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**EXECUTIVE AND AUDIT
COMMITTEE
JUNE 15, 2006**

SUBJECT: MANAGEMENT AUDIT SERVICES FY06 THIRD QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the third quarter FY06 report of Management Audit Services for the period ending March 31, 2006.

ISSUE

At its January 2005 meeting, the Board designated the Executive Management and Audit Committee (EMAC) as their audit committee. The EMAC requested a quarterly report from Management Audit Services on its audit activities. This report fulfills the requirement for third quarter of FY06.

DISCUSSION

Management Audit Services (MAS) provides audit support to the Chief Executive Officer (CEO) and his executive management. MAS provides audit services both internally reviewing agency processes, functions and systems, as well as externally reviewing compliance to contracts and memorandums of understanding (MOUs).

There are five audit groups in MAS, contract audit, grant audit, financial audit, information technology audit, and operational audit. Contract Audit audits contractor's proposals/claims to support the Office of Procurement and Material Management. Grant Audit audits compliance to MOUs for projects funded by Countywide Planning and Development. Financial Audit specializes in financial transaction reviews, Information Technology Audit audits the information technology (IT) systems, infrastructure, IT programs and activities, and Operational Audit focuses on agency operations and processes.

The summary of MAS audit activity for the quarter ending March 31, 2006 is as follows:

Contract Audit – nine audits were completed reviewing an absolute value of \$3.6 million and questioning an absolute value of \$340 thousand. As of March 31, 2006, twenty-four audits are in process with an absolute value of \$95 million.

Grant Audit – four audits were completed reviewing \$12 million and identifying \$630 thousand of funds that can be reprogrammed through the Call-for-Projects. Twenty-six are in process.

Financial Audit, Information Technology Audit, and Operational Audit – two audits completed, and two Controlled Self Assessments (CSAs) completed.

Contractor Pre-Qualification – 110 applications and validations were processed and 87 were approved.

Audit Follow-up and Resolution –20% of all outstanding audit recommendations were completed and closed. Twenty-eight new audit recommendations were added.

MAS' FY 2006 third quarter report is included as Attachment A.

NEXT STEPS

Management Audit Services will provide a fourth quarter/year end summary of FY 2006 audit activity to the Board at the August 2006 Executive Management and Audit Committee meeting.

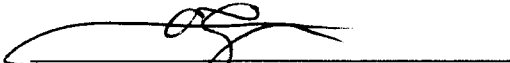
ATTACHMENT

- A. Quarterly Report on Management Audit Services activity for period ending March 31, 2006.

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Ruthe Holden
Managing Director, Management Audit Services



