

Metro

*Los Angeles County Metropolitan Transportation Authority
One Gateway Plaza
3rd Floor Board Room*



Agenda - Final

Wednesday, November 14, 2018

12:00 PM

**One Gateway Plaza, Los Angeles, CA 90012,
3rd Floor, Metro Board Room**

Finance, Budget and Audit Committee

*Kathryn Barger, Chair
Paul Krekorian, Vice Chair
John Fasana
Ara Najarian
Mark Ridley-Thomas
John Bulinski, non-voting member*

Phillip A. Washington, Chief Executive Officer

METROPOLITAN TRANSPORTATION AUTHORITY BOARD RULES
(ALSO APPLIES TO BOARD COMMITTEES)

PUBLIC INPUT

A member of the public may address the Board on agenda items, before or during the Board or Committee's consideration of the item for one (1) minute per item, or at the discretion of the Chair. A request to address the Board should be submitted in person at the meeting to the Board Secretary. Individuals requesting to speak on more than three (3) agenda items will be allowed to speak up to a maximum of three (3) minutes per meeting. For individuals requiring translation service, time allowed will be doubled.

Notwithstanding the foregoing, and in accordance with the Brown Act, this agenda does not provide an opportunity for members of the public to address the Board on any Consent Calendar agenda item that has already been considered by a Committee, composed exclusively of members of the Board, at a public meeting wherein all interested members of the public were afforded the opportunity to address the Committee on the item, before or during the Committee's consideration of the item, and which has not been substantially changed since the Committee heard the item.

The public may also address the Board on non-agenda items within the subject matter jurisdiction of the Board during the public comment period, which will be held at the beginning and/or end of each meeting. Each person will be allowed to speak for up to three (3) minutes per meeting and may speak no more than once during the Public Comment period. Speakers will be called according to the order in which the speaker request forms are received. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

In accordance with State Law (Brown Act), all matters to be acted on by the MTA Board must be posted at least 72 hours prior to the Board meeting. In case of emergency, or when a subject matter arises subsequent to the posting of the agenda, upon making certain findings, the Board may act on an item that is not on the posted agenda.

CONDUCT IN THE BOARD ROOM - The following rules pertain to conduct at Metropolitan Transportation Authority meetings:

REMOVAL FROM THE BOARD ROOM The Chair shall order removed from the Board Room any person who commits the following acts with respect to any meeting of the MTA Board:

- a. Disorderly behavior toward the Board or any member of the staff thereof, tending to interrupt the due and orderly course of said meeting.
- b. A breach of the peace, boisterous conduct or violent disturbance, tending to interrupt the due and orderly course of said meeting.
- c. Disobedience of any lawful order of the Chair, which shall include an order to be seated or to refrain from addressing the Board; and
- d. Any other unlawful interference with the due and orderly course of said meeting.

INFORMATION RELATING TO AGENDAS AND ACTIONS OF THE BOARD

Agendas for the Regular MTA Board meetings are prepared by the Board Secretary and are available prior to the meeting in the MTA Records Management Department and on the Internet. Every meeting of the MTA Board of Directors is recorded on CD's and as MP3's and can be made available for a nominal charge.

DISCLOSURE OF CONTRIBUTIONS

The State Political Reform Act (Government Code Section 84308) requires that a party to a proceeding before an agency involving a license, permit, or other entitlement for use, including all contracts (other than competitively bid, labor, or personal employment contracts), shall disclose on the record of the proceeding any contributions in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any officer of the agency, additionally PUC Code Sec. 130051.20 requires that no member accept a contribution of over ten dollars (\$10) in value or amount from a construction company, engineering firm, consultant, legal firm, or any company, vendor, or business entity that has contracted with the authority in the preceding four years. Persons required to make this disclosure shall do so by filling out a "Disclosure of Contribution" form which is available at the LACMTA Board and Committee Meetings. Failure to comply with this requirement may result in the assessment of civil or criminal penalties.

ADA REQUIREMENTS

Upon request, sign language interpretation, materials in alternative formats and other accommodations are available to the public for MTA-sponsored meetings and events. All requests for reasonable accommodations must be made at least three working days (72 hours) in advance of the scheduled meeting date. Please telephone (213) 922-4600 between 8 a.m. and 5 p.m., Monday through Friday. Our TDD line is (800) 252-9040.

LIMITED ENGLISH PROFICIENCY

A Spanish language interpreter is available at all Committee and Board Meetings. All other languages must be requested 72 hours in advance of the meeting by calling (213) 922-4600 or (323) 466-3876.



323.466.3876 x2

Español

323.466.3876 x3

한국어

日本語

中文

русский

ភាសាខ្មែរ

ภาษาไทย

Tiếng Việt

ភាសាជប៉ុន

HELPFUL PHONE NUMBERS

Copies of Agendas/Record of Board Action/Recordings of Meetings - (213) 922-4880 (Records Management Department)

General Information/Rules of the Board - (213) 922-4600

Internet Access to Agendas - www.metro.net

TDD line (800) 252-9040

NOTE: ACTION MAY BE TAKEN ON ANY ITEM IDENTIFIED ON THE AGENDA

CALL TO ORDER

ROLL CALL

12. **SUBJECT: MANAGEMENT AUDIT SERVICES FY 2018 YEAR-END REPORT AND AUDIT CHARTER** [2018-0501](#)

RECOMMENDATION

RECEIVE AND FILE the:

- A. Year-end report of Management Audit Services (Management Audit) for the period ending June 30, 2018; and
- B. Management Audit Services Draft Audit Charter.

Attachments: [Attachment A - FY18 Q4 Year-End Report](#)
[Attachment B - Management Audit Services Draft Audit Charter](#)

13. **SUBJECT: MANAGEMENT AUDIT SERVICES FY 2019 FIRST QUARTER REPORT** [2018-0685](#)

RECOMMENDATION

RECEIVE AND FILE the first quarter report of Management Audit Services (Management Audit) for the period ending September 30, 2018.

