

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.9...
metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 20, 2013****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2014 FIRST QUARTER REPORT****ACTION: RECEIVE AND FILE****RECOMMENDATION**

Receive and file the first quarter report of Management Audit Services (Management Audit) for the period ending September 30, 2013.

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 on its audit activities. In July 2011, the audit responsibilities were transferred to the Finance, Budget and Audit Committee. This report fulfills the requirement for the first quarter of FY 2014.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management. Internal audit services include reviewing agency processes, functions and systems, and external audit services include reviewing compliance to contracts and memorandums of understanding (MOUs) with vendors and cities.

There are three groups in Management Audit: Financial and Compliance Audit, Performance Audit, and Contract Audit. Financial and Compliance Audit is primarily responsible for project management oversight of agency regulatory audits; and oversees Call for Project, Caltrans and Measure R Compliance Audits. Performance Audit is primarily responsible for planning and completing internal audits of major programs, Metro functions, projects and key information systems. This group also follows up on open audit recommendations and corrective action plans. Contract Audit is primarily responsible for contract compliance audits, Buy America Audits, contract and negotiations support.

The audits we perform are categorized as either internal or external. Internal audits evaluate the processes and controls within the agency. External audits analyze contractors, cities or non-profit organizations that we conduct business with or to whom we disperse funds.

The summary of Management Audit activities for the first quarter of FY 2014 ending September 30, 2013 is as follows:

Internal Audits: two internal audits were completed for the first quarter of FY 2014. As of September 30, 2013, 28 internal audits were in process.

External Audits: three contract audits with a total value of \$4 million were completed and we questioned \$352 thousand of the proposed costs. Five grant audits were completed and we reviewed \$2.1 million of funds and identified \$120 thousand of unused funds during first quarter of FY 2014. Thirty contract audits and 32 grant audits were in process as of September 30, 2013.

Other Audits: two audits were issued by external certified public accountants during the first quarter of FY 2014.

Audit Follow-up and Resolution: Beginning FY 2014 first quarter there were 16 outstanding audit recommendations. Six new audit recommendations were added and eight were completed and closed. The total universe at the end of first quarter FY 2014 is 14.

Management Audit's FY 2014 first quarter report is included as Attachment A.

NEXT STEPS

Management Audit will provide the second quarter summary of FY 2014 audit activity to the Board at the February 2014 Finance, Budget and Audit Committee meeting.

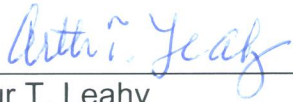
ATTACHMENT

- A. Management Audit Services Quarterly Report to the Board for the period ending September 30, 2013.

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Ruthe Holden
Chief Auditor



Arthur T. Leahy
Chief Executive Officer

**MANAGEMENT AUDIT SERVICES
QUARTERLY REPORT TO THE BOARD**

**Los Angeles County
Metropolitan
Transportation Authority**

***First Quarter
FY 2014***



Metro

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EXECUTIVE SUMMARY

Summary of Audit Activities

During the first quarter of FY 2014, 12 projects were issued. These include:

