



Metro

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Metropolitan Transportation Authority

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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE

October 18, 2007

**SUBJECT: OFFICE OF INSPECTOR GENERAL (OIG)
AUDIT ACTIVITIES REPORT**

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file OIG Audit Activities Report.

ISSUE

The Board of Directors requested the OIG to report on audit activities.

BACKGROUND

The OIG Charter states that the OIG was established to provide an independent and objective unit reporting directly to the Board of Directors. The OIG has numerous responsibilities as defined in the Charter, and the OIG Audit Unit has a broad responsibility for oversight in a cooperative support mode with Metro management for increased accountability and improvement of organizational performance.

A large measure of the OIG audit focus is to provide the Board of Directors and Metro management with independent analyses, evaluations, and appraisals of performance effectiveness, accuracy of information, efficient use of resources, and adequacy of internal controls. In addition, the Audit Unit is charged with the detection and analysis of those items indicative of fraud, waste, or abuse.

DISCUSSION

The OIG has recently issued the following reports:

- Results of External Quality Control Review of the Inspector General's Audit Unit
- Equipment Inventory Procedures
- Follow-up Review on Lost and Found Procedures

- Follow-up Review on Vender Cash Discounts
- Audit of Miscellaneous Expenses, July 1 to September 30, 2006
- Audit of Miscellaneous Expenses, October 1 to December 31, 2006

The audit reports were previously submitted to the Board and Metro management in their entirety.

A. Results of External Quality Control Review of the Inspector General's Audit Unit

The Inspector General's Goals and Objectives include a goal to complete an external quality assurance review in compliance with generally accepted government auditing standards.

On July 26, 2007, representatives from the Association of Inspectors General (AIG) completed an external quality control review (peer review) of our audit operations and audit reports issued during the period January 1, 2005 to December 31, 2006. The peer review found that the Audits Unit was in compliance with government auditing standards and its quality control system was suitably designed to provide reasonable assurance that these standards were followed.

B. Equipment Inventory Procedures

In response to our prior audit on controls over equipment, Material Management developed procedures to track and inventory capital equipment. However, we found that equipment owner organizations must do a better job of implementing these procedures; specifically, improvements were needed in the following areas:

- ◆ **Inventories were not completed on time.** Inventory lists were sent to 23 organizations; of this total, 2 organizations completed their equipment inventories on time, 17 completed the inventories late, and 4 did not complete the required inventories.
- ◆ **Many items were not located during the inventories.** The inventory listings for 19 organizations that completed the inventories showed that 408 (41.8%) of 977 equipment items had not been located. This occurred, in part, because the equipment lists included items that belonged to other organizations, and staff did not follow procedures to report equipment that was transferred or moved. In addition, the procedures required owner organizations to complete an Equipment Survey Form for any missing item and perform necessary investigation. We found that none of the organizations complied with this requirement.

- ◆ **Inventory counts were not consistently annotated.** Organization staff did not follow the required procedures for annotating the status of each item on the inventory listing.

Metro management stated that they would initiate corrective actions to:

- Develop an overall Metro policy for equipment inventories.
- Require each organization to designate a person who is responsible for capital equipment and annual inventories.
- Perform a one-time joint inventory of equipment.
- Provide additional training and instructions on equipment tracking and inventories.
- Modify the format of the equipment listing.

C. Follow-up Review on Lost and Found Procedures

We performed a follow-up review on five recommendations in our prior report on *Lost and Found Procedures*.

The prior audit found that Metro had implemented the corrective actions recommended in our prior audit report. Specifically, Metro has:

- Issued a new Metro policy on Lost and Found, and placed detailed procedures on the Metro Intranet.
- Issued updated Division Lost and Found Procedures.
- Acquired security bags for Lost and Found articles.
- Selected a new computer system to track and manage Lost and Found articles.
- Disseminated information to remind cyclists to remove their bikes when they disembark the bus.

However, we identified one area that needed additional improvement. During visits to four divisions, we found that staff was generally unaware of the new policies and procedures that govern Lost and Found. Management promptly implemented corrective actions.

D. Follow-up Review on Vender Cash Discounts

We performed a follow-up review on four recommendations in our prior report on *Vendor Cash Discounts*.

We found that Metro had implemented the corrective actions recommended in the prior audit report. Specifically, Metro has:

- Adopted new purchasing terms and conditions that will allow Metro additional time for taking discounts offered.
- Strengthened reviews to make sure all discounts offered have been properly entered into the Accounts Payable system.

The follow-up review identified opportunity for further improvement by automating the taking of discounts.

E. Audits of Miscellaneous Expenses

The audits found that the miscellaneous expenses reviewed generally complied with policies, were reasonable, and were generally adequately supported.

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