



Metro

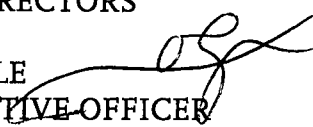
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June 9, 2006

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE 
CHIEF EXECUTIVE OFFICER

FROM: RUTHE HOLDEN 
MANAGING DIRECTOR, MANAGEMENT AUDIT SERVICES

SUBJECT: STATUS OF OPEN AUDIT RECOMMENDATIONS AS OF
APRIL 30, 2006

ISSUE

At the March 2005 Executive Management and Audit Committee meeting, the committee requested that the status of all open audit recommendations be reported monthly. This includes audits performed by Management Audit Services (MAS) and, in compliance with GEN 19, external audits performed by outside auditors.

DISCUSSION

MAS' monthly audit follow-up report includes all open audit recommendations related to findings reported by Financial Audit, Information Technology (IT) Audit, Operational Audit, and outside auditors; statistics on the number of recommendations closed or completed since the last report; and a summary of audit activities in Contract Audit and Grant Audit.

During the month of April 2006, the Office of the Inspector General (OIG) issued two reports, Review of Compliance with Bus Revenue Controls (06-AUD-04), and Follow-Up Review on Policies and Procedures in the MTA (06-AUD-10). The first of these contained two recommendations that have been included in Attachment A as line items 22 and 23.

In total, eight of the open recommendations were closed or completed during April. Fourteen recommendations have a status of "under review." This indicates that the audit client has submitted documentation that is being analyzed to verify that all of the recommended actions are complete. We are actively working with staff to close each recommendation as quickly as possible. The total open recommendations as of April 30, 2006 are included in Attachment A.

The following table summarizes the follow-up activity for audit recommendations during April 2006.

Table 1
Summary of Financial, IT, Operational and External Audit Recommendations
As of April 30, 2006

Executive Area	Closed or Completed	Under Review	Extended	Not Yet Due	Total Open Recom.
EO Finance	3			1	1
EO Procurement & Material Management		2	4	5	11
Chief Executive Officer	2			3	3
Chief Comm. Officer	3	5	1		6
DCEO/COO		7	10	11	28
Totals	8	14	15	20	49

Contract Audit conducts audits related to pre-awards, change orders, and incurred costs, as well as providing support for claims, contract closeouts and contract related litigation. Grant Audit conducts closeout audits of projects funded by the Call-for-Projects.

During April 2006, two audits were closed for the Contract Audit group, and 26 audit reports remain open pending the results of negotiations. Grant Audit issued eight final reports and had four audit reports in the draft audit stage.

NEXT STEPS

Management Audit Services will provide the next monthly status report for the period ending May 31, 2006.

Attachment A: Open Audit Recommendations Report

**All Open Audit Recommendations
Status as of April 30, 2006**

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Rec No	Recommendation	Original Completion Date	Extended Completion Date	Comments
1	02-AUD-05	9/30/2002	OIG	Controls Over Payroll System - Preventing Duplicate Payments	EO Finance/Finance	3	Ensure that the new Payroll System is designed with controls and edit checks that preclude incorrect and improper data from being processed into the Payroll System.	1/1/2008		New payroll system is on hold until 2008.
2	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	EO Proc. & Mat. Mgmt./Procurement	2a	Create a title (such as Contracting Officer's Technical Representative) for employees who are delegated contract administration responsibilities but are not Project Managers.	6/30/2006		
3	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	EO Proc. & Mat. Mgmt./Procurement	2b	Revise the Procurement Policy Manual to clarify who is ultimately responsible for assuring that delegated contract administration functions are properly carried out. The clarification should address any differences in those responsibilities between Project Managers and other employees who are delegated contract administration responsibilities.	6/30/2006		
4	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	EO Proc. & Mat. Mgmt./Procurement	2c	Ensure that Contracting Officers prepare written delegations whenever contract administration functions are delegated to qualified employees.	6/30/2006		
5	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	EO Proc. & Mat. Mgmt./Procurement	2d	Develop a Delegation of Authority Form to ensure that the contract administration responsibilities delegated and the limitations of the delegated authority are clearly defined. Also, ensure that appropriate Procurement officials approve the delegations, and the delegations are appropriately maintained on file.	6/30/2006		
6	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	EO Proc. & Mat. Mgmt./ITS	5.1	LACMTA should develop and document a security plan for the M3 System. The security plan should be used as a guide to ensure that M3's critical information is safeguarded in all aspects including confidentiality, integrity and availability. These procedures should address password strength, permissions, password expirations, lockable screen savers, backup and data recovery, system modification, and patch management.	3/31/2006		Under review
7	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	EO Proc. & Mat. Mgmt./ITS	9.1	We recommend that for future fixed-price contracts similar to M3, which involve very significant expenditures over a multi-year period for hardware delivery and software development, LACMTA should establish contract payment provisions linked to verifiable performance milestones. Progress payment schedules should also be modified as contract modifications are negotiated. For the M3 project, Spear was required to, among other requirements, deliver and install various hardware and software items, adapt its system to LACMTA needs, provide work documentation for the various departments and functions, train LACMTA staff, develop test scripts, test the implementation, and roll out the system in various LACMTA departments. Payment should have been linked to such verifiable performance/deliverable items.	6/30/2006		