Roger Snoble
Chief Executive Officer

Los Angeles County Metropolitan Transportation Authority

MANAGEMENT AUDIT SERVICES
QUARTERLY REPORT TO THE BOARD

THIRD QUARTER
FY 2006



Metro

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EXECUTIVE SUMMARY

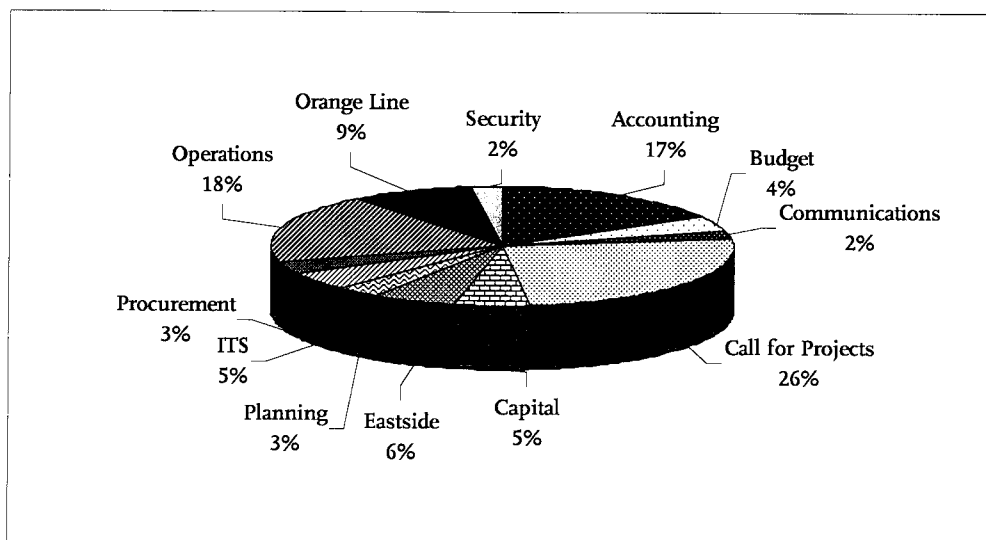
Introduction

During the first three quarter of FY06, 42 audits were completed; 12 audits were issued in the first quarter, 15 audits were issued in the second quarter, and 15 audits were issued in the third quarter. In addition, six Control Self-Assessments (CSAs) were completed, one in the first quarter, three in the second quarter, and two in the third quarter. The Agency Wide Risk Assessment was completed in second quarter FY06 and auditors worked on three consulting engagements, one in first quarter, one in second quarter, and one in the third quarter.

The work completed in the first and second quarters of FY06 is summarized in the quarterly reports issued in November 2005 and February 2006. The completed audits for third quarter include two internal audit reports; nine contract audits, four grant audits and one special request for consulting services to Procurement. The completed internal audits and CSA's are summarized beginning on page four. The completed Contract and Grant audits are summarized on page three.

Eighty-six audits and three CSA reports were in process at the end of the third quarter. Six of the audits in process are from FY05, four of which are in draft report stage and final reports should be issued in the next few months. The rest of the in process audits are from the FY06 audit plan.

The following chart identifies the functional areas where MAS focused staff time and efforts during the third quarter:



EXECUTIVE SUMMARY

Audit Follow-up and Resolution has continued its more proactive approach to getting recommendations resolved, resulting in 20% (14) of the open recommendations being closed in the third quarter. A total of 28 audit recommendations were added during the same timeframe.

The pre-qualification group experienced a slight decline in activity compared to the same period last year. The 110 applications and validations processed during the third quarter were in support of twenty-three different procurement actions.

In the last nine months, MAS has made significant advancement in our efforts to streamline and reengineer our processes. Auditors have mastered the audit workpaper software, TeamMate. Concurrently, conversion of our paper files into an electronic searchable format has been very successful. We have uploaded about 85% of our audit workpapers, reports, and reference materials from the last several years. MAS staff has been able to access these documents from their workstations saving both time and resources.

Highlight of the Quarter – Quality Assurance Review

Government Auditing Standards (GAS) section 3.49 requires that each audit organization performing audits in accordance with GAS should have an appropriate internal quality control system in place and should undergo an external quality assessment review (QAR). In addition, Institute of Internal Auditors (IIA) also requires an audit department to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The IIA requires periodic internal as well as external quality assessments and ongoing internal monitoring.

The purpose of the review is to determine compliance with GAS and to provide recommendations for improvement. The review MAS underwent was done in accordance with guidelines for external quality assurance reviews endorsed by American Public Transportation Association (APTA). These guidelines specify that a review should be appropriately comprehensive and suitably designed in relation to the organizational structure of the reviewed audit organization.

MAS underwent a peer review in 2001 for the period ending December 31, 2000. The most recent peer review was completed in January 2006 for the fiscal year ending June 30, 2005 and a report dated February 3, 2006 was issued to the Chief Executive Officer and Chairman of the Board.

EXECUTIVE SUMMARY

For the 2006 QAR, APTA's Internal Audit Committee assigned three audit officials from Washington Metropolitan Area Transit Authority, New York Metropolitan Transportation Authority, and Bay Area Rapid Transit. As part of their review, they interviewed the Chief Executive Officer, the Deputy Chief Executive Officer, the Deputy Inspector General, senior management, and MAS management and staff. In addition, they reviewed MAS' organizational reporting structure, training records, and workpapers and reports completed during the period reviewed. Compliance to GAS was evaluated according to ten quality assurance criteria specified by APTA as important elements of an internal quality assurance program.

The review concluded that MAS substantially complies with professional auditing standards and practiced effective internal audit quality control procedures during the period reviewed, which means that policies and procedures existed that were judged to be in accordance with GAS. Further, they observed improvement in the audit process since the June 30, 2005 reporting period. In addition, the QAR made several useful suggestions for improvement that MAS has already implemented or is in the process of implementing.

