

**Metro**Los Angeles County
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metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE
JANUARY 14, 2015****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2015 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, 2014.

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 2015.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management. 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.

There are four groups in Management Audit: Performance Audit, Contract Audit, Financial and Compliance Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Engineering and Construction, Information Technology, Communications and Executive Office. Contract and Financial and Compliance Audit are responsible for all audits in Planning and Development and Vendor/Contract Management. All 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 summary of Management Audit activity for the quarter ending September 30, 2014 is as follows:

Internal Audits: one internal audit and one internal assessment were completed; 18 internal audits were in process.

External Audits: seven contract audits with a total value of \$11.6 million and nine grant audits with a total value of \$47 million were completed; 19 contract audits and 39 grant audits were in process.

Audit Follow-up and Resolution: three recommendations were added and 15 recommendations were closed during the first quarter. At the end of the quarter, there were 60 open audit recommendations.

Management Audit's FY 2015 first quarter report is included as Attachment A.

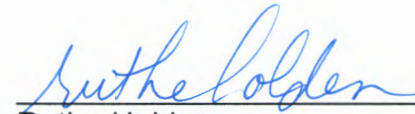
NEXT STEPS

Management Audit will provide the FY 2015 second quarter summary of audit activity to the Board at the February 2015 Finance, Budget and Audit Committee meeting.


ATTACHMENT

- A. Management Audit Services Quarterly Report to the Board for the period ending September 30, 2014

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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 2015***



Metro

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EXECUTIVE SUMMARY

Summary of Audit Activity

During the first quarter of FY 2015, eighteen projects were completed. These include:

Internal Audits

- Performance Audit of Metro Freeway Service Patrol;
- Internal Assessment of Management and Movement of Parts and Supplies;

Contract Audits

- Independent Auditor's Report on Agreed-Upon Procedures for Buy America Post-Award Certification for 550 Forty-foot Low Floor CNG Transit Buses;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Universal Fare System –Ticket Vending Machine and Stand Alone Validator Relocation;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Raymer to Bernson Double Track Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Van Nuys North Platform Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Change Order Proposal for SCADA Expo II and Foothill I Integration;

