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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 10, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Board of Directors, Valley Metro Rail, Inc.

Board of Directors, Regional Public Transportation Authority

The Honorable Mark Brnovich, Arizona Attorney General

The Office of the Auditor General has conducted a financial investigation of Valley Metro Rail, Inc. (VMR) and Regional Public Transportation Authority (RPTA) dining- and travel-related expenses paid for the chief executive officer during the period April 2010 through October 2015. We performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examination of selected financial records and other documentation, and selected tests of internal control over the VMR and RPTA dining- and travel-related expenses. The investigation was not conducted in accordance with U.S. generally accepted auditing standards and was more limited than would be necessary to ensure we discovered all misused public monies or to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies are disclosed.

The financial investigation report describes our findings as a result of this investigation.

Sincerely,

Lindsey Perry
Auditor General

Attachment

Valley Metro Plea Agreement—Fraudulent Schemes

SYNOPSIS: The Arizona Attorney General’s Office requested the Office of the Auditor General to assist in its investigation of potential fraud by Stephen Banta, former Valley Metro chief executive officer. Our investigation revealed that from April 2010 through October 2015, Mr. Banta may have abused his authority and caused Valley Metro to pay \$32,491 of his and his wife’s personal travel, meal, and alcohol expenses, falsifying certain Valley Metro records to conceal his actions. We have submitted our report to the Arizona Attorney General’s Office, which has taken criminal action against Mr. Banta. On September 10, 2018, Mr. Banta pleaded guilty to one felony count of fraudulent schemes and practices.

Overview

Valley Metro provides coordinated transit options to the greater Phoenix area and comprises two separate legal entities: Regional Public Transportation Authority (RPTA), established in 1985 as a special taxing district, and Valley Metro Rail, Inc. (VMR), established in 2002 as a nonprofit corporation with Phoenix, Tempe, Mesa, and Glendale city managers listed as the initial incorporators. In fiscal year 2017, RPTA received nearly \$142 million from sales taxes and \$15 million from passenger fares; VMR received nearly \$77 million from sales taxes and \$13 million from passenger fares. Mr. Banta began working for VMR as their chief executive officer in January 2010, and in March 2012, he became the chief executive officer of both VMR and RPTA. In this capacity, he oversaw all employees and reported directly to each entity’s respective board of directors. In January 2016 the two boards voted to accept Mr. Banta’s resignation.

Mr. Banta allegedly caused Valley Metro to pay \$32,491 of his and his wife’s personal travel, meal, and alcohol expenses, falsifying certain Valley Metro records

Mr. Banta caused VMR to pay \$22,058 for expenses associated with 48 of his and his wife’s trips to Portland—As shown in Table 1, from April 2010 through July 2012, Mr. Banta used VMR credit cards or filed expense reports causing VMR to pay \$16,392 in flight and ground transportation costs associated with his wife’s 32 trips to Portland and \$5,666 for his flights when he joined her on 16 trips. Although Mr. Banta had already moved to Phoenix, he claimed these travel expenses were related to his relocation from Portland to Phoenix and directed subordinate employees to pay them with VMR monies.¹ This travel occurred over eight weekends, including Mr. Banta’s birthday, their son’s birthday, their son’s university commencement ceremony, and holidays such as Memorial Day and Thanksgiving, as well as one 11-day stay over Christmas and New Year’s Day for which Mr. Banta used 32 hours of his Valley Metro paid-time-off benefit.

Table 1
Mr. and Ms. Banta’s Portland travel paid by VMR
April 2010 through July 2012

Description	Trips	Amount
Ms. Banta’s flights and associated ground transportation	32	\$16,392
Mr. Banta’s flights	16	5,666
Total	48	\$22,058

Source: Auditor General staff analysis of Valley Metro and travel-related vendor records.

¹ Mr. Banta and his wife relocated to Phoenix by March 2010, using \$23,349 of his VMR Employment Agreement relocation benefits.