Audits

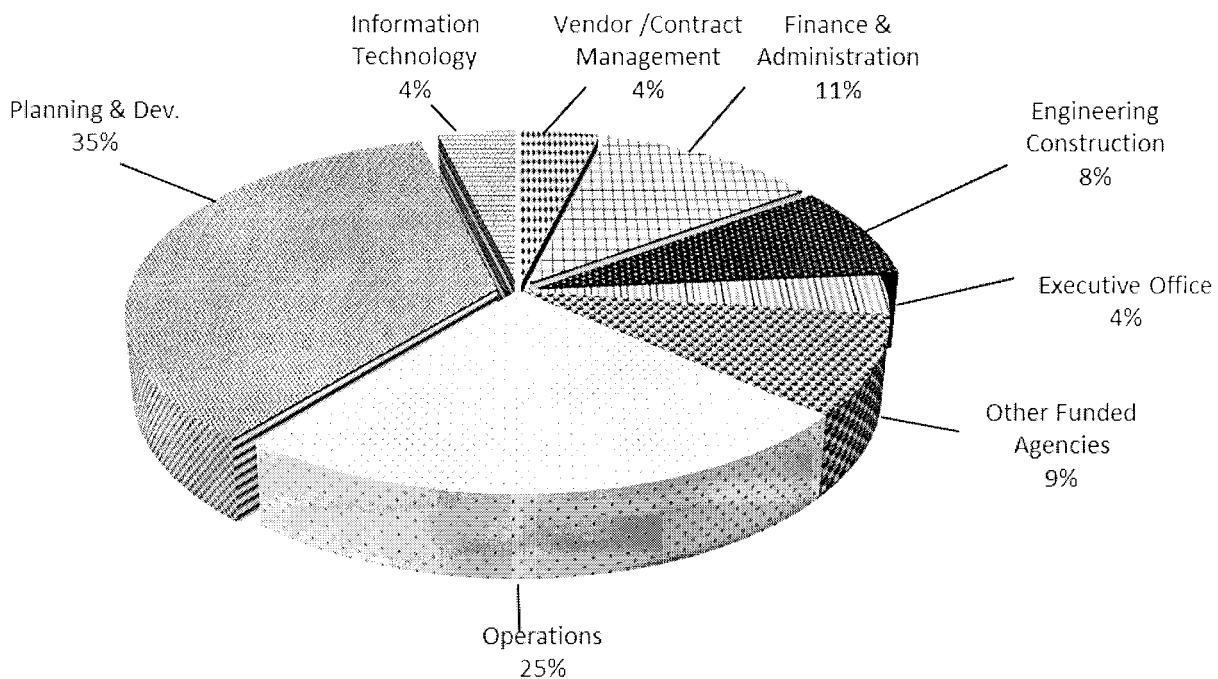
- Performance Audit of Bus Cleanliness Program
- Performance Audit of Compliance to Stormwater Requirements
- Agreed Upon Procedures New Flyer of America, Inc. Modification 1 under Contract No. OP33202869
- Agreed Upon Procedures Close-out Review of City of Los Angeles Automated Traffic Surveillance and Control/Adaptive Traffic Control System San Pedro Project
- Agreed Upon Procedures Los Angeles, Department of Transportation/Automated Traffic Surveillance and Control/Adaptive Traffic Control System/ Pacific Palisades/Canyon Project Memorandum of Understanding P00F1340
- Agreed Upon Procedures Automated Traffic Surveillance and Control/Adaptive Traffic Control System Harbor Gateway II Project Memorandum of Understanding P00F1335
- Agreed Upon Procedures Division #13 Bus Maintenance and Operations Facility
- Agreed Upon Procedures Los Angeles City Bus Stop Improvements and Corridor, Lighting Enhancements
- Agreed Upon Procedures Accounting System Review for California Community Foundation
- Agreed Upon Procedures Kinkisharyo International, LLC P3010 New Light Rail Vehicles – Modification 1
- Financial Audit of State Transportation Improvement Program and Planning Programming and Monitoring
- Financial and Compliance Audit of Metrolink Program

The completed external audits are summarized on page 3. Summaries of the internal audits begin on page 4. Other Audits are summarized on page 5.

EXECUTIVE SUMMARY

Ninety projects were in process as of September 30, 2013; these include 28 internal audits, 30 contract audits, and 32 grant audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during first quarter FY 2014:



Audit follow-up and resolution determined that:

- Six recommendations were added and eight recommendations were closed during the first quarter for a reduction of 57% open audit recommendations.

EXTERNAL AUDITS

Contract Audit

Contract Audit provides support to the Office of Procurement and Material Management for a wide range of large-dollar procurements and projects. This support is provided throughout the procurement cycle in the form of pre-award, interim, change order, and closeout audits, as well as assistance with contract negotiations.

During first quarter FY 2014, three audits were completed, reviewing a net value of \$4 million. We questioned \$352 thousand or 9% of the proposed costs. The three audits supported procurements in the following areas:

- Construction
- Operations

Thirty contract audits were in process as of September 30, 2013.

Details on Contract Audits completed during first quarter FY 2014 are listed in Appendix A.

Financial and Compliance Audit

Grant audits are for Countywide Planning's Call-for-Projects program, federally funded transportation programs, and various other transportation related projects, including Measure R Highway, Alameda Corridor East and CalTrans projects. The purpose of the audits is to ensure that grantees spend funds in accordance with the terms of the grants and federal cost principles.

Financial and Compliance Audit completed five audits during first quarter FY 2014. We reviewed \$2.1 million of funds and identified \$120 thousand of unused funds that may be reprogrammed by Countywide Planning for other projects.

Thirty-two grant audits were in process as of September 30, 2013.

Details on grant audits completed during first quarter FY 2014 are listed in Appendix B.

INTERNAL AUDITS

For the first quarter of FY 2014, two internal audits were completed and are listed in Appendix C.

Twenty-eight internal audits were in process as of September 30, 2013 and are listed in Appendix D.

