savings, efficiency, and better internal controls.

EQUITY PLATFORM

It is the OIG's opinion that there are no equity considerations or impacts resulting from this audit.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendations support strategic plan goal no. 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship.

NEXT STEPS

Metro management will implement corrective action plans.

ATTACHMENTS

Attachment A - Final Report on Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2024 to March 31, 2024 (Report No. 25-AUD-03)

Prepared by: Dawn Williams-Woodson, Audit Manager (213) 244-7302
Yvonne Zheng, Senior Manager, Audit, (213) 244-7301
George Maycott, Senior Director, Special Projects, (213) 244-7310

Reviewed by: Karen Gorman, Inspector General, (213) 922-2975

Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General

**Statutorily Mandated Audit of
Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

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Metro[™]

**Los Angeles County
Metropolitan Transportation Authority**

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

213.244.7300 Tel

DATE: December 13, 2024

TO: Metro Board of Directors
Metro Chief Executive Officer

FROM: Yvonne Zheng, Senior Manager, Audit
Office of the Inspector General

E-SIGNED by Yvonne Zheng
on 2024-12-13 09:30:33 PST

SUBJECT: Final Report: Statutorily Mandated Audit of Metro Miscellaneous Expenses
January 1, 2024 to March 31, 2024 (Report No. 25-AUD-03)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1 to March 31, 2024. This audit was performed pursuant to Public Utilities Code section 130051.28(b), which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses such as travel, meals, refreshments, and membership fees.

We found that the transactions reviewed generally complied with Metro policies, were reasonable, and were adequately supported by required documents. However, we noted the following issues with seven of the sampled expenses reviewed:

1. Non-Compliance with P-Card Rules and Guidelines
2. Absence of policy related to payments for Expensive Certification Programs
3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)
4. Outdated TBE Report used for mileage reimbursement
5. Non-Compliance with Metro Business Travel Guidelines (GEN 65)

OBJECTIVES, METHODOLOGY AND SCOPE OF AUDIT

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures;
- Expenses had proper approval, receipts, and other supporting documentation; and
- Policies and procedures were adequate and followed to ensure that expenses were documented and accounted for properly.

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

- Obtained and reviewed applicable policies and procedures;
- Interviewed Metro personnel including staff in Accounting, Program Management, Talent Development, Transit Security, and Workforce Services; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit covered a review of Metro's miscellaneous expenses for the period of January 1 to March 31, 2024. For this period, miscellaneous expenses totaled \$1,976,723¹ with 619 transactions. We selected 65 expense transactions totaling \$1,018,922 for detail testing. Thirty (30) of the expense transactions were randomly selected, ten (10) were selected due to their large dollar amounts, and twenty-five (25) were selected to add more samples for account number 50999 (miscellaneous – others) and a few other accounts. See Attachment A for details.

This 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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own respective policies, procedures, or guidelines.

The Accounting Department's Accounts Payable section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

RESULTS OF AUDIT

The audit found that the transactions reviewed generally complied with policies, were reasonable, and adequately supported by required documents. However, we noted issues with the following transactions:

¹ This total does not include transactions that were less than \$200, offsetting debits/credits, and transactions from the OIG and Transit Court Departments.

1. Non-Compliance with P-Card Rules and Guidelines

a. P- Card Log not signed by Cardholder

P-Card Rules and Guidelines state: *“Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use.”* Our review of the January and February 2024 P-Card Logs for the Transit Security Department, found that the cardholder did not sign the P-Card Logs. The cardholder stated: *“This is my error, I was still processing my reconciliation as we had been since we started teleworking.”* Another cardholder in the Program Management Department, also did not sign her department’s December 2023 P-Card Log. The cardholder stated: *“I signed the very first page, assuming that signature would cover the entire submitted P-Card package, including the log. Going forward I will be sure to sign and date the P-Card log as well.”*

Initially, the P-Card Program required the physical signature of both the cardholder and approving official on the log. The P-Card Program advised that shortly after Metro’s Accounting Department implemented its electronic approval of P-Card Statements in April 2020, both Accounting and the P-Card Program realized the redundancy of requiring the approving official’s signature on the log when it was being captured electronically in the system and served the same business purpose. However, the P-Card Administrator stated that cardholders are still required to sign and date each page of the P-Card Log. This helps provide assurance that all materials and services have been properly accounted for and have a business purpose.

After the completion of this audit, the P-Card Administrator advised that the P-Card guidelines had been subsequently updated and cardholders are no longer required to sign the log, only the credit card statement. Specifically, the guidelines now state: *“P-Card Log does not need to be signed by the cardholder, cardholder signature is only required on the US Bank statement as acknowledgement of responsible charges.”*

Recommendations:

Transit Security and Program Management

- Cardholders should sign and date each page of the P-Card Log as required by P-Card Rules and Guidelines.
- Approving officials should ensure the cardholder has prepared the P-Card log and attachments in accordance with P-Card Rules and guidelines before approving.

b. P- Card Monthly Spending Limit Exceeded

P-Card Rules and Guidelines state: *“The use of the P-Card is subject to a single transaction limit and monthly spending limit requested by Business Unit management and approved by the Agency Program Coordinator. A written justification for increases on Single Purchase Limits and/or Monthly Cycle Limits must be submitted with a Purchase Card Change form.”*

The cardholder for the Transit Security Department has a monthly spending limit of \$15,000. Our review of the February 2024 P-Card log found that the monthly expenditures were over \$25,000. The cardholder provided written documentation that showed a temporary increase in the monthly spending limit to \$75,000 was requested and approved. However, based on the justification memo submitted to the P-Card Administrator, this temporary increase was supposed to end on December 31, 2023. We inquired whether an extension of the temporary monthly increase was requested, and the cardholder advised that the memo requesting the temporary increase till December 31, 2023 was the last request submitted.

When we discussed this issue with the P-Card Administrator, he stated: *“There should have been a new memo provided or a permanent request for increase submitted by the department. In addition, P-Card Administration should have flagged this for follow-up with the department. To minimize/avoid this from happening in the future, we have modified how we review monthly card limits by adding a temporary limit column for both single and monthly purchase amounts to the report in addition to having permanent limit columns.”* The P-Card Administrator also advised that Cardholder’s purchase limits have been reduced to the appropriate amounts.

Recommendations:**Transit Security**

- Monitor compliance with temporary spending limit increases and ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Vendor/Contract Management – Purchase Card Program

- Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

2. Absence of Policy related to payments for Expensive Certification Programs

Metro’s Miscellaneous Expense Account – Seminar/Conference Fee (Acct. 50915) states: *“Fees to attend seminar, conference, and certification programs.”* Our review of miscellaneous

expenses for this period found that a department paid for an employee to attend a certification program in calendar year 2024 that costs \$19,000. This same employee was allowed to attend a certification program in calendar year 2023 that costs \$14,500. Currently, Metro has no policy in place for certification programs at this cost level. Implementing a policy, where employees would be required to maintain employment with Metro for a specified period of time after payment for an expensive certification, allows Metro to encourage and invest in the professional development and personal growth of its employees, while at the same time ensuring that Metro receives some benefits from its investment. With no policy in place, an employee could voluntarily leave the agency shortly after receiving the certification or fail to obtain the certification. In these scenarios, Metro may have invested a large sum of money without a reasonable return on investment.

For certification programs with costs above a specified threshold, Metro should consider creating a Certification Program Policy requiring employees to maintain employment with Metro for a reasonable period, such as one year after successful completion of the program paid for by Metro. If the time period requirement is not met, the cost of the program would be automatically deducted from an employee's final paycheck. In addition, the policy should require the employee to complete and obtain the certification or reimburse Metro 100% of the funds disbursed by Metro for the certification program. This would be similar and aligned with Metro's tuition reimbursement policy that requires a minimum passing grade to obtain reimbursement. Metro's Tuition Reimbursement Policy (HR1) states: *"If an employee voluntarily terminates employment, they must reimburse 100% of any LACMTA tuition reimbursement funds received during the last six (6) months of LACMTA employment."* When considering this, Metro should keep in mind that some programs, because of the competitiveness of being accepted, may require payment from participants 6 months or more in advance. Metro's Tuition Reimbursement program is limited to a few thousand dollars per year, whereas a certification program such as the two mentioned above, can be much more expensive, warranting at least equal assurance to Metro that its employee investment is realized.

Recommendations:

Chief People Office and Accounting

- Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
- Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)

Metro's Non-Travel Business Expense Policy (FIN14) states: *"Employee must submit a Non-Travel Business Expense Report, ACCT-501: Part II (TBE Report) with all applicable approvals and documents before it will be processed."* In addition, Part II of the Travel Business Expense report requires the employee to document the type of expense and its business purpose.

An employee from the Transit Security Department submitted a non-travel expense for reimbursement, but only completed Part I of the TBE report, indicating the amount of the expense only. Attached to the TBE Report, Part I was only a receipt. There was no documentation on the TBE Report- Part I of the expense's "Business Purpose", which is required by Metro's Non-Travel Business Expense Policy (FIN 14). Part II of the TBE report requires employees to document the type of expense and its business purpose.

Recommendations:

Transit Security

- Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
- Approving Officials should ensure that TBE Report with required documents and information has been completed in accordance with Metro's Non-Travel Business Expense Policy (FIN 14).

4. Outdated TBE Report Used for Mileage Reimbursement

Metro's Non-Travel Business Expense Policy (FIN 14) states: *"If no other means of transportation is practical or available, employees who need to use their personal vehicle for business purposes may be reimbursed at the rate set by the Internal Revenue Service."* The current rate, effective for calendar year 2024 is 67 cents per mile. Metro's TBE Report, Part II provides the current mileage rate to be used for reimbursement.

