

**Metro**Los Angeles County  
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metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE  
MAY 16, 2012****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2012 THIRD QUARTER REPORT****ACTION: RECEIVE AND FILE****RECOMMENDATION**

Receive and file the third quarter report of Management Audit Services (Management Audit) for the period ending March 31, 2012.

**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 and Budget Committee. This report fulfills the requirement for the third quarter of FY 2012.

**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).

There are three groups in Management Audit: Operational and Programs Audit, Support Services Audit, and Audit Support and Research Services. Operational and Programs Audit is primarily responsible for all audits for Bus Operations, Rail Operations, Planning, Construction and Economic Development. Support Services Audit is responsible for all audits in Finance, Administrative Services, Communications and the Executive Office. Both of these units provide assurance to the public that internal processes are efficiently, economically, effectively, ethically, and equitably performed by conducting audits of program effectiveness and results, economy and efficiency, internal controls, and compliance.

Audit Support and Research Services is responsible for administration, financial management, budget coordination, and audit follow-up and resolution tracking.

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 disperse funds to.

The summary of Management Audit activity for the quarter ending March 31, 2011 is as follows:

Internal Audits: one internal audit was completed; 45 internal audits were in process.

External Audits: eight contract audits with a total value of \$108 million and six grant audit with a total value of \$30 million were completed; 8 contract audits and 29 grant audits were in process.

Audit Follow-up and Resolution: 26 recommendations were added and 23 recommendations were closed during the third quarter for a year to date reduction of 63% and a total universe of 111.

Management Audit's FY 2012 third quarter report is included as Attachment A.

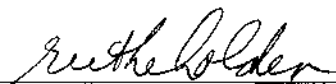
### **NEXT STEPS**

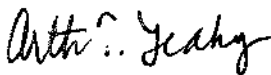
Management Audit will provide the FY 2012 year end summary of audit activity to the Board at the August 2012 Finance, Budget and Audit Committee meeting.

### **ATTACHMENT**

- A. Management Audit Services Quarterly Report to the Board for the period ending March 31, 2012

Prepared by: Ruthe Holden, Chief Auditor

  
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Ruthe Holden  
Chief Auditor

  
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Arthur T. Leahy  
Chief Executive Officer

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

**Los Angeles County Metropolitan  
Transportation Authority**

***Third Quarter  
FY 2012***



**Metro**

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# *EXECUTIVE SUMMARY*

## Summary of Audit Activity

During the third quarter of FY 2012, 15 projects were completed. These include:

### Audits

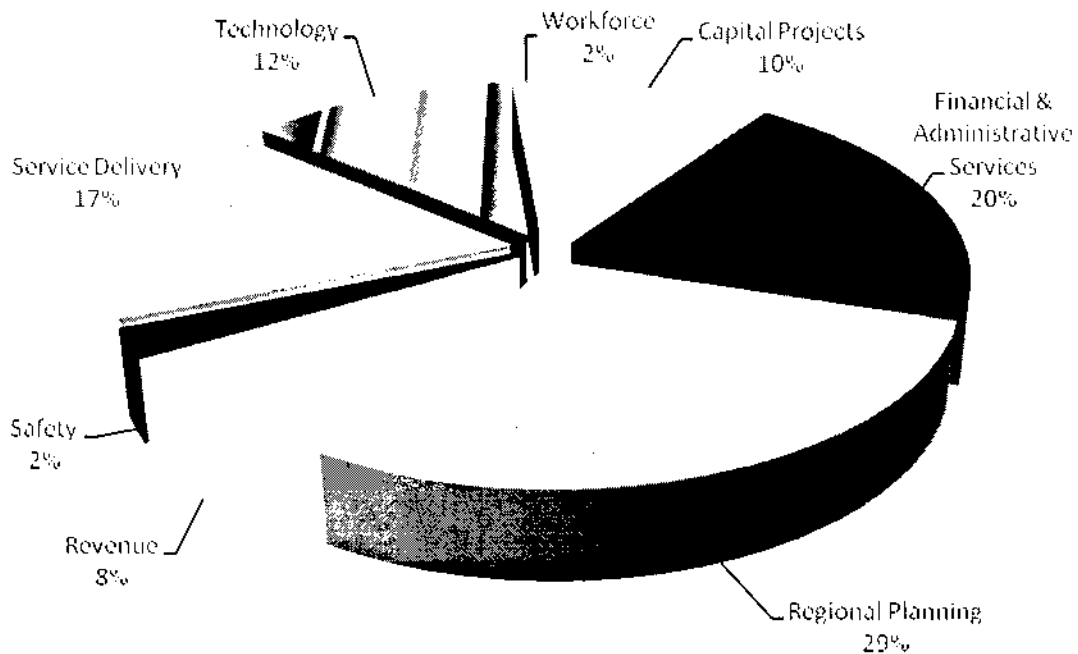
- Performance Audit of Universal Fare System Division Garage Computers – General Controls;
- Independent Auditor's Report on Agreed-Upon Procedures for the Buy America Certification for 50 Compressed Natural Gas Composite Buses;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for 150 Compressed Natural Gas Composite Buses;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Light Rail Vehicle Acquisition Program Management Support;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Light Rail Vehicle Acquisition Technical Support;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for coordination of the Regional Connector Corridor Full Funding Grant Agreement;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Regional Connector Corridor Outreach;
- Independent Auditor's Report on Agreed-Upon Procedures of the Interim Review of Los Angeles County's South Bay Forum Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Interim Review of Los Angeles County's South Bay Signal Synchronization and Bus Speed Improvements Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Closeout Review of City of Los Angeles' Cultural Crescent Blue Line Parking Facility Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Closeout Review of City of Pasadena's Blue Line Pedestrian Enhancement Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Closeout Review of City of Pasadena's SR-710 Mitigation Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Closeout Review of Culver City's Fox Hills Traffic Signal Synchronization Effort and Citywide Automated Traffic Signal Control and Monitoring Project.

The completed external audits are summarized on page 3. A summary of the internal audit is on page 4.

## EXECUTIVE SUMMARY

Eighty-two projects were in process as of March 31, 2012; these include 45 internal audits, 8 contract audits, and 29 grant audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during third quarter FY 2012:



Audit follow-up and resolution determined that:

- Twenty-six recommendations were added and 23 recommendations were closed during the third quarter for a year to date reduction of 63% and a total universe of 111.

# *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 third quarter FY 2012, eight audits were completed, reviewing a net value of \$108 million. Auditors questioned \$2.3 million or 2% of the proposed costs. The eight audits supported procurements in the following areas:

- 2 Regional Connector Corridor Project procurements;
- 4 Light Rail Vehicle Acquisition Project procurements;
- 1 Buy America procurement; and
- 1 Capital Project procurement.

Eight contract audits were in process as of March 31, 2012.

Details on Contract Audits completed during third quarter FY 2012 are in Appendix A.

## Grant Audit

Grant Audit conducts audits for Countywide Planning's Call-for-Projects program, federally funded transportation programs, and various other transportation related projects, including 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.

Grant Audit completed six audits during third quarter FY 2012. We reviewed \$30 million of funds and identified \$12.4 of unused funds that may be reprogrammed by Countywide Planning for other projects. Twenty-nine grant audits were in process as of March 31, 2012.

Details on Grant Audits completed during third quarter FY 2012 are in Appendix B.



## *INTERNAL AUDITS*

For the third quarter of FY 2012, one internal audit was completed.

Forty-five internal audits were in process as of March 31, 2012. The internal audits in process are listed in Appendix C.

The following internal audit was issued in the third quarter FY 2012.

### *Performance Audit of Universal Fare System (UFS) Division Garage Computers – General Controls*

Division garage computers store fare and transaction data collected wirelessly from bus fareboxes, the data is then forwarded to the UFS Central Computer via the network. We assessed whether general controls are adequate to ensure systems and resources are safeguarded from unauthorized access. In addition, we evaluated whether the configuration of division computers is adequate to ensure the unwarranted disruption of operations.

