



Program Evaluation and Audit

Direct Costs Central Corridor Light Rail Transit

August 18, 2009

INTRODUCTION

Background

The Central Corridor Light Rail Transit (CCLRT) project is being developed by a combination of public and private partners. As the FTA grantee on the project, the Metropolitan Council administers and supervises it. Most of the design work, however, is done by private firms. The prime consultant AECOM and its subconsultants hold the engineering services contract on the project. The prime consultant HDR and its subs help to prepare the environmental impact statements.

In addition to their labor, the private employees of these firms incur direct costs on the project. The largest one-time expenses have been in relocating key employees who are slated to work on the project for an extended time. The largest recurring expenses are often to pay for the travel and temporary lodging of those employees who have not moved from their home offices to the Twin Cities Metropolitan area. In addition to these travel costs, other direct costs include professional services, equipment rental, and specialized printing.

Such direct costs, especially travel, are a traditional area of risk for government agencies dealing with private consultants. They are frequent in number, so they can add up quickly, and many of them occur off-site, where they cannot be as closely monitored as expenses incurred by public employees. To be reimbursed for their direct costs, the consultant must submit an invoice to the Council “with supporting documentation, including subconsultant invoices, receipts for transportation, hotels, long-distance telephone, equipment rental, and similar expenses.” Project finance staff review and pay the invoices, and the payments are subject to audit. An audit could evaluate whether the Council is getting what it pays for with these direct costs.

Purpose

The purpose of this audit was to determine if the direct costs incurred by private consultants on the CCLRT project are reasonable and necessary.

A second purpose was to determine if the internal controls that the Council has in place for reimbursing direct costs are adequate.

A third purpose of the audit was to determine if the non-local travel expenses managed directly by Council employees at the Central Corridor Project Office (CCPO), including their own trips, are reasonable and necessary.

Methodology and Scope

CCLRT's Rail Budget Analyst is responsible for disbursing payments on the project, and he maintained a detailed Excel file of the receipts submitted and the amounts paid, including whatever amounts he and the project's Contract Oversight Administrators disallowed. These files, together with the invoice packages themselves, were the primary source of data for the audit.

The scope of the audit was the first fifteen monthly invoices on the project, covering the period from August 2007 to October 2008. (HDR had sixteen invoices over this same period.)

Audit stratified these transactions by type and randomly selected a statistically valid sample of receipts from each stratum to review. (Sample sizes were based on a 95 percent confidence level, a sample error of 5 percent, and an expected error rate of 2 percent.)

On its contract, over this period, AECOM submitted 5970 receipts for payment.¹

For AECOM, the strata and sample sizes are:

AECOM		
Type of Transaction	# of Transactions	Sample Size
Airfare	497	28
Hotel/lodging	948	29
Per Diem	954	29
Relocation	10	All
All Others (transactions over \$3000)	27	All
All Others (transactions under \$3000)	3534	30

On its contract, over this period, HDR submitted 1593 receipts for payment.²

For HDR, the strata and sample sizes are:

HDR		
Type of Transaction	# of Transactions	Sample Size
Airfare	85	22
Hotel/lodging	192	26
Per Diem	517	28
All Others (transactions over \$1000)	22	All
All Others (transactions under \$1000)	777	29

As the grantee on the project, the Council incurs its own direct costs. Properly evaluating the reasonableness and necessity of them all, however, would enter the realm of procurement, which is beyond the scope of this review. For this audit, Audit evaluated only the non-local travel expenses managed directly by Council employees for the same period. These consist mainly of the trips taken by project managers to meetings or by the artists commissioned to do the public art for the LRT stations to CCPO. This universe of

¹ This figure does not include 197 small-amount receipts submitted for payment of airfare and hotel taxes.

² This figure does not include 218 small-amount receipts submitted for payment of airfare and hotel taxes.

transactions is small: 43 receipts, totaling \$26,437 in expenses. Audit did a discovery sample of 15 of them: one receipt from each different traveler or vendor. In a few cases, we went beyond the sample to resolve discrepancies.

Audit evaluated if the sampled expenses are reasonable, necessary to CCLRT operations, properly authorized and approved, and supported with the required documentation.

