

**Metro**Los Angeles County  
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metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE  
JUNE 19, 2013****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2013 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, 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 and Budget Committee. This report fulfills the requirement for the third quarter of FY 2013.

**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, 2013 is as follows:

Internal Audits: two internal audits were completed; 33 internal audits were in process.

External Audits: eleven contract audits with a total value of \$30 million and four grant audits with a total value of \$8 million were completed; 13 contract audits and 31 grant audits were in process.

Audit Follow-up and Resolution: 24 recommendations were added and 44 recommendations were closed during the third quarter for a year to date reduction of 88% and a total universe of 104.

Management Audit's FY 2013 third quarter report is included as Attachment A.

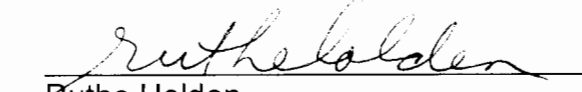
### **NEXT STEPS**

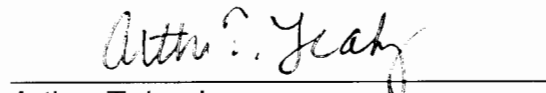
Management Audit will provide the FY 2013 year end summary of audit activity to the Board at the September 2013 Finance, Budget and Audit Committee meeting.

### **ATTACHMENT**

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

***Third Quarter  
FY 2013***



**Metro**

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# *EXECUTIVE SUMMARY*

## Summary of Audit Activity

During the third quarter of FY 2013, 17 projects were completed. These include:

### Audits

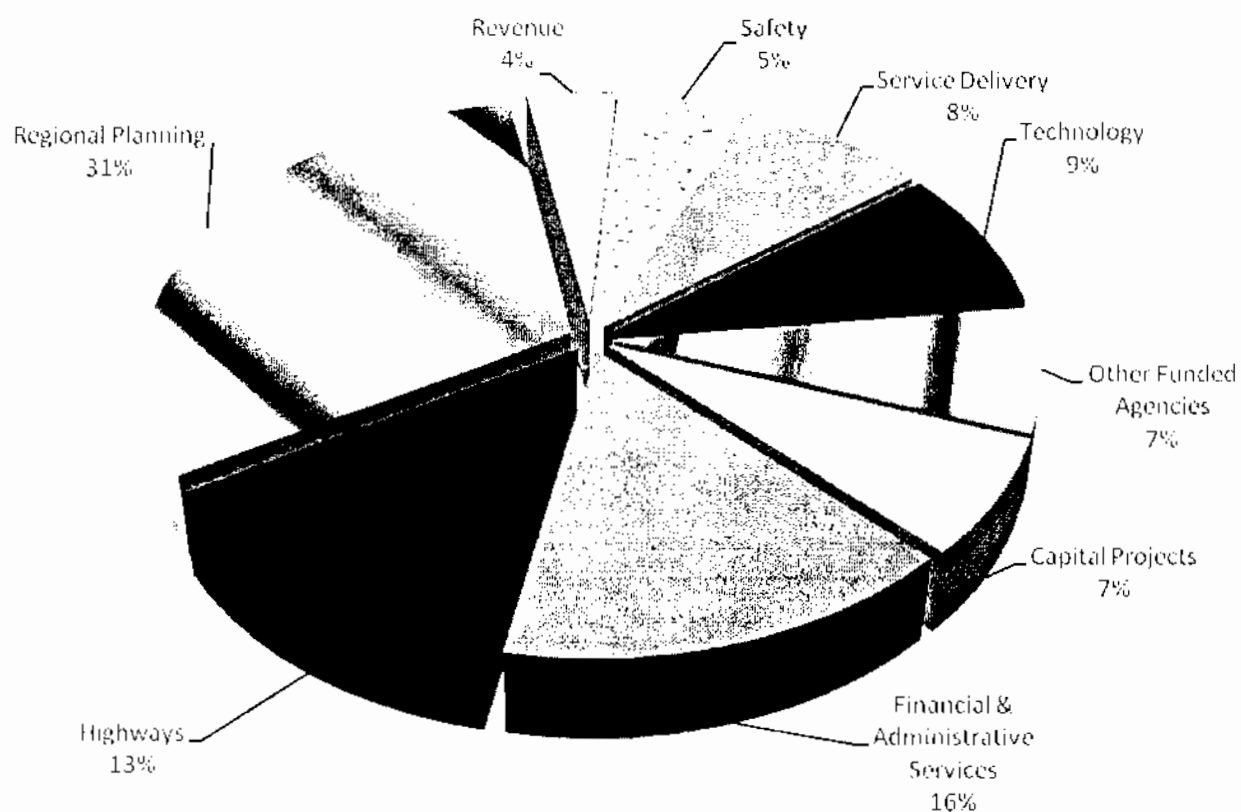
- Performance Audit Procurement Card Follow-up;
- Performance Audit Vector Tolling System;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for I-710 Corridor Project EIR/EIS Community Outreach Component;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Revenue Collection Equipment Mid-Life Refurbishment;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Doran Street Crossing Grade Separation Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Contract Information Management System Phase II, the Vendor Certification and Labor Compliance System;
- 3 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Project Administration and Environmental Documentation Support for SR 138 Improvements;
- 4 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the I-710 Corridor Project EIR/EIS Engineering/Environmental Component;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Glendale's Arroyo Verdugo Advanced Traveler Information System Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Hyde Park West Automated Surveillance and Control Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Los Angeles and Surrounding Communities Bicycle Map Project;
- Independent Auditor's Report on Agreed-Upon Procedures Review of Alameda Corridor East Construction Authority's Subcontractors' Cost and Retention.