An employee from the Talent Development Department used an outdated TBE form, that had a mileage reimbursement rate of 62.5 cents per mile. This rate was effective in calendar year 2022 and there has been two rate increases since then. When we advised the employee that she was using an outdated TBE Report, the employee stated: *"I was unaware, I continued using the document that was provided to me in September 2023."*

Recommendations:

Talent Development

- Communicate to employees the importance of using the most current TBE form.
- Approving officials should verify that the correct rate for mileage reimbursement was used before approving a TBE Report for reimbursement.

Accounting

- Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

5. Non-Compliance with Metro Business Travel Guidelines (GEN 65)

Metro Business Travel Guidelines (GEN 65) states: *“Expenses incurred while on authorized travel must be reported and reconciled electronically on a TBE Report submitted through the Travel.Metro.Net. Site. A report is required to be submitted even if the traveler has no reimbursable expenses. The intent is to reconcile all travel costs whether prepaid by LACMTA and/or by Traveler.”*

A member of Metro’s Board of Directors traveled in August 2023. Our review of supporting documentation in Metro’s Financial Information System (FIS), did not find a TBE Report for travel. Metro’s Travel Program Administrator stated that a manual travel Authorization was prepared for this travel and when she contacted the Office of Board Administration about a TBE being completed, she was advised that they had checked the FIS and could not find a TBE Report either.

After some research, it was discovered that the TBE Report had been submitted to Metro’s travel office by email in October 2023 and had been misplaced and never processed. Metro’s travel policies require TBEs to be submitted electronically through Travel.Metro.Net. Workforce Services advised that during the pandemic, email scanned copies of TBE Reports and supporting documents were allowed. However, Workforce Services stated they will be returning to the best practice of requiring the submittal of TBE Reports and all original receipts to the travel office in accordance with Metro policy so that no Travel Authorization (TA) request or Travel Business Expense (TBE) Report is missed due to an overlooked email. The Office of Board Administration also advised that they would review their process and consider having one point of contact for travel to reduce the potential of issues arising related to travel, including TBE Reports being overlooked.

Recommendations:

Workforce Services

- Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro’s Business travel Guidelines (GEN 65).
- In situations where a manual TA and/or emailed TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

- Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

OBSERVATIONS

1. Use of P-Card to Purchase Uniforms and Related Accessories for Transit Security

Our review of the February 2024 P-Card Log for the Transit Security Department found that the P-Card was used to purchase uniforms and other related accessories totaling \$19,090.69 for its officers. See breakdown below:

VENDOR NAME	AMOUNT SPENT
Galls	\$12,903.94
SQ Station Direct	5,770.65
Zavin’s Uniforms	416.10
TOTAL – FEBRUARY 2024	\$19,090.69

We inquired whether Transit Security had considered contracting with one vendor for the purchase of uniforms and related accessories. Having a contract in place would help ensure that Metro receives quality products at reasonable prices. The Cardholder advised that Transit Security had sent out two solicitations but was unable to obtain a contract. She stated that the third solicitation has been put on hold.

If a contract is not viable, another option may be to establish a voucher system similar to the one established for Metro’s bus operator uniforms. Metro identified and vetted 10 vendors who provide uniforms that meet Metro requirements. Bus Operators are given vouchers, with a

maximum value, that can be used at any one of the 10 vendors. Vendors issue uniforms to bus operators and bill Metro monthly. Invoices are reviewed by Central Oversight and then paid through Accounts Payable. Operators are eligible for vouchers when they are hired and on their anniversary. Approved items are explicitly listed on the uniform voucher and a notation indicates no other items can be purchased.

The implementation of the Transit Community Public Safety Department (TCPSD) within five years will result in a significant increase in the number of officers at Metro. It is imperative that Metro have a contract in place or some other purchasing system to help ensure that it is receiving quality goods at the best possible price. Also, if a new solicitation is started, Metro should consider how the implementation of the TCPSD could affect contract terms.

Having a contract in place or some other purchasing system, will give Metro the ability to more easily monitor expenditures for uniforms and related accessories. In addition, when P-Card purchases are being made with multiple vendors for the same items, it is harder to monitor fraud, waste, and abuse.

2. Metro Travel Card Reconciliations

Our review of miscellaneous expenses for the period of January to March 2024 found that the Workforce Services Department submitted Metro's July 2023 Citi Card Travel Bill's Reconciliation for processing to Accounting in January 2024, almost 6 months after receipt of the bill. When we inquired about the long delay, the travel program administrator stated: *"Credit card reconciliation varies because we must obtain invoices from reimbursements that are submitted. Not all expense reports are submitted on time or employees choose to not submit at all, leaving the travel department to have to either wait for the reimbursement to come in to obtain invoices or to hunt down the invoices with hotels or car rental companies. I also was the only admin. working on this at the time."*

The Travel Program Administrator advised that when she receives the travel credit card bill, she submits the bill to Accounting for payment and she performs the reconciliation later. Reconciliations should be performed in a timely manner to help ensure that discrepancies as well as potential fraud are identified and corrected as soon as possible. In addition, if reconciliations are too far behind, and discrepancies are identified, and corrections are necessary, there is a possibility that travel expenses could be understated for one fiscal year and overstated for another.

Performing reconciliations in a timely manner will help to provide assurance that expense transactions related to travel are accurate, properly accounted for and in-compliance with Metro policies.

COMPARISONS WITH PRIOR PERIODS

In the course of our audit, we noted the following when comparing the miscellaneous expenses for prior quarters and fiscal years. Note: All amounts were based on the audit population.

1. Reviewed Quarter (FY24 Q3) versus Prior Quarter (FY24 Q2) Miscellaneous Expenses

Miscellaneous expenses in the reviewed quarter totaled \$1,976,723, a 28% decrease in expenses compared to the second quarter in FY 2024. This was mainly due to a reduction in advertising expenses. Advertising expenses for the second quarter of this fiscal year totaled \$1,400,244 and \$313,294 for this current quarter, resulting in a \$1,086,950 (78%) decrease in spending. See Table 1 below.

Table 1: Reviewed Quarter versus Prior Quarter

Account	Jan-Mar 2024	Oct-Dec 2023	Increase (Decrease)
Advertising	\$ 313,294	\$ 1,400,244	\$ (1,086,950)
Business Meals	108,614	194,210	(85,596)
Business Travel	154,358	208,508	(54,150)
Corporate Membership	278,224	182,780	95,444
Employee Relocation	81,099	71,020	10,079
Employee Activities and Recreation	71,795	0	71,795
Professional Membership	20,835	11,343	9,492
Seminar and Conference Fee	194,607	111,589	83,018
Miscellaneous (50999) *	740,492	510,364	230,128
Others (Mileage and Parking, etc.)	13,405	41,868	(28,463)
Total	\$ 1,976,723	\$ 2,731,926	\$ (755,203)
Decrease			-28%

** Miscellaneous (account number 50999) is used for miscellaneous expenses incurred that cannot be classified under accounts 50901 to 50940, including payments made to cover the expenditures for fines and penalties incurred by Metro, books, and periodicals used in the normal operation of Metro's business, recruitment expenses, community outreach, postage, and others. (Source: Metro's Descriptive Chart of Accounts)*

2. Reviewed Quarter (FY24 Q3) versus Same Quarter of Prior Year (FY23 Q3) Miscellaneous Expenses

Miscellaneous expenses for the reviewed quarter decreased by \$418,434 or 17% as compared to the same quarter of FY23. This was mainly due to decreases in Account 50918 - Advertising and Account 50999 - (Miscellaneous Expense - Other). Advertising and Miscellaneous

Expense-Other, dropped 59% and 38% respectively from the third quarter in the prior fiscal year. See Table 2 below.

Table 2: Reviewed Quarter versus Same Quarter of Prior Year

Account	Jan-Mar 2024	Jan-Mar 2023	Increase (Decrease)
Advertising	\$ 313,294	\$ 766,359	\$ (453,065)
Business Meals	108,614	65,915	42,699
Business Travel	154,358	51,163	103,195
Corporate Membership	278,224	152,273	125,951
Employee Relocation	81,099	0	81,099
Employee Activities and Recreation	71,795	0	71,795
Professional Membership	20,835	18,381	2,454
Seminar and Conference Fee	194,607	124,062	70,545
Miscellaneous (50999) *	740,492	1,188,434	(447,942)
Others (Mileage and Parking, etc.)	13,405	28,570	(15,165)
Total	\$ 1,976,723	\$ 2,395,157	\$ (418,434)
Decrease			-17%

3. April 2023 to March 2024 versus April 2022 to March 2023

Miscellaneous expenses for the period April 2023 to March 2024 totaled \$9,539,318, a 6% decrease from the period April 2022 to March 2023, where expenses totaled \$10,153,444. In each period, April to June, which is the last quarter of Metro’s fiscal year, incurred the most expenses. In the fourth quarters of Fiscal Years 2022 and 2023, miscellaneous expenses totaled approximately \$4.2 million and \$3.1 million respectively. See Figure 1 below.