Financial and Compliance Audits

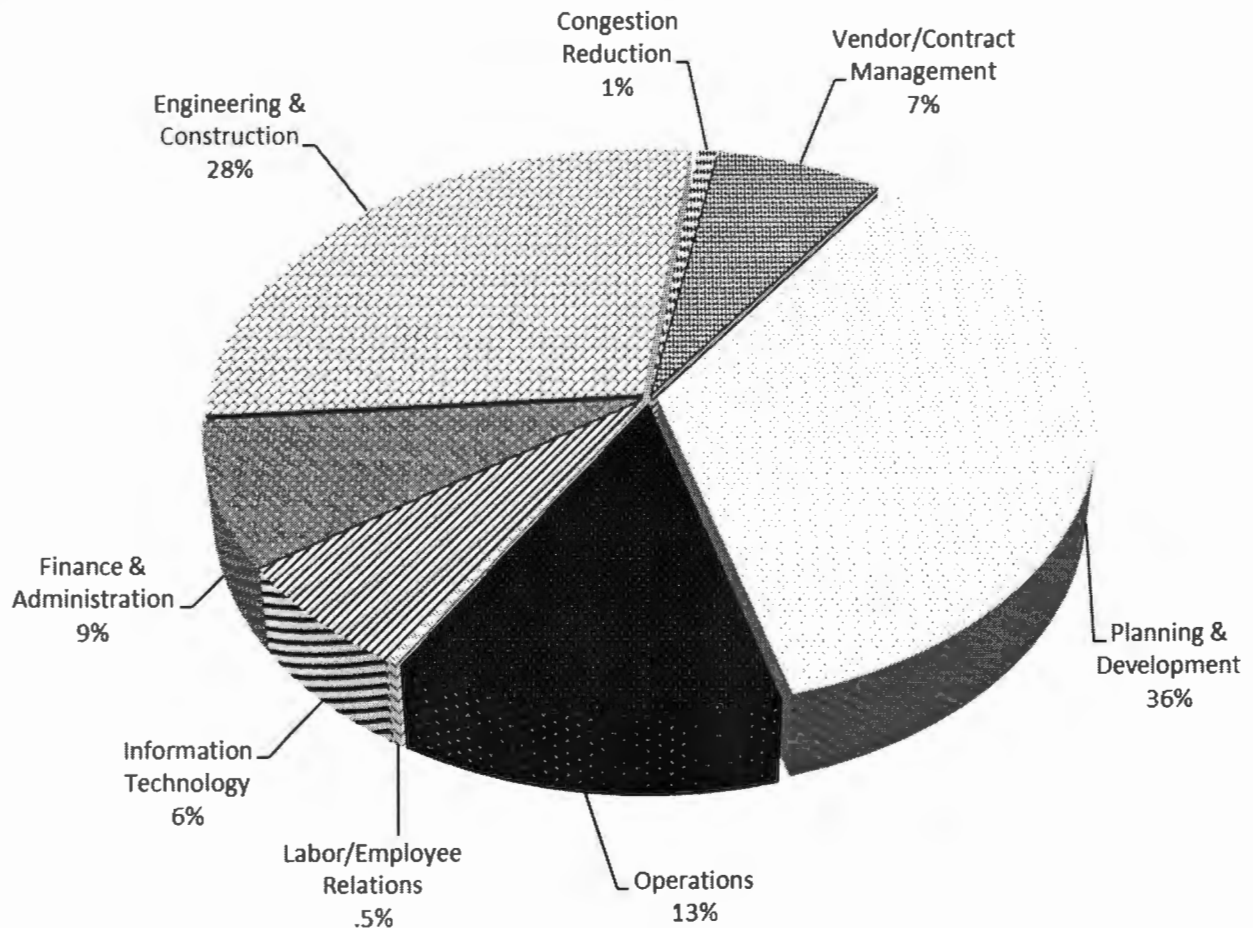
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Caltrans' HOV Lanes on I-405 from SR-90 to I-10 Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Interim Review of I-5 Joint Power Authority's I-5 Pre-Construction Mitigation Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of El Segundo's Maple Avenue Arterial Improvements Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's San Gabriel Valley Forum Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's West San Gabriel Valley Signal Synchronization Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Santa Monica Freeway Corridor Phase I, Adaptive Traffic Control System Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Caltrans' Duarte Soundwall I-210 Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Caltrans' Route 30 Freeway Gap Closure Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Glendale Boulevard Corridor Improvements Project.

The completed external audits are discussed on page 3. Discussions of the internal audits begin on page 4.

EXECUTIVE SUMMARY

Seventy-six projects were in process as of September 30, 2014; these include 18 internal audits, 19 contract audits, and 39 financial and compliance audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during first quarter FY 2015:



Audit follow-up:

- Three recommendations were added and 15 recommendations were closed during the first quarter. At the end of the quarter, there were 60 open audit recommendations.

EXTERNAL AUDITS

Contract Audit

Contract Audit provides support to the Vendor/Contract Management Department 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 2015, seven audits were completed, reviewing a net value of \$11.6 million. Auditors questioned \$236 thousand or 2% of the proposed costs. The seven audits supported procurements in the following areas:

- 2 Universal Fare Systems procurements;
- 2 Double Track Project procurements;
- Expo II and Metro Gold Line Foothill Extension SCADA Integration procurement;
- Van Nuys Platform Project procurement; and
- Buy America procurement.

Nineteen contract audits were in process as of September 30, 2014.

Details on Contract Audits completed during first quarter FY 2015 are in Appendix A.

Financial and Compliance Audit

Financial and Compliance Audit conducts audits for Planning and Development's Call-for-Projects program, Engineering and Construction's highway projects, federally funded transportation programs, and various other transportation related projects, including 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 nine audits during first quarter FY 2015. We reviewed \$47 million of funds and identified \$3 million or 6% of unused funds that may be reprogrammed by Planning and Development for other projects. Thirty-nine grant audits were in process as of September 30, 2014.

Details on Grant Audits completed during first quarter FY 2015 are in Appendix B.

INTERNAL AUDITS

For the first quarter of FY 2015, one internal audit and one internal assessment were completed. Nineteen internal audits were in process as of September 30, 2014. The internal audits in process are listed in Appendix C.