Attachments: [Attachment A - FY19 Q1 Report](#)

14. **SUBJECT: PROPOSITION C BONDS** [2018-0595](#)

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the negotiated bond sale and issuance of up to \$650 million in aggregate principal amount of bonds (Proposition C Sales Tax Revenue Bonds, 2019) in one or more series, to finance capital projects and refinance outstanding commercial paper and revolving credit notes;
- B. APPROVES the forms of the supplemental trust agreement, continuing disclosure certificate, preliminary official statement and such other documents as required for the issuance of the bonds, and approves related documents on file with the Board Secretary as set forth in the resolution and all of which are subject to modification as set forth in the Resolution;
- C. APPROVES the form of the bond purchase contract on file with the Board Secretary, that will be entered into with the underwriters as listed in

**Board Report**

File #: 2018-0501, **File Type:** Informational Report**Agenda Number:** 12.

**FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 14, 2018****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2018 YEAR-END REPORT AND AUDIT CHARTER****ACTION: RECEIVE AND FILE****RECOMMENDATION**

RECEIVE AND FILE the:

- A. Year-end report of Management Audit Services (Management Audit) for the period ending June 30, 2018; and
- B. Management Audit Services Draft Audit Charter.

ISSUE

Management Audit must provide a quarterly activity report to the Finance, Budget and Audit Committee which includes information on: completed audits, audits that are in progress, our follow-up activities and any other pertinent matters.

In addition, audit standards require that we review our Audit Charter periodically, present it to executive management and obtain board approval. The Audit Charter is a formal document that defines Management Audit's purpose, authority and responsibility.

BACKGROUND

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 fourth quarter of FY 2018.

Additionally, Management Audit follows two audit standards: Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). These two standards were revised in 2018 and 2017 respectively. As a result, we have updated our Audit Charter to align with the new standards' language. The Audit Charter was last presented to the Board in February 2016 with administrative changes.

DISCUSSION

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

that 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's activities for the fourth quarter and for the fiscal year ending June 30, 2018 are as follows:

Internal Audits: three internal audits were completed during the fourth quarter; total of eight reports were completed for the year. As of June 30, 2018, 13 internal audits were in process.

External Audits: 14 incurred cost audits with a total value of \$42 million were completed during the fourth quarter; total of 49 incurred cost audits with a total value of \$430 million were completed for the year. Additionally, seven contract pre-award audits with a total value of \$31.6 million were completed for the year. Three contract pre-award audits and fifty-four incurred cost audits were in process.

Other Audits: 143 financial and compliance audits were issued during the fiscal year. Details of other audits completed by external certified public accountants (CPAs) during the year are included starting on page 6 of Attachment A.

Audit Follow-up and Resolution: six recommendations were closed during fourth quarter; total of 50 were closed for the year. In addition, 11 recommendations for the OIG were closed during fourth quarter; total of 105 were closed for the year. Details of all open, extended, and closed recommendations can be found in the Fourth Quarter Board Box titled "Status of Audit Recommendations".

Other Activities: Management Audit Services partnered with Vendor/Contract Management to put together a series of educational training programs for Small Business Enterprise (SBE) and Disadvantaged Business Enterprise (DBE). The trainings were in support of the SBEs and DBEs in their compliance efforts with the Federal Acquisition Regulations (FAR) Cost Principles and Procedures which are included in all Metro contracts. Approximately 200 attendees participated in these trainings.

Management Audit's FY 2018 year-end report is included as Attachment A.

In addition, we have updated our Audit Charter to align with the revisions for the two audit standards that Management Audit follows: Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). These two standards were revised in 2018 and 2017 respectively. The Audit Charter was last presented to the Board in February 2016 with administrative changes. The updated Audit Charter showing the changes we made can be found in Attachment B.

NEXT STEPS

Management Audit will provide the first quarter summary of FY 2019 audit activity to the Board at the January 2019 Finance, Budget and Audit Committee meeting.

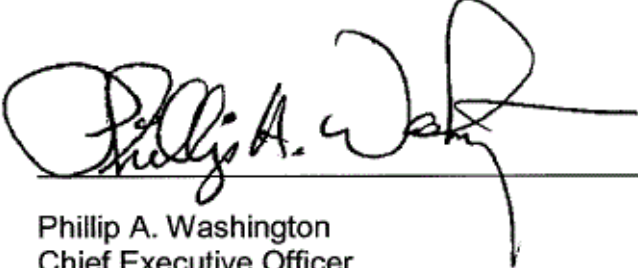
ATTACHMENTS

Attachment A - FY18 Q4 Year-End Report

Attachment B - Management Audit Services Draft Audit Charter

Prepared by: Monica Del Toro, Audit Support Manager
(213) 922-7494

Reviewed by: Diana Estrada, Chief Auditor
(213) 922-2161



Phillip A. Washington
Chief Executive Officer

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

**Los Angeles County Metropolitan
Transportation Authority**

***YEAR-END REPORT
FY 2018***



TABLE OF CONTENTS

EXECUTIVE SUMMARY	
FY18 Summary of Audit Activity	2
Other Activities	3
EXTERNAL AUDITS	
Contract Pre-Award Audit	4
Incurred Cost Audit	4
INTERNAL AUDITS	
Performance Audit of Information Technology Project Management	5
Performance Audit of the Track Allocation Process	5
Performance Audit of the Farebox Revenue Process	5
OTHER AUDITS	6
AUDIT SUPPORT SERVICES	
Audit Follow-Up and Resolution	10
SUMMARY TABLES	
Appendix A – Contract Pre-Award Audits Completed	11
Appendix B – Incurred Cost Audits Completed	12
Appendix C – Internal Audits Completed	15
Appendix D – Internal Audits in Process	16
Appendix E – Open Audit Recommendations	18
Appendix F – OIG Open Audit Recommendations	26