**Figure 1: Miscellaneous Expenses per Quarter
April 2023 to March 2024 versus April 2022 to March 2023**

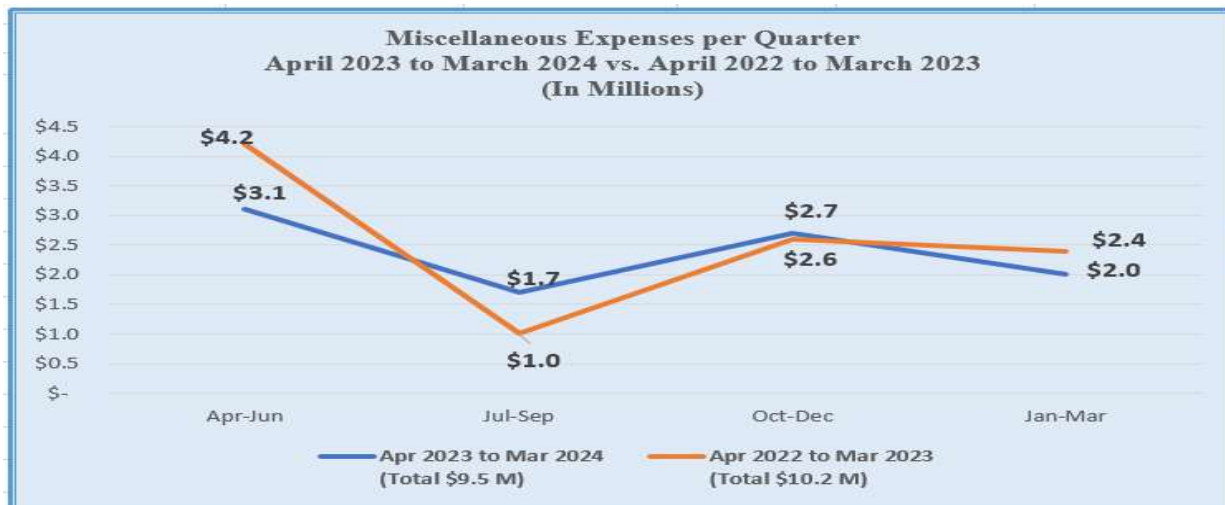
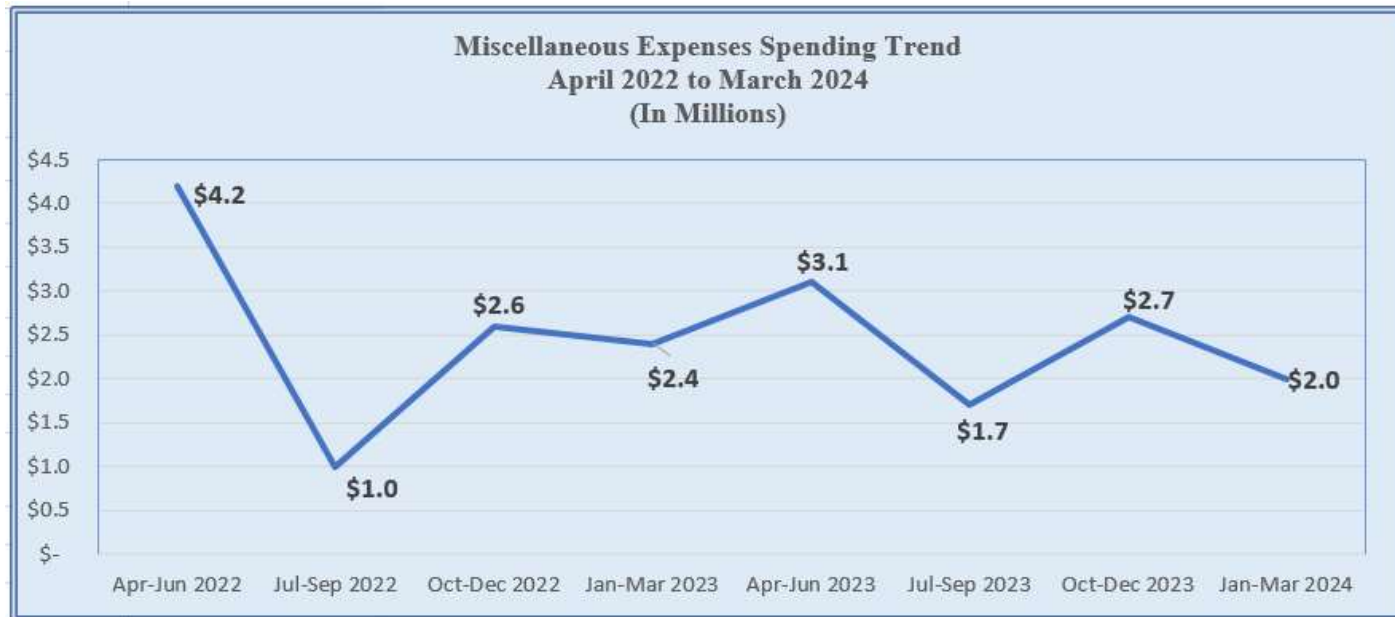


Figure 2 shows the spending trend for miscellaneous expenses for the last two years.

**Figure 2: Miscellaneous Expenses Spending Trend
April 2022 to March 2024**



As noted earlier, miscellaneous expenses were highest during the last quarter of each fiscal year. Part of this increase can be attributed to the accrual of expenses in June of each fiscal year that are charged to the respective years' budget. It is a common practice to exhaust budgeted funds in the 4th quarter of a fiscal year to avoid trailing expenses to the following fiscal period.

CONCLUSION

The miscellaneous expenses we reviewed for the quarter of January 1 to March 31, 2024, generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found exceptions related to Metro's P-Card Rules and Guidelines, Non-Travel Business Expense policy (FIN14), and Business Travel Guidelines (GEN 65).

RECOMMENDATIONS

We recommend the following:

Transit Security

1. Cardholder should sign and date each page of the P-Card Log as required by P-Card Policies.
2. Approving Officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card log guidelines before approving.
3. Monitor compliance with temporary spending limit increases and ensure a written request is prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines when necessary.
4. Review with Staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
5. Approving officials should ensure that TBE Reports have required documents and information completed and attached in accordance with Metro Policy.

Program Management

6. Cardholder should sign and date each page of the P-Card Log as required by P-Card Policies.
7. Approving officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card Log guidelines before approving.

Vendor/Contract Management – Purchase Card Program

8. Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

Chief People Office and Accounting

9. Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
10. Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Talent Development

11. Communicate to employees the importance of using the most current TBE Report.
12. Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Accounting

13. Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

Workforce Services

14. Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).
15. In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

16. Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro's Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On November 19, 2024, we provided Metro Management our draft report. By December 10, 2024, Metro Management submitted their responses summarizing their corrective actions. See Attachment B.

OIG EVALUATION OF MANAGEMENT RESPONSE

Metro Management responses and corrective actions taken are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations resolved and closed based on the corrective actions taken.

However, we suggest that Vendor/Contract Management reconsider the change that was made to the P-Card Guidelines after the completion of this audit, related to P-Cardholders no longer being required to sign the P-Card Log. Prior to the change, P-Card Rules and Guidelines stated: *“Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use.”*

We recommend that Vendor/Contract Management reinstate this Best Practice because it provides acknowledgement by the cardholder who prepares the log that all goods and services listed on the log have been received and used for Metro purpose, and are in accordance with Metro policy.

Summary of Sampled Expenses Audited

Account	Account Description	Audit Population	Sample Amount
50213	Training Program	\$ 9,790	\$6,898
50903	Business Meals	108,614	21,369
50905	Corporate Membership	278,224	139,144
50908	Employee Relocation	81,099	12,945
50910	Mileage and Parking	3,615	995
50912	Professional Membership	20,835	2,400
50914	Schedule Checkers Travel <a>	0	0
50915	Seminar and Conference Fee	194,607	49,363
50917	Business Travel	154,358	16,456
50918	Advertising	313,294	291,866
50930	Employee Activities & Recreation	71,795	14,553
50999	Other Miscellaneous Expenses	<u>740,492</u>	<u>462,933</u>
	Total	<u>\$1,976,723</u>	 <u>\$1,018,922</u>

<a> No expenses incurred for this quarter.

 This total does not include transactions that were less than \$200, offsetting debits and credits, and transactions from the OIG and Transit Court Department

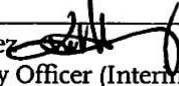
Management Comments to Draft Report

Transit Security



Metro

Interoffice Memo

Date	December 6, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
Through	Kenneth Hernandez  Chief Transit Safety Officer (Interim)
From	Robert Gummer <i>RG 12/5/24</i> Deputy Chief, System Security & Law Enforcement
Subject	Response to Draft Report No. 25-AUD-03: Statutorily Mandated Audit of Metro Miscellaneous Expenses

This memo is in response to the draft report of the Statutorily Mandated Audit of Metro Miscellaneous Expenses (Report No. 25-AUD-03). The Metro Office of Inspector General (OIG) performed the audit, which resulted in a series of recommendations to improve Metro's management practices. The results of the audit identified the following recommendations in relation to the System Security & Law Enforcement (SSLE) Department and its compliance with P-Card Rules and Guidelines, and with Non-Travel Business Expense Policy (FIN 14).

1. Non-Compliance with P-Card Rules and Guidelines

a. P- Card Log not signed by Cardholder

Recommendations:

1. Cardholders should sign and date each page of the P-Card Log as required by P-Card Rules and Guidelines.

Response:

System Security & Law Enforcement agrees with the above recommendation. The Transit Security Cardholder agrees to sign and date each page of the P-Card Log as required by the P-Card Rules and Guidelines.

2. Approving Officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card Rules and Guidelines before approving.

Response:

System Security & Law Enforcement agrees with the above recommendation. Before approval, the approving official will ensure that the cardholder has prepared the P-Card Log and attachments in accordance with the P-Card Rules and Guidelines.

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024

Management Comments to Draft Report

Transit Security - Continued

b. P- Card Monthly Spending Limit Exceeded

Recommendation:

1. Monitor compliance with temporary spending limit increases and ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security Cardholder agrees and will ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024

3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)

Recommendations:

1. Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE report.