The following internal audits were issued in the first quarter FY 2014. The completed reports are listed in order of the magnitude of risks that their findings represent to the agency.

Compliance to Stormwater Requirements

We completed a performance audit to evaluate agency-wide compliance to stormwater legislation and regulations.

The agency complies with most stormwater requirements; however, two issues were noted during the audit. There is no process to monitor stormwater compliance for small construction projects and the existing utility vault permit does not cover the underground vault structures for the more recently completed rail lines.

Management concurred with all recommendations and is implementing the corrective actions.

Bus Cleanliness Program

We completed a performance audit that reviewed the bus cleaning process, the quality assurance bus cleanliness inspection process and current efforts to maintain bus cleanliness while buses are in service.

The Bus Cleanliness Program is operating effectively. However, bus operators do not always clean their buses at the layover zones as required by the Operator's Rule Book.

Management concurred with all recommendations and is implementing corrective actions.

OTHER AUDITS

State Transportation Improvement Program and Planning Programming and Monitoring

Mayer Hoffman McCann, CPA completed a financial and compliance audit of The State Transportation Improvement Program (STIP). There was one finding related to timing of expenses incurred prior to the grant date. Management immediately refunded the excess amount to the state and revised their internal processes.

Metrolink Program

Simpson and Simpson, CPA completed a compliance audit of the Metrolink Program. There were two findings noted. There was un-reconciled variance for comparative analysis of deferred revenue. In addition, there was un-reconciled amount between Comprehensive Annual Financial Report and subsidy allocation by county report. Southern California Regional Rail Authority concurred and will determine the basis of the variance and will report back to Los Angeles Metropolitan Transportation Authority.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the first quarter, six new audit recommendations were added and eight recommendations were completed and closed resulting in a 57% reduction in outstanding recommendations. The table below summarizes the first quarter activities.

Summary of Metro Audit Recommendations As of September 30, 2013

Executive Area	Closed or Completed During Q1	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Chief Financial Services Officer	2				
Chief Administrative Services Officer	4	4		2	6
Deputy Chief Executive Office	2				
Chief Operations Officer		2			2
Executive Director, Highway Project Delivery		1			1
Executive Director, Transit Project Delivery		3		2	5
Totals	8	10		4	14

Appendix A

Contract Audit FY 2014 - Audits Completed During First Quarter					
Area	Audit Number	Title	Contractor	Requirement	Date Completed
Operations	13-OPS-A06	New Flyer 550 Bus Buy Mod 1	New Flyer of America, Inc.	Contractual	7/2013
Engineering & Construction	13-PLN- A27	Division 13 Bus Maintenance Operations Facility	McCarthy Building Companies, Inc.	Contractual	8/2013
Operations	14-OPS-A02	New Light Rail Vehicles - Modification No. 1	Kinkisharyo International, LLC	Contractual	9/2013

Appendix B

Grant Audit FY 2014 - Audits Completed During First Quarter

Area	Audit Number	Type	Title	Requirement	Date Completed
Planning	13-PLN-A08	Closeout	ATSAC/ATCS San Pedro Project	Contractual	7/2013
Planning	13-PLN-A26	Closeout	Accounting System Review for California Community Foundation	Contractual	8/2013
Planning	13-PLN-A09	Closeout	LA City Bus Stop Improvements and Corridor Lighting Enhancements	Contractual	8/2013
Planning	12-PLN-A06	Closeout	LADOT ATSAC/ATCS Pacific/Canyon Project	Contractual	9/2013
Planning	12-PLN-A04	Closeout	ATSAC/ATCS Harbor Gateway II Project	Contractual	9/2013

Appendix C

Internal Audit FY 2014 - Audits Completed During First Quarter						
Area	Audit Number	Type	Title	Risk	Date Completed	
Operations	10-OPS-001	Performance	Business Cleanliness Program	High	7/2013	
Engineering & Construction	12-CON-P01	Performance	Compliance to Stormwater Requirements	High	8/2013	