**All Open Audit Recommendations
Status as of April 30, 2006**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Rec No	Recommendation	Original Completion Date	Extended Completion Date	Comments
8	04-AUD-02	5/5/2004	OIG	Security Controls Over the Advanced Interactive Executive (AIX) Computer Operating System	EO Proc. & Mat. Mgmt./ITS	3	Establish written change control procedures for the AIX Operating System. These procedures should require that all changes be approved, documented, tested, logged, and tracked.	3/31/2005	6/30/2006	On target to meet extended due date.
9	03IT-004	3/31/2004	MAS	TOTS Application Controls	EO Proc. & Mat. Mgmt./ITS	2.2	Develop a methodology to guide developers in planning, designing, and enforcing segregation of duties, and documenting system changes.	12/31/2004	6/30/2006	Being drafted. On target for meeting extended completion date.
10	03IT-004	3/31/2004	MAS	TOTS Application Controls	EO Proc. & Mat. Mgmt./ITS	5.1	Implement the badge reader system application.	12/31/2004	9/30/2006	Requires addition of new feature. Queued according to priority. Extended completion date reflects implementation priority.
11	03IT-004	3/31/2004	MAS	TOTS Application Controls	EO Proc. & Mat. Mgmt./ITS	5.2	Implement automated process for operators to view personal information, bid assignments and perform other activities online.	12/31/2004	12/31/2006	Requires addition of new feature. Queued according to priority. Extended completion date reflects implementation priority.
12	02IT-003	4/30/2003	MAS	LAN - Windows NT/ 2000	EO Proc. & Mat. Mgmt./ITS	1.1	Enforce password complexity requirements in Windows 2000 operating system.	1/31/2004	3/31/2006	Under review
13	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	CEO/EO Proc. & Mat. Mgmt., Procurement	1a	Develop separate written policy and/or guidance on the roles and responsibilities of Project Managers. The Procurement Policy Manual should not be the document that provides policy for Project Managers. The responsibilities, where they interface with contracting, should be coordinated with the Procurement Department, and the MTA Procurement Policy Manual should be revised if appropriate.	9/30/2006		
14	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	CEO/EO Proc. & Mat. Mgmt., Procurement	1b	Ensure that Project Managers who deal with contracts complete the training on "Procurement for Project Managers."	9/30/2006		
15	06-AUD-02	2/9/2006	OIG	Review of Contract Administration Functions	CEO/EO Proc. & Mat. Mgmt., Procurement	1c	Review the "Procurement for Project Managers" course to ensure that it is consistent with any revised or new policies, especially the contract administration portion.	6/30/2006		
16	05-AUD-07	9/30/2005	OIG	Bus Operations Customer Complaints and Comments Program	CCO	1	Customer Relations and Operations should develop and implement a comprehensive Metro policy concerning the processing of complaints and comments from the public. Also, Sectors/Divisions should develop complaint processing operating procedures, where needed.	3/31/2006		Under Review
17	05-AUD-07	9/30/2005	OIG	Bus Operations Customer Complaints and Comments Program	CCO	2	Customer Relations and Operations should ensure that all personnel involved in processing complaints are provided adequate training and/or instructions on Metro's customer complaint policy.	12/31/2005	3/31/2006	Under Review