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security Management will review with staff the proper procedures for submitting a non-travel expense for reimbursement, including completing the TBE report.

2. Approving Officials should ensure that TBE Report with required documents and information has been completed in accordance with Metro's Non-Travel Business Expense Policy (FIN14)

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security will have administration staff review the TBE report before submission to ensure that it contains the required documents and information and is completed in accordance with Metro's Non-Travel Business Expense Policy (FIN14).

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024

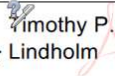
Management Comments to Draft Report

Program Management



Metro™

Interoffice Memo

Date	December 5, 2024		
To	Yvonne Zheng Senior Manager, Audit		
From	Tim Lindholm Chief Program Mgmt Officer		Digitally signed by Timothy P. Lindholm Date: 2024.12.06 16:55:28 -08'00'
Subject	Response to OIG Audit No. 25-AUD-03		

The Office of Inspector General (OIG) audited Metro's miscellaneous expenses from January 1, 2024, to March 31, 2024. OIG found that the sampled transactions generally complied with Metro policies, were reasonable, and adequately supported by required documents.

However, there was a finding related to a program management P-card log that was missing the cardholder's signature. Therefore, Program Management will take the actions below to comply with the audit recommendations.

Noncompliance with the Purchase Card Rules and Guidelines

Recommendation: Cardholders should sign and date each page of the P-Card log as required by policies. Approving officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card guidelines, before approving.

Management Response: The Chief Program Management Officer will issue a memo advising all P-Card holders to sign and date the monthly P-Card log and reminding the approving official to confirm that cardholders prepare P-Card Logs and attachments, in accordance with the P-Card Log guidelines before approval.

Completion Date: December 31, 2024.

Please call me at extension 27297 or Kathy Knox at extension 27504 if you would like to discuss this or require additional information.

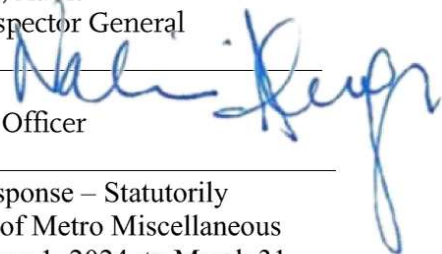
Management Comments to Draft Report

Vendor/Contract Management – Purchase Card Program



Metro

Interoffice Memo

Date	December 3, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
From	Nalini Ahuja,  Chief Financial Officer
Subject	Management Response – Statutorily Mandated Audit of Metro Miscellaneous Expenses – January 1, 2024, to March 31, 2024

The Office of Inspector General (OIG) performed a review of Metro Miscellaneous Expenses from January 1, 2024, to March 31, 2024 (Report No. 25-AUD-03).

Audit Conclusion

This audit found that the transactions reviewed generally complied with Metro policies, were reasonable, and were adequately supported by required documents. Upon engagement with V/CM and Office of Inspector General regarding this review, OIG auditors have reported on the following finding:

1. Purchase Card Monthly Spending Limit Exceeded by Transit Security due to temporary limits not reset timely by V/CM Purchase Card Program.

Based on these findings, OIG's report documented one recommendation to improve transactions of Metro Miscellaneous Expenses. Below is V/CM's responses for Report No. 25-AUD-03.

OIG Recommendation:

Recommendation:

- Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

V/CM Response:

- **Agree.** V/CM has implemented this recommendation. To minimize the risk of this from happening in the future, the Purchase Card Administrator has modified the Active Bank Account Report to add columns which capture temporary single and monthly purchase

Management Comments to Draft Report

Vendor/Contract Management – Purchase Card Program - Continued

limit amounts and their expiration dates in addition to having permanent limit columns. Furthermore, this report update was added into existing desk procedures that are used to administer the program. These program enhancements were completed in August 2024.

Any questions or concerns can be addressed to me, Nalini Ahuja at 213-922-3088.

Cc: Debra Avila, Deputy Chief Vendor/Contract Management Officer
Dr. Irma L. Licea, Executive Officer, Vendor/Contract Management
Abraham Lora, Senior Director, Finance, Vendor/Contract Management

Management Comments to Draft Report

Chief People Office


Metro™

Interoffice Memo

Date	December 10, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
From	Dawn Jackson-Perkins Interim Chief People Officer
Subject	Statutorily Mandated Audit of Metro Miscellaneous Expenses January 1, 2024 to March 31, 2024 (Report No. 24-AUD-03)



Thank you for the opportunity to respond to the findings and recommendations prior to the final release of the Audit Report. It is our understanding that this audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority for miscellaneous expenses such as travel, meals, refreshments, and memberships. Please see our response below to the recommendation pertaining to the Chief People Office (CPO).

Recommendation

#9. Chief People Office & Accounting: Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.

Response: Staff will consider the recommendation. CPO will collaborate with Accounting and other stakeholders to consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs. CPO will also review HR1 (Tuition Reimbursement) to determine whether updating this policy is necessary based on this audit and recommendation.

Completion Date: March 31, 2025

Management Comments to Draft Report

Chief People Office -Continued



Metro

Interoffice Memo

- #10. Chief People Office & Accounting: Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Response: The Chief People Office and Accounting considered the recommendation, and we determined that the use of General Ledger (GL) Expense Account 50915 is not suitable to track any future cost threshold for certification programs. The purpose of the GL expense account is to enable the agency to properly record, classify, and report transactions that fit the nature of the expense account. The cost threshold may be set as part of any future Certification Program Policy and adherence to the policy will be the responsibility of the requestor and the approver. *(see Accounting Response for details)*

Completion Date: NA

- #11. Talent Development: Communicate to employees the importance of using the most current TBE Report.

Response: Staff concurs with the recommendation. Talent Development will communicate to its employees the importance of using the most current TBE Report.

Completion Date: January 31, 2025

- #12. Talent Development: Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Response: Staff concurs with the recommendation. Talent Development will ensure that its approving officials will verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Completion Date: January 31, 2025

- #14. Workforce Services: Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).

Response: Staff concurs with the recommendation. Workforce Services has communicated to departments as of October 31, 2024, who commonly submit manual Travel Requests, that emailed TBE Reports and supporting documentation that were allowed to replace manual hard copy submittals during the pandemic will no longer be

Chief People Office-Continued**Metro**

Interoffice Memo

allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).

Completion Date: October 31, 2024

- #15. Workforce Services: In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Response: Staff concurs with the recommendation. For situations where a manual TA and/or TBE Report must be processed, Workforce Services has established procedures as of October 31, 2024 for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

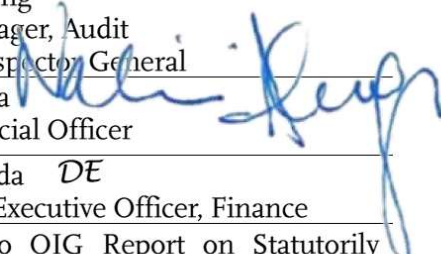
Completion Date: October 31, 2024

Management Comments to Draft Report

Accounting

Metro

Interoffice Memo

Date	December 6, 2024
To	Yvonne Zheng Senior Manager, Audit Office of Inspector General
Through	Nalini Ahuja  Chief Financial Officer
From	Diana Estrada <i>DE</i> Interim Sr. Executive Officer, Finance
Subject	Response to OIG Report on Statutorily Mandated Audit of Miscellaneous Expenses January 1, 2024 to March 31, 2024 (Report No. 25-AUD-03)

The audit recommends that:

1. **Outdated TBE Report Used for Mileage Reimbursement**

Accounting

Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement

Management Response: Agree

Accounting will periodically communicate to all employees the importance of using the most updated TBE form. On November 18, 2024, we sent out our first communication, via Daily Brief, reminding employees to use the updated TBE form in our intranet. We will continue sending out reminders at the beginning of each calendar quarter, or when changes are made in the TBE form.

MI Metro Internal (no-reply) ☺ Reply ↻ Reply All → Forward 📧 ⋮

To -All Email Recipients Mon 11/18/2024 5:01 PM

Retention Policy Metro 3 Years Inbox folder (3 years) Expires 11/18/2027

📌 You replied to this message on 11/18/2024 5:28 PM.

📎 BR-Equity-Section-Training_111924.ics
15 KB

📎 Interoffice Memo_Cashier's Desk Closed between November 28 and 29, 2024.pdf
141 KB

Updates to the Mileage Rate from Metro Accounting

A friendly notice that Accounting updates the mileage rate in the Travel & Business Expense Report form (TBE) per the guide published annually at the beginning of the year. Posted on the [Accounting websites](#) are the TBE forms for your use.

It is important that employees use the current TBE form relevant to the traveling period for appropriate reimbursement.

Here is the link: [https://lacmta.sharepoint.com/sites/Accounting2/SitePages/Forms\(1\).aspx?ga=1](https://lacmta.sharepoint.com/sites/Accounting2/SitePages/Forms(1).aspx?ga=1)

Management Comments to Draft Report

Accounting – Continued

2. Absence of Policy related to payments for Expensive Certification Programs

Chief People Office and Accounting:

- Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
- Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements

Management Response:

- We agree to support the Chief People Office for any financial information needed as they consider the creation of a Certification Program Policy.
- We considered the recommendation, and we determined that the use of General Ledger (GL) Expense Account 50915 is not suitable to track any future cost threshold for certification programs. The purpose of the GL expense account is to enable the agency to properly record, classify, and report transactions that fit the nature of the expense account. The cost threshold may be set as part of any future Certification Program Policy and adherence to the policy will be the responsibility of the requestor and the approver.

Should you have any questions, please feel free to call me at ext. 22161

Thank you.