Appendix D

Internal Audit FY 2014 - Progress Toward Completing Audit Plan					
Area	Audit Number	Title	Description	Risk	Estimated Date of Completion
Operations	11-OPS-O06	HASTUS	Evaluate efficiency and effectiveness of the HASTUS scheduling and dispatching system.	High	10/2013
Engineering & Construction	11-CON-K02	Quality Assurance	Evaluate efficiency and effectiveness of Construction Quality Assurance Program.	High	10/2013
Other Funded Agencies	12-CON-P02	Gold Line Project Management	Evaluate efficiency and effectiveness of Gold Line Project Management	High	10/2013
Congestion Reduction	12-HCP-P01	Freeway Service Patrol	Evaluate contract oversight and performance of contractors.	High	10/2013
Planning & Development	13-PLN-P01	Grants Management	To review the risk and controls over Gants Management and Call for Projects.	High	10/2013
Information Technology	12-ADM-I02	M3 Timekeeping System	Assess the efficiency and effectiveness of timekeeping module to ensure timesheets are processed accurately, timely and completely.	High	11/2013
Engineering & Construction	12-CON-P03	I-405 Contract Performance Follow-up	Follow-up on I-405 Contract Performance.	High	11/2013
Engineering & Construction	10-CPC-K02	Third Party Utility Agreement	Efficiency and Effectiveness of Third Party Utility Agreements.	High	11/2013
Operations	13-OPS-P03	ATMS Utilization	Performance audit to evaluate the efficiency and effectiveness of ATMS utilization including determining whether data from various subsystems are being fully utilized for their intended purposes.	High	11/2013
Vendor/Contract Management	13-ADM-O02	Automated Storage and Retrieval System (ASRS)	Assess the efficiency and effectiveness of the ASRS that supports moving, storage, and retrieval of MTA's bus inventory from the receiving docks to fleet maintenance locations throughout the Agency.	High	11/2013
Labor Employee Relations	11-OPS-O01	Drug & Alcohol Compliance	To determine the effectiveness and efficiency of the Drug and Alcohol Program.	High	11/2013

Appendix D

Internal Audit FY 2014 - Progress Toward Completing Audit Plan

Area	Audit Number	Title	Description	Risk	Estimated Date of Completion
Other Funded Agencies	11-MET-F01	Metrolink Use of TAP Funds	Validate costs claimed were allowable and incurred for actual contract effort, adequately supported, and charged in accordance with policies, applicable laws and regulations, contract terms and conditions.	High	11/2013
Finance & Administration	10-ACC-F03	Subsidiary Ledger Accuracy and Completeness	Evaluate controls over posting to subsidiary ledger is accurate, complete and concurrent to General Ledger. Follow-up on prior audit findings and validate assets reported to FTA are concurrent with the subsidiary ledger.	High	11/2013
Operations	12-ROP-O01	Wayside Maintenance	Evaluate effectiveness of maintenance of the signal systems.	High	12/2013
Vendor/Contract Management	12-ADM-101	Contract Information Management System Implementation	Assess the system implementation process to acquire, design, test and implement the Contract Information Management System that meets specific functionalities required by the MTA business processes.	High	12/2013
Operations	13-OPS-P02	Non Revenue Vehicle Usage	Assess the efficiency and effectiveness of non revenue vehicle usage.	High	12/2013
Program Management Office	13-CEO-P01	Cost Estimating	To determine the effectiveness, efficiency, and timeliness and to identify opportunities for streamlining the process.	High	12/2013
Civil Rights	13-OPS-P05	Access Services Oversight	Evaluate the efficiency, economy and effectiveness oversight and operations.	High	12/2013
Program Management Office	12-PRO-K01	Project Management Information Systems	Evaluate General Controls of Project Management Information System.	High	12/2013
Operations	11-OPS-O04	Facilities Maintenance	Evaluate efficiency and effectiveness of Facilities Maintenance.	High	12/2013
Operations	13-OPS-P06	Contracted Bus Services Performance	Evaluate the efficiency and effectiveness of contracted bus services contracts.	High	1/2014

Appendix D

Internal Audit FY 2014 - Progress Toward Completing Audit Plan						
Area	Audit Number	Title	Description	Risk	Estimated Date of Completion	
Operations	12-OPS-P02	Bus Operator Road Calls	Evaluate effectiveness of response to bus operators' road calls.	High	1/2014	
Operations	12-OPS-P01	Rail Overhaul and Refurbishment Program	Efficiency and effectiveness of the Blue Line, Green Line and Red Line Overhaul and Refurbishment Projects.	High	1/2014	
Vendor/Contract Management	13-ADM-P01	MOU and RFP Process	To determine the effectiveness and efficiency of the Cost Estimating Process.	High	1/2014	
Finance & Administration	10-ACC-F01	Accounts Receivable Follow-up Audit	Evaluate implementation of internal controls from prior audits.	High	1/2014	
Operations	13-OPS-P04	Operations KPIs	Evaluate the accuracy and completeness of Operations KPIs.	High	2/2014	
Finance & Administration	10-ACC-F04	Chart of Accounts	Verify chart of accounts adequately reflects the current business process and reporting needs.	High	3/2014	