**All Open Audit Recommendations
Status as of April 30, 2006**

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18	05-AUD-07	9/30/2005	OIG	Bus Operations Customer Complaints and Comments Program	CCO	3	The Operations Department should ensure that complaints and comments are reviewed on a timely basis and the "Findings" Field in the PCMS contains sufficient information on how the complaint was handled and what action was taken to resolve the complaint.	3/31/2006		Under Review
19	05-AUD-07	9/30/2005	OIG	Bus Operations Customer Complaints and Comments Program	CCO	5	Customer Relations and Operations should include in the policies and procedures guidance on handling: (a) customer requests for verbal or written responses to complaints, and (b) responses to customers concerning requests for refunds recorded in the PCMS.	3/31/2006		Under Review
20	05-AUD-07	9/30/2005	OIG	Bus Operations Customer Complaints and Comments Program	CCO	6	Customer Relations should work with Transit Operations and Information Technology Services to explore developing procedures for recording the resolution of complaints directed toward contract bus operations into the PCMS.	12/31/2005	3/31/2006	Under Review
21	05-AUD-06	8/10/2005	OIG	Review of Lost and Found Procedures	CCO/DCEO Operations	1	Communications and Transit Operations develop and implement a comprehensive Metro Policies and Procedures on Lost and Found.	9/30/2005	3/31/2006	Extended to allow for final approvals of policy. On target to meet extended due date.
22	06-AUD-04	4/27/2006	OIG	Review of Compliance with Bus Revenue Controls	DCEO Operations	1	Remind division managers of the importance of adhering to the regulations in the Red Book During the transitional period.	5/15/2006		New audit. Working with management on action plan.
23	06-AUD-04	4/27/2006	OIG	Review of Compliance with Bus Revenue Controls	DCEO Operations	2	Ensure that revenue protection controls in the UFS are followed.	6/15/2006		New audit. Working with management on action plan.
24	06-ITS-017	1/23/2006	MAS	ATMS Disaster Recovery Plan	DCEO Operations/Transit Systems Engineering	1.2	Evaluate and implement an alternative backup location designated for recovery.	6/30/2006		
25	06-ITS-017	1/23/2006	MAS	ATMS Disaster Recovery Plan	DCEO Operations/Transit Systems Engineering	2.1	We recommend the Deputy Chief Executive Officer to review and revise the existing draft procedure incorporating COBIT's list of recommendations where applicable, and formalize a complete ATMS DRP.	6/30/2006		
26	06-ITS-017	1/23/2006	MAS	ATMS Disaster Recovery Plan	DCEO Operations/Transit Systems Engineering	2.2	Transit Systems Engineering [shall] perform a cost analysis to determine what would be the most cost effective alternative for alternate ATMS recovery location. The three options to consider are 1) include the ATMS system in the Information Technology Services SunGuard contract, 2) setting up a contingent site at one of the LACMTA facilities, or 3) contracting with a hot-site solely for the ATMS recovery.	6/30/2006		
27	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Operations	1.1	We recommend that efforts be made to enter all the necessary data in the modules that have been implemented. Activity sequencing for such efforts should include data availability and synchronized early data conversion to ensure that a specific module is tested for full functionality once that module is implemented. The LACMTA is currently taking steps to address this situation.	5/31/2006		

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28	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Operations	2.1	We recommend that at the completion of the initial implementation of the M3 System, LACMTA should conduct a post implementation review within six months to determine whether the system requirements Spear disclosed in their proposal that they could not fully meet are needed by user groups to achieve optimal functionality. A cost-benefit analysis should also be performed before deciding on any upgrade to system requirements.	9/30/2006	12/31/2006	On target to meet extended due date.
29	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Ops./EO Proc. & Mat. Mgmt., ITS	3.1	LACMTA's Information Technology (IT) governance should incorporate systems development standards and procedures that ensure that system software is installed in accordance with the acquisition and maintenance framework for technology infrastructure. Safeguards should be implemented to protect production programs and files from unapproved and unauthorized changes. Testing should be performed before use in the production environment is authorized.	6/30/2006	9/30/2006	On target to meet extended due date.
30	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Ops./EO Proc. & Mat. Mgmt., ITS	4.1	LACMTA should require formal and well-structured user-acceptance, system, and integrated testing to ensure the system performs as anticipated. Changes in business controls should be considered earlier in the implementation process and should be included in the design to minimize the cost of retrofitting controls at a later time.	9/30/2006		
31	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Ops./EO Proc. & Mat. Mgmt., ITS	4.2	Unit testing, application testing, integration testing, system testing, and load and stress testing should be performed according to the project test plan and established testing standards before it is approved by the user. Adequate measures should be conducted to prevent disclosure of sensitive information during testing. The test plan should include clearly defined anticipated test results. The test results obtained should be validated against the anticipated test results and approved by the user prior to implementation into the production environment.	9/30/2006		
32	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Ops./EO Proc. & Mat. Mgmt., ITS	6.1	LACMTA should certify the users of the M3 System and document the access level granted to each user. The LACMTA should restrict users based on the "need-to-know," and the "least privilege" principles. The logical access to and use of IT computing resources should be restricted by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules.	9/30/2006		

