



Metro

Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000 Tel
metro.net

August 26, 2011

TO: BOARD OF DIRECTORS

THROUGH: ARTHUR T. LEAHY *ATL*
CHIEF EXECUTIVE OFFICER

FROM: RUTHE HOLDEN *RH*
CHIEF AUDITOR, MANAGEMENT AUDIT SERVICES

**SUBJECT: STATUS OF OPEN AUDIT RECOMMENDATIONS AS OF
JUNE 30, 2011**

ISSUE

At the March 2005 Executive Management and Audit Committee meeting, the committee requested that the status of all open audit recommendations be reported to them. The report includes audits performed by Management Audit Services (Management Audit) and audits performed by outside auditors.

DISCUSSION

In the quarterly report Management Audit fulfills the request to report the corrective actions for all open audit recommendations related to findings reported by Operational and Programs Audit, Information Technology and Support Services 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 months of April, May, and June, Management Audit issued two reports, both of which contained corrective actions. Among other reports issued during the quarter, two reports have open audit findings. One finding is for follow-up on the FY10 Consolidated Audit performed by Lopez & Company LLC, and the other is from the FY11 American Recovery and Reinvestment Act Procurement System Review issued by the Federal Transit Administration. The Office of the Inspector General issued one report with findings (11-AUD-10), all of which were corrected during the audit. Open corrective actions that were added during the fourth quarter are included on the attachment as items 2, 16-18, 24, and 32.

Seven recommendations from audits issued during the fourth quarter FY11, and seven from audits open as of the end of the third quarter FY11 were closed. We are actively working with staff to close each recommendation as quickly as possible. The total open recommendations as of June 30, 2011 are included in Attachment A.

The following table summarizes the follow-up activity for audit recommendations during fourth quarter FY11.

Table 1
Summary of Operational, Programs, IT, Support Services and External Audit Recommendations as of June 30, 2011

Executive Area	Closed or Completed in April	Closed or Completed in May	Closed or Completed in June	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Chief Financial Services Officer & Treasurer						1	1
Chief Administrative Services Officer		4	6	1	6	7	14
Chief Communications Officer		1		2	7		9
Chief Operations Officer	1			6	1	1	8
Deputy Chief Executive Officer			2	1	1	1	3
Chief Capital Management Officer				2			2
Totals	1	5	8	12	15	10	37

Any findings that have not been corrected 90 days after due date are reported as late.

At the conclusion of the fourth quarter FY11, 132 contract audits remained open pending the results of negotiations.

NEXT STEPS

Management Audit Services will provide the next quarterly status report for the period ending September 30, 2011.

Attachment A: Open Audit Recommendations Report

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
1	ML-KPMG	1/31/2011	KPMG	Management Letter to Basic Financial Statements	Chief Financial Services Officer & Treasurer	Implementation of accounting pronouncement not performed timely. The Accounting Department will complete the required Governmental Accounting Standards Board (GASB) derivative effectiveness test and analysis on or before the first draft of the financial statement.	6/30/2011		
2	FY11-PSR	5/20/2011	FTA	FY11 ARRA Procurement System Review	Chief Administrative Services Officer	Inadequate security for progress payments: MTA will draft future rolling stock solicitations to include requirements for adequate security when progress payments are anticipated to be part of the contract. MTA will also review its procurement procedures to ensure clear guidance regarding the use of progress payments and the requirement to obtain adequate security for payment.	8/31/2011		Will close in August.
3	09-ADM-K03	3/31/2011	MAS	Integrated Waste Management Services Contract	Chief Administrative Services Officer	Inadequate monitoring of Integrated Waste Management Contract. General Services staff are in the process of establishing written standard operating procedures (SOPs) for the management of every contract assigned to General Services. These include blanket orders and all multi-year contracts. This should be completed within the next six months. All General Services staff with project management responsibility will be trained in each new SOP and will participate in additional project management training.	9/30/2011		
4	09-ADM-K03	3/31/2011	MAS	Integrated Waste Management Services Contract	Chief Administrative Services Officer	Inadequate monitoring of Integrated Waste Management Contract. The detailed SOPs that General Services staff are developing for management of contracts will include procedures for invoice approval. These will be specific to the requirements of each contract, but will be based largely on the procedures developed for the Integrated Waste Management contract. This consists of reviewing every item listed on the invoices including the pick up rate, dump fees, AB 939 fees along with any rate increase. If discrepancies are found, the vendor will be contacted immediately to make adjustments.	9/30/2011		
5	09-ADM-K03	3/31/2011	MAS	Integrated Waste Management Services Contract	Chief Administrative Services Officer	Inadequate monitoring of Integrated Waste Management Contract. General Services staff are in the process of establishing written SOPs for the management of every contract assigned to General Services. These include detailed procedures on invoice review and approval.	9/30/2011		