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

## EXECUTIVE SUMMARY

Seventy-seven projects were in process as of March 31, 2013; these include 33 internal audits, 13 contract audits, and 31 grant audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during third quarter FY 2013:



Audit follow-up and resolution determined that:

- 24 recommendations were added and 44 recommendations were closed during the third quarter for a year to date reduction of 88% and a total universe of 104.

# *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 2013, 11 audits were completed, reviewing a net value of \$30 million. Auditors questioned \$1 million or 4% of the proposed costs. The 11 audits supported procurements in the following areas:

- 4 I-710 Corridor Project procurements;
- 4 SR 138 Improvements Project procurements;
- 1 Doran Street Crossing Grade Separation Project procurement;
- 1 Contract Information Management System Project procurement;
- 1 Service Delivery Project procurement.

Thirteen contract audits were in process as of March 31, 2013.

Details on Contract Audits completed during third quarter FY 2013 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 four audits during third quarter FY 2013. We reviewed \$8 million of funds and identified \$63 thousand of unused funds that may be reprogrammed by Countywide Planning for other projects. Thirty-one grant audits were in process as of March 31, 2013.

Details on Grant Audits completed during third quarter FY 2013 are in Appendix B.



# *INTERNAL AUDITS*

For the third quarter of FY 2013, two internal audits were completed.

Thirty-three internal audits were in process as of March 31, 2013. The internal audits in process are listed in Appendix C.

The following internal audits were issued in the third quarter FY 2013. The completed reports are listed in order of the magnitude of risks that their findings represent to the agency.

## *Performance Audit Procurement Card Follow-up*

The audit objective was to evaluate compliance with P-Card requirements and internal controls, and to evaluate whether there is a need to have both P-Card and Petty Cash Programs.

We found that there have been improvements in P-Card controls for purchases made in calendar years 2010 and 2011. However, we noted an increase in non-compliant purchases in 2012. We also found that control activities established in the P-Card Program guidelines do not prevent P-Card users from making improper and non-compliant purchases. In addition, MTA routinely misses out on discounts from large volume vendors because no one is routinely reviewing P-Card volume. Also, the Petty Cash Program duplicates the P-Card Program and Accounting should consider eliminating it or significantly reducing the number of petty cash holders. Management agreed with the findings and has already taken steps to resolve these issues.

## *Performance Audit Vector Tolling System*

The audit objective was to evaluate the efficiency and effectiveness of the general information technology controls of the Vector Tolling System.

We found that general controls were adequately implemented and working as intended. We identified four issues, two of which were corrected during the audit. The other two issues were minor. Management agreed with the findings and has already taken steps to resolve these issues.

## *INTERNAL AUDITS*

### *Audit of the Phase 1 Expo Construction Project – Issued May 2013*

In June 2012 the Board directed Management Audit to perform an audit of Expo. We contracted Macias Consulting Group to conduct the audit.

The auditor found that there were multiple factors contributing to the cost growth on the Phase I project. These factors include: expansion of the project, project design changes, utility relocations and contractor claims, unreimbursed soft costs for betterments, use of a negotiated design-build contracting strategy, insufficient project contingency budgeting, and higher than normal escalation. The report provides recommendations on ways to enhance communication to ensure that MTA executive management and the Board are kept up-to-date on the status of Phase II.

## *OTHER AUDITS*

Other audits completed during third Quarter FY13 by external CPA firms include:

### Basic Financial Statements – All parts Issued by February 2013

An audit of our financial statements by an independent CPA firm is required annually. We retained KPMG, LLP to conduct the audit for the fiscal year FY12. The following reports include MTA's basic financial statements and following component audits for the year ended June 30, 2012.