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33	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Operations	7.1	As recommended in Finding #5, the M3 System Security administrator should develop a formal security plan that should include policies for on-going monitoring and enforcement of security compliance requirements. IT Security administration should ensure that security activity is logged and any indication of imminent security violation is reported immediately to all who may be concerned, internally and externally, and acted upon in a timely manner.	9/30/2006		
34	TCBA-M3-05	12/1/2005	MAS (O)	Report on the Implementation and Acquisition of the M3 System	DCEO Operations	7.2	Management should have a control process in place to review and confirm access rights periodically. Periodic comparison of resources with recorded accountability should be made to help reduce the risk of errors, fraud, misuse or unauthorized alterations.	9/30/2006		
35	031A-009	3/4/2004	MAS	Operators Work Time Requirements	DCEO Operations	1.3	Update the Operator's Rulebook and Standard Operating Procedures to reflect current practices.	7/31/2004	3/31/2006	Draft completed. Pending final approval.
36	031A-009	3/4/2004	MAS	Operators Work Time Requirements	DCEO Ops./EO Proc. & Mat. Mgmt. (ITS)	1.2	Work with the ITS department to generate a report showing actual driving time.	7/31/2004	6/30/2006	Some delays due to staff turnovers. On schedule to meet extended due date.
37	2002-116	12/16/2003	State Auditor	Service Sectors	DCEO Operations	2.4	Continue planned efforts to focus on eliminating the duplicative routes to the extent possible. Specifically, the stakeholders should participate directly in the planning process.	12/31/2004	6/30/2006	Date based on expectations of when ATMS & UFS will have data ready, and when workshops with stakeholders can be implemented. Completion date will be updated as new information becomes available.
38	021A-007	12/31/2002	MAS	Farebox Vaulting Process	DCEO Operations	1.1	Revise, update and implement procedures for controlling the Farebox vaulting process.	6/30/2003	6/30/2006	On target to meet extended due date.
39	021A-007	12/31/2002	MAS	Farebox Vaulting Process	DCEO Operations	1.2	The Westside/Central Service Sector General Manager relocate receiver vaults in Division 7 to an enclosed and secure area.	6/30/2003	12/31/2005	Under review
40	021A-007	12/31/2002	MAS	Farebox Vaulting Process	DCEO Operations	2.1	Assign responsibility for ensuring that all vaulting activity is recorded and reviewed.	6/30/2003	6/30/2006	On target to meet extended due date.
41	021A-007	12/31/2002	MAS	Farebox Vaulting Process	DCEO Operations	2.2	Develop written procedures for surveillance of the vaulting process to include ensuring that surveillance equipment is functioning properly.	6/30/2003	6/30/2006	On target to meet extended due date.
42	02-AUD-05	9/30/2002	OIG	Controls Over Payroll System - Preventing Duplicate Payments	DCEO Operations	4	Ensure that all payroll adjustments are entered into the automated feeder systems to avoid duplication of a manual adjustment requested by the division/departments for payroll personnel to enter.	7/31/2003	7/31/2006	Upgrade of TOTS (HASTUS) will enable implementation. Funding not available for upgrade until FY07.

**All Open Audit Recommendations
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No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Rec No	Recommendation	Original Completion Date	Extended Completion Date	Comments
43	Booz-Allen 1	8/31/2001	Booz-Allen	LACMTA Management Audit	DCEO Operations	W05	Review job descriptions and ensure they reflect physical and agility job requirements.	3/29/2002	6/30/2006	Delay due to budget constraints, have funds for FY06, will develop requirements for five major job classifications.
44	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	01	Obtain Executive Management approval and authorization for the ATOS program. The purpose, objectives, and goals of the Program should be clearly defined and approved.	8/10/2001	3/31/2006	Under review
45	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	02	Establish written policies and procedures for the ATOS program that are: 1) Coordinated with all stakeholders; 2) Designed to promote the conduct of authorized activities in an effective, efficient, and economic.	3/30/2003	3/31/2006	Under review
46	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	06	Establish policy on the maximum length of time an operator can serve in an ATOS position.	3/30/2003	3/31/2006	Under review
47	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	08	Establish (1) formal policies on the number of authorized ATOS positions; (2) a centralized pool of qualified ATOS candidates to fill TOS vacancies as they occur. Require that an ATOS only be appointed to fill a TOS position that is vacant. Require divisions to maintain documentation to show the TOS vacancy or emergent situation for each individual assigned to an ATOS position.	3/30/2003	3/31/2006	Under review
48	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	10	Request MAS to perform an audit of payroll procedures within the Department to ensure that internal controls are adequate.	6/20/2001	3/31/2006	Under review
49	01-AUD-03	6/12/2001	OIG	Payroll and Overtime Controls in the ATOS Program	DCEO Operations	07	Establish criteria for selecting individuals to ATOS positions and for providing them formal training.	3/30/2003	3/31/2006	Under review