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
6	A133-KPMG	1/31/2011	KPMG	Single Audit Reports	Chief Administrative Services Officer	Inaccurate federal share percentage of Disadvantaged Business Enterprises (DBE) reported. Management will enhance its review of the draft semiannual DBE report for accuracy.	6/30/2011		
7	ML-KPMG	1/31/2011	KPMG	Management Letter to Basic Financial Statements	Chief Administrative Services Officer	Access into the MTA205 HR2000/Program folder is not appropriately restricted. Direct access has been removed for users who did not need it, and other users who required direct access will be given Read Only access. ITS has established a Change Control process through which change to the production environment is controlled and authorized. An additional level of periodic review will be implemented.	6/30/2011		
8	11-ADM-001	1/11/2011	MAS	Follow-up Audit of Non-competitive Procurements and Single Bid Proposals	Chief Administrative Services Officer	Procurement Management should implement best practices. Procurement will continue to review the activities each quarter and prepare a quarterly report to the Board summarizing the non-competitive procurements.	4/30/2011		
9	10-ADM-01A	3/22/2010	MAS	Performance Audit Report of the SBE/DBE Goal Development and Participation Process	Chief Administrative Services Officer	MTA's DBE annual goal development process was found to be in compliance with federal regulations under 49 C.F.R. Part 26, but MTA should explore other goal development alternatives permitted under regulations. DEOD has requested temporary assistance to "catch up" certifications which will free up staff to work on bidder's database. Additionally, DEOD is considering using an external contractor to assist with certification process to allow staff time to complete database on bidders.	12/31/2010		
10	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments have not developed written procedures (SOPs) on information security as required by MTA policy. Additional direction and guidance will be addressed in the new information security training module in conjunction with Records Management Training course and Information Security SOPs. In addition, information security awareness sessions will be conducted to facilitate implementation of the Information Security SOPs.	8/30/2009	5/31/2011	SOPs to be finalized in first quarter FY12.
11	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments should implement written standard operating procedures (SOPs) to protect data. The Information Security SOPs will include directions and guidance for business units to follow to assess information security risks.	6/30/2010	5/31/2011	SOPs to be finalized in first quarter FY12.