CC: Elaine Dimson, Sr. Director, Accounting
Don Howey, EO Administration
Michelle Thaung, Manager, Accounting
Ernest Ruben, Principal Transportation Planner

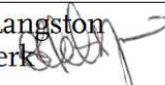
Management Comments to Draft Report

Office of Board Administration



Metro

Interoffice Memo

Date	November 19, 2024
To	Yvonne Zheng Sr. Manager, Audit
From	Collette Langston Board Clerk 
Subject	Response to OIG Audit No. 25-AUD-03

This memo is in response to the Office of the Inspector General audit, 25-AUD-03, which found that a member of Metro's Board of Directors traveled in August 2023 and the expense report for said travel was not processed due to a number of reasons.

As the audit states, the expense report was submitted in accordance with Metro's Business Travel Guidelines (GEN 65). The issue arises due to the expense report being submitted via email and being overlooked for processing, instead of being submitted through Metro's Financial Information System (FIS).

Board Administration determined that our internal procedures will be reviewed by the end of calendar year 2024 to ensure that all future expense reports are submitted through the proper channels and that staff follows up, as necessary.

Please contact me at 213.364.6681 if you would like to discuss or require additional information.

Final Report Distribution

Board of Directors

Kathryn Barger
Karen Bass
James Butts
Jacquelyn Dupont-Walker
Fernando Dutra
Janice Hahn
Lindsey Horvath
Paul Krekorian
Holly Mitchell
Ara Najarian
Gloria Roberts
Tim Sandoval
Hilda Solis
Katy Yaroslavsky

Metro

Chief Executive Officer
Chief of Staff
Board Clerk
Inspector General
Chief Financial Officer
Chief People Officer (Interim)
Chief Program Management Officer
Chief Safety Officer (Interim)
Deputy Chief Vendor/Contract Management Officer
Deputy Chief Auditor

Audit of Miscellaneous Expenses January 1 to March 31, 2024

OIG Report No. 25-AUD-03
Karen Gorman, Inspector General

January 16, 2025



Objectives

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures;
- Expenses had proper approval, receipts, and other supporting documentation; and
- Policies and procedures are adequate to ensure that expenses are documented and accounted for properly.



Metro

Results of Audit

- Staff generally complied with Metro policies and procedures; however, OIG found the following:
 - Non-Compliance with P-Card Rules and Guidelines
 - Absence of Policy Related to payments for expensive Certification Programs
 - Non-Compliance with Non-Travel Business Expense Policy (FIN 14)
 - Outdated TBE Report used for mileage reimbursement
 - Non-Compliance with Metro Business Travel Guidelines (GEN 65)

- ❖ OIG provided **16** recommendations.



Board Report

File #: 2024-1039, **File Type:** Informational Report

Agenda Number: 19.

FINANCE, BUDGET, AND AUDIT COMMITTEE JANUARY 16, 2025

SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE The Fiscal Year 2026 (FY26) Budget Development Process.

ISSUE

This report provides the updated Near-Term Outlook and lays the groundwork for the annual development of the Equitable Zero-Based Budget (EZBB) process. An outline of the planned EZBB process and schedule follow to address the delivery of Metro's objectives in the next fiscal year, culminating in a planned May 2025 Board Adoption.

In preparation for the FY26 Budget development process, the Office of Management and Budget (OMB) initiated early engagement by providing an oral report to the Finance, Budget, and Audit Committee on November 21, 2024, centered on the recap and assessment of:

- FY24 Year End Preliminary Budget Results
- Metro Transit Cost Growth Drivers
- Transit Infrastructure Development (TID)
- Other Programs
- Revenues Assessment
- Next Steps in Budget Development Process

BACKGROUND

California Public Utilities Code Section 130105 requires Metro to adopt an annual budget to manage the revenues and expenses of the Agency's projects and programs. The budget is the legal authorization to obligate and spend funds and to implement Board policy. It includes all operating, capital, planning and programming, subsidy funds, debt service requirements, and general fund activities for the fiscal year. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board at the fund level except for capital expenditures, which are authorized on a life of project basis. This month, staff will begin to provide a series of status

updates on the FY26 Budget development process to the Metro Board's Finance, Budget, and Audit Committee.

DISCUSSION

Near-Term Outlook Update and Challenges Ahead

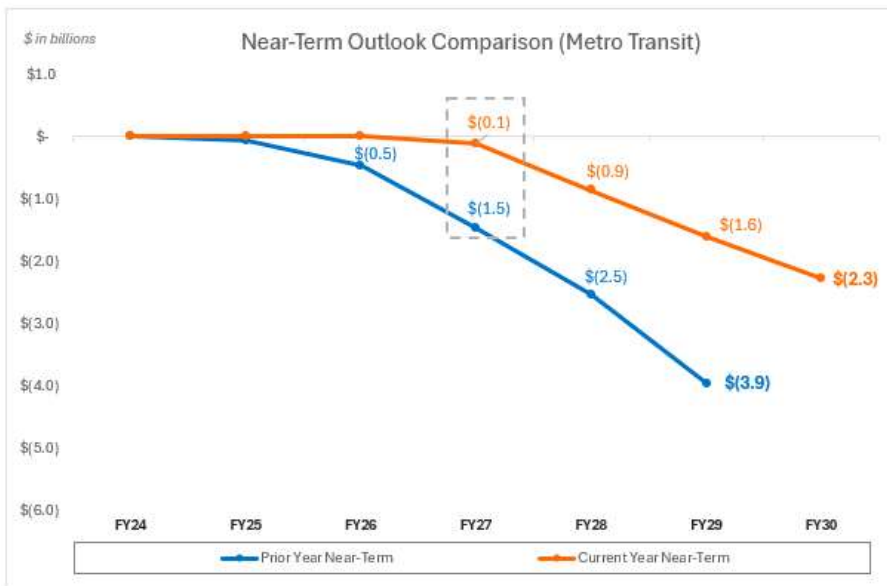
Metro consistently underscores the critical role of sound financial planning in effectively executing transit investments and operational strategies. The EZBB cycle begins with the Near-Term Outlook, which sets forth a five-year financial forecast grounded in a comprehensive evaluation of the economic landscape, revenue projections, ongoing programs, market cost escalations, Board-approved priorities, and the planning of major capital investments.

The Agency's Near-Term Outlook has improved from twelve months ago from \$1.5 billion deficit to \$0.1 billion in FY27 (Figure 1) due to:

- 1) Board approved policy changes to the newly established Transit Community Public Safety Department (TCPSD)
- 2) Zero-Emissions Bus (ZEB) and infrastructure revised forecast as well as incremental grant revenues from SB125 ZETCP
- 3) Constrained and prioritized budgeting efforts through the EZBB process
- 4) Delayed spending on capital projects based on year-end actuals

However, the Agency is committed to continuing its mitigation efforts as a cumulative financial gap of \$2.3 billion is anticipated by FY30 (Figure 1). The gap is comprised of \$1.3 billion for Metro Transit Operations & Maintenance (O&M) and \$1.0 billion in Metro Transit Capital Improvement Program (CIP) due to continued cost growth, increasing at a faster rate than projected sales tax and operating revenues.

Figure 1:



Revenue Update

One of the first steps in updating the near-term outlook is revising revenue estimates and projections based on the most recent information available. Figure 2 below compares the prior year and the updated near-term outlooks.

Figure 2:

Resources (\$ in Millions)	FY25 Reforecast	FY30 Estimate	Current Near-term 5-year Outlook (FY25-FY30)	Average Annual Growth Rate	Prior Near-Term 5-year Outlook (FY24-FY29)	\$ Change	% Change
Local Revenues							
Sales Tax (PA, PC, TDA, STA & SB1)	\$ 5,359.8	\$ 6,174.6	\$ 34,745.2	2.9%	\$ 35,564.4	\$ (819.2)	-2.3%
Fare	180.5	210.3	1,209.2	3.4%	1,091.1	118.1	10.8%
Advertising, Toll, and Other Revenues	191.0	339.7	1,519.4	12.4%	1,036.9	482.5	46.5%
Total Local Revenues	\$ 5,731.3	\$ 6,724.6	\$ 37,473.9	3.2%	\$ 37,692.4	\$ (218.5)	-0.6%
Grant Resources							
Federal, State and Local Grants	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%
Total Grant Resources	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%