Because CCLRT is a federally-funded transit project, the primary resource to evaluate if the expenses of private consultants were reasonable and necessary was the *Federal Acquisition Regulation (FAR)* subpart 31.2, which outlines allowable costs under federal contracts with commercial organizations. The *FAR* defines a cost as reasonable “if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.” The *FAR* does not directly say that a cost must be necessary to be allowable, but it does say that it must be “allocable” to a government contract, and it defines an allocable cost as one that “Is incurred specifically for the contract” and “necessary to the overall operation of the business.” Thus, allowable costs must be both reasonable and necessary.

To evaluate the documentation submitted by the consultants to support their claims for reimbursement, Audit referred to the *Federal Travel Regulations (FTR)* prescribed by the General Services Administration (GSA). GSA sets the limits by which federal employees and those paid from federal grants will be reimbursed for lodging, meals, and incidental expenses. Those limits vary according to market conditions in the given geographical location and they are revised over time, but they are always available and easily retrievable at the GSA website, www.gsa.gov. According to the *FAR*, supporting documentation should be “adequate to demonstrate that costs claimed have been incurred.” For travel expenses, the *FTR* demands “standard data elements” as documentation, including the purpose of the travel and the start and end date of the travel.

To check if expenses were properly authorized, Audit verified that the task they encompass was included in the scope of an executed Work Order on the project. To check if expenses were properly approved, Audit inspected the Disbursement Approval Forms that are contained in the invoice package, which list the required approvals.

To check if the non-local travel expenses managed directly by Council employees were reasonable, Audit referred to the Council’s “Travel and Meeting Reimbursement” policy, which requires that “out-of-area travel” of Council employees be approved by the Regional Administrator or a delegate “prior to the actual travel date.” Council employees are required to document this on an *Out-of-Area Travel Expense Form*, and to provide “supporting documentation, including cost information and schedules” for reimbursement after the travel is completed.

Audit consulted with project managers to evaluate if expenses are necessary to CCLRT operations.

The quantitative results of the audit—if the expenses sampled are reasonable, necessary, authorized, and documented—were the primary evidence for evaluating if CCPO has adequate controls over the direct costs on CCLRT.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the US Government Accountability Office's *Governmental Audit Standards*.

OBSERVATIONS

CCLRT Policy 210-02, Cost Accounting and Invoicing, describes the process by which an invoice compiled by a private consultant is presented to the Council for payment. (Quotations are from this document.) It assigns responsibilities for paying that invoice among CCPO administrative personnel.

1. Vendor invoices are received at CCPO by the Receptionist, who date-stamps, scans, and inputs the invoice into an invoice tracking system. The Receptionist delivers the invoice, attaching a routing slip, to the Rail Budget Analyst.
2. The Budget Analyst “initiates a separate *Disbursement Approval Form* for each invoice and signs the form to verify appropriate accounting codes and sufficient funding is available.”
3. The Grants Specialist reviews the invoice “for the eligibility of the costs and certifies that the amount billed is a valid charge to the project.”
4. The Task Manager reviews the invoices to determine “if the work completed and invoiced is in accord with the contract provisions, payment terms, and conditions. . . . All ‘Other Direct Costs’ and ‘Special Charges’ are reviewed to insure that these expenses are reasonable, documented, and have prior approval by the Project Director or Deputy Project Director. In case of doubt, the contractor is contacted directly for clarification or adjustment of the amount of payment or claim/request.”
5. The Administration Manager reviews the invoices “by verifying that the Rail Budget Analyst, Grants Specialist, and Task Manager have reviewed and signed approval using the *Disbursement Approval Form*. The Administration Manager signs approval to certify that the amount billed is a valid charge to the project.”
6. “For amounts over \$5,000, the Project Director reviews vendor invoices by verifying that the Rail Budget Analyst, Grants Specialist, Task Manager, and Administration Manager have reviewed and signed approval using the *Disbursement Approval Form*.”

Inevitably, this process defers some control to the consultants. They provide the professional service to CCLRT and, by compiling the expenses to be paid and the documentation to pay them, they present the bill. The contract and the work orders state in general terms the tasks to come on the project, estimate their costs, and—when signed—authorize the consultants to carry them out, but there is no approval before the fact of individual expenses. Individual expenses are approved after, not before, the fact. Thus, determining what is an allowable charge requires thorough recordkeeping. Airfares require both the start and end dates of travel, so that an audit can match the trip claimed to the labor invoice’s record of hours worked on the project. Lodging expenses require a breakdown of room charges and any applicable taxes, so that necessary expenses can be separated from incidentals. Receipts from car rental companies require the number of miles driven. And, unless it is a per diem, every charge for “meals and incidental expenses” (M&IE) requires an itemized receipt.