We found that controls are effective in ensuring that data is received and transmitted properly. However, we found that physical access and environmental conditions are inadequate at some divisions. Management has already taken action to resolve these issues.

## *OTHER AUDITS*

KPMG issued the following additional reports during third quarter FY12:

- Independent auditors' SAS 115 letter covering required communications; and
- Los Angeles County Metropolitan Transportation Authority Single Audit Reports which include:
  - Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and
  - Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

# AUDIT SUPPORT SERVICES

## Audit Follow-Up and Resolution

During the third quarter, 26 new audit recommendations were added to the outstanding audit recommendations list and 23 recommendations were completed and closed out of a total year to date universe of 111 resulting in a 63% reduction year to date in the total outstanding recommendations. The table below summarizes the third quarter activity.

### Summary of MAS and External Audit Recommendations As of March 31, 2011

Executive Area	Closed or Completed in Jan.	Closed or Completed in Feb.	Closed or Completed in March	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Chief Financial Services Officer		1	2				0
Chief Administrative Services Officer		3	3	1	3	10	14
Chief Communications Officer			1	4		1	5
Chief Operations Officer	2	6	2	7		11	18
Deputy Chief Executive Officer	1		1				0
Executive Director of Countywide Planning						1	1
Executive Director of Transit Project Delivery		1		2		1	3
<b>Totals</b>	<b>3</b>	<b>11</b>	<b>9</b>	<b>14</b>	<b>3</b>	<b>24</b>	<b>41</b>

## Appendix A

Contract Audit FY 2012 - Audits Completed During Third Quarter					
Area	Audit Number & Type	Contractor	Requirement	Date Completed	
Regional Planning	12-PLN-A02 - Attestation Agreed-upon Procedures	Camp Dresser & McKee Inc.	Contractual	1/2012	
Programs	12-OPS-A02 - Attestation Agreed-upon Procedures	NABI	Contractual	1/2012	
Regional Planning	12-PLN-A03 - Attestation Agreed-upon Procedures	The Robert Group	Contractual	1/2012	
Service Delivery	12-OPS-A03A - Attestation Agreed-upon Procedures	LTK Engineering Services	Contractual	1/2012	
Service Delivery	12-OPS-A04A - Attestation Agreed-upon Procedures	CH2M Hill, Inc.	Contractual	2/2012	
Service Delivery	12-OPS-A04B - Attestation Agreed-upon Procedures	Global Business Solutions, Inc.	Contractual	2/2012	
Service Delivery	12-OPS-A03B - Attestation Agreed-upon Procedures	Virginkar & Associates, Inc.	Contractual	2/2012	
Programs	12-OPS-A01 S1 - Attestation Agreed-upon Procedures	NABI	Contractual	2/2012	

## Appendix B

Grant Audit FY 2012 - Audits Completed During Third Quarter						
Area	Audit Number & Type	Grantee	Requirement	Date Completed		
Regional Planning	10-PLN-G10 - Closeout	City of Pasadena	Contractual	1/2012		
Regional Planning	12-PLN-G02 - Closeout	City of Pasadena	Contractual	2/2012		
Regional Planning	06-LAC-G22 - Interim	Los Angeles County	Contractual	2/2012		
Regional Planning	10-PLN-G05 - Closeout	City of Los Angeles	Contractual	2/2012		
Regional Planning	06-LAC-G23 - Interim	Los Angeles County	Contractual	2/2012		
Regional Planning	12-PLN-G03 SI - Closeout	Culver City	Contractual	3/2012		

