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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE JULY 17, 2003

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SUBJECT: MANAGEMENT AUDIT SERVICES QUARTERLY REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the quarterly report of Management Audit Services.

ISSUE

The MTA Board of Directors requested a periodic report on audit activities by Management Audit Services.

BACKGROUND

Management Audit Services performs two types of audits – internal audits of MTA operations and external audits of our contractors and grantees. In addition, Management Audit Services administers the MTA’s contractor pre-qualification program.

The **Internal Audit Group** consists of Internal Audit which is responsible for evaluating the internal control system of the MTA, as well as determining compliance with policy and regulation, ensuring the safeguarding of assets and evaluating MTA functions, activities and processes for efficiency and effectiveness; Information Technology Audit which conducts general control audits, system development audits, application audits and technical audits of the MTA’s information technology systems, programs and activities; and Control Self Assessment which assists management in defining objectives, implementing self assessment of risks, controls, residual risks, and developing action plans to mitigate excessive risk.

The **External Audit Group** consists of Contract Audit which conducts audits related to pre-awards, change orders, and incurred costs, as well as providing support for claims, contract close-outs and related litigation; and Project Audit which conducts close-out audits of projects funded by the Call-for-Projects and also provides oversight for the annual Consolidated Audit of financial and compliance audits, which is performed by a CPA firm under contract to MTA.

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DISCUSSION

Since our last report, Internal Audit has issued the following internal audit reports:

<u>DATE ISSUED</u>	<u>SUBJECT</u>
03/07/03	Petty Cash Follow Up
03/14/03	Blue Line Rail Maintenance Program
03/28/03	Green Line Rail Maintenance Program
03/31/03	ATMS Project Management Interim Report #1 (IT)
04/04/03	Commission Revenues
04/24/03	Analysis of Fare Subsidies
04/30/03	Local Area Network – Windows NT/2000 (IT)

Previously, Internal Audit issued a report on the *Red Line Rail Maintenance Program* that along with the above reports on the *Blue Line* and the *Green Line Rail Maintenance Programs* represent a major initiative by MASD to evaluate the effectiveness of the rail maintenance programs, to determine whether they are in accordance with existing codes, regulations, standards and manufacturer's guidelines, and to see how they compare to practices at other transit agencies.

We found that the maintenance programs needed substantial improvements in order to assure adequate rail car availability to meet customer demand. Cars available for unrestricted service did not always meet the number of cars required to meet peak demand which required the use of restricted cars. Our review of the repair history for a sample of cars showed a substantial number of repeat problems. Thus, we concluded that the Department's troubleshooting and repair work was not effective. We also found that the required periodic inspections were not always performed on time, and the 10,000-mile or 30-day inspection had been eliminated from the Red Line inspection program. Published statistics list MTA as having one of the highest cost-per-revenue-vehicle-mile of the agencies listed. Finally, we found the Department's maintenance plan, budget and information systems were ineffective and incomplete.

We recommended the creation of a Rail Maintenance Engineering Group, new rail mechanic job descriptions, improved recruitment practices, removal of contractual obstacles to promotion, and additional training to address the ineffectiveness of troubleshooting and repair work. We recommended instituting a 7,500-mile inspection on the Red Line, rewriting inspection procedures and instructions, strictly adhering to the periodic inspection schedule, and expanding inspection work to a 7-day work week to address the problems with the inspection program. We recommended the establishment of a management information system for rail operations, the development of an annual maintenance plan, the establishment of separate cost centers and a rail chart of accounts as well as hiring additional personnel with financial, accounting and procurement background to address the ineffective management control system.

Following the completion of the audit fieldwork, we conducted several oral briefings on the report findings to senior management. Subsequently, a new General Manager for Rail Operations and a new Director of Rail Maintenance, both experienced in rail transit, were hired.

This new management concurred with our recommendations, have already implemented many of these recommendations and are in the process of taking corrective action on the remainder.

These audits prompted the analysis of *Rail Car Component Repairs*, another report that was previously issued. This report presents a financial analysis of repairing electronic components, switchgear, air brakes, and other components in-house instead of the current practice of outsourcing this work. Establishing in-house electronic and switchgear shops each have returns of almost 40% on the initial required investment with a payback within 5 years.

