

**Board Report**

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
JANUARY 20, 2016**

**SUBJECT: MANAGEMENT AUDIT SERVICES FY 2016 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, 2015.

**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 2016.

**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 receive Metro funds.

There are four groups in Management Audit: Performance Audit, Contract Pre-Award Audit, Incurred Cost Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management and Executive Office. Contract Pre-Award and Incurred Cost Audit are responsible for external audits in Planning and Development, Program Management 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, 2015 is as follows:

Internal Audits: two internal audits were completed; 15 internal audits were in process.

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External Audits: six contract pre-award audits with a total value of \$22.7 million and nine incurred cost audits with a total value of \$20 million were completed; four contract audits, 44 incurred cost audits were in process.

Audit Follow-up and Resolution: Eight recommendations were closed during the first quarter. At the end of the quarter, there were 51 open audit recommendations. Details of all open, extended, and closed recommendations can be found in the First Quarter Board Box titled "Status of Audit Recommendations".

Management Audit's FY 2016 first quarter report is included as Attachment A.

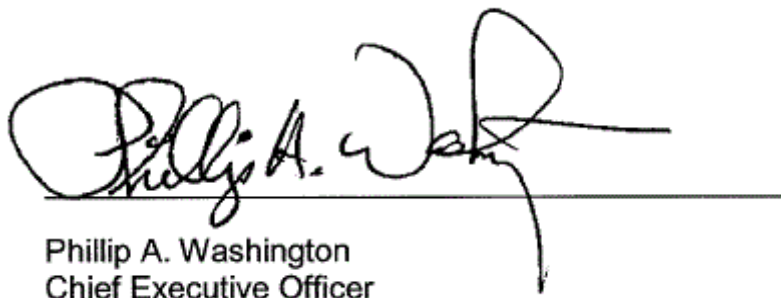
**NEXT STEPS**

Management Audit will provide the FY 2016 second quarter summary of audit activity to the Board at the March 2016 Finance, Budget and Audit Committee meeting.

**ATTACHMENT**

Attachment A - Management Audit Services Quarterly Report to the Board for the period ending September 30, 2015

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Phillip A. Washington  
Chief Executive Officer

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

**Los Angeles County Metropolitan  
Transportation Authority**

***First Quarter  
FY 2016***



**Metro™**

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# *EXECUTIVE SUMMARY*

## Summary of Audit Activity

During the first quarter of FY 2016, 17 projects were completed. These include:

### Internal Audits

- Performance Audit of Efficiency and Effectiveness of Non-Revenue Vehicle Usage;
- Performance Audit of Chart of Accounts.

### Pre-Award Audits

- 2 Independent Auditor's Reports on Agreed-Upon Procedures (prime and subcontractor) for the Cost Proposal for the Willowbrook/Rosa Parks Station Improvement Project;
- Independent Auditor's Report on Agreed-Upon Procedures for New Flyer of America, Inc.'s, U.S. Employment Program compliance;
- Independent Auditor's Report on Agreed-Upon Procedures for Buy America Post-Award Certification for 350 Forty-foot Low Floor CNG Transit Buses;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Metro Rideshare Program Support; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Incident Based Surveillance System.