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Programs	11-PLN-G01 - City of Bell Exchange Agreement	Determine whether the City of Bell is in compliance with Exchange Agreement	High	4/2012
Technology	09-COM-I01 - Audit of UFS/TAP General Controls	Assess whether IT general controls for Universal Fare System/Transit Access Pass (UFS/TAP) are adequate and effective to ensure systems are working properly, safeguarded from unauthorized access and changes and that backup is adequate to ensure unwarranted disruption of operation including Disaster Recovery Plan.	High	4/2012
Financial & Administrative Management	09-ADM-K02 - Compliance to Federal Transit Administration (FTA) 4220.1e	Evaluate whether contracts contain required federal clauses, evaluate whether procurement files contain 4220.1e required documentation.	High	5/2012
Financial & Administrative Management	10-RSK-I01 - Valley Oaks Claims Management System	Evaluate claims processing are accurate, timely, and whether access to this data is based on business needs.	High	5/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Service Delivery	12-ADM-001 - Follow-Up on Non-Competitive Procurement & KPMG Issue	Follow-up audit to verify implementation of corrective actions agreed upon from the initial audit in May 2010 and determine compliance with Procurement Policy, Federal and State regulatory requirements for non-competitive procurements and single bids/ proposals. Follow-up audit of KPMG findings and recommendations relating to Procurement, Suspension and Debarment.	High	5/2012
Service Delivery	12-ADM-002 - Follow-up on KPMG Recommendations on Semiannual Disadvantaged Business Enterprise reporting	Follow-up audit of KPMG findings and recommendations relating to Semiannual Disadvantaged Business Enterprise reporting.	High	5/2012
Executive Office	11-PLN-P01 - Congestion Reduction Follow-up	Follow up on corrective actions implemented from the prior audit of Congestion Reduction Demonstration Program Management.	High	5/2012
Financial & Administrative Management	09-ADM-06 - Compliance to Davis-Bacon Act	Evaluate compliance with Davis-Bacon Act, whether contractors are being monitored for compliance with Davis-Bacon Act, and evaluate efficiency and effectiveness of monitoring process.	High	5/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Programs	11-CON-K02 - Quality Assurance	Evaluate efficiency and effectiveness of Construction Quality Assurance Program.	High	5/2012
Programs	11-OPS-O04 - Facilities Maintenance	Evaluate efficiency and effectiveness of Facilities Maintenance.	High	5/2012
Service Delivery	11-OPS-O09 - Compressed Natural Gas (CNG) Electrification Contract	Evaluate contract performance of CNG Electrification of Fueling Station Program.	High	5/2012
Service Delivery	11-OPS-I03 IT Eastside Light Rail Network Security Audit	Audit of Eastside Light Rail Supervisory Control and Data Acquisition (SCADA) general controls.	High	5/2012
Service Delivery	11-OPS-O06 - HASTUS	Evaluate efficiency and effectiveness of the HASTUS scheduling and dispatching system.	High	5/2012
Administrative	12-ADM-O04 Audit of follow-up on KPMG Issues	Follow-up on KPMG Recommendations (Management Letter) relating to Identified IT Issues.	High	5/2012
Administrative	12-ADM-O03 Audit of follow-up on Waste Management	Verify corrective actions taken by management and validate that actions are resulting in improvements.	High	5/2012



## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Programs	11-MET-F01 - Audit of 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 condition; internal accounting controls were adequate for contract purposes.	High	5/2012
Financial & Administrative Management	11-ADM-I02 - PCard Follow-Up Audit	Evaluate compliance with PCard requirements and internal controls.	High	5/2012
Programs	12-PLN-K01 - 511 System Information	Contract Performance Audit of 511 System Information Project Management.	High	5/2012
Administrative	12-ADM-104 - Human Resources Database	Assess the adequacy of security access to sensitive Human Resources data. Ensure consistency with laws and regulations governing storage and transmission of personnel data	High	6/2012
Financial & Administrative Management	12-FIN-O01 Audit of Wire Transfer	Assess whether Treasury wire transfers are properly initiated, verified, and approved prior to processing.	High	6/2012
Financial & Administrative Management	10-ACC-F01 - Accounts Receivable Follow-up Audit	Evaluate implementation of internal controls from prior audits.	High	6/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Financial & Administrative Management	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	6/2012
Operations	11-OPS-001 -Audit of Drug & Alcohol Compliance Program	Bus/rail operators' non-compliance with policy and regulatory requirements could result in accidents, liabilities and cause detriment to the agency's public image.	High	6/2012
Service Delivery	11-COM-I02 - Metro.Net	Validate Metro website's compliance with rules and regulations in supporting the agency's public outreach initiative. 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	6/2012
Service Delivery	12-ADM-I01 - Audit of Contract Information Management System Implementation		High	6/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Technology	10-COM-I02 - Audit of Farebox Collection System	Assess whether internal controls are adequate and effective to ensure that recording, probing, synchronization and transmission of revenue related data to the Garage Data Management System Computer in the divisions are accurate.	High	6/2012
Operations	12-OPS-P04 - ATMS Bus Communications	Evaluate the effectiveness of internal controls for bus installed components to ensure subsystems are working as intended.	High	6/2012
Programs	10-CPC-K02 Third Party Utility Agreement	Efficiency and Effectiveness of Third Party Utility Agreements.	High	6/2012
Programs	12-CON-P02 - Gold Line Project Management	Evaluate efficiency and effectiveness of Gold Line Project Management	High	6/2012
Programs	12-CON-P01 - Compliance to Stormwater Requirements	Environmental Compliance to Stormwater Requirements	High	6/2012
Programs	12-CON-P03 - I-405 Contract Performance Follow-up	Follow-up on I-405 Contract Performance	High	6/2012
Programs	12-HCP-P01 - Freeway Service Patrol	Evaluate contract oversight and performance of contractors.	High	6/2012
Safety	10-OPS-O06 - Bus Accident Investigation Process	Evaluate Bus Accident Investigation Process to industry best practices.	High	6/2012
Service Delivery	11-OPS-O02 - Bus Mid-Life Program	Evaluate efficiency and effective management of bus mid-life program.	High	6/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Service Delivery	10-OPS-001 - Bus Cleanliness	Evaluate cleanliness inspection process to meet standards.	High	6/2012
Service Delivery	11-OPS-008 - Fare Box Maintenance	Evaluate whether Bus Operations is maintaining fareboxes to the Original Equipment Manufacturers requirements.	High	6/2012
Service Delivery	11-OPS-0023 - Bus Engine Retrofit	Evaluate Bus Engine Retrofit Program efficiency and effectiveness. If not properly managed it may result in cost overruns, schedule delays and poor quality.	High	6/2012
Administrative	12-ADM-103 - Oracle Database	Assess efficiency and effectiveness of database management and environment Assess user access are appropriate; media failure or other system or business interruption is limited and integrity controls are in place to protect the database from unintentional changes made by users or processes	High	6/2012
Administrative	12-ADM-102 Audit of M3 Timekeeping System	Assess the efficiency and effectiveness of timekeeping module to ensure timesheets are processed accurately, timely and completely.	High	6/2012

## Appendix C

Internal Audit FY 2012 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Financial & Administrative Management	10-ACC-F04 - Chart of Accounts	Verify chart of accounts adequately reflects the current business process and reporting needs.	High	6/2012
Programs	12-PRO-K01 - Project Management Information Systems	Evaluate General and Application Controls of Project Management Information System.	High	6/2012
Programs	12-PRO-G01 - Consolidated Audit	Financial and compliance audits of Proposition A and C local return programs, 1B Transit Modernization, Transit Security funds, Rider Relief Transportation Program and Measure R for Cities in Los Angeles County and Nonprofits.	High	6/2012
Safety	11-CEO-O01 - Audit of Safety Program	Evaluate efficiency and effectiveness of Safety Program and accuracy of reported metrics.	High	6/2012
Service Delivery	10-OPS-O03 - Handling of Scrap	Evaluate effectiveness of procedures and compliance to internal controls.	High	6/2012
Operations	12-ROP-O01 - Wayside Maintenance	Evaluate effectiveness of maintenance of the signal systems.	High	7/2012