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FINANCE & BUDGET COMMITTEE
JANUARY 22, 1998

Los Angeles County
Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012

213.922.6000

Mailing Address:
P.O. Box 194
Los Angeles, CA 90053

SUBJECT: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997, AND ASSOCIATED REPORT TO MANAGEMENT

ACTION: RECEIVE AND FILE THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE YEAR ENDED JUNE 30, 1997, AND ASSOCIATED REPORT TO MANAGEMENT

RECOMMENDATION

Receive and file the Comprehensive Annual Financial Report that includes the MTA's audited financial statements for the year ended June 30, 1997, and the associated report to management.

BUDGET IMPACT

None.

BACKGROUND

The MTA is required to have its financial statements audited annually by an independent certified public accountant. The audit was performed by Coopers & Lybrand L.L.P. (C&L). The financial statements, the auditors' unqualified opinion, and background and statistical information are combined into the CAFR in accordance with generally accepted accounting principles for State and Local Governments. Copies of the 146 page CAFR are on file with the Board Secretary's office.

In with accordance with Government Accounting Standards, the auditors have also issued a report to management on their comments and suggestions for improving MTA's accounting and internal control systems. C&L's report, including management's responses, is attached.

The MTA's 1996 CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers

Association. A copy of the Certificate is included in this year's CAFR on page 13. The 1997 CAFR will also be submitted to the GFOA for review.

Prepared By:

William B. Henderson
Controller

Attachment - Coopers & Lybrand Report to Management

Terry Matsumoto
Executive Officer, Finance

Allan Lipsky
Office of the Chief Executive Officer

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

REPORT TO MANAGEMENT
For the Year Ended June 30, 1997

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

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Los Angeles, California
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November 19, 1997

Board of Directors
Los Angeles County Metropolitan
Transportation Authority
One Gateway Plaza
Los Angeles, California 90012

Dear Board Members:

In planning and performing our audit of the financial statements of Los Angeles County Metropolitan Transportation Authority ("LACMTA"), for the year ended June 30, 1997, we considered the MTA's internal control structure in order to determine our auditing procedures and for the purpose of expressing an opinion on the financial statements. Although our audit was not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operation, and are submitting for your consideration our related recommendations which are designed to help the MTA make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the MTA.

The accompanying comments and recommendations are intended for the information and use of the Board of Directors, Management and other third parties as determined by MTA's policy.

Very truly yours,

Coopers & Lybrand L.L.P.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

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I. Current Year Management Letter Comments

1. Improve Overall Internal Control Structure

Government Auditing Standards defines internal control as a process, effected by an entities Board of Directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. A weak or ineffective system of internal controls provides an opportunity for errors and/or mistakes to go undetected and implies some level of tolerance or acceptability of non-adherence to documented policies and procedures. During the course of our audit of the MTA's financial statements for the year ended June 30, 1997, we encountered the following internal control deficiencies or weaknesses which we believe should be addressed immediately.

- Information related to collections, billings and funding transfers is not always openly communicated between sections (project accounting section, and general ledger section), and thus, contributes to incorrect or unreliable financial statement data. When discussing the problem, we found that each section labeled the error as "their problem", thereby deflecting responsibility. Additionally, this lack of communication leads to increased inefficiencies and errors. The entire accounting function of the Authority should attempt to establish a shared responsibility mentality for record keeping and monitoring of financial activities.

Management Response

Management concurs and has been realigning the accounting staff to maximize efficiencies and streamline functional requirements. As of July 1997 the receivable function and the project accounting and billing functions have been regrouped under one accounting manager. This has strengthened communications and reduced deflected responsibility. Weekly staff meetings are also being used to identify and address activities that cross between sections within the department.

- We noted that fringe benefits were being allocated to a cost center which should not have any direct labor or overhead allocation. Instead of charging the direct labor and fringe benefits to the cost center to which the employee belonged prior to termination.