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
12	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments should implement written standard operating procedures (SOPs) to protect data. The requirement for business units to define all data resources under their control including sensitivity and privacy considerations, will be included in the GEN 8 Policy, and guidelines to assist departments with meeting this requirement will be provided in the Information Security SOPs.	6/30/2010	5/31/2011	SOPs to be finalized in first quarter FY12.
13	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments should implement written standard operating procedures (SOPs) to protect data. The requirement for business units to identify the scope and access of appropriate staff will be included in the reviewed GEN 8 Policy, and guidelines to assist business units in meeting this requirement will be provided in the Information Security SOPs.	6/30/2010	5/31/2011	SOPs to be finalized in first quarter FY12.
14	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments should implement written standard operating procedures (SOPs) to protect data. The revisions to the GEN 8 Policy will include guidelines for identifying and controlling all data/information taken outside of MTA worksite. More detailed procedures will be outlined in the Information Security SOPs that will be followed by all departments.	6/30/2010	5/31/2011	SOPs to be finalized in first quarter FY12.
15	08-AUD-15	2/24/2009	OIG	Department Information Security	Chief Administrative Services Officer	Departments should implement written standard operating procedures (SOPs) to protect data. The revisions to the GEN 8 Policy will include guidelines for identifying and controlling all data/information taken outside of MTA worksites, which will include the use of encryption and/or password protection. Specific procedures will be outlined in the Information Security SOPs that must be followed by all business units.	6/30/2010	5/31/2011	SOPs to be finalized in first quarter FY12.
16	09-COM-F02	5/31/2011	MAS	Business & Institutional Sales	Chief Communications Officer	Program goals are not formalized in a marketing plan: a formal marketing plan will be developed.	9/30/2011		
17	09-COM-F02	5/31/2011	MAS	Business & Institutional Sales	Chief Communications Officer	Effectiveness of marketing campaigns is not measured: Marketing will develop appropriate metrics to evaluate any future MTA Commute Services marketing campaigns.	1/31/2012		
18	09-COM-F02	5/31/2011	MAS	Business & Institutional Sales	Chief Communications Officer	Lack of sales incentive program: Incentive programs appropriate to transit agencies will be investigated and their feasibility and cost/benefit evaluated.	12/31/2011		

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
19	09-COM-F01	3/31/2011	MAS	Performance Audit of Customer Service Centers	Chief Communications Officer	Inadequate internal controls over Customer Sales Process. Customer Programs and Services manager will provide quarterly audits of each sales unit focusing on reconciliation of inventory sales independent of the customer service agent. In addition, Accounting is servicing as an independent control since they are now generating individual unit accounts receivable trial balance statements and sending them monthly to the Director, Customer Programs & Services.	6/30/2011		
20	ML-KPMG	1/31/2011	KPMG	Management Letter to Basic Financial Statements	Chief Communications Officer	Some users to the Universal Fare System (UFS) are not appropriately restricted and no periodic user access review is performed. Transit Access Pass (TAP) will remove all inappropriate users to the NextFare application and is in the process of reviewing all group device access lists and employee accpunts. A TAP Operation audit of authorized users will be performed every four months.	6/30/2011		
21	10-OPS-O08	2/4/2010	MAS	Customer Complaint Management	Chief Communications Officer	Customers requesting complaint responses did not receive responses. Customer Relations will create a field in the complaint system to enable recording of customer satisfaction level for each complaint. This can be done immediately by re-purposing an existing data element.	5/31/2011		
22	10-OPS-O08	2/4/2010	MAS	Customer Complaint Management	Chief Communications Officer	Customers requesting complaint responses did not receive responses. Customer Relations will develop a management report that summarizes customer satisfaction data. This recommendation can be met soon after the criteria for the customer satisfaction data are established.	5/31/2011		
23	08-CEO-I01	11/24/2009	MAS	Audit of Information Privacy	Chief Communications Officer	Security Sensitive. Security Sensitive Information	2/28/2010		
24	10-ACC-F06	4/18/2011	MAS	Payroll Overtime Violations	Chief Operations Officer/Chief Financial Services Officer & Treasurer	Inadequate and untimely review of overtime: Each location/division manager within their respective functions will identify clerks who have input errors and conduct training/retraining as appropriate. A master list of all clerks who receive additional training will be maintained.	9/30/2011		