EXECUTIVE SUMMARY

FY18 Summary of Audit Activity

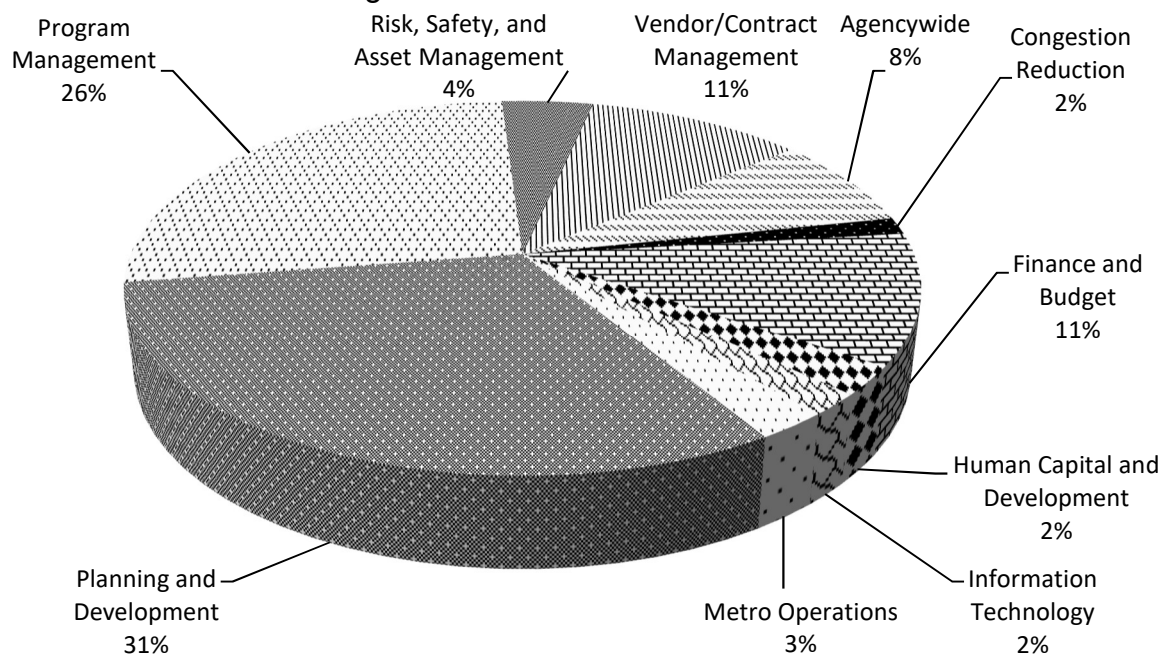
During FY 2018, we completed or managed 207 engagements consisting of 64 audits issued by MAS and 143 external CPA firms' reports. Details are as follows:

- 21 audit reports issued in the first quarter;
- 18 audit reports issued in the second quarter;
- 8 audit reports issued in the third quarter;
- 17 audit reports issued in the fourth quarter;
- 143 financial and compliance audits issued during the fiscal year (mostly legally mandated such as Propositions A&C, Measure R, STA, TDA, NTD, and other funds distributed to the cities and County of Los Angeles).

The work completed in the first, second, and third quarters of FY 2018 were summarized in the quarterly reports issued in November 2017, February 2018, and May 2018. The completed audits for fourth quarter include three internal audit reports and 14 incurred cost audits. The completed incurred cost audits are summarized on page 4 and completed internal audits begin on page 5. Seventy audits were in process at the end of FY 2018.

A list of all contract pre-award and incurred cost audit projects completed in FY 2018 are included in Appendix A and B, respectively. All internal audits completed during FY 2018 are included in Appendix C. All internal audits in process as of June 30, 2018 are included in Appendix D.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during FY 2018:



EXECUTIVE SUMMARY

Other Activities

Small Business Enterprise/Disadvantaged Business Enterprise Trainings

Metro recognizes that the SBE/DBE firms may have challenges including limited knowledge to comply with the requirements of Federal Acquisition Regulations (FAR) Part 31, Contract Cost Principles and Procedures which are included in all Metro contracts and limited resources to support the audit efforts.

Management Audit Services (MAS) partnered with V/CM to put together a series of educational training programs for SBE/DBEs to better understand contract and audit requirements including FAR Part 31 cost allowability, audit process, adequate accounting system and the different types of contract audits (e.g. pre-award, incurred cost, close out, etc.) including the associated level of audit support and effort that goes with each type. Training programs include speaking at Metro sponsored events such as How to Do Business with Metro workshop, Transportation Business Advisory Council (TBAC), and other training programs dedicated for SBE/DBEs. Beginning February 2018, MAS conducted three workshops (February, March and April) at Metro's Headquarters and trained approximately 200 attendees. Attendees had the opportunities to ask their audit and contract questions to the MAS and V/CM executives during these events.

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 FY 2018, we completed seven audits, reviewing a net value of \$31.6 million. Auditors questioned \$1.4 million or 4% of the proposed costs. The seven audits supported procurements in the following areas:

- Two (2) of Crenshaw Transit Project procurements;
- Los Angeles Union Station Improvement Project procurement;
- Metro Structures Inspection Project procurement;
- Purple Line Extension Section 3 Project procurements;
- Communications and Passenger Information System Project procurement; and
- Metro Green Line Track and Wayside Communications Upgrades.

Three contract pre-award audits were in process as of June 30, 2018. Details on Contract Pre-Award Audits completed during FY 2018 are in Appendix A.

Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Program Management'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/contracts and federal cost principles.

Incurred Cost Audit completed 49 audits during FY 2018. We reviewed \$430 million of funds and identified \$7.5 million or 2% of unused funds that may be reprogrammed. Fifty-four incurred cost audits were in process as of June 30, 2018.

Details on Incurred Cost Audits completed during FY 2018 are in Appendix B.

INTERNAL AUDITS

Management Audit completed eight internal audit reports in FY 2018. Thirteen internal audits were in process as of June 30, 2018. A list of the internal audits in process is included in Appendix D. Details of the three internal audits completed during the fourth quarter are listed below.

Performance Audit of Information Technology Project Management

Management Audit retained the services of Vasquez & Company LLP to complete a performance audit of Information Technology (IT) Project Management. The audit objective was to evaluate the efficiency and effectiveness of the Information Technology Services (ITS) Department's Project Management Process.

Vasquez found two issues in this report, including the need for the rollout of the formalized IT Project Management Methodology and lack of segregation of duties. Management concurred with our recommendations and is implementing corrective actions.

Performance Audit of the Track Allocation Process

The audit objective was to determine the efficiency and effectiveness of the Track Allocation Process.