Management Response

It is true that the employee severance pay (labor) was charged to a non-departmental cost center—this was in accordance with procedures established by the Office of Management and Budget (OMB). It is also MTA's policy that where ever there is direct labor charged (regardless of cost center number) then there will also be allocated fringe benefits. MTA's severance policy was developed with the understanding that the severance packages offered to terminated employee's are negotiated on a case by case basis with the MTA Board and the Human Resource Department—the individual cost center managers have no real control over when or how much severance pay will be offered. It is important to remember that during the budget development process, cost center managers do not know the amount (if any) of future severance payoffs, therefore the severance payoffs should not go against the "home" cost center for the employee receiving the unbudgeted/unexpected severance payoff.

The correctness of labor charges to cost centers, projects, and tasks is monitored through the payroll input approval process on the front end, and budget variance analysis reports by cost center on the back end. Training on the use of reports to identify errors or inappropriate charges is an ongoing process. The MTA implemented a new "Labor Information Management System" to allow all cost center managers to monitor and correct (i.e., re charge) labor costs that are inappropriately charged to a project/task.

- During our testing of accounts payable and asset additions, we noted a number of voucher packages were either misfiled or could not be immediately located. While each file/voucher package selected during our testing was eventually located, considerable effort was expended in the search for the requested files. The filing system for various supporting documentation should be improved.

Management Response

The MTA voucher filing system is a high volume (i.e., for 10-15 thousand vouchers per month) area. Additionally, the filed vouchers are "pulled" for review for a variety of reasons. The MTA had several audits going at the same time as the year end financial audit along with ongoing vendor inquiries. As noted, the vouchers were located. As of July 1, 1997, the MTA switched from an indexed filing system and began filing vouchers alphabetically by vendor to allow for easier and faster voucher retrieval. Additionally, the filing area, which requires key access, also utilizes the placement of "out place holders" for pulled items. Non-accounting department staff or auditors may be required to sign for pulled vouchers.

- While we were informed that bank reconciliations are reviewed by a supervisory level person, five out of ten monthly bank reconciliations contained no written sign-off or date by a supervisor indicating their review had been performed.

Management Response

The MTA Accounting Supervisors have been reminded that their review of bank reconciliation activity must be evidenced by initials in accordance with existing procedures. This process will be monitored to ensure it is being followed.

- We were informed that trades made by the external investment manager are reviewed for appropriateness and compliance with MTA's policy concerning investments. However, this review is not indicated by an initial or signature of the reviewer. Accordingly, it is not possible to independently determine that such a review was performed for all investment transactions.

Management Response

Management agrees that the external investment managers trades are not initialed by Treasury staff. However, there are established procedures to ensure that each trade is reviewed for compliance by the MTA's custodian, Sanwa Trust, and by Treasury Staff.

Sanwa reviews each trade and notifies the Treasury Department of trades that do not appear to be in compliance. The trade is not settled (completed) until Sanwa receives confirmation from Treasury staff to settle the trade.

Internally, Treasury staff reviews trades for compliance as copies of the respective trades are received via fax from the external investment managers. In addition, the trades are reviewed again by Treasury staff prior to entering the trades into the "ADS" software program which is utilized to maintain a data base of portfolios. A report from this system will be initialed to attest to the review of each trade.

The review process conducted by the Custodian and Treasury staff are utilized to insure compliance. If non-compliance issues are discovered, they are reported in the monthly Investment Report to the MTA Board.

- As a result of poor interdepartmental communications, a lease/leaseback transaction entered into by the treasury department in January 1997 was not known by the accounting department until a significant unreconciled difference was identified during the performance of a bank reconciliation subsequent to year end. This transaction was not analyzed and fully recorded by accounting until November 1997. This lack of communication causes inefficiencies within the two departments and could result in management relying on inaccurate financial information.

Management Response

The Finance Division will address unique interdepartmental transactions on an ongoing basis to ensure all aspects of these transactions are acted upon promptly. The net amount of the lease/leaseback transaction (i.e., $4.7 million cash) was booked in January 97 when the deal closed. The additional posting aspects of the transactions were analyzed and processed before final June 30, 1997 financials were complete.

2. Prepare Summary of Capital Expenditures on a Timely Basis

During our testing of property plant and equipment acquisitions, we noted that a summary of capital expenditures, relating to capital improvement projects, had not been performed since April 1997. We were initially informed that these summary reports were prepared on a monthly basis. The extensive lag time could cause delays in identifying problems related to capital expenditures and capitalized cost, and therefore, could create inefficiencies and cause problem solving to be much more difficult.