### Incurred Cost Audits

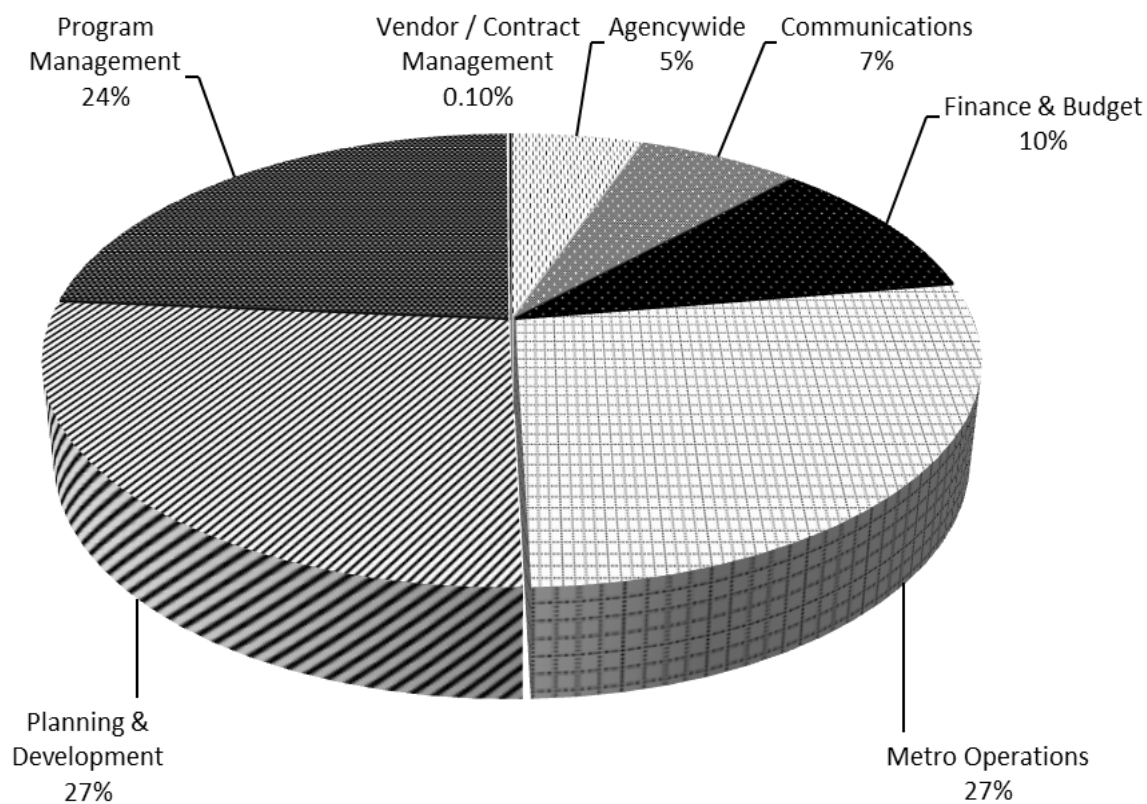
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Westlake Village's Park and Ride Lot Design;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Westlake Village's Lindero Canyon Road Interchange Phase 3A Design;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's Hasley Canyon Road/I-5 Interchange Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's Goods Movement NHS Access Design and Implementation, Phase I Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's Slauson Avenue Corridor Improvements Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Bicycle Commuter Technology Access;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Calabasas' Regional Traffic Operation Center;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's East San Gabriel Valley Traffic Signal SOM Pilot Project; and
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Glendale's Fairmont Avenue Grade Separation at San Fernando Road Project.

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

## *EXECUTIVE SUMMARY*

Sixty-three projects were in process as of September 30, 2015; these include 15 internal audits, four contract pre-award audits, and 44 incurred cost audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during first quarter FY 2016:



### Audit follow-up:

- Eight recommendations were closed during the first quarter. At the end of the quarter, there were 51 open audit recommendations.

# *EXTERNAL AUDITS*

## Contract Pre-Award Audit

Contract Pre-Award 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 2016, six audits were completed, reviewing a net value of \$21.2 million. Auditors questioned \$1.8 million or 8% of the proposed costs. The six audits supported procurements in the following areas:

- 2 Willowbrook/Rosa Parks Station Project procurements;
- 2 Bus Purchase procurements;
- Metro Rideshare Program Support procurement; and
- Incident Based Surveillance System procurement.

Four contract pre-award audits were in process as of September 30, 2015.

Details on Contract Pre-Award Audits completed during first quarter FY 2016 are in Appendix A.

## Incurred Cost Audit

Incurred Cost 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 funds are spent in accordance with the terms of the grants/contracts and federal cost principles.

Incurred Cost Audit completed nine audits during first quarter FY 2016. We reviewed \$20 million of funds and identified \$1.2 million or 6% of unused funds that may be reprogrammed by Planning and Development for other projects. Forty-four incurred cost audits were in process as of September 30, 2015.

Details on Incurred Cost Audits completed during first quarter FY 2016 are in Appendix B.

# *INTERNAL AUDITS*

For the first quarter of FY 2016, two internal audits were completed. Fifteen internal audits were in process as of September 30, 2015. The internal audits in process are listed in Appendix C.

The following internal audits were issued in the first quarter FY 2016. The completed reports are listed in order of the magnitude of risks that their findings represent to the agency.

## *Performance Audit on Efficiency and Effectiveness of Non-Revenue Vehicle Usage*

Metro provides non-revenue passenger vehicles for employees' to carry out Metro business. As of May 2015, the fleet consists of 1,338 vehicles allocated to Departmental Pools, Company Equipment (CEA), General Services' Pool and 24-hour assignments. The audit objective was to assess the efficiency and effectiveness of non-revenue vehicle usage.

We found that there is no formal process or plan to determine optimum fleet size; noncompliance with IRS reporting requirements; uncontrolled key card assignments to the Gateway Parking Garage; and noncompliance with policy. Management agreed with the recommendations and has already taken steps to correct the issues.

## *Performance Audit of Chart of Accounts*

The Chart of Accounts is a list of accounts that an organization has identified and made available for recording transactions in its general ledger to segregate into assets, liabilities, net equity, income, and expenses. The audit objective was to determine whether the Chart of Accounts adequately reflected Metro's current business processes and reporting needs.

We found that the Chart of Accounts adequately reflect Metro's current business processes and reporting needs.



# AUDIT SUPPORT SERVICES

## Audit Follow-Up and Resolution

During the first quarter, eight recommendations were completed and closed. At the end of this quarter, there were 51 outstanding audit recommendations. The table below summarizes the first quarter activity.