Sales Tax Projections

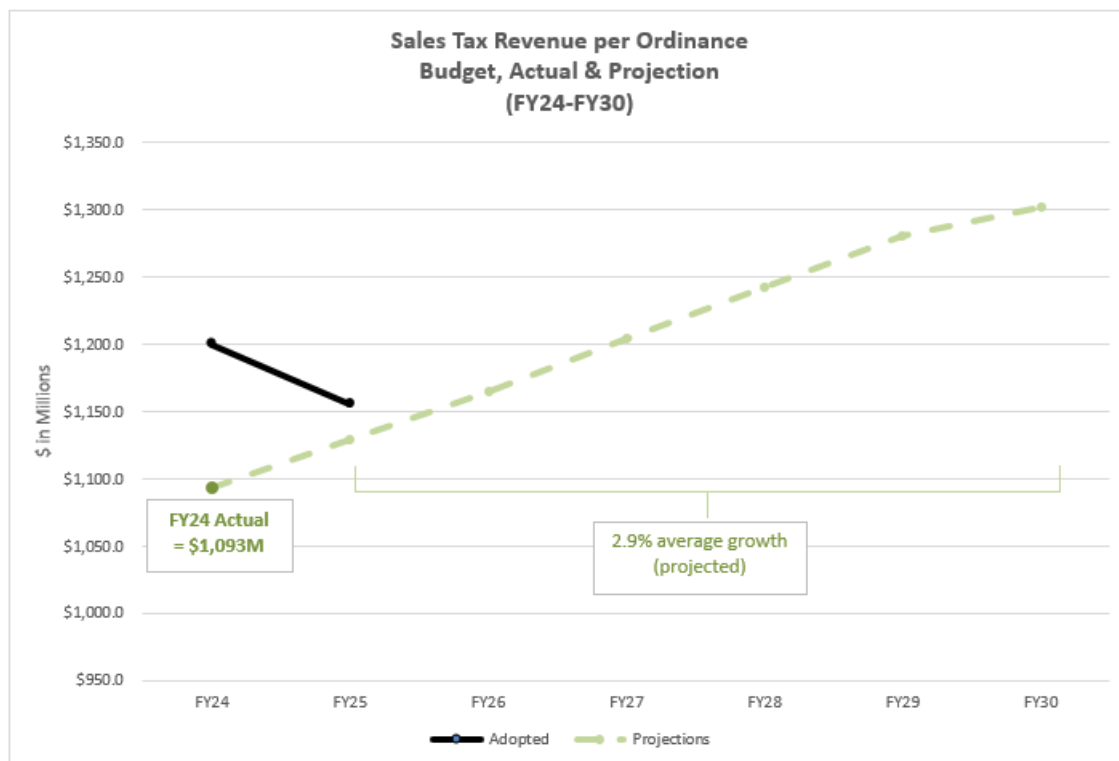
Sales taxes make up over two-thirds of Metro’s resources. The updated forecast projects a 2.3% decrease from the prior year in overall sales tax revenues, primarily due to the economic slowdown from FY23 Q3. Slowing auto sales, lower fuel prices and continued spending shifts to non-taxable categories like services and housing costs depressed taxable purchases. The Federal Reserve’s

interest rate hikes led to higher borrowing costs for consumers. Other influencing factors, such as declining countywide population, political uncertainties and higher unemployment rates all contributed to a slowing local economy and thus lower than expected year-end actual receipts in FY24 and FY25 Q1. A more detailed discussion of these trends will be included in the February Board Report.

Forecasting agencies are anticipating the economic slowdown to continue into the first half of FY25 but gradually improve over time with the Fed’s steady interest rate cuts and easing inflation. The average five-year sales tax revenue growth is projected to normalize at 2.9%.

Figure 3 illustrates Metro’s adopted, actual and projected sales tax revenue per ordinance from FY24 to FY30.

Figure 3:



System-Generated Revenues

- Fare revenues are increasing by 10.8% in this year’s near-term due to anticipated ridership growth from the opening of D Line (Purple) Extensions 1, 2 and 3, A Line to Pomona Extension, G Line improvements, and implementation of fare capping and fare policies.
- Advertising revenues are increasing in this year’s near-term with the implementation of the Metro Transportation Communications Network (TCN) digital billboard advertising program,

adding an additional \$30 million annually starting in FY26.

- Toll revenues are increasing in this year's near-term with the increase in ExpressLanes toll rates and the I-105 ExpressLanes to begin service in FY29.

Grant Resources

Grant resources are increasing 8.0% from the prior forecast at an average growth of 18.9% with the addition of SB125 Formula-based Transit and Intercity Rail Capital Program (TIRCP) and Zero Emission Transit Capital Program (ZETCP) grants, estimated at \$1.3 billion total during the near-term.

Grants included in the near-term comprise only those known and highly likely to be received. Given the economic and political uncertainties involved in the change of administrations and associated changes in national policies and priorities, additional state and federal funding is difficult to predict at this time.

Metro staff will continue to pursue federal, state and local grant opportunities and present to the Board as additional information becomes available. Staff will also work closely with the region's elected political delegations at both the state and federal level, as well as with APTA and the broader transit community, to educate the incoming administration about the needs for and benefits of public transit and advocate for continued and enhanced transportation funding from our external funding partners.

Major Cost Growth Drivers

As Metro advances its preparations in developing the FY26 Budget, staff has assessed the recent developments and expense outlook. This report outlines the key developments since the Special Board Workshop in March 2024, where Metro staff provided the Board with an in-depth analysis of the projected financial outlook for the Metro Transit program, facilitating a thorough assessment of the cost growth drivers and their implications for Metro's operational program delivery.

The Agency's Near-Term Outlook through FY30 includes continued cost growth in Metro Transit O&M and CIP in the following areas (Figure 4):

- Public Safety
- Cleanliness and Station Experience Expansion
- System Expansion
- Labor Costs
- Workers Compensation (WC), Personal Liability and Property Damage (PLPD) and Insurance

Market Premiums

- Zero-Emissions Bus (ZEB) and Infrastructure
- Major Capital Project Risks

The cost growth drivers are presented in Figure 4, which highlights the anticipated growth rate of every cost driver in comparison to the prior year’s projections. While every operational cost growth driver is anticipated to grow at a faster rate than sales tax revenues at 2.9%, there are a few areas where the growth has slowed:

- **Public Safety** due to Board Approval in establishing the Transit Community Public Safety Department (TCPSP)
- **Insurance/WC/PLPD** premiums by reinstating the Operations Safety Steering Committee (OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures
- **Zero-Emissions Bus (ZEB) & infrastructure** costs due to forecast revision

Figure 4:

5 Year Near-Term Outlook							
Cost Growth Drivers (in \$ Millions)	FY25		Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)		% Change
	Adopted	FY30 Forecast					
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%	
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%	
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%	
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%	
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%	
System Expansion	15.2	113.0	457.2	7.0%	7.2%	-0.2%	*
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%	
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%	

* System expansion growth based on total rail.

The remaining cost growth drivers remain relatively flat or continue to grow due to the Agency’s continued investments:

- **Labor Costs** remain relatively flat even after incorporating the increases in the latest collective bargaining agreements starting in the current fiscal year and for the next five years
- **Parts, Fuel & Outside Services** growth driven by high inflation, propulsion power, utilities, other parts & supplies and professional services
- **Cleaning Costs** are driven by Metro’s strategic investment in the expansion of its Station Experience initiatives and implementing technological innovations (i.e., Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, etc.)

- **System Expansion** remains relatively flat, with annual openings through FY30 which will strengthen connectivity and enhance integration across our transit network

Attachment A further outlines the updated assumptions in the latest Near-Term forecast surrounding the cost growth drivers.

Additional Risks and Challenges

As Metro works to mitigate the cost growth drivers, there are additional risks and challenges that have not been quantified in the current forecast which may impact the Agency in the Near-Term. Some of the external risks include:

- Geopolitical uncertainty
- Potential increases in tariffs and their impact on Metro's purchase price
- Change in tax exemption status
- The availability and impact of traditional Federal programs and grants
- Ongoing inflationary pressures

Additionally, there are also internal factors that add financial pressure to the Agency:

- Operating Metro's system in the future with the expanding rail system will be more costly than operating the same level of service today. The average cost of running one hour of rail is 2.2 times more than operating one hour of bus service.
- The ongoing financial risks that stem from capital cost increases due to scope and project schedule changes may take away funding eligible for bus and rail operations if no alternative funding source is identified.
- Preparation for the 2028 Olympic and Paralympic Games in absence of additional funding presents significant challenges.

FY26 Equitable Zero-Based Budget (EZBB) Process and Schedule

Metro is continuing to utilize the year-round EZBB process for its FY26 Budget development, starting with the five-year financial outlook followed by Capital Budgeting to anticipate project needs, while focusing on cost management and sustainability. Metro will continue its efforts to mitigate and defer the Near-Term deficit, managing through the economic slowdown that is expected to linger into FY26 while focusing on Agency priorities that require continuous investment.

The FY26 Budget will align with Metro's mission to enhance transit services, maintain infrastructure, and plan for regional projects, adhering to regulations and board-approved policies. Metro will continue collaborating with the Board of Directors with the goal of developing a balanced budget supported by monthly program reviews to reassess needs.

A schedule of upcoming topics will be presented, concluding with the Board's final adoption in May.

Month	Topic
January	Budget Development Process: <ul style="list-style-type: none"> • Updated Near-Term Financial Outlook <ul style="list-style-type: none"> ○ Revenue Projections ○ Major Cost Drivers • FY26 EZBB Development Process and Schedule • Public Outreach and Engagement
February	Budget Development Parameters: <ul style="list-style-type: none"> • Sales Tax Forecast, Resources Assumption • Cost Inflation Estimate
March	Infrastructure Planning and Construction: <ul style="list-style-type: none"> • Transit Infrastructure Expansion • Multimodal Highway Investments • Regional Rail • Regional Allocations and Pass-Throughs
April	<ul style="list-style-type: none"> • Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP) • Congestion Management • Planning and Administration
May	Public Hearing and Board Adoption: <ul style="list-style-type: none"> • Consolidated Agency-wide Expenses and FTEs Budget Proposal • Proposed Budget Book published on April 29, 2025 • Public Hearing on May 15, 2025 • Summary of Public Comment and Stakeholder Review • Final Board Adoption on May 22, 2025

Early and Expanded Public Outreach and Engagement

Metro remains dedicated to fostering transparency with riders, the public, and stakeholders. To uphold this commitment, the budget outreach process continues to engage the public through both traditional and new methods. This includes social media campaigns, stakeholder meetings, and outreach directly on the system with informational flyers. Updates on the budget outreach will be shared in the upcoming monthly reports.