We recommend that effort be made to prepare this summary report on a more timely basis.

Management Response

MTA agrees with the importance of timely reports with respect to fixed assets. The MTA utilizes two approaches to tracking fixed asset detail. (i.e. Subsidiary Ledgers) For property, plant and equipment, the FIS Fixed Asset Module is used. For capital improvement projects, the Project Accounting Module tracks the details and supports General Fixed Asset Account Group (GFAAG) balances.

Property, Plant and Equipment

As of this response, monthly reports relating to Property, Plant and Equipment acquisitions for Proprietary Funds have been prepared and are current as of June 30, 1997. The fixed assets subsidiary ledger is updated on an ongoing basis and reconciled monthly to the general ledger control balance.

General Fixed Assets Account Group

The General Fixed Assets Account Group (GFAAG)'s detail for construction in progress costs are in the Project Accounting Module by project. Construction in progress costs are reviewed twice a year for transfer out of GFAAG to operational funds if appropriate. We feel this is often enough for control while not creating work flow inefficiencies. Additional reports from the Project Accounting Module detailing costs have been requested from the ITS Department.

3. Improve Tracking and Recording of Unapplied Cash Receipts

During our audit of intergovernmental accounts receivable, we noted an overstatement of approximately $9.5 million due to unapplied FTA cash receipts on multiple grants as of June 30, 1997. Additionally, we noted that unapplied cash had created an overstatement in another fund. These errors were caused in part by a default setting within the accounts receivable module that records all unapplied cash to the enterprise fund automatically. These types of errors prevent accurate tracking and monitoring of account receivable balances and could possibly misstate individual fund receivable balances during the year.

We recommend that the MTA correct the unapplied cash default within the accounts receivable module and perform monthly reviews of the various accounts receivable accounts to ensure that all credit reductions are appropriately matched against a valid receivable balance.

Management Response

One of the other primary tasks during the department's organization effort was the clearing of all unapplied collections. All unapplied collections as of June 30, 1997 have been cleared to date. Procedures have been set up to promptly clear suspense items and supervisory reviews now occur to ensure compliance.

4. Research Unmatched Invoices on a Timely Basis

We noted at times vendors do not include the PO number on the invoice. Therefore, the FIS System has no way of identifying the outstanding balance to which the invoice relates. Accordingly, a significant number of invoices go unmatched by the system and need to be matched manually by the accounts payable department which currently appear to be short of staff and do not always match these invoices in a timely manner. Thus, such invoices may be paid late and cause vendor dissatisfaction. Additionally, this deficiency results in an understatement of accounts payable balance during the year ended June 30, 1997.

We recommend that appropriate MTA personnel establish a process for reviewing unmatched purchase orders on a weekly basis to ensure that long outstanding items are paid or otherwise disposed of in a timely manner.

Management Response

The Accounts Payable Section has been working with MTA staff and vendors to transition to the proper use of the PO System on FIS. Current procedures call for invoices without PO information to be returned directly to the vendors. Our transition effort of holding invoices and solving vendor coding problems in accounts payable section was an attempt to minimize the processing impact of the new FIS requirements.

5. Improve Controls Procedures Over Grant Billing Module

Although the FIS billing module will allow the user to accumulate amounts greater than the approved amounts, we were informed that project accountants do not bill for amounts in excess of the approved grant unless there is a pending grant amendment with a Letter of No Prejudice or a Notice of Pre-Award Authority to incur project costs. We were also informed that any billed amounts in excess of approved grant without appropriate Letter of No Prejudice or Notice of Pre-Award Authority is automatically transferred to alternate funding sources.

We recommend the Authority improve controls and procedures over the intergovernmental grant billing process to ensure that amounts billed and recognized as revenue are not in excess of approved grant funding.

Management Response

We disagree with this finding since no exceptions were found. Procedures currently in place, including the supervisorial and managerial reviews of all project billings, have been effective in making sure that our billings are not in excess of approved funding.