The Metropolitan Council's internal procedure for reimbursing the non-local travel expenses managed directly by Council employees (such as, on the CCLRT project, the travel by artists designing the train stations) differs in one significant respect from the procedure above, in that the Regional Administrator (or his/her delegate) must preapprove travel. Otherwise, the limits on what may be reimbursed are similar, and the documentation needs are the same. Council employees present their claims for reimbursement to the Accounts Payable Department and are issued a check when the amounts claimed match the amounts documented. The preapproval process takes the place of the series of checks prescribed in the CCLRT procedure.

FINDINGS

Some invoices presented for payment on the CCLRT project by AECOM and HDR lacked sufficient documentation.

FAR subpart 31.201-2 states that, to determine the allowability of a given cost, “A contractor is responsible for . . . maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.” Appendix C to Chapter 301 (Temp Duty Allowances) of the *Federal Travel Regulation (FTR)* lists in more detail the “Standard Data Elements” that should be included on a receipt submitted for reimbursement, including the purpose of the trip, start date and end date, and “The number of days traveler claims to be on per diem status.” For non-local travel managed directly by its employees, the Metropolitan Council’s Policy on “Travel and Meeting Reimbursement” states that the “Required documentation . . . be provided for each occurrence.”

Of the 280 AECOM and HDR transactions sampled across all strata, Audit found two where receipts were not provided for expenses claimed. In the first instance, an AECOM consultant did not provide a receipt for a hotel stay, although that stay was listed on the consultant’s expense report. In the second instance, an AECOM consultant listed a charge for a taxi ride on her expense report, but did not provide a receipt. Missing receipts were rare. More common were incomplete receipts. Some examples:

- Both AECOM and HDR book their air travel through the agency American Express Travel (AMEX), and generally submit in the invoice package two records of each flight: a log of the flights booked, which constitutes the receipt proper; and the expense report of the person traveling. The expense reports do not always list the dates traveled, however, and the AECOM AMEX logs list only two dates: the day the flight was booked, and its start date. The HDR flight logs contain even less information, often lacking not only trip dates but the places traveled from and to. In short, if the start and end dates of the flight are not listed on a consultant’s expense report, the invoice package contains insufficient documentation of a consultant’s stay at CCPO. Although Audit could usually determine the length of that stay by comparing the partial record to a consultant’s lodging receipt, that required tedious cross-checking that may introduce errors into the process of verification. The flight logs should contain both flight start *and* end dates.

These missing data were numerous. Six of the 28 airfares sampled on the AECOM contract lacked trip dates, and for four others the trip dates were uncertain. Nine of the 22 airfares sampled on the HDR contract lacked trip dates.

Other errors were less common:

- In two cases for lodging charges on an AECOM invoice, the “receipt” provided was a reservation estimate, not a real receipt.
- In one case for a copying charge on an AECOM invoice, the receipt recorded only the number of copies produced, not the cost per copy or the total cost of the job.
- In one case for a shipping charge on an AECOM invoice, the receipt recorded only the barest of information, not even listing the vendor (apparently, in this case, FedEx).
- In one case for a telephone charge on an HDR invoice, the expenses listed on the “Data Form” (the equivalent of an expense report) did not correspond with the expenses listed on the receipt. The Rail Budget Analyst paid the expenses listed on the receipts (and the receipts were provided), but the data form was inaccurate.
- Both AECOM and HDR divide their expenses into two invoices: one for labor, and one for direct charges. Recordkeeping and auditing are made easier when the two match: when the expenses claimed on the direct costs invoice are incurred by the people listed as working in the labor invoice, and at the same time. Particularly in the first month of the project (perhaps when the process was still being defined), however, the dates for AECOM’s direct costs invoice did not correspond to the dates for its labor cost invoice.