The following internal audits were issued in the first quarter FY 2015. The completed reports are listed in order of the magnitude of risks that their findings represent to the agency.

Performance Audit of Metro Freeway Service Patrol

The audit objective was to evaluate the efficiency and effectiveness of Program Management oversight and the performance of contractors within the Metro Freeway Service Patrol Program.

We found that the Metro Freeway Service Patrol (FSP) Program Manager is effectively managing program funds and contract costs, and has a process to investigate complaints. However, we found a need for improvement in the oversight of the Metro FSP Program. Management agreed with the findings and has already taken steps to resolve these issues.

Internal Assessment of Management and Movement of Parts and Supplies

We completed an internal assessment of the management and movement of parts and supplies to identify key risk areas. This assessment was a holistic look at the entire process of management and movement of parts and supplies. Our final assessment identified several areas which have been incorporated into the current risk assessment.

OTHER AUDITS

Cancelled Audits

Performance Audit of Bus Operator Road Calls

The audit objective was to evaluate the effectiveness of response to bus operators' road calls. During our preliminary analysis, we extracted road call data from the M3 system and performed a trend analysis for all road calls for the period of January 2009 to January 2014. Our analysis indicated that road calls have decreased by 35% from 2009 to 2013.

We analyzed the results to determine if there was a systemic pattern associated with the road calls. We found that the Divisions with the highest number of road calls also have the highest number of revenue miles, which was an expected result. We did not identify any pattern associated with types of buses or bus maintenance issues. Based on our preliminary review, we did not identify any high risk areas to audit, therefore the audit was cancelled. We will reevaluate this each year during the agency-wide risk assessment process to determine if this should be included in the audit plan.

Performance Audit of Caltrans Funding Agreement

The audit objective was to evaluate the cost overruns of Caltrans funding agreement MOU P0004292. As part of our preliminary review we reviewed the MOU and all amendments. We also interviewed Highway Programs staff and found that although a funding gap had existed, it was no longer an issue because the Board had approved \$50 Million for Interstate 5 South in June 2013.

Based on our preliminary review the issue of cost overruns for Funding Agreement MOU P0004292 was resolved, therefore the audit was cancelled.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the first quarter, three new audit recommendations were added to the outstanding audit recommendations list and 15 recommendations were completed and closed. At the end of this quarter, there were 60 outstanding audit recommendations. The table below summarizes the first quarter activity.

Summary of MAS and External Audit Recommendations As of September 30, 2014

Executive Area	Closed or Completed in July	Closed or Completed in Aug.	Closed or Completed in Sep.	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Engineering and Construction			2				0
Executive Office			4			11	11
Finance and Budget					2		2
Information Technology					2	1	3
Operations		2	5		2	9	11
Planning and Development	2					31	31
Vendor/Contract Management					2		2
Totals	2	2	11	0	8	52	60

Appendix A

Contract Audit FY 2015 - Audits Completed During First Quarter				
Area	Audit Number & Type	Contractor	Requirement	Date Completed
Operations	14-OPS-A10- Attestation Agreed-upon Procedures	New Flyer of America, Inc.	Contractual	7/2014
Finance & Administration	14-OPS-A08A - Attestation Agreed-upon Procedures	Cubic Transportation Systems, Inc.	Contractual	7/2014
Finance & Administration	14-OPS-A08B - Attestation Agreed-upon Procedures	Robnett Electric, Inc.	Contractual	7/2014
Engineering & Construction	14-CON-A03A - Attestation Agreed-upon Procedures	J.L. Patterson & Associates, Inc.	Contractual	8/2014
Engineering & Construction	14-CON-A03B - Attestation Agreed-upon Procedures	Parsons Brinkerhoff, Inc.	Contractual	8/2014
Engineering & Construction	14-CON-A02 - Attestation Agreed-upon Procedures	RailPros, Inc.	Contractual	9/2014
Operations	14-OPS-A14 - Attestation Agreed-upon Procedures	ARINC, Inc.	Contractual	9/2014