6. Perform Fixed Asset Reconciliation on a Timely Basis

During the year ended June 30, 1997, we noted that approximately $33 million was transferred from construction in progress to the enterprise fund which related to the Blue Line, and therefore, should have been transferred in fiscal year 1995. This error occurred as a result of the fixed asset reconciliations not being prepared on a timely basis. When such a reconciliation was performed in fiscal year 1997, the problem was identified and corrected.

We recommend that fixed asset reconciliation be performed on a monthly basis and that such reconciliation be reviewed by appropriate supervisory/management level personnel within the general ledger and project accounting departments to ensure that both departments agree on any adjustment.

Additionally, we noted that many expenditures incurred through the capital project fund was not being transferred by the system from construction in progress to the General Fixed Asset Account Group on a timely basis. The FIS System is able to identify and transfer only expenditures with certain project and account numbers, while other expenditures are required to be transferred on a manual basis. While the Authority's accounting staff has identified this problem and was able to make the necessary manual transfers, internal controls would be improved as well as operational efficiency and reliability of the accounting records if this system problem could be corrected.

We recommend the Authority identify the system problem that is causing certain expenditures not to be transferred and take the necessary action to ensure that the problem is corrected as soon as possible.

Management Response

MTA agrees with the importance of timely reports with respect to fixed assets. The MTA utilizes two approaches to tracking fixed asset detail. (i.e. Subsidiary Ledgers). For property, plant and equipment, the FIS Fixed Asset Module is used. For construction in progress, the Project Accounting Module tracks the details and supports General Fixed Asset Account Group (GFAAG) balances.

General Fixed Assets Account Group

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Blue Line construction in process (CIP) costs were transferred to Fixed Assets in Fiscal Year 1995 for approximately $827 million. The 1997 transfer of $33 million were additional eligible Blue Line project costs incurred in 1995. This type of error has been addressed with bi-yearly reconciliations. A mid-year and end-of-year review of CIPs was implemented in 1997 to update the fixed assets and GFAAG balances on a timely basis. All appropriate CIP transfers were current as of June 30, 1997.

7. Eliminate Duplicate Recording of Intergovernmental Receivables

Due in part to the start up and use of the FIS System Billing Module, the project accounting department double recorded approximately $23.3 million in intergovernmental receivables/revenues during 1997. Prior to the start up of the System Billing Module, MTA manually accrued all FTA billings for the period prior to March 1997. However, we noted that project accounting also accrued the pre-March 1997 FTA receivable through the System Billing Module, thereby overstating intergovernmental receivable/revenue. Such mistakes obviously reflect a breakdown in internal controls and contribute to the production of unreliable or incorrect financial information.

We recommend that accounting personnel perform detail account analysis on a monthly basis which would detect such double billing if they were to occur. Further consideration should be given to preparing a control listing of manual accruals input into the System Billing Module to prevent double booking in the future.

Management Response

Prior to implementation of the system billing, Accounting ensured that all billings are current to reflect correct financial data in the monthly financials and more importantly that collections are current. These were done manually. After the Project Billing module was implemented in December 1996, we needed to do a "catch up" system billings through March 1997. Thereafter the manual efforts ceased and the system billings solely existed. The "double" billed amounts that necessarily occurred during the transition process were then reversed to properly state the billed amounts for the year.

8. Improve Communications and Controls Over Indirect Cost Allocation

The MTA obtained its last approval of its Cost Allocation Plan (CAP) for fiscal year 1994-95 and has submitted the 1997-98 CAP to the FTA for approval. During our June 30, 1997 audit, we noted numerous changes in both the methodology as well as the percentages used in allocating indirect costs to applicable cost centers. We are aware of and considered certain operational and organizational changes that took place between fiscal year 1994-95 and fiscal year 1996-97 such as the consolidation of employees from two locations to one location, the current MTA headquarters building and the implementation of the new FIS System for the entire MTA. These as well as other factors would logically result in modification to the methodology and rates used to allocate indirect cost. However, we found that the documentation supporting the changes in methodology and rates as well as the review procedure over such changes were not readily available to indicate that the appropriateness of the changes had been properly reviewed, considered and approved within the MTA. We also noted that certain cost centers were entirely excluded as unallowable while other cost centers were entirely including as allowable cost instead to performing a detail analysis of each overhead account in accordance with OMB Circular A-87.