### Summary of MAS and External Audit Recommendations As of September 30, 2015

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.
Program Management		4					
Labor/Employee Relations						7	7
Finance and Budget	1						
Information Technology	1				4	2	6
Metro Operations					11	8	19
Planning and Development					18		18
Vendor/Contract Management			2			1	1
<b>Totals</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>33</b>	<b>18</b>	<b>51</b>

In addition to the above MAS and external audit recommendations, there are 17 open Inspector General recommendations.

## Appendix A

<b>Contract Pre-Award Audit FY 2016 - Audits Completed During First Quarter</b>					
<b>No.</b>	<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Contractor</b>	<b>Requirement</b>	<b>Date Completed</b>
1	Program Management	16-CON-A01A - Attestation Agreed-upon Procedures	RNL Interplan Inc.	Contractual	8/2015
2	Program Management	16-CON-A01B - Attestation Agreed-upon Procedures	Kimley-Horn and Associates, Inc.	Contractual	8/2015
3	Metro Operations	15-OPS-A08 - Attestation Agreed-upon Procedures	New Flyer of America, Inc.	Contractual	8/2015
4	Metro Operations	15-OPS-A02 - Attestation Agreed-upon Procedures	New Flyer of America, Inc.	Contractual	8/2015
5	Planning & Development	16-OPS-A01 - Attestation Agreed-upon Procedures	Inland Transportation Services	Contractual	9/2015
6	Metro Operations	15-ITS-A02 - Attestation Agreed-upon Procedures	Smartdrive Systems, Inc.	Contractual	7/2015

## Appendix B

<b>Incurred Cost Audit FY 2016 - Audits Completed During First Quarter</b>					
<b>No.</b>	<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Grantee</b>	<b>Requirement</b>	<b>Date Completed</b>
1	Program Management	15-PLN-A03 - Closeout	City of Westlake Village	Contractual	7/2015
2	Program Management	15-PLN-A04 - Closeout	City of Westlake Village	Contractual	7/2015
3	Planning & Development	14-PLN-A24 - Closeout	County of Los Angeles	Contractual	7/2015
4	Planning & Development	13-PLN-A20 - Closeout	County of Los Angeles	Contractual	7/2015
5	Planning & Development	14-PLN-A27 - Closeout	County of Los Angeles	Contractual	8/2015
6	Planning & Development	13-PLN-A18 - Closeout	City of Los Angeles	Contractual	8/2015
7	Planning & Development	13-PLN-A22 - Closeout	City of Calabasas	Contractual	8/2015
8	Planning & Development	14-PLN-A23 - Closeout	County of Los Angeles	Contractual	8/2015
9	Program Management	15-PLN-A28 - Closeout	City of Glendale	Contractual	9/2015

## Appendix C

<b>Internal Audit FY 2016 - Internal Audits in Process</b>				
<b>No.</b>	<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Estimated Date of Completion</b>
1	Metro Operations	13-OPS-P06 - Contracted Bus Services	Evaluate the efficiency and effectiveness of contracted bus services contracts.	12/2015
2	Metro Operations	13-OPS-P04 - Operations KPI Audit	Evaluate the accuracy and completeness of Operations KPIs.	2/2016
3	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.	2/2016
4	Vendor / Contract Management	13-ADM-P01 - RFP Process	Assess efficiency and effectiveness and timeliness of Procurement's RFP processes.	1/2016
5	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.	2/2016
6	Communications	16-COM-P01 - Special Fares	Evaluate the effectiveness of internal controls over special fare programs.	1/2016
7	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).	1/2016
8	Vendor / Contract Management	13-CEO-P01 - Cost Estimating Process	Assess efficiency and effectiveness and timeliness of Procurement's cost estimating process.	1/2016
9	Finance & Budget	10-ACC-F01 - Accounts Receivable	Validate adequacy of current policies and procedures.	3/2016
10	Metro Operations	16-OPS-P02 - Rail Overhead and Maintenance	Evaluate the efficiency and effectiveness of the Rail Overhaul and Refurbishment Program. (Previously 12-OPS-P01)	3/2016

## Appendix C

<b>Internal Audit FY 2016 - Internal Audits in Process</b>				
11	Metro Operations	16-OPS-P01 - Wayside System	Evaluate effectiveness of maintenance of the Rail track & signaling systems. (Previously 12-ROP-O01)	3/2016
12	Program Management	16-CON-P01 - Performance Audit of IDIQ Type Contracts	Determine the efficiency and effectiveness of the administration of IDIQ Contracts.	3/2016
13	Agencywide	16-AGW-P03 - Overtime Usage	Evaluate the accuracy, efficiency and effectiveness of overtime usage.	4/2016
14	Program Management	12-CON-P03 - I-405 Follow-up	Verify if management's corrective actions from the prior audit were implemented and resulting in improvements.	12/2016
15	Program Management	10-CPC-K02 - Third Party Utility Relocation Agreement Efficiency	Assess the adequacy and effectiveness of the Third Party Utility Relocation.	12/2016