Appendix B

Grant Audit FY 2015 - Audits Completed During First Quarter				
Area	Audit Number & Type	Grantee	Requirement	Date Completed
Engineering & Construction	14-PLN-A16- Closeout	Caltrans	Contractual	8/2014
Engineering & Construction	13-PLN-A04- Interim	I-5 JPA	Contractual	8/2014
Engineering & Construction	14-PLN-A28 - Closeout	City of El Segundo	Contractual	8/2014
Planning & Development	12-PLN-A12 - Closeout	County of Los Angeles	Contractual	8/2014
Planning & Development	12-PLN-G09 - Closeout	County of Los Angeles	Contractual	8/2014
Planning & Development	14-PLN-A17 - Closeout	City of Los Angeles	Contractual	9/2014
Engineering & Construction	14-PLN-A15 - Closeout	Caltrans	Contractual	9/2014
Engineering & Construction	13-PLN-A02 - Closeout	Caltrans	Contractual	9/2014
Planning & Development	12-PLN-A11 - Closeout	City of Los Angeles	Contractual	9/2014

Appendix C

Internal Audit FY 2015 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Operations	13-OPS-P03 - Operations IT System Integrations (ATMS)	Evaluate the efficiency and effectiveness operation IT systems integration and utilization.	High	12/2014
Other Funded Agencies	11-MET-F01 - Metrolink Use of TAP Funds	Validate costs claimed were allowable and allocable, adequately supported and met the objectives of grant terms and conditions.	High	12/2014
Information Technology	14-ADM-P01 - Mobile Devices	Evaluate efficiency and effectiveness of mobile device security and controls for personal usage.	High	1/2015
Operations	13-OPS-P02 - Non-Revenue Vehicle Usage (Agencywide)	Evaluate efficiency and effectiveness of bus division non-revenue vehicle usage.	High	1/2015
Operations	13-OPS-P04 - Operations KPI Audit	Evaluate the accuracy and completeness of Operations KPIs.	High	1/2015
Operations	13-OPS-P06 - Contracted Bus Services	Evaluate the efficiency and effectiveness of contracted bus services contracts.	High	1/2015
Vendor / Contract Management	13-ADM-P01 - RFP Process	Assess efficiency and effectiveness and timeliness of Procurement's RFP processes.	High	1/2015
Operations	12-OPS-P01 - Rail Overhead and Maintenance	Evaluate the efficiency and effectiveness of the Rail Overhaul and Refurbishment Program.	High	2/2015
Operations	12-ROP-001 - Wayside System	Evaluate effectiveness of maintenance of the Rail signaling systems.	High	2/2015

Appendix C

Internal Audit FY 2015 - Progress Toward Completing Audit Plan				
Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Vendor / Contract Management	13-ADM-O02 - Automated Storage and Retrieval System Phase I & II	Evaluate the adequacy of internal controls over the Automated Storage and Retrieval System (ASRS) Manager Computer System.	High	2/2015
Vendor / Contract Management	12-ADM-I01 - Contract Information Management System	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	3/2015
Finance & Administration	10-ACC-F04 - Chart of Accounts	Verify that Chart of Accounts adequately reflect the current business process and reporting needs.	High	3/2015
Planning & Development	14-EDD-P01 - Real Estate Property Management Follow-up	Evaluate accuracy and completeness of tracking real estate properties in Real Property Management System.	High	3/2015
Vendor / Contract Management	13-CEO-P01 - Cost Estimating Process	Assess efficiency and effectiveness and timeliness of Procurement's cost estimating process.	High	3/2015
Finance & Administration	10-ACC-F01 - Accounts Receivable	Validate adequacy of current policies and procedures.	High	4/2015
Engineering & Construction	14-TPD-P01 - Construction Change Order Process	Evaluate the efficiency and effectiveness of the construction change order process including effectiveness of estimating process.	High	9/2015

Appendix C

Internal Audit FY 2015 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Engineering & Construction	12-CON-P03 - Audit Follow-up	Verify if management's corrective actions from the prior audit were implemented and resulting in improvements.	High	6/2016
Engineering & Construction	10-CPC-K02 - Third Party Utility Relocation Agreement Efficiency	Assess the adequacy and effectiveness of the Third Party Utility Relocation.	High	6/2016