We recommend that policies and procedures over indirect cost allocation be reviewed and improved to require the development of appropriate supporting documentation for any significant changes in the methodology and/or rates used in the indirect cost allocation process. Further, we recommend that an approval process be established to ensure management's concurrence with any such changes and that any significant change in the indirect cost allocation rate or methodology be communicated to the Federal Transit Administration ("FTA") on a timely basis.

Management Response

Circular No. A-87 provides for three methods of calculating indirect cost rates.

1) Simplified Method
2) Multiple Allocation Base Method
3) Special Indirect Cost Rate Method

The MTA has consistently used #2, Multiple Allocation Base Method (MABM), for the years discussed in this analysis and intends to continue its use.

The MABM calls for the identification of separate cost groupings (i.e., organizational units) which are individually allocated by means of a base which best measures the relative benefits. The MTA has adjusted the groupings and bases each year as necessary to try to maintain the best measure of benefits. The FY98 cost rates were calculated using the most detailed and exact groupings and bases to date in a double step down computer module. Future years should see a refining of the FY98 process. The plans were also prepared in accordance with A-87 guidelines with respect to allocable costs and other requirements. The FY95 plan was submitted and approved by the FTA. The 96 plan rates were similar to 95 so the 96 plan was not required to be submitted. The 97 plan reflects larger adjustments and rate charges but was not submitted for approval, however, the adjustments towards more precise groups and bases are reflected in the 98 plan which was submitted for approval.

The methodology used by the MTA from year to year remains unchanged. The allocation bases and groupings for cost pools have been adjusted each year. Each year's approach appears to be a reasonable attempt at measuring benefit and the progression of plans is in the direction of more precise measures. The level of dollars and rates as shown in FY98 plan reflect the most structured approach to allocation used by the MTA thus far and should indicate the level of future rates unless significant changes in activities or budget sizes are encountered. No request to adjust plans has been received at this time. We will be submitting the FY96 and FY97 plans for review.

9. Human Resources Check and Monitor Payroll Changes Regularly

The Human Resources department does not trace amended personnel information (i.e., promotions, pay increases, etc.) to the change register to ensure the accuracy input.

Management Response

Management agrees with the importance of payroll data control and review. Human Resources will analyze and strengthen the review process of all payroll data changes prior to payroll runs.

10. Resolve Old Outstanding Accounts Payable Amounts

We noted that approximately $800,000 ($1 million in the prior year) in old outstanding accounts payable was still on the Authority's books at June 30, 1997. We were informed that these amounts relate to retention fees that the MTA has withheld from its construction vendors and that such amounts existed prior to the FIS conversion in March 1996. We were not able to determine if these invoices had been paid in connection with other invoices received from the same vendors. However, we did note that approximately $200,000 was paid during fiscal year 1997 on these old amounts.

Management Response

Management agrees that all old outstanding accounts payable amounts related to retention contract liabilities should be examine and investigated to determined if any payments have been made related to the retention account and determine if the related liability account should have been debited or relieved. Retention payable is normally not paid out until after a close out audit has been performed and all conditions related to the contract has been satisfied, some of these contracts and related retention liability accounts will be open or on the books for several years, but it is possible that once they are closed out and expense account is mistakenly debited instead of the outstanding liability account. A review will be done by contract accounting and general accounting of all outstanding retention payable balances.

11. Perform an External Quality Control Review of the Internal Audit Department

Government Auditing Standards ("Yellow Book") require that internal audit organizations have an External Quality Control Review at least once every three years by an organization not affiliated with the affected entity. The External Quality Control Review should determine whether the organizations' internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being met. We understand the Director of Audits has requested the American Public Transit Association ("APTA") to conduct a peer review during the Spring of 1998. Further, it is our understanding that APTA will be advising the Director of Audits of the review date after it has scheduled training in its new peer review procedures and confirmed the availability of external auditors to be assigned.

We recommend the MTA comply with Government Auditing Standards and have a quality control review performed as soon as possible and at least every three years thereafter since the internal audit department has not had such a review in the recent past.

