



September 16, 2002

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
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TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER *rogn*

FROM: LONNIE MITCHELL
EXECUTIVE OFFICER, PROCUREMENT AND
MATERIAL MANAGEMENT *lmitche*

SUBJECT: CPA ROTATION POLICY

ISSUE

The Board requested that Staff review MTA policy regarding award of consecutive contracts, ostensibly because of the recent dialogue involving Arthur Andersen & Company and Enron. We have reviewed agency policies and industry best practice and provide our findings here.

DISCUSSION

It is general agency policy that we look first to compete requirements where market research indicates we should have a reasonable expectation of obtaining competition. We follow this policy in the case of professional services contracts involving consultants, including those evaluating agency efficacy in financial records reporting. Given the dialogue over the Andersen case, it is reasonable that we would at least ask the question as to whether the basic policy of competing requirements adequately protects out interests and those of the public where financial reporting is concerned. We have reviewed industry best practices and find no legitimate reason to ignore the basic policy (competition) and require periodic (non-competitive) rotation of awards away from the incumbent to ensure independence. There is a cost associated with taking the step away from current practice, because no two agencies are exactly alike. Auditors learn from interviews and work papers generated in prior audits. Therefore, incumbents are in a better position to provide a cost effective solution to agency audit requirements. We recognize the potential for familiarity leading to abuse, but find no experience or support in the industry that argues for changing policy.

NEXT STEPS

Staff will conduct an annual review of the policy, to ensure we're able to respond in a timely manner to any local or industry experience that suggests a change is in order. Any recommended change would be coordinated with the Management Audit Department and Office of Inspector General.

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