- Basic Financial Statement Report;
- 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;
- Management Letter for Federal Funding Allocation Data Transportation Operating Agency (ID# 9154);
- Federal Funding Allocation Data L.A. County Small Operators (ID# 9166);
- Transportation Development Act Operations Agency Year ended June 30, 2012;
- Transportation Development Act & Prop 1B PTMISEA Planning Agency Schedule of Revenues, Expenditures, and Changes in Fund Balances;
- State Transit Assistance Special Revenue Fund Basic Financial Statements;
- Service Authority for Freeway Emergencies Financial Statements and Other Supplementary Information;
- Statement on Auditing Standards 114 communications report;
- Independent Auditors' Statement on Auditing Standards 114 letter covering required communications.

The audit found our financial statements to present fairly, in all material respects.

# AUDIT SUPPORT SERVICES

## Audit Follow-Up and Resolution

During the third quarter, 24 new audit recommendations were added to the outstanding audit recommendations list and 44 recommendations were completed and closed out of a total year to date universe of 104 resulting in an 88% 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, 2013

Executive Area	Closed or Completed in Jan.	Closed or Completed in Feb.	Closed or Completed in Mar.	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Chief Financial Services Officer and Treasurer		1	5			1	1
Chief Administrative Services Officer	3	7	4	1		5	6
Interim Chief Communications Officer			7	1			1
Chief Operations Officer	3	2	6				0
Executive Director, Highway Project Delivery			4			1	1
Executive Director, Transit Project Delivery				3			3
Deputy Chief Executive Officer		2				1	1
<b>Totals</b>	<b>6</b>	<b>12</b>	<b>26</b>	<b>5</b>		<b>8</b>	<b>13</b>

## Appendix A

<b>Contract Audit FY 2013 - Audits Completed During Third Quarter</b>				
<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Contractor</b>	<b>Requirement</b>	<b>Date Completed</b>
Regional Planning	13-PLN-A12 - Attestation Agreed-upon Procedures	Iacofano Goltsman, Inc.	Contractual	1/2013
Regional Planning	13-PLN-A13B- Attestation Agreed-upon Procedures	LSA Associates	Contractual	1/2013
Regional Planning	13-PLN-A13A - Attestation Agreed-upon Procedures	URS Corporation	Contractual	1/2013
Regional Planning	13-PLN-A13C - Attestation Agreed-upon Procedures	Environ International Corporation	Contractual	1/2013
Highways	13-PLN-A14A - Attestation Agreed-upon Procedures	Kimley-Horn and Associates, Inc.	Contractual	2/2013
Highways	13-PLN-A14C - Attestation Agreed-upon Procedures	LSA Associates	Contractual	2/2013
Highways	13-PLN-A14B - Attestation Agreed-upon Procedures	Galvin Preservation Associates, Inc.	Contractual	2/2013
Highways	13-PLN-A14D - Attestation Agreed-upon Procedures	Point C, LLC.	Contractual	3/2013
Service Delivery	13-OPS-A05 - Attestation Agreed-upon Procedures	Southern AM Engineering, Inc.	Contractual	3/2013

## Appendix A

<b>Contract Audit FY 2013 - Audits Completed During Third Quarter</b>				
<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Contractor</b>	<b>Requirement</b>	<b>Date Completed</b>
Regional Rail	13-PLN-A21 - Attestation Agreed-upon Procedures	HNTB Corporation	Contractual	3/2013
Administrative Services	13-ADM-C01 - Attestation Agreed-upon Procedures	Zanett Commercial Solutions, Inc.	Contractual	3/2013

## Appendix B

<b>Grant Audit FY 2013 - Audits Completed During Third Quarter</b>				
<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Grantee</b>	<b>Requirement</b>	<b>Date Completed</b>
Highways	12-PLN-A09 - Closeout	City of Glendale, City of Pasadena & City of Burbank	Contractual	2/2013
Regional Planning	12-PLN-G04 - Closeout	City of Los Angeles	Contractual	3/2013

## Appendix C

<b>Internal Audit FY 2013 - Progress Toward Completing Audit Plan</b>				
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Risk</b>	<b>Estimated Date of Completion</b>
Financial Services	12-FIN-O01 - Audit of Wire Transfer	Assess whether Treasury wire transfers are properly initiated, verified, and approved prior to processing.	High	4/2013
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	4/2013
Administrative Services	10-OPS-O03 - Handling of Scrap	Evaluate effectiveness of procedures and compliance to internal controls.	High	4/2013
Other Funded Agencies	13-EXP-P01 - Expo Performance Audit	Evaluate efficiency and effectiveness of the construction, contract management and project management processes. Including cost and schedule containment, cost overruns, closeout and handoff process, and lessons learned from Phase 1 that can mitigate risk in Phase 2 of the project.	High	4/2013
Other Funded Agencies	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 conditions.	High	5/2013