Of the 15 requests for reimbursement for non-local travel managed directly by Council employees that Audit sampled, the documentation was in order except for one. That receipt, submitted by the Capitol Area Architectural and Planning Board for environmental impact and municipal consent consulting, claimed eleven per diems totaling \$605.00 (at \$55.00 a piece) for twenty-five hours of work over six months. Without more detail on the invoice, listing days and locations worked, it is impossible to evaluate the reasonableness of this expense, and had it not already been paid Audit would have recommended disallowing the per diems.

Two of the sampled AECOM and HDR expenses were unnecessary, and Council managers could have made the business case for several more apparent.

In order for a cost to be allowable under a contract with federal funds, it must be not only reasonable but necessary. In its sample of 280 transactions on the AECOM and HDR contracts, Audit identified two that it would disallow for being unnecessary. They are:

- One airfare change fee of \$75.00 that was incurred as a result of late changes to an AECOM consultant’s itinerary.
- One “return” airfare of \$205.38 by an HDR consultant who flew over a weekend to a location (Newark) other than his home (San Francisco). (The reason for disallowing this expense is contained in the first bullet below.)

In addition to these two unnecessary expenses, Audit found several where Council managers could have made the business case for expenses more apparent. Specifically:

- HDR's Project Manager made several special arrangements with CCLRT managers to pay for his expenses during the months that he spent a majority of his time on the project. Because his stays at CCPO could be extended, he lodged on a semi-permanent basis in a furnished apartment rather than temporarily, in a hotel. On weekends, he occasionally returned "to attend personal matters" in cities (Miami and Newark) that were not his home of San Francisco. Toward the end of his majority work on the FEIS, when he began to do preliminary environmental impact work for the Southwest Corridor project in the Metro area, HDR and the Council agreed to split his labor charges and direct costs on a percentage basis between CCLRT and Southwest. Charges related to these arrangements were frequent. In all but the flight to Newark, Audit found that the arrangements made did in fact save the Council money over other, more orthodox arrangements. Flights "home" to Miami were cheaper than flights home to San Francisco. The flight to Newark was cheaper than the flight to San Francisco as well, but Audit recommends disallowing this expense because we cannot justify flying to more than one alternative city to attend to personal matters. Disallowing that expense, however, is a separate matter from documenting it. What the invoice packages sometimes lacked were clear statements by CCLRT's managers to justify these arrangements, for auditors or other investigators.
- Among the 28 airfares sampled on the AECOM contract, there was also one where the consultant "returned" to a different location than where his trip began: from Los Angeles to Minneapolis, and then to Chicago. Again, the return flight was shorter and cheaper than a flight home would have been, but the reason for this deviation was not noted in the invoice file.
- Among the sampled AECOM and HDR per diems, there were three for what might be called field trips: one by an AECOM consultant to Portland, one by an AECOM consultant to San Jose, and one by the HDR Project Manager to Chicago. Later interviews revealed that the purpose of the first trip was for that employee to consult with the subconsultant LTK's staff, based in Portland; the purpose of the second was for the AECOM employee to consult with support staff based in San Jose; and the purpose of the third was for HDR's Project Manager to attend the quarterly FTA meeting. According to project managers, these trips were necessary, but the invoice packages did not contain the information to evaluate their necessity without further inquiry.
- It is difficult to evaluate the necessity of heavy or specialized rental equipment without expert knowledge, but Audit found that the documentation provided by some rental companies was better at making a business case for their charges than others. Similarly, Audit found much variability among reprographic companies regarding their copying charges. In the sample, charges for color copies ranged from \$.30/page to \$1.50/page. We were told that these copies were specialized, but the invoice packages lacked that justification, or an independent analysis of their reasonableness.

- Among the sampled expenses on the HDR contract was a \$1,700 payment to a subconsultant hired for proofreading and editing the SDEIS (Supplemental Draft Environmental Impact Study). Even though the documentation for this expense was light--the receipt says only that the sub was hired “to help prepare” the SDEIS—Audit does not recommend disallowing it, because HDR charged it as one of its direct costs. It was a one-time expense. At the same time, *as* an extraordinary expense it needed to be better documented, and a note in the invoice package making a business case for the expense would be useful.

Several airfares were unreasonably high, and some HDR automobile rentals were unreasonably high.

With a few exceptions, federal policies (*FAR* 31) do not allow “Airfare costs in excess of the lowest customary standard, coach, or equivalent airfare offered during normal business hours.” When there is an exception, such as required travel “during unreasonable hours,” the exception “must be documented and justified.” Costs for lodging, meals, and incidental expenses are allowable only if they do not exceed the maximum “per diem” rates prescribed by the GSA. Costs for transportation, says the *FTR*, “may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge.”