Rail management indicates they are concentrating on fixing the many problems previously identified in rail maintenance and will consider these recommendations at a future date.

Our quarterly update on the implementation status of the *Booz-Allen Management Audit* recommendations is included as Attachment A.

NEXT STEPS

Management Audit Services tracks all audit recommendations until they are either implemented or otherwise resolved.

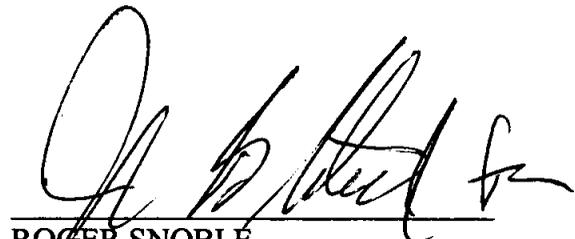
ATTACHMENT

A. Booz-Allen Management Update as of June 2003.

Prepared by: John Beamer, Internal Audit Manager, MASD



RICHARD BRUMBAUGH
Chief Financial Officer



ROGER SNOBLE
Chief Executive Officer

ATTACHMENT A

Booz-Allen Management Audit Update June 2003

BACKGROUND: In 2001, Booz-Allen conducted a management audit of six key MTA areas. In August 2001, Booz-Allen presented their findings to the MTA Board. Subsequently, MTA Executive Management directed staff to develop action plans in response to the findings and to implement those plans.

The following depicts the most recent activity related to these recommendations.

Security – The Chief Executive Officer negotiated and executed a Memorandum of Understanding, effective May 1, 2003, with the County of Los Angeles for Sheriff's Department Transit Community Policing services to provide security for MTA transit operations. It is estimated that having the LASD provide security in lieu of both the LASD and LAPD will save \$7 million over the life of the contract and results in a unified command structure.

Civilian fare inspectors have been deployed in Red Line stations and will be deployed in Gold Line stations when the line opens in July. The civilian fare inspections, known as security assistants are under the direct supervision of LASD. Sheriff's deputies will continue to have a fare enforcement role on the Blue and Green lines.

The above actions complete recommendations addressed to Security.

Human Resources (HR) – A training program for managers in HR practices has begun and will be completed by December 31, 2003.

A project to consolidate job descriptions for non-represented employees was begun in April 2003. Seventy-two non-represented job classifications will be deleted effective July 1, 2003. An in-house study has begun to create job families. The study will be completed by July 1, 2004.

In the May 2003 Board Meeting the purchase of various modules contained in the Oracle Human Resources suite was approved. HR, ITS and Finance are working together to develop a revised version of HRIS.

Matériel – In January 2003, the Board awarded a contract for M3, a materiel maintenance and management system, to Spear Technologies. During June 2003 the contractor, ITS and various M3 teams began the process of determining the best way to configure the M3 to meet MTA's needs.

Revenue – A draft policy on charging fees for parking at selected parking lots is currently circulating for review and comment. Current plans call for a pilot program to be conducted at 2 Gold Line stations in Pasadena when the Gold Line opens.

The Real Estate Department has implemented a Vending Policy and has issued Permits for vendors on the Plaza level of selected Red Line rail stations. Review of the issues related to concessions in high volume rail stations will be commenced during the 3 or 4th quarter of FY04.

Operations – Bus service is continuously reviewed and restructured to eliminate redundancies and to improve bus service. For example, the Westside /Central service sector modified 5 bus lines to include additional trips and eliminated one line which was substantially duplicated by a Santa Monica Big Blue Bus Line.

Installation of the Advanced Transportation Management System (ATMS) will begin this fall at the Bus Operations Center and on each bus in the MTA's active fleet. The system will improve MTA's ability to communicate with and locate buses. The system will also keep track of ridership, announce upcoming stops and monitor the "health" of a bus.

Workers' Compensation – Corporate Safety issued its first comprehensive report under the *Safety & Health Assessment Review Program*, known as SHARP. The report assesses the safety compliance at both bus and rail divisions using a 4.0 scale to evaluate compliance with OSHA requirements.

The next Booz-Allen Management Audit update will be provided at the end of the first quarter FY04 unless requested earlier.