## Appendix C

<b>Internal Audit FY 2013 - Progress Toward Completing Audit Plan</b>				
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Risk</b>	<b>Estimated Date of Completion</b>
Executive Office	11-OPS-O01 - 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	5/2013
Operations	10-OPS-O01 - Bus Cleanliness	Evaluate cleanliness inspection process to meet standards.	High	5/2013
Transit Project Delivery	12-CON-P01 - Compliance to Stormwater Requirements	Environmental Compliance to Stormwater Requirements	High	6/2013
Technology	12-PRO-K01 - Project Management Information Systems	Evaluate General Controls of Project Management Information System.	High	6/2013
Technology	12-ADM-I02 - Audit of M3 Timekeeping System	Assess the efficiency and effectiveness of timekeeping module to ensure timesheets are processed accurately, timely and completely.	High	6/2013
Operations	11-OPS-O04 - Facilities Maintenance	Evaluate efficiency and effectiveness of Facilities Maintenance.	High	6/2013
Operations	11-OPS-O06 - HASTUS	Evaluate efficiency and effectiveness of the HASTUS scheduling and dispatching system.	High	6/2013
Financial Services	10-ACC-F01 - Accounts Receivable Follow-up Audit	Evaluate implementation of internal controls from prior audits.	High	6/2013
Executive Office	12-COM-P01 - TAP Purchasing Process	Evaluate efficiency and effectiveness of controls for purchasing and replenishing TAP Cards.	High	6/2013
Operations	13-OPS-P02 - Non Revenue Vehicle Usage	Assess the efficiency and effectiveness of non revenue vehicle usage	High	6/2013

## Appendix C

<b>Internal Audit FY 2013 - Progress Toward Completing Audit Plan</b>				
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Risk</b>	<b>Estimated Date of Completion</b>
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	6/2013
Programs	12-CON-P03 - I-405 Contract Performance Follow-up	Follow-up on I-405 Contract Performance	High	6/2013
Transit Project Delivery	10-CPC-K02 Third Party Utility Agreement	Efficiency and Effectiveness of Third Party Utility Agreements.	High	6/2013
Financial Services	10-ACC-F04 - Chart of Accounts	Verify chart of accounts adequately reflects the current business process and reporting needs.	High	7/2013
Transit Project Delivery	11-CON-K02 - Quality Assurance	Evaluate efficiency and effectiveness of Construction Quality Assurance Program.	High	7/2013
Other Funded Agencies	12-CON-P02 - Gold Line Project Management	Evaluate efficiency and effectiveness of Gold Line Project Management	High	7/2013
Financial Services	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	7/2013
Operations	12-ROP-O01 - Wayside Maintenance	Evaluate effectiveness of maintenance of the signal systems.	High	8/2013

## Appendix C

<b>Internal Audit FY 2013 - Progress Toward Completing Audit Plan</b>				
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Risk</b>	<b>Estimated Date of Completion</b>
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	9/2013
Highways	12-HCP-P01 - Freeway Service Patrol	Evaluate contract oversight and performance of contractors.	High	9/2013
Executive Office	11-CEO-O01 - Audit of Safety Program	Evaluate efficiency and effectiveness of Safety Program and accuracy of reported metrics.	High	9/2013
Operations	11-OPS-O08 - Fare Box Maintenance	Evaluate whether Bus Operations is maintaining fareboxes to the Original Equipment Manufacturers requirements.	High	9/2013
Administrative Services	13-ADM-O02 Audit of the 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	9/2013
Operations	13-OPS-P04 - Operations' KPIs	Accuracy and completeness of Operations' KPIs	High	9/2013

## Appendix C

<b>Internal Audit FY 2013 - Progress Toward Completing Audit Plan</b>				
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Risk</b>	<b>Estimated Date of Completion</b>
Technology	12-ADM-I01 - Audit of 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	10/2013
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.	High	10/2013
Operations	13-OPS-P06 - Contracted Bus Services Performance	Evaluate the efficiency and effectiveness of contracted bus services contracts.	High	10/2013
Operations	13-OPS-P05 - Access Services Oversight	Evaluate the Efficiency, economy and effectiveness oversight and operations.	High	12/2013