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
25	NTD-9154-KPMG	12/15/2010	KPMG	9154 NTD Audit Report	Chief Operations Officer	Differences were noted between the worksheets used by the Authority to prepare the final data, and the actual data transcribed on the Federal Funding Allocation Statistics form (FFA-10). The Authority will consider increasing its existing review procedures to specifically address any transcription and arithmetical errors in the calculation used for FTA reporting.	3/31/2011		
26	NTD-9154-KPMG	12/15/2010	KPMG	9154 NTD Audit Report	Chief Operations Officer/Chief Communications Officer	Differences were noted between the source documents for accumulating passenger miles traveled (PMT) and the related trip logs/surveys. The Authority will consider increasing its existing review procedures to specifically address any transcription and arithmetical errors in the calculation used for FTA reporting.	3/31/2011		Vanpool is responsible for part of the corrective action.
27	NTD-9154-KPMG	12/15/2010	KPMG	9154 NTD Audit Report	Chief Operations Officer	Differences were noted between vehicle logs/tripsheets and vehicle revenue mile (VRM) data reported. The Authority will consider expanding its current review procedures to specifically address potential arithmetical errors in the calculation of VRM used for FTA reporting.	3/31/2011		
28	08-OPS-I02	2/19/2010	MAS	Audit of Transit Operator Activity Schedule & Tracking	Chief Operations Officer	Controls are not functioning, and others were not implemented, in the following areas: a. Weak Application Controls; b. Inappropriate Access Control; and c. Automated Process Not Activated. User access profiles will be in the production software before the system is implemented. Project Manager access will also be downgraded.	6/30/2010		
29	08-OPS-I02	2/19/2010	MAS	Audit of Transit Operator Activity Schedule & Tracking	Chief Operations Officer	Controls are not functioning, and others were not implemented, in the following areas: a. Weak Application Controls; b. Inappropriate Access Control; and c. Automated Process Not Activated. The Operations Training Tracking System (OTTS) will be upgraded to capture accurate and up-to date qualification data. Once the system captures accurate data, then the OTTS will interface with HASTUS.	6/30/2010		
30	10-OPS-O08	2/4/2010	MAS	Customer Complaint Management	Chief Operations Officer	Customers requesting complaint responses did not receive responses. Operations Central Instruction will update the Desktop Reference Guide for Processing Customer Complaints to require documentation of whether customer accepted the response and the level of satisfaction achieved.	4/30/2010		

**All Current Audit Recommendations
Status as of June 30, 2011**

Attachment A

No.	Report Number	Report Date	Audit Entity	Title	Exec Area	Finding/Corrective Action	Original Completion Date	Extended Completion Date	Comments
31	09-OPS-001	12/23/2009	MAS	MS Warranty Management	Chief Operations Officer	Incomplete capture of all warranty claims. Staff is developing an enhanced process to implement component level warranty tracking for the bus fleet that will help alert a mechanic in instances other than base bus warranties or fleet defects. Once an implementation plan/timeline is finished, it will be made available.	2/28/2011	5/31/2011	Extended. Still in process
32	CAFY10-Lopez	6/30/2011	Lopez	FY10 Consolidated Audits	Deputy Chief Executive Officer	Follow-up must be performed to ensure corrective actions are implemented by recipients of subsidies included in the Consolidated Audit: Program Managers in Local Programming will follow-up to ensure corrective actions are implemented.	12/31/2011		
33	10-CAP-F01	12/18/2009	MAS	Review of Capital Project Budgeting Process	Deputy Chief Executive Officer	Capital Project Management Guidelines and Project Control have not been established within all divisions. The Project Management Officer will develop policies to ensure control and oversight for all capital projects over a specific dollar amount.	7/31/2011	10/31/2011	Extended. PM position filled end of March 2011.
34	07-OPS-006	12/6/2007	MAS	Continuity of Operations Plan	Deputy Chief Executive Officer	Security Sensitive. Security Sensitive Information	12/31/2008		Will be finalized in September.
35	10-AUD-08	7/6/2010	OIG	Management of Electricity Usage and Billing	Chief Capital Management Officer	MTA could reduce energy consumption and costs further by supplementing the policy with a comprehensive electricity management and conservation plan. The Energy Conservation and Management Plan will be used as a tool to provide short and long term strategies for energy conservation and management. Facilitation of the development of this plan can be folded into MTA's overall Sustainability Program.	3/31/2011		Draft complete; will present to the Board in first quarter FY12.
36	09-FMO-FTA	5/30/2009	FTA	Financial Management Oversight Review	Chief Capital Management Officer	3rd Party Utility Relocation Agreements do not reflect current federal requirements. MTA will incorporate the required language to comply with FTA Regulations in Circular 5010.D in future third party utility relocation agreements.	8/31/2009		