We found that the Track Allocation Process was effective in that the Track Department completed all work mandated by the California Public Utilities Commission. Although the Track Allocation Unit has incorporated some incremental changes to improve the Track Allocation Process, we found that there is a greater need to improve the coordination and communication among the Track Allocation Coordinator, Rail Operations Controller, and requestors to optimize Right-of-Way usage. Management concurred with all but one of our seven recommendations and has already implemented some of the corrective actions. In addition, MAS will conduct a follow-up audit in FY19.

Performance Audit of the Farebox Revenue Process

The audit objective was to evaluate the adequacy of internal controls over the Farebox Revenue Process.

We found adequate internal controls over the accuracy of revenues, preventative maintenance for fareboxes, and completion of fare classification training for bus operators. However, we found opportunities to improve internal controls in the areas of safeguarding physical access of farebox cash; timeliness of probing and vaulting of fareboxes; and reliability of information used to monitor probing of fareboxes. Probing electronically unlocks the farebox door and transfers summary data from the farebox to the garage computers. Vaulting is when the cashbox is placed into the vault allowing the cashbox to be emptied into the revenue bin. In addition, we identified two business process improvements related to inspections of surveillance equipment and maintenance of garage computer rooms. Management concurred with all of the recommendations, and has already implemented some of the corrective actions.

OTHER AUDITS

Other audits completed during FY18 by external CPA firms contracted by MAS include:

Proposition A and C Special Revenue Funds Audit – Issued November 2017

The MTA Reform and Accountability Act of 1998 requires the completion of an independent audit to determine compliance by the Los Angeles County Metropolitan Transportation Authority (Metro) with the provisions of Propositions A and C. BCA Watson Rice LLP (BCA) completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds, which fulfills the requirement for the year ended June 30, 2017. BCA found that the Schedules of Proposition A and Proposition C Revenues and Expenditures present fairly in all material respects. As required by law, BCA presented their audit report to the Independent Citizen's Advisory Oversight Committee in May 2018.

Measure R Special Revenue Fund Audit – Issued November 2017

The voter approved Measure R Ordinance mandates that an annual audit be conducted after the end of the fiscal year to ensure that the Metro complies with the terms of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year. BCA completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Measure R Special Revenue Fund, which fulfills the requirement for the year ended June 30, 2017. BCA found that the Schedule of Measure R Revenues and Expenditures presents fairly in all material respects. As required by law, BCA presented their audit report to the Measure R Independent Taxpayers Oversight Committee in May 2018.

Gateway Center & Union Station Properties Financial Statements – Issued November 2017

Metro acquired the Union Station and Gateway Center properties in April 2011 and entered into a Leasing and Operations Management Agreement with Morlin Asset Management for the management and operations of the Gateway Center and Union Station. We contracted BCA to conduct an audit of the financial statements for these two entities for the year ended June 30, 2017. BCA found that the financial statements present fairly, in all material respects, the financial position of each entity.

PTSC-MTA Risk Management Authority Financial Statements – Issued November 2017

In October 1998, the Public Transportation Services Corporation (PTSC) and Metro entered into a joint powers agreement to create the PTSC-MTA Risk Management Authority (PRMA) for the purpose of establishing and operating a program of cooperative self-insurance and risk management. PRMA receives all of its funding from Metro and PTSC. As PTSC also receives its funding from Metro, PRMA is a component unit of Metro and is included in its financial statements as a blended component unit. An audit of PRMA's financial statements by an independent CPA firm is required annually. We retained BCA to conduct the audit for the fiscal year ended June 30, 2017. BCA found that the financial statements present fairly, in all material respects, the position of PRMA as of June 30, 2017.

OTHER AUDITS

Basic Financial Statements and Component Audits – All parts Issued by December 2017

An audit of our financial statements by an independent CPA firm is required annually. We retained Crowe Horwath LLP to conduct the audit for the fiscal year FY17. The following reports include MTA's basic financial statements and following component audits for the year ended June 30, 2017:

- Comprehensive Annual Financial Report;
- Los Angeles County Metropolitan Transportation Authority Single Audit Report Fiscal year ended June 30, 2017;
- Federal Funding Allocation Data for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2017;
- Transportation Development Act Operations Agency for the fiscal year ended June 30, 2017;
- Transportation Development Act & Proposition 1B PTMISEA Planning Agency for the year ended June 30, 2017;
- State Transit Assistance Special Revenue Fund's basic financial statements as of and for the years ending June 30, 2017 and 2016;
- Crenshaw Project Corporation financial statements as of June 30, 2017;
- Service Authority for Freeway Emergencies' financial statements and other supplementary information as of and for the years ending June 30, 2017 and 2016; and
- Low Carbon Transit Operations Program Compliance for the fiscal year ended June 30, 2017.

Crowe issued unmodified opinions on all audit reports. There were no findings identified in the audit reports.

Financial Statements of Regional Transit Access Pass (TAP) Settlement and Clearing Accounts – Issued December 2017

Los Angeles TAP was created by Metro through Board action to implement a region-wide universal fare system which provides a fully integrated, electronic fare collection system that allows seamless multi-modal travel throughout the region using smart card technology. This universal fare system is known today as the Regional TAP Program. The Regional TAP Program is managed by the Regional TAP Service Center utilizing Metro staff resources.

We contracted BCA to conduct an audit of the financial statements for the year ended June 30, 2017. The auditor found that the statement of net position present fairly, in all material respects, the financial position of the Regional TAP Service Center TAP Settlement and Clearing Accounts as of June 30, 2017.

OTHER AUDITS

Financial Statements of Metro ExpressLanes – Issued December 2017

Metro ExpressLanes started as a one-year demonstration program that tested innovations to improve existing transportation systems in three sub-regions: the San Gabriel Valley, Central Los Angeles, and the South Bay. The first Metro ExpressLanes commenced revenue operations in November 2012 on the I-110 Harbor Freeway, between Adams Blvd. and the 91 freeway. The second began revenue operations in February 2013 on the I-10 El Monte Freeway between Alameda St. and the 605 Freeway. In April 2014, the Board voted unanimously to make the ExpressLanes on the I-110 and I-10 Freeways permanent. Later that year the California State Legislature approved a motion making the toll lanes permanent in Los Angeles and that the Governor sign it to become official.