Management Response

Management Audit Services has twice scheduled Peer Reviews to be performed by the LACMTA's representative industry organization, the Association of Public Transportation Agencies (APTA). Due to a reorganization, APTA's Audit Representative was replaced. Also, APTA's Peer Review process has been revamped, and scheduled training of Peer Review auditors has twice been canceled.

APTA has committed to completing peer review training by the end of March 1998, and will schedule LACMTA's Peer Review for June 1998.

12. Evaluate Adequacy of Performance Audit Group Staffing

We noted that the number of internal auditors assigned to the Performance Audit Group decreased by the end of fiscal year 1997 from the 1996 year end level and has decreased further during fiscal year 1998 to date. Internal auditors' duties and responsibilities represent an extension of the Authority's internal control structure and, therefore, should serve to monitor controls and procedures on a timely basis through the internal audit function.

We recommend an assessment be made as to the adequacy of the current staffing level of the Performance Audit Group and its ability to perform the necessary level of internal audits to ensure adherence to management's policies and procedures and that assets are safeguarded.

Management Response

This is an accurate assessment. Through terminations, transfers, and finally budget reductions, the Performance or Internal Audit Group has been depleted. However, management has agreed to begin repopulating Internal Audit, and has approved hiring five (5) new auditors to begin the process. Also, we will be going to the Board in February to request a reallocation of funds in MAS' budget to hire an additional ten (10) auditors through June 30, 1998.

These approved positions are in the "as-needed" hiring category, which allows MAS the flexibility to ramp up quickly. When the 1999 Budget process begins in February, MAS Budget will include converting these positions to full time equivalent staff.

13. Segregation of Duties - Payroll/Personnel

Both the manager of payroll and the manager of personnel have the ability to set up user access on either application. Although these managers are supposed to act as each other's backup, each manager has one individual in his/her own department who can also set up users, thus eliminating the need for additional backups. To better facilitate segregation of duties between payroll and personnel functions, we recommend that security administration for each application be restricted to the managers and backups of the respective application.

Management Response

To the extent that we can, arrangements will be made to restrict security administration for payroll and personnel to the managers and backups of the respective applications to better facilitate segregation of duties between those functions. However, there will still be some overlap in functionality in cases where the two applications share common tables.

14. Enforce Program Change Documentation Procedures

While there are documented procedures in place with regard to documentation of changes to applications, these procedures are not always followed. In some instances, the audit trail between change requests and live implementations is very difficult or impossible to trace. To ensure that all changes made can be linked to an authorized request or problem ticket, we recommend that program leads ensure adequate documentation of all program changes.

Management Response

Unfortunately, because of a long-term staffing shortage, and no one else available to fill in, we fell behind for a period of time in the filing of change management documentation. We will review our program change documentation procedures and strengthen them as indicated to see if adherence to those long established practices can somehow be improved. However, even if enhancements are made, its unlikely that we can affect procedural changes that can overcome a protracted resource shortfall.

15. Reinforce the Importance of Timely Employee Transfer and Termination and Consider Automating the Suspension of User IDs

In our follow up, we noted that Human Resources does not notify security administrators on a consistent and timely basis regarding employee terminations. In addition, department managers are required to complete a termination checklist for all terminated employees, which is forwarded to the system security officer. Due to the frequency of terminations, however, this procedure is not always carried out. We recommend MTA enforce existing procedures to ensure system privileges are modified or removed in a timely and consistent manner.

Management Response

An MTA-wide policy on Involuntary/Voluntary Termination of Employment (#HR 3-13) which includes a computer-related checklist and certification for departing employees, has been in effect for more than two years. However, the requirement for completing the checklist and certification does not always occur to the supervisor of the departing employee, particularly when it is an isolated case. We will work with Human Resources to see if something can be done to call greater attention to the need for following the prescribed practice. Whenever possible, we do take measures to compensate for the tendency to overlook the procedure. For example, during the most recent reduction in force, copies of the checklist and certification document were provided to Human Resources for each supervisor involved in the process. In the event that the procedure is not properly followed, for whatever reason, we are given notice of transfers and terminations through another means. A biweekly position control report containing that type of information is sent to information security staff on a regular basis.