Mr. Banta caused VMR and RPTA to pay \$10,433 of his and his wife’s personal meal and alcohol expenses—Mr. Banta used his VMR credit card or filed false expense reports causing VMR and RPTA to pay for his and his wife’s personal meal and alcohol expenses totaling \$10,433 from July 2010 through October 2015, as shown in Table 2. Mr. Banta directed his subordinates to pay these expenses even though he did not provide itemized receipts as Valley Metro policy requires. Accordingly, it was not always clear how much of a meal expense was for alcohol, which policy specifically prohibits. Of the 17 itemized receipts Auditor General staff were able to obtain from vendors, all included alcohol.

- **Mr. Banta claimed specific transit-related officials were present for 31 meals; however, these officials stated they were not present**—In fact, two reported that Mr. Banta asked them to lie to reporters about their attendance, another two stated they had not dined with Mr. Banta in several years, and one stated he had never met Mr. Banta. As an example, Mr. Banta directed his subordinates to pay a \$240 Las Vegas restaurant expense claiming two officials dined with him. However, both officials denied they were present, and the itemized receipt showed only one diner with \$180 in alcohol charges.
- **Mr. Banta claimed ten meals were business-related; however, transit-related officials stated they were not business-related and/or Ms. Banta attended**—Although some officials stated they were present, they considered the meals to be social events and not business-related. Additionally, Valley Metro policy specifically prohibited payment for spouse and other family member expenses, yet of these ten meals, Mr. Banta caused Valley Metro to unknowingly pay for his wife’s expenses at eight of them because he did not list her as present even though transit-related officials stated she attended. As an example, Mr. Banta directed his subordinates to pay a \$745 Washington, DC, restaurant expense and identified two officials as attendees but did not list his wife. One of these officials stated they all had cocktails and at least one bottle of wine, and he did not consider this a business dinner.

Table 2
Mr. Banta’s alleged personal meals paid by VMR and RPTA
July 2010 through October 2015

Description	Meals	Amount
Transit-related officials stated:		
Did not attend claimed meal	31	\$ 5,892
Attended, but claimed meal was social and/or Ms. Banta attended	10	4,541
Total	41	\$10,433

Source: Auditor General staff analysis of Valley Metro and meal-related vendor records and interviews with transit-related officials.

Mr. Banta reimbursed Valley Metro for only one of these 41 meals. In particular, after reviewing Valley Metro travel records produced pursuant to a newspaper’s October 29, 2015, request, Mr. Banta wrote a \$263 personal check payable to Valley Metro on November 17, 2015. This reimbursement was for a September 26, 2015, \$263 Portland restaurant expense that included his wife and son, and not the two transit-related officials he originally claimed attended.

Valley Metro boards of directors failed to provide adequate oversight but took corrective actions after becoming aware of Mr. Banta’s actions

Both the VMR and RPTA boards of directors failed to adequately oversee Mr. Banta. Specifically, Mr. Banta’s employment agreements called for him to report to the boards of directors but did not otherwise give direction or describe what that reporting entailed. Consequently, Mr. Banta was able to direct subordinate employees to pay his expenses without review by the boards of directors. Since becoming aware of Mr. Banta’s actions and subsequent to the City of Phoenix internal audit report issued April 28, 2016, Valley Metro officials reported that they have made certain policy changes.² Specifically, they initiated a zero-tolerance procedure for expense payments without adequate supporting documentation and now require pre-approval of the chief executive officer’s travel as well as post-approval of expense reports and credit card statements by board chairs, the chair of the audit and finance subcommittee, and the chief financial officer.

² City of Phoenix internal auditors did not perform an investigation like this Office’s but instead assessed Valley Metro’s financial control environment and determined, among other compliance-related findings, that \$41,224 of Mr. Banta’s dining-, relocation-, and travel-related expenses were in “clear violation of contract, policy, and/or regulation.”