An audit of the financial statements of Metro ExpressLanes, an enterprise fund of Metro, was performed by Vasquez & Company, LLP (Vasquez) for the year ended June 30, 2017. Vasquez found that the financial statements present fairly, in all material respects, the financial position of the Metro ExpressLanes fund as of June 30, 2017 and 2016.

Consolidated Audit – Issued various dates

These financial and compliance audits are needed to ensure that the recipients of subsidies included in the Consolidated Audit are adhering to the statutes of each applicable funding source and that operations data used to allocate funds is fair and in accordance with Federal Transportation Administration guidelines. The Consolidated Audit process includes financial and compliance audits for the fiscal year ended June 30, 2017 for the following programs:

- Local Funding Program to 88 cities and Unincorporated Los Angeles County
 - Proposition A Local Return
 - Proposition C Local Return
 - Measure R Local Return
 - Transit Development Act (TDA) Article 3 and Article 8 Programs
 - Proposition A Discretionary Incentive Program
- Transit System Funds to Commerce, Redondo Beach, Torrance
 - Transit Development Act (TDA) Article 4
 - State Transit Assistance (STA)
 - Proposition A 95% of 40% Discretionary
 - Proposition C 5% Security
 - Proposition C 40% Discretionary
 - Proposition 1B Funds
 - Measure R 20% Bus Operations and Clean Fuel Bus Funds
- Proposition A 40% Discretionary – Growth Over Inflation (GOI) Fund to Burbank, Glendale, LADOT and Pasadena Transit System Operators
- Fare Subsidies Programs
 - Immediate Needs Transportation Program (INTP)
 - Rider Relief Transportation Program (RRTP)
 - Support for Homeless Re-Entry (SHORE) Program

OTHER AUDITS

- Metrolink Program
- EZ Transit Pass Program
- Access Services
- LADOT Operating Data (Proposition A Incentive Programs)

Local Return

Measure R

Vasquez and Simpson & Simpson found that the 88 Cities and County complied in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Local Return Programs for the year ended June 30, 2017. The Measure R Local Return audit results were presented to the Measure R Independent Taxpayer Oversight Committee (MRITOC) on March 13, 2018. A Public Hearing for MRITOC was also conducted to receive public input on May 15, 2018.

The auditors found 32 instances of non-compliance for Measure R. Questioned costs totaling \$2.3 million for Measure R represent approximately 2% of the total amount reviewed. During and after the audits, all questioned costs were resolved.

Prop A and Prop C

Vasquez and Simpson & Simpson found that all Cities and County, with the exception of the City of Compton, complied in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Local Return Programs for the year ended June 30, 2017.

The auditors found 67 instances of non-compliance for Proposition A and C. Questioned costs totaling \$2.2 million and \$1.8 million for Proposition A and Proposition C, respectively represent approximately 1% of each total fund reviewed. During the audits, questioned costs of \$1.6 million and \$1.5 million for Proposition A and Proposition C, respectively, were resolved. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Non-Local Return

The auditors found that schedules/financial statements for the various programs included in the Consolidated Audit present fairly, in all material respects. They also found that the entities complied, in all material respects, with the compliance requirements of their respective guidelines. However, the auditors noted several compliance findings; one finding for Metrolink program, eleven findings for the TDA Article 3 program and five for the EZ Transit Pass Program. Eleven compliance findings were also identified for the INTP (6), and RRTP (5) programs. Two compliance findings for the SHORE Program and one compliance finding for Access Services were also identified.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During FY 2018, 43 recommendations were added and 50 recommendations were closed. At the end of the quarter, there were 51 outstanding audit recommendations. The table below summarizes the fourth quarter activity.

Summary of MAS and External Audit Recommendations As of June 30, 2018

Executive Area	Closed	Late	Extended	Not Yet Due/Under Review	Total Open
Communications			5		5
Finance & Budget				3	3
Human Capital & Development	2		3	7	10
Information Technology			1	11	12
Metro Operations	4		6	13	19
Planning and Development			2		2
Totals	6		17	34	51

In addition to the above MAS and external audit recommendations, eleven were closed during fourth quarter for the Office of the Inspector General (OIG); total of 105 were closed for the year. At the end of the quarter there were 162 outstanding OIG audit recommendations.*

Details of open audit recommendations for MAS and OIG are included in Appendix E and Appendix F, respectively.

*This total does not include recommendations included in the 1) Audit of Westside Purple Line Extension Section 2 - Modification No. 52, 2) Review of Metro Rail Services Disruptions and 3) Increasing Public Transit and Ridership Use Study, as the management response and/or estimated completion dates are still pending.

Appendix A

Contract Pre-Award Audit Completed During FY18						
No.	Area	Audit Number & Type	Contractor	Frequency	Requirement	Date Completed
1	Planning & Development	17-PLN-A33 - Attestation Agreed-upon Procedures	Gruen Associates	Once for AE39616	VCM Policy	8/2017
2	Risk, Safety & Asset Management	17-RSK-A01 - Attestation Agreed-upon Procedures	Owen Group Inc.	Once for AE39820	VCM Policy	8/2017
3	Program Management	Attestation Agreed-upon Procedures	Walsh-Shea Corridor Constructors	Once for CO988 Change Order No. 122.1	VCM Policy	8/2017
4	Program Management	Attestation Agreed-upon Procedures	Walsh-Shea Corridor Constructors	Once for CO988 Change Order No. 82	VCM Policy	9/2017
5	Construction	18-CON-A02 - Attestation Agreed-upon Procedures	Cornerstone Transportation Consulting, Inc.	Once	VCM Policy	11/2017
6	Operations	18-OPS-A01 - Attestation Agreed-upon Procedures	CRRRC MA Corporation	Once	VCM Policy	11/2017
7	Operations	18-OPS-A02 - Attestation Agreed-upon Procedures	Ansaldo STS USA, Inc.	1st Time	VCM Request	2/2018