Given our current workload and staffing shortage, it is not feasible to pursue the development of some type of facility for automatically suspending used IDs at this time.

16. Assess the Impact of the Year 2000 to In-house Developed Application Software and Vendor Supported Systems

The MTA has begun to address the year 2000 issue as part of the FIS implementation for its core financial application systems; however, the MTA has other legacy systems and interfaces which may not be year 2000 compliant.

While the MTA has taken a comprehensive inventory of all applications and platforms and made a preliminary assessment of those which have year 2000 compliance issues, very little has been done to correct the problems thus far.

Although the MTA has developed a plan to address the year 2000, this project has not received any funding from the most recent budget allocation. Without such funding in the immediate future, the MTA faces a critical problem that will become increasingly expensive to rectify due to a constantly shrinking pool of resources. We recommend that the MTA begin implementing their plan to address the year 2000 with its remaining legacy application systems to ensure appropriate solutions are in place by the start of the next millennium.

Management Response

We intend to once again request funding for the Year 2000 project in the upcoming capital budgeting process. In the meantime, we are in the process of reallocating and mobilizing some internal resources (at the expense of other projects) so we can proceed on the implementation of our plan in January 1998, even if funding for the project is not approved.

17. Enhance the Disaster Recovery and Business Resumption Plan

A formal disaster recovery plan has been completed, approved, and tested in the past year. The plan provides for a hot-site with Comdisco in New Jersey. Currently, the plan and the hotsite only cover mainframe applications. The MTA is negotiating with Comdisco as well as other vendors to provide support for the applications which reside on the RS/6000 (Oracle financial applications) in the event of a disaster. We recommend that MTA continue efforts to include all applications systems that are critical to business continuity in their disaster recovery plan.

Management Response

We have expanded on our initial disaster recovery plan to incorporate coverage for the Financial Information System (FIS). Similarly, the agreement with our disaster recovery service has also been extended to accommodate FIS requirements in this area.

II. Status Of Prior Year Management Letter Comments

A. Fully Implemented
General

1. Develop and Communicate a Strategic Plan for the Organization

2. Notify the Finance and Budget Committee Timely of Deviations From Investment Policies

3. Compare the Trade Accounts Receivable Aging Analysis to the General Ledger

4. Establish Proper Cut-off Procedures

5. Human Resources Check and Monitor Payroll Changes Regularly

6. Improve Monitoring and Application of Payroll

7. Establish Structure Within the Accounting Department

8. Analyze Deposits Held by the Court

9. Monitor the Transfer of Employee Responsibilities to Minimize its Impact to Operations and the Internal Control Structure

10. Develop Guidelines and Standards for Application Security Officers

11. Establish a Periodic User Review of Application System Privileges

12. Consider Enhancing the Financial Information System With an Integrated Budget System

13. Implement the Draft Security Policy

14. Formalize and Enforce Special Job Request Procedures

Computer Controls

15. Assess the extent of misposted legacy data

16. Formalize and enforce special job request procedures

17. Monitor the transfer of employee responsibilities to minimize its impact to operations and the internal control structure

18. Develop guidelines and standards for application security officers

19. Establish a periodic user review of application system privileges

20. Consider enhancing the financial information system with an integrated budget system

21. Implement the draft security policy

B. Partially Implemented

1. Improve Accuracy and Reliability of Financial Information

2. Update the General Fixed Asset Account Group on a Quarterly Basis

3. Continue Efforts to Manage Business Risks Related to Internal Control and Process Re-engineering Associated With Changes Within MTA

4. Improve Construction Risk Management

5. Improve Workers' Compensation Risk Management

C. Not Implemented

1. Provide Software Quality Assurance Training to Internal/EDP Auditors

2. Perform an External Quality Control Review of the Internal Audit Department

3. Reinforce the Importance of Timely Employee Transfer and Termination and Consider Automating the Suspension of Logonids

4. Assess the Impact of the Year 2000 to In-House Developed Application Software and Vendor Supported Systems

5. Develop a Disaster Recovery and Business Resumption Plan