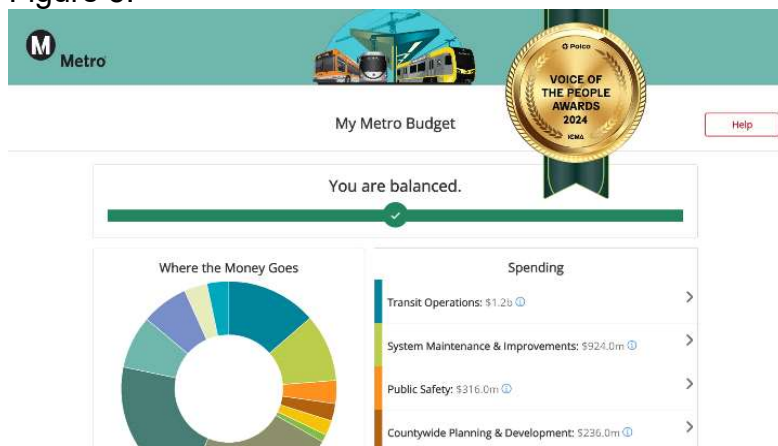
FY26 My Metro Budget Activity

The My Metro Budget Activity, a national award-winning initiative, promotes education and transparency around Metro’s budget. Recognized by the International City/County Management Association (ICMA) with the Voice of the People (VOP) Award for Excellence in Budget & Finance (Figure 5), the program highlights effective community feedback and data-driven decision-making.

Following previous years, a social media campaign is focused on engaging Spanish-speaking, female, and community college student riders, while Equity Focus Communities (EFCs) remain central to the engagement efforts. Metro station staff and internal groups such as LIFE, Metro Micro, and the On the Move Riders Club are distributing information cards to engage underrepresented groups and riders.

The Fiscal Year 2026 (FY26) activity, launched in October 2024, can be accessed at mybudget.metro.net <<https://mybudget.metro.net/>>.

Figure 5:



New Tactics & Features

Metro continues to improve the budget activity based on feedback received and advancements in technology and incorporates the following new features and tactics:

- The activity includes over 90 unique categories for public comment
- Four new scenario questions
- Translations in nine languages to increase accessibility
- Leveraging Artificial Intelligence (AI) to better analyze the written comments
 - o Categorization of comments for departments
 - o Summarization by topic
 - o Sentiment analysis

The feedback collected will be shared with Metro departments starting in January and will play a vital role in shaping the FY26 budget.

Future Initiatives and Staying Updated

A Budget Telephone Town Hall is scheduled for Tuesday, February 4, 2025. This live, interactive forum is ideal for residents who cannot attend in-person meetings or participate online. Metro will request written comments in advance, with attendees also having the opportunity to ask questions

and provide live feedback.

As the FY26 budget develops, further updates on outreach initiatives will be provided. Stay informed at the Budget Portal: <https://budget.metro.net>.

EQUITY PLATFORM

As we move forward with the development of the FY26 Budget, our commitment to equity will continue to guide our approach and decisions. While addressing public safety, cleanliness, system expansion, labor equity, and environmental sustainability, we strive to create a transit system that is not only efficient and safe but also inclusive and equitable for all Los Angeles residents and riders.

Additionally, Metro's EZBB processes will undergo enhancements following the recent awarding of a contract for an Agencywide Budget Equity Assessment. The assessment will refine Metro's budget tools and process to better incorporate both procedural and distributional equity considerations, extending beyond the analysis of impact or proximity to Equity Focus Communities (EFCs). Metro will continue to conduct the EFC Budget Assessment for FY24 Actuals and FY26 Proposed Budget and analyze the FY26 budget against budget equity principles as aligned with Metro's Equity Platform framework. However, the Agency will not be applying the Metro Budget Equity Assessment Tool (MBEAT) to the FY26 capital and operating budgets until the consultant's assessment is completed.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports the following Metro Strategic Plan Goal:

Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

NEXT STEPS

Metro staff will provide regular Budget briefings to Board members and their staff starting this month. Staff will also provide receive-and-file reports monthly, as previously detailed.

ATTACHMENTS

Attachment A: FY25 - 30 Near-Term Cost Growth Drivers

Prepared by:

Tina Panek, Sr. Director, Finance (213) 922-4530

Irene Fine, Sr. Executive Officer Finance, (213) 922-4420

Michelle Navarro, Sr. Executive Officer Finance, (213) 922-3056

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Stephanie N. Wiggins
Chief Executive Officer

FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

Near-Term Forecast Update and Assumptions on Cost Growth Drivers

The Agency's Near-Term Outlook through FY30 includes continued cost growth in Metro Transit O&M and CIP in the following areas:

Public Safety

- In response to societal issues that have caused violence and criminal activity within the Metro bus and rail system—resulting in fatalities, injuries, and increased safety concerns for riders and frontline employees—the Metro Board of Directors took decisive action by introducing Metro Public Safety Surge Board Motion 31 on May 23, 2024.
- In June 2024, in line with the In-House Public Safety Implementation Plan Board Motion 21.1, the Metro Board approved the establishment of the Transit Community Public Safety Department (TCPD). With TCPD, law enforcement costs are trending down as a percentage of total public safety costs.
- In response to Board Motion 34.1, and ongoing commitment to enhancing public safety, Metro is expanding its strategies by investing in a new pilot for taller fare gates, expanding the current TAP-to-Exit pilot, and launching a pilot for concealed weapons detection system.

Cleanliness and Station Experience Expansion

- Metro remains steadfast in its commitment to upholding the highest standards of cleanliness and has made a substantial investment to bolster its cleaning operations, including the recruitment of custodial and facilities maintenance staff and increasing the frequency of cleanings.
- The Agency has expanded several of its Station Experience strategies and made several key enhancements including improvements in lighting, ventilation, fare gates, surveillance systems, elevators, escalators, and restroom facilities.
- Technological innovations are also implemented, including Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, classical music on platforms, testing commercial-grade vacuum cleaners for track maintenance, and piloting the use of bear-resistant trash receptacles.

System Expansion

- As part of Metro's growing system expansion, the LAX/Metro Transit Center is scheduled to open soon, offering customers transit access to LAX in two phases: (1) the launch of a new Aviation/Century station and (2) reconfiguration of the C Line and K Line. Additionally, a new security facility, Metro Center, is ramping up to be fully operational.

Attachment A

- At the July 2024 Board meeting, the Board approved amending the FY25 Budget to add Full-Time Equivalent (FTE) positions to support the LAX/Metro Transit Center and support the systemwide security services at Metro Center.
- Given the expanding system – at least one major rail opening annually leading up to the 2028 Games which assumes additional resources and staff will be needed to support these efforts.

Labor Costs

- Throughout 2024, staff facilitated workshops for Labor and Management to discuss mutual interests, foster collaboration, and engage in contract negotiations with four of the five unions (ATU, TCU, AFSCME and TEAMSTERS).
- As a result, the FY25 Budget was amended to reflect the finalized four collective bargaining agreements (CBAs), which includes an average annual salary increase of 4.4% over the five-year term, along with a 0.25% quarterly wage adjustment each year. Health and welfare benefit increases are also incorporated by the contract terms.

WC, PLPD and Insurance Market Premiums

- Workers' Compensation (WC) Division partnered with Bus Operations, Corporate Safety, and the Return-to-Work Program, prioritizing meetings with divisions experiencing high volume of claims, effective December 2023, highlighting discussions around claims investigations, Transitional Duty Program enhancement, and Safety Specialists' visibility at divisions.
- The Return-to-Work program has enhanced transitional duty opportunities. Corporate Safety has increased visibility at the divisions, is attending Local Safety Committees, and promotes a wide array of Safety programs, including de-escalation training and bus barrier retrofits.
- To mitigate the cost of insurance driven by the hard market, Metro has issued a Request for Proposal (RFP) for insurance services, allowing Metro to test the market to ensure it receives the most competitive rates.

Zero-Emissions Bus (ZEB) and Infrastructure

- Recently, Metro released a Request for Proposal (RFP) to procure 1,980 zero-emissions buses (ZEBs), marking the largest ZEB order in U.S. history. This initiative is a key component of Metro's goal to achieve a fully zero-emission fleet by 2035, which will require a minimum investment of \$2.1 billion in both buses and charging infrastructure over the next few years.
- New zero emission bus acquisitions and supporting infrastructure development will proceed as available industry infrastructure, manufacturing capacity, available technology, and funding permit.

Attachment A

- In response to the Zero Emission Buses Motion 31.1 Metro staff provides quarterly updates to the Board of Directors on electrification efforts with revised forecasts

Major Capital Project Risks

The Agency still faces ongoing cost escalations in its major capital projects with scope modifications, schedule changes and project close-out risks and will continue to conduct project reviews to mitigate these challenges. Due to these cost escalations with lower sales tax received vs. ordinance projections, we are seeing a financial gap in the Transit Infrastructure Development (TID) program. Metro may be able to mitigate a portion of the gap by issuing debt within debt capacity limits. However, there remains the risk of drawing down operational eligible funding which impacts bus and rail service.



FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

January 2025 | Finance, Budget and Audit Committee





1. Near-Term Financial Outlook

- Near Term Outlook Deficit
- Revenue and Resource Summary
- Cost Growth Drivers Summary

2. Additional Risks and Challenges

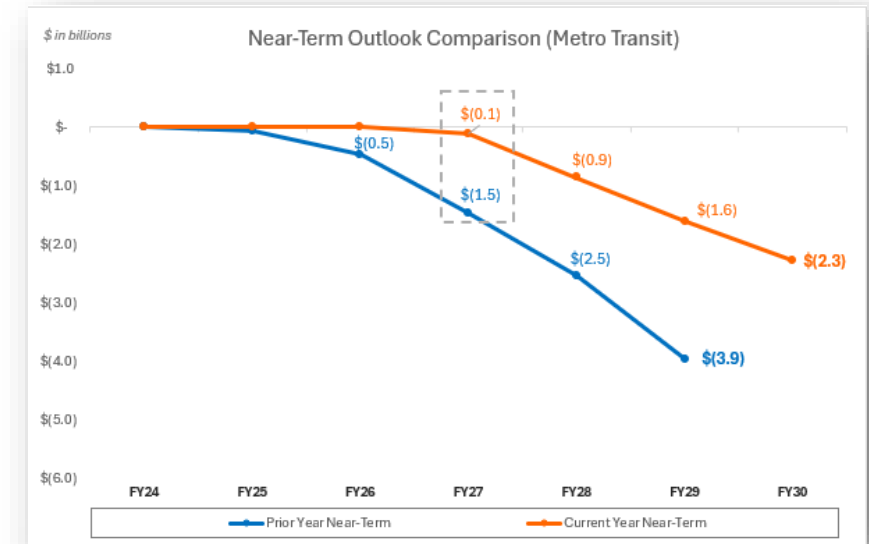
3. FY26 Equitable Zero-Based Budgeting (EZBB)

4. Next Steps



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- The Agency has improved **prior year's Near-Term** cumulative gap of \$1.5 billion in FY27 to \$0.1 billion per **current year's Near-Term** outlook as a result of:
 - Board approved policy changes with newly established Transit Community Public Safety Department (TCPSP)
 - Zero-Emissions Bus (ZEB) & infrastructure revised forecast
 - Incremental grant revenues from SB125 ZETCP
 - Constrained and prioritized budgeting efforts through the Equitable Zero-Based Budgeting (EZBB) process
 - Delayed spending on capital projects based on year-end actuals
- However, a cumulative gap of \$900M remains by FY28 growing to \$2.3 billion by FY30 between the two programs:
 - Metro Transit Operations & Maintenance (O&M): cumulative \$1.3 billion deficit through FY30
 - Metro Transit Capital Improvement Program (CIP): cumulative deficit of \$1.0 billion through FY30

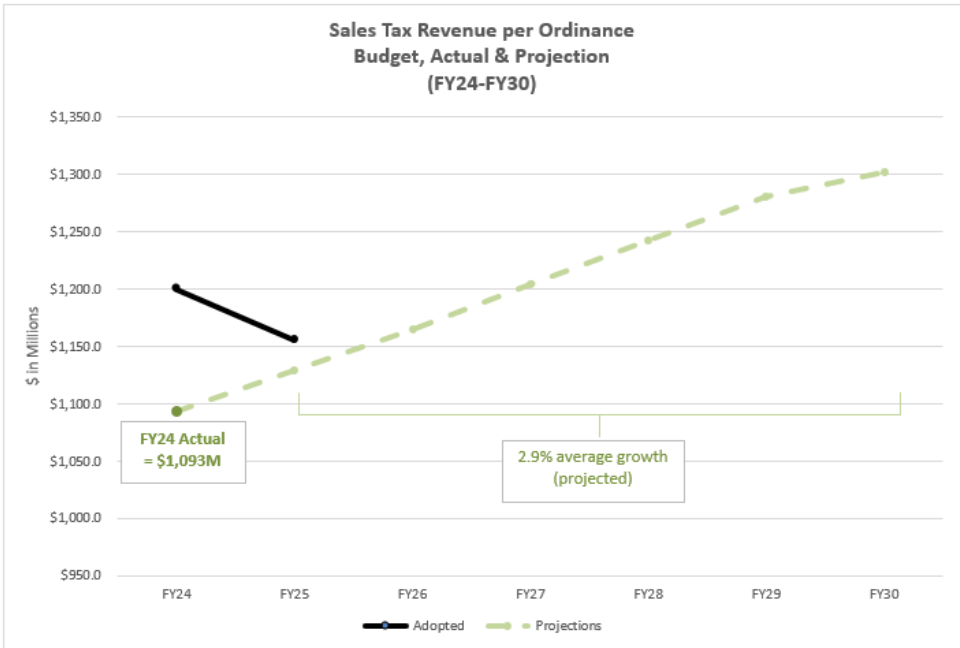


Note: These figures do not include cost assumptions for the 2028 Games.

Near-Term Resource Projections



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- FY24 year-end actual receipts fell short of budget (-8.9%) indicating a slow down in sales taxes
 - Shift in spending to non-taxable items
 - Slow down in spending in autos and gas
- Economic slowdown is expected to continue into the first half of FY25 but gradually improve over time
- FY25 year-end receipts expected to fall short of budget
- FY26 projected as a moderate growth over the FY25 Reforecast
- More information will be provided next month

	FY25 Reforecast	FY30 Estimate	Current Near-term 5-year Outlook (FY25-FY30)	Average Annual Growth Rate	Prior Near-Term 5-year Outlook (FY24-FY29)	\$ Change	% Change
1 Local Revenues							
2 Sales Tax (PA, PC, TDA, STA & SB1)	\$ 5,359.8	\$ 6,174.6	\$ 34,745.2	2.9%	\$ 35,564.4	\$ (819.2)	-2.3%
3 Fare	180.5	210.3	1,209.2	3.4%	1,091.1	118.1	10.8%
4 Advertising, Toll, and Other Revenues	191.0	339.7	1,519.4	12.4%	1,036.9	482.5	46.5%
5 Total Local Revenues	\$ 5,731.3	\$ 6,724.6	\$ 37,473.9	3.2%	\$ 37,692.4	\$ (218.5)	-0.6%
6 Grant Resources							
7 Federal, State and Local Grants	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%
8 Total Grant Resources	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%

Near-Term Assumptions:

- Projecting average annual growth of 2.9% over the near-term
- Improved fare revenues with the growth in ridership, opening of new rail lines, implementation of fare capping and fare policies
- Additional advertising revenues with the implementation of the Metro Transportation Communications Network (TCN) digital billboard advertising program
- Increase in toll rates and I-105 ExpressLanes to begin service in FY29
- Increased grant resources with SB125 Formula-based Transit and Intercity Rail Capital Program (TIRCP) and Zero Emission Transit Capital Program (ZETCP) grants



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- The Agency’s Near-Term Outlook through FY30 includes continued cost growth in Metro Transit Operations & Maintenance (O&M) and Capital Improvement Program (CIP)

5 Year Near-Term Outlook						
Cost Growth Drivers <i>(in \$Millions)</i>	FY25	FY30	Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate	
	Adopted	Forecast			(FY24-29)	% Change
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%
System Expansion	15.2	113.0	457.2	7.0%*	7.2%	-0.2%
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%

* System expansion growth based on total rail.

- While every operational cost growth driver is anticipated to grow at a faster rate than sales tax revenues at 2.9%, there are a few areas where the growth has slowed:
 - Public Safety** due to Board Approval in establishing the Transit Community Public Safety Department (TCPSPD)
 - Insurance/WC/PLPD premiums** by reinstating the Operations Safety Steering Committee (OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures
 - Zero-Emissions Bus (ZEB) & infrastructure** costs due to forecast revision



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5 Year Near-Term Outlook						
Cost Growth Drivers (in \$Millions)	FY25 Adopted	FY30 Forecast	Current Near- Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate	
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* System expansion growth based on total rail.

- The remaining cost growth drivers are relatively flat or growing due to increased investments:
 - **Labor Costs** remain relatively flat even after incorporating the increases in the latest collective bargaining agreements starting in the current fiscal year and for the next five years
 - **Parts, Fuel & Outside Services** growth driven by high inflation, propulsion power, utilities, other parts & supplies and professional services
 - **Cleaning Costs** are driven by Metro’s strategic investment in the expansion of its Station Experience initiatives and implementing technological innovations (i.e., Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, etc.)
 - **System Expansion** remains relatively flat with annual openings through FY30, which will strengthen connectivity and enhance integration across our transit network



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- As Metro works to mitigate the cost growth drivers presented in the Near-Term Outlook, there are additional risks and challenges that have not been quantified in the current forecast.
- These additional risks that may impact the Agency in the Near-Term include:
 - Geopolitical uncertainty
 - Potential increases on tariffs and impact to Metro’s purchase price
 - Change in tax exemption status
 - The availability and impact of traditional Federal programs and grants
 - Ongoing inflationary pressures
- Internal factors that also add financial pressure to the Agency include:
 - Operating Metro’s expanding rail system in the future will be more costly than operating the same level of service today
 - Ongoing financial risks that stem from capital cost increases which may impact operations eligible funding
 - Preparation for the 2028 Olympic and Paralympic Games in absence of additional funding presents significant challenges



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- FY26 EZBB objectives:
 - Collaborate internally and with the Board of Directors to implement cost controls and develop a balanced budget with limited resources
 - Continue efforts to mitigate and defer the Near-Term deficit
 - Manage through economic slowdown that is expected to continue into the better part of FY26
 - Continue to invest in the major cost growth drivers
- Development of program budgets will consider:
 - Actual spending trends
 - Capital project cashflows based on phase and schedule
 - Sustaining levels of bus and rail service as well as adjusting for new rail openings
 - Agency priorities that require continuous investment



Budget Development Parameters:

- Sales Tax Forecast, Resources Assumption
- Cost Inflation Estimate

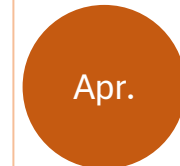


Infrastructure Planning and Construction:

- Transit Infrastructure Expansion
- Multimodal Highway Investments, Regional Rail
- Regional Allocations and Pass-Throughs



- Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP)
- Congestion Management
- Planning and Administration



FY26 Budget: Public Hearing and Board Adoption