Appendix B

Incurred Cost Audit Completed During FY18						
No.	Area	Audit Number & Type	Auditee	Frequency	Requirement	Date Completed
1	Program Management	17-CON-A37 - Attestation Agreed-upon Procedures	Gannett Fleming, Inc	2nd Audit	VCM Policy & Contract Terms	7/2017
2	Planning & Development	17-PLN-A02 - Closeout	County of Los Angeles	3rd Audit (Closeout)	Per Project Manager's request and MOU. P0004221 terms	7/2017
3	Program Management	12-PLN-A17 - Interim	Caltrans	1st Interim Audit	Per Project Manager's request and MOU. P0006376 terms	8/2017
4	Program Management	17-HWY-A12 - Closeout	City of Lawndale	Once	Per Project Manager's request and MOU. MR312.36 terms	8/2017
5	Planning & Development	16-PLN-A29 - Closeout	City of Long Beach	Once	Per Project Manager's request and MOU. P0006322 terms	8/2017
6	Program Management	17-HWY-A14 - Closeout	City of Glendale	Once	Per Project Manager's request and MOU. MR310.20 terms	8/2017
7	Planning & Development	17-PLN-A10 - Closeout	County Los Angeles	Once	Per Project Manager's request and MOU. P0008121 terms	8/2017
8	Program Management	17-CON-A41 - Attestation Agreed-upon Procedures	Intueor Consulting, Inc.	4th Audit	VCM Policy & Contract Terms	8/2017
9	Program Management	17-CON-A29 - Attestation Agreed-upon Procedures	ABA Global, Inc.	2nd Audit	VCM Policy & Contract Terms	8/2017
10	Program Management	17-HWY-A16 - Closeout	City of Glendale	Once	Per Project Manager's request and MOU. MR310.24 terms	9/2017
11	Planning & Development	17-PLN-A05 - Closeout	City of Long Beach	Once	Per Project Manager's request and MOU. P00F1341 terms	9/2017
12	Planning & Development	16-PLN-A08 - Closeout	City of Carson	Once	Per Project Manager's request and MOU. P00F3119 terms	9/2017
13	Planning & Development	17-PLN-A25 - Closeout	City of Industry	Once	Per Project Manager's request and MOU. P00F3303 terms	9/2017
14	Program Management	17-CON-A28- Attestation Agreed-upon Procedures	Lenax Construction Services, Inc.	2nd Audit	VCM Policy & Contract Terms	9/2017
15	Program Management	17-CON-A27 - Attestation Agreed-upon Procedures	Kal Krishnan Consulting Services, Inc.	2nd Audit	VCM Policy & Contract Terms	9/2017
16	Planning	17-PLN-A08 - Attestation Agreed-upon Procedures	JM Diaz, Inc.	Second	VCM Policy & Contract Terms	10/2017
17	Planning	16-PLN-A16 - Attestation Agreed-upon Procedures	Jacobs Associates	Second	VCM Policy & Contract Terms	10/2017

Appendix B

Incurred Cost Audit Completed During FY18						
No.	Area	Audit Number & Type	Auditee	Frequency	Requirement	Date Completed
18	Planning & Development	15-PLN-A05 - Closeout	City of Baldwin Park	Once	Per Project Manager's request and MOU.P00FA141 terms	10/2017
19	Planning & Development	16-PLN-A04 - Closeout	City of Baldwin Park	Once	Per Project Manager's request and MOU.P00F1654 terms	10/2017
20	Program Management	17-HWY-A15 - Closeout	City of Glendale	Once	Per Project Manager's request and MOU.MR310.21 terms	10/2017
21	Planning & Development	16-PLN-A30 - Closeout	City of Long Beach	Once	Per Project Manager's request and MOU.P00F1334 terms	10/2017
22	Program Management	17-CON-A38 - Attestation Agreed-upon Procedures	Ghirardelli Associates, Inc.	Second	VCM Policy & Contract Terms	10/2017
23	Program Management	17-CON-A35 - Attestation Agreed-upon Procedures	Brierley Associates Corporation	Second	VCM Policy & Contract Terms	10/2017
24	Planning & Development	18-PLN-A08 - Closeout	City of La Cañada Flintridge	Once	Per Project Manager's request and FA.920000000F7407 terms	11/2017
25	Planning & Development	17-PLN-A24 - Closeout	City of Lynwood	Once	Per Project Manager's request and MOU.TOD.312.02.15 terms	11/2017
26	Planning & Development	17-PLN-A03 - Closeout	County of Los Angeles	2nd Audit (Close out)	Per Project Manager's request and MOU.P0006294 terms	12/2017
27	Planning & Development	18-PLN-A10 - Closeout	City of El Monte	Once	Per Project Manager's request and FA.920000000F7420 terms	12/2017
28	Planning & Development	17-PLN-A22 - Closeout	City of Pico Rivera	Once	Per Project Manager's request and MOU.P000F3827 terms	12/2017
29	Planning	16-PLN-A19 - Closeout	CH2M Hill, Inc.	Second	VCM Policy & Contract Terms	12/2017
30	Program Management	17-CON-A30 - Attestation Agreed-upon Procedures	DHS Consulting, Inc.	Second	VCM Policy & Contract Terms	12/2017
31	Planning & Development	17-PLN-A29 - Closeout	City of Inglewood	Once	Per Project Manager's request and FA. P00F3130 terms	1/2018
32	Program Management	17-CON-A39 - Attestation Agreed-upon Procedures	Ramos Consulting Services, Inc.	2nd Time	VCM Policy & Contract Terms	3/2018
33	Planning & Development	17-PLN-A30 - Closeout	City of Norwalk	Once	Per Project Manager's request and MOU.P00F1219 terms	3/2018