The Met Council’s travel policy does not, strictly speaking, limit its travelers to GSA rates for lodging, but employees are expected to get the lowest rates available. Policy 3.3.2, Travel and Meeting Reimbursement, says that “The Council will reimburse actual lodging expenses for authorized out-of-area travel, at single rates comparable to other facilities in the area. Government rates should be requested wherever available.” The policy encourages the efficient use of travel.

When--in Audit’s sample of travel costs by AECOM and HDR employees—the receipt noted a lodging or, less frequently, a meal expense that exceeded GSA limits, those excesses were disallowed by the Rail Budget Analyst. We did find four lodging charges among those managed directly by Council employees that exceeded GSA guidelines—all four were for artists who traveled to CCPO to participate in mandatory design meetings--but in all four cases the Contract Administrator put a note in the invoice package justifying the expenses on the grounds that the Council had neglected to tell the travelers to request GSA rates.

Airfares are another matter. From a total of 497 airfare transactions on the AECOM contract, Audit sampled 28, and found 10 that were unreasonably high. They are:

AECOM's Airfares

All trips to MSP

Traveler	Company	Departure City	Start and End Date	Fare Submitted	Audit's Survey of Reasonable Fares	Difference
Bagby, Jack	Kimley-Horn	Norfolk, VA	10/14 - 10/16/2007	694	550	\$144
Dowling, John	AECOM	Philadelphia	11/04 - 11/08/2007	1299	346	\$953
Kley, Stephen	AECOM	Philadelphia	11/27 - 12/02/2007	792	259	\$533
Birks, Jeffrey	AECOM	Philadelphia	03/09/2008 - ?	1379	480	\$899
Denney, Leroy	Triunity	Newark	03/18 - 03/21/2008	709	269	\$440
Odgen, Brett	AECOM	Los Angeles ^a	05/28 - 05/30?/2008	1078	532	\$546
Henningfeld, Renee	EDAW	Chicago	08/13 - 08/15/2008	779	193	\$586
Wu, Xuezheng	AECOM	Newark	07/24 - 07/25/2008	1855	632	\$1,223
Stanley, Roger B.	AECOM	Philadelphia	09/22 - 09/25/2008	1537	280	\$1,257
Burkhart, Greg	J.D. Eckman	Philadelphia	09/08 - 09/09/2008	944	280	\$664

Total \$7,245

^a return trip to Chicago

From a total of 85 airfares on the HDR contract, Audit sampled 22, and found one that was unreasonable.

HDR's Airfare

All trips to MSP

Traveler	Company	Departure City	Start and End Date	Fare Submitted	Audit's Survey of Reasonable Fares	Difference
Harbert, Clint B.	HDR	Houston	No dates provided. Sometime in 05/2008.	891	340	\$551

Among other travel costs that Audit examined, Audit found three rental car charges on the HDR contract that were unreasonable.³

HDR's Automobile Rentals

Traveler	Company	Start and End Date	Total Charge Submitted	Audit's Survey of			Difference	Amount Claimed
				Reasonable Fares				
				Weekly	Daily	Total		
Harbert, Clint B.	HDR	03/25 - 04/03/2008	565	149	60	304	\$261	\$261
Gonzalez, Oscar J.	HDR	08/03 - 08/06/2008	327	-	55	165	\$162	\$100 ^a
Gonzalez, Oscar J.	HDR	09/02 - 09/12/08	588	349	35	454	\$134	\$102 ^b
Total								\$463

^a CCLRT portion is 62% of total.

^b CCLRT portion is 76% of total.

AECOM and HDR ask their employees to book their own travel, through AMEX. Travel by Council employees is usually arranged by an administrative assistant on behalf of the traveler. Neither AECOM nor HDR requires that their trips on CCLRT business be preapproved, either by their own managers or Council managers. Travel by Council employees, on the other hand, does have to be preapproved.

³ Reasonable airfares were determined from historical data for given city pairs as obtained from the public website farecompare.com. Historical data on automobile rentals is not available, so reasonable fares were determined from another travel search site.