Appendix B

Incurred Cost Audit Completed During FY18						
No.	Area	Audit Number & Type	Auditee	Frequency	Requirement	Date Completed
34	Program Management	18-HWY-A03 - Closeout	City of Malibu	Once	Per Project Manager's request and MOU.MR311.30 terms	3/2018
35	Planning & Development	18-PLN-A14 - Closeout	City of Pasadena	Once	Per Project Manager's request and MOU.P00F3709 terms	3/2018
36	Planning & Development	17-CON-A32 - Attestation Agreed-upon Procedures	Gannett Fleming, Inc	Once	VCM Policy & Contract Terms	4/2018
37	Planning & Development	17-HWY-A07 - Attestation Agreed-upon Procedures	WKE, Inc	Once	VCM Policy & Contract Terms	4/2018
38	Planning & Development	18-PLN-A07 - Closeout	City of Los Angeles	Once	Per Project Manager's request and MOU.P00F1126 terms	4/2018
39	Planning & Development	18-PLN-A13 - Closeout	City of Pasadena	Once	Per Project Manager's request and MOU.P00F3702 terms	4/2018
40	Planning & Development	17-PLN-A28 - Closeout	City of Long Beach	Once	Per Project Manager's request and MOU.P00F1531 terms	4/2018
41	Planning & Development	17-CON-A40 - Attestation Agreed-upon Procedures	D'Leon Consulting Engineers	Once	VCM Policy & Contract Terms	5/2018
42	Planning & Development	17-PLN-A06 - Closeout	County of Los Angeles	2nd Audit (Close out)	Per Project Manager's request and MOU.P000F6284 terms	5/2018
43	Program Management	18-HWY-A11 - Closeout	City of Glendale	Once	Per Project Manager's request and MOU.P0000000MR310.35 terms	5/2018
44	Planning & Development	18-PLN-A11 - Closeout	City of Arcadia	Once	Per Project Manager's request and MOU.P000F1197 terms	5/2018
45	Planning & Development	18-PLN-A12 - Closeout	City of Arcadia	Once	Per Project Manager's request and MOU.P000F1332 terms	5/2018
46	Planning & Development	18-PLN-A02 - Closeout	City of Santa Monica	Once	Per Project Manager's request and TOD 312.02.05 terms	5/2018
47	Planning & Development	16-PLN-A18 - Attestation Agreed-upon Procedures	ILF Consultants, Inc.	Once	VCM Policy & Contract Terms	6/2018
48	Planning & Development	15-CON-A12A - Attestation Agreed-upon Procedures	ABA Global, Inc.	2nd Time	VCM Policy & Contract Terms	6/2018
49	Program Management	18-HWY-A01 - Closeout	City of Lawndale	Once	Per Project Manager's request and MOU.MR312.15 terms	6/2018

Appendix C

Internal Audit Completed During FY18						
No	Area	Audit Number & Title	Description	Frequency	Requirement	Date Completed
1	Vendor / Contract Management	17-VCM-P01 Performance Annual Audit of Business Interruption Fund	Annual Audit of Business Interruption Fund.	2nd Time; Last Audit 1 year ago	Per FY17 Audit Plan	9/2017
2	Finance & Budget	10-ACC-F01 Performance Audit of Accounts Receivable	Determine the adequacy of internal controls to determine whether staff complied with accounts receivable policies and procedures, outstanding accounts receivable balances were collected in a timely manner, accounts receivable amounts were recorded accurately, and adequate segregation of duties were in place to prevent staff from performing conflicting duties (e.g. authorizing and approving accounts receivable credits and write-offs).	First Time	Per FY16 Audit Plan	9/2017
3	Program Management	12-CON-P03 Performance Audit for Follow-Up of the I-405 Sepulveda Pass Improvement Project	Verify implementation of agreed upon corrective actions from the initial audit of the I-405 Sepulveda Pass Improvement Project, Report No. 11-CON-K01, issued in August 2011.	2nd Time; Last Audit 6 years ago	CEO Request	12/2017
4	Finance & Budget	17-OMB-P01 Performance Audit of the Cash Counting Process	Evaluate internal controls over the Cash Counting Process.	2nd Time; Last Audit 7 years ago	Per FY17 Audit Plan	3/2018
5	Congestion Reduction	16-CEO-P02 Follow-Up Performance Audit for the 511 Traveler Information System	Follow Up on 511 Audit.	2nd Time; Last Audit 5 Years Ago	CEO Request	3/2018
6	Information & Technology Services	17-ITS-P01 Performance Audit of the Information Technology Services (ITS) Project Management	Evaluate the efficiency and effectiveness of the Information Technology Services (ITS) Department's Project Management Process. A sample from all information technology systems acquired, upgraded, developed and/or implemented during the period from July 1, 2013 through June 30, 2016 will be selected to assess the efficiency and effectiveness of the Project Management Process, including the projects' success from the end user perspective.	First Time	Per FY17 Audit Plan	6/2018
7	Metro Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	Determine the efficiency and effectiveness of the Track Allocation process.	First Time	Per FY16 Audit Plan	6/2018
8	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	Evaluate the effectiveness of internal controls over Farebox Revenue Process.	First Time	Per FY17 Audit Plan	6/2018