CONCLUSIONS

1. *Review of the reasonableness of direct costs on the AECOM and HDR contracts was occasional, not common or rigorous.*

CCLRT Procedure 210-02, Cost Accounting and Invoicing, assigns the responsibility for reviewing the reasonableness of expenses to the Task Manager. In practice, it was the Rail Budget Analyst, aided by the Contract Administrators and, on the HDR contract, the Task Manager, who reviewed invoices most closely. They disallowed charges when consultants exceeded GSA limits on lodging and per diem expenses or when the consultants made calculation errors on the requests they submitted. Beyond this, however--and as evidenced by the large number of unreasonably high airfares--they did not commonly review the reasonableness of expenses. The Budget Analyst's review substituted for a more rigorous review of all expenses.

2. *Schedule pressures drove some direct costs, especially airfares, higher.*

The Central Corridor Project Office is subject to tight schedules and rapidly approaching deadlines. One manager used the phrase "on fire" to describe how issues on the project commonly arise and demand attention. Tight schedules can drive costs higher. For example, Audit examined a reprographics charge for \$95,248.92 to print, collate, and bind the SDEIS, published in June 2008. Most of that total was for the copying itself: high-quality imaging at \$.30/page. Audit was told that "a more relaxed schedule would have cost less," "but the schedule is driven by CCPO in meeting FTA deadlines."

Airfares were especially affected by schedule pressures. When we asked project managers why some airfares were not (as the Council's travel policy states) "at the most cost-effective rate available," the explanation most often given was that project conditions demanded "last-minute" travel. The only exceptions actually documented in the invoice files, however, were for travel costs managed directly by Council employees. There was no such documentation provided for the exceptionally high airfares reported by consultant employees.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. Consultants traveling on CCLRT business should submit a clear and detailed receipt—ticket or boarding pass—for each trip taken. The receipt must list both the start and end dates of travel. (Essential)

Neither of the AMEX logs that AECOM and HDR submit as official receipts of their airfares contain both start and end dates of travel. AECOM’s AMEX logs contain a start (departure) date and a transaction date (the date the ticket was booked). HDR’s AMEX logs are more ambiguous, containing an untitled column that could be a transaction date and an unlabeled date that could be a start date. The result is that these Standard [FTR] Data Elements are consistently omitted from the invoice packages.

If the AMEX logs cannot be revised to include both the start and end dates of travel, AECOM and HDR should find an alternative way to include trip dates in their invoice packages. Council employees often submit their boarding passes in addition to their ticket receipts, but boarding passes can be difficult to track. Some airline receipts lack trip dates as well. Whatever solution is forthcoming, it should present the relevant data in a consistent fashion. Without complete documentation, the Council is unable to evaluate the reasonableness and necessity of an expense, and risks paying a cost that should be disallowed.

Management Response: A satisfactory receipt should be submitted by the Consultants for each trip. It does not necessarily have to be a ticket or boarding pass. Current technology allows some paperless boarding. Some sort of acceptable receipt should be provided.

2. Invoice packages should thoroughly document unusual expenses or special arrangements for controlling costs. (Essential)

Although it may be necessary, it is unusual for in-town consultants to travel away from the project office, for “field trips” to other light-rail sites, for example. Audit found two such trips among the AECOM expenses samples, and in both cases the invoice file noted only travel “for Central Corridor.” A further sentence or two about the specific need for the travel would have been useful. Similarly useful would have been a note of explanation about the need for the \$1.50 specialized color copies noted earlier. On the HDR contract, the special arrangements to house the consultant’s Project Manager monthly, in an apartment, rather than nightly, in a hotel, and to split his direct (and labor) costs with another Council project he was consulting on while visiting the Metro area, should have been better documented. Insufficient documentation of unusual expenses or special arrangements can create questions among auditors or other external monitors. At the least, it creates inefficiencies as those arrangements are uncovered.

Management Response: Sufficient documentation to satisfy post-travel reviews is reasonable. The exact detail required to accomplish that should vary depending on the balancing of the cost of the direct expense and the cost to produce the level of documentation required.

3. CCLRT Procedure 210-02 should be revised to state that project managers have the responsibility to evaluate not only the reasonableness but also the necessity of charges to the project for amounts greater than \$5000. (Significant)

To recall, CCLRT Procedure 210-02 states that it is the Task Manager’s responsibility to review consultant invoices “to insure that . . . expenses are reasonable, documented, and have prior approval by the Project Director or Deputy Project Director.” The procedure says nothing directly about reviewing invoices for the “necessity” of expenses, but—with its point about “prior approval”—seems to assign that responsibility to the Project Director or Deputy Project Director. To be sure, with their overview of the entire project, the project directors have the best grasp among Council managers of whether a given expense *is* necessary. But the procedure is unclear about this important point.

It is recommended that the procedure be revised to clarify responsibilities among project principals for reviewing both the reasonableness *and* necessity of expenses on the CCLRT project. The revised procedure should also include a process by which—under what circumstances and how--the person assigned those responsibilities can delegate them to another person when the situation warrants.

Management Response: The Project Managers, the Project Director, Deputy Director or Assistant Director will make this “necessity” determination as appropriate.

4. CCLRT’s Rail Budget Analyst should flag for review by project managers any expense that seems irregular or not customary. (Consideration)

CCLRT Procedure 210-02 recognizes that the Rail Budget Analyst is not the person best situated to review expenses in their entirety. With their engineering and design expertise, the Task Managers can better review the reasonableness of expenses, and with their overview of the project, the Project Director or Deputy Project Director can better review necessity. The Budget Analyst is well situated, however, to see the full range of expenses submitted in the invoice package, and can best tell when a given expense is irregular or not customary. The Analyst should flag these unusual expenses so that project managers can review them for their reasonableness and necessity.

Management Response: Agreed.

Recommendations Concerning the Preapproval of Airfares

Travel is a significant direct cost on a project like CCLRT. As of this writing, toward the end of the preliminary engineering phase on the project, AECOM has nine consultants who fly in and out of the Metro area on a regular or customary basis, including its Project Manager. The costs of supporting those employees include not only their airfares, but also their lodging and daily subsistence. The less travel is predicted—the more it occurs on a “last minute” basis—the greater the cost.

5. Council and consultant project managers should devise a process to preapprove, on a quarterly basis, regular and customary travel by private consultants. (Consideration)

The process should be more specific than the current process of authorizing a given number of trips in a work order, but not so restrictive as to leave managers unable to respond to project needs. For example, the Council could require the consultant to list the trips it expects its employees to take in the upcoming quarter, who will be taking those trips, and how often, and budget an amount for those trips at cost-effective rates. Exceptions to this process should be justified and documented by project managers, and those documents included in the invoice package.

Management Response: This recommendation is not practical. Projects of this magnitude and complexity move too quickly and don’t allow this degree of predictive travel projection. Additionally, some FTA delivery deadlines are known in advance while other FTA deadlines are not resulting in short notice to consultants for CCLRT meetings.

6. Travel by outbound consultants—those who are not traveling to CCPO on a regular and customary basis—should be preapproved by the Council’s project manager. It may be possible to expedite the approval process with a short version of the Council’s standard preapproval form. (Consideration)

Management Response: Council’s Project Managers should affirm all consultant travel for those not traveling to/from CCPO on a regular/customary basis.

7. Alternatives to consultant travel to CCPO—teleconferences, instant messaging, and the like—should continue to be explored by Council managers. (Consideration)

Management Response: We should, and we do, regularly.

Recommendations Concerning Disallowances

The “Findings” section of this report describes the specific expenses among those sampled that Audit recommends disallowing and the reasons for disallowing them. They are summarized here by payee and totaled accordingly.

From	Amount	Reason for the Disallowance
AECOM	7,245	difference between reasonable and unreasonable airfares
	75	airfare change fee not requested by Council
Total for AECOM	\$7,320	
HDR	551	difference between reasonable and unreasonable airfare
	463	difference between reasonable and unreasonable automobile rentals
	205	unnecessary "return" trip to location other than home
Total for HDR	\$1,219	
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Total for all Consultants	\$8,539	

8. The Council should recoup these specific expenses. (Essential)

Management Response: Some of the consultants’ explanations may be valid. However, when a short-notice booking requires a ticket and in excess of \$750, it is reasonable to expect consultants to advise the CCPO staff of that fact and request specific approval for the extraordinary expense. Management recommends that we only seek reimbursement for past excess flight costs where the ticket exceeds \$750, a figure that applies to nine of the 11 airfares sampled.