Appendix D

Internal Audit In Process as of June 30 2018						
No	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
1	Vendor / Contract Management	17-VCM-P04 - Performance Audit of Pre-Award Process	To determine Vendor/Contract Management's adequacy of the justification documentation for the vendor contract selection method (e.g. best value, lowest bid). To determine the extent of key information utilization to select vendors for contract awards.	First Time	Per FY17 Audit Plan	8/2018
2	Vendor / Contract Management	18-VCM-P01 - Annual Audit of Business Interruption Fund	Evaluate Business Interruption Fund Program	3rd Time; Last Audit a years ago	Per FY18 Audit Plan	10/2018
3	Program Management	16-CON-P04 - Performance Audit of Construction Quality Assurance	Evaluate the efficiency and effectiveness of the agency's Construction Quality Assurance Program over minor construction projects (less than \$100 million) and to follow-up on the implementation of recommendations from the prior Performance Audit of Construction Quality Assurance, No. 11-CON-K02.	2nd Time; Last Audit 3 years ago	Per FY16 Audit Plan	10/2018
4	Agency-Wide	17-AGW-P01 - Performance Audit of Consultant Hours	Evaluate efficiency and effectiveness of the use of consultants. Phase 1 – This audit will report on the agency-wide use of consultants such as the number of consultants by business unit, nature of work conducted by the consultants, consultant costs and other statistical information during the review period.	First Time	Per FY17 Audit Plan	10/2018
5	ITS and Operations	18-ITS-P01 - Performance Audit of HASTUS - Confirmation of Collective Bargaining Agreement Changes	Evaluate whether changes from the SMART Collective Bargaining Agreement effective July 1, 2017 were effectively implemented in the HASTUS System, and to assess the adequacy of the implementation plans for the pending system changes.	First Time	Per FY18 Audit Plan	10/2018
6	Construction	18-CON-P01 Performance Audit of Project Management of the Regional Connector Transit Project	Evaluate the adequacy and effectiveness of project management controls for Regional Connector Project.	First Time	Per FY18 Audit Plan	10/2018
7	Vendor / Contract Management	18-VCM-P02 - Performance Audit of the Tracking of SBE and DBE Goals	Evaluate the process of monitoring SBE/DBE goals achievement and reliability of the information captured and reported from this process by Diversity and Economic Opportunity Department.	1st Time	Per FY18 Audit Plan	11/2018
8	Vendor / Contract Management	17-VCM-P02 - Performance Audit of Change Order Process	To determine the extent of Vendor/Contract Management's compliance with policies and procedures in obtaining adequate justification of documentation for approving contract modifications. To determine the extent of key information utilization for contract modifications.	First Time	Per FY17 Audit Plan	11/2018
9	Human Capital & Development / Finance & Budget	17-OMB-P04 - Performance Audit of Position Reconciliation Process	To evaluate the adequacy of the Position Reconciliation Process between the cost centers, Human Capital & Development and Office of Management and Budget.	2nd Time; Last Audit 9 years ago	Per FY17 Audit Plan	11/2018

Appendix D

Internal Audit In Process as of June 30 2018						
No	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
10	Vendor / Contract Management	16-VCM- P01 - Performance Audit of P-Card	Evaluate compliance to P-card purchase requirements.	3rd Time; Last audits 4 and 8 years ago	Per FY16 Audit Plan	11/2018
11	Metro Operations	16-OPS-P03 - Performance Audit of Accident Prevention Program	Determine the efficiency and effectiveness of Operations' Accident Prevention Practices.	First Time	Per FY16 Audit Plan	11/2018
12	Metro Operations / System Safety and Security	18-AGW-P01 - Performance Audit of Internal Controls over Overtime Payments for AFSCME	Verify compliance with PUC regulation (e.g. 12 hours workhour limit) for Rail Transit Operation Supervisor and evaluate adequacy of current controls and oversight for overtime requests. In addition, follow up on prior audit recommendations.	First Time	Per FY18 Audit Plan	12/2018
13	Agency-Wide	18-RSK-P01 - Performance Audit of Business Continuity Plan - Payroll, Vendor/Contract Management, Security, Bus and Rail	Evaluate how mission essential functions included in the selected departmental COOPs relate to and are supported by existing departmental Standard Operating Procedures and Emergency Procedures (SOPs/EPS).	2nd Time; Last Audit 9 years ago	Per FY18 Audit Plan	6/2019

Appendix E

Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Communications	16-COM-P01 Special Fares Programs	20	We recommend the Communications Department to report the program performance periodically to the appropriate level of management to support decision making. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
2	Communications	16-COM-P01 Special Fares Programs	21	We recommend the Communications Department to renew the agreement with the Court to confirm mutual agreement. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
3	Communications	16-COM-P01 Special Fares Programs	22	We recommend the Communications Department to revisit the program purpose and guidelines/requirements to assess the current J-TAP Program performance. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
4	Communications	16-COM-P01 Special Fares Programs	23	We recommend the Communications Department obtain a written agreement with DCFS to confirm the mutual agreement and to retain the legal rights to enforce DCFS to meet the Program guidelines and requirements. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
5	Communications	16-COM-P01 Special Fares Programs	25	We recommend the Communications Department to assess the program performance periodically, and report to the appropriate level of management. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
6	Planning & Development	14-EDD-P01 Real Estate Property	11	We recommend that Real Estate Management complete the required inspections and document inspection records on file. Update: Closed as of July 2018.	6/30/2017	6/30/2018
7	Planning & Development	14-EDD-P01 Real Estate Property	12	We recommend that Real Estate complete the write off process for delinquent accounts that are deemed uncollectable in accordance with the policy established for writing off uncollectable amounts. Update: Closed as of July 2018.	6/30/2017	6/30/2018
8	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	1	We recommend the Chief Operations Officer require Track management to develop an inventory of linear assets and their components that can be the basis of a PMP to accurately forecast maintenance requirements and component replacements. Update: Pending release of the final RFP. A software system called OpTram is in the initial stages of being developed that will have an inventory of linear assets, including Wayside track assets. This will be a short term solution for the inventory of assets as the long term plan is to replace the M3 system which should include a requirement for linear assets inventory.	6/30/2017	9/30/2018

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
9	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	6	We recommend that while the long-term recommendation is being evaluated, that the Chief Operations Officer require Track management to revise inspection forms/reports to include: applicable checklists with inspection criteria for the different types of inspections; condition description, and ranking description of conditions with estimated completion for corrective actions. Update: Closed as of July 2018.	6/30/2017	6/30/2018
10	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	8	We recommend that while the long-term recommendation is being evaluated, that the Chief Operations Officer require Track management to log all conditions that impact the track structure in the inspection reports, including water damage in the tunnels. Update: Closed as of July 2018.	06/30/2017	6/30/2018
11	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	10	We recommend that while the long-term recommendation is being evaluated, that the Chief Operations Officer require Track management to work with other business units who are responsible to implement any corrective actions that may impact track maintenance and/or track condition. Update: Closed as of July 2018.	6/30/2017	6/30/2018
12	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	12	We recommend that the Chief Operations Officer, require Track management to provide training for track management, supervisors and/or leads that create work orders in the M3 system. Update: The training material for the new M3 App was developed and training will start FY19 Q2. Track supervisors and leads must first create a work order in the M3 system before inspectors can use the M3 App Inspection forms.	6/30/2017	12/31/2018
13	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	13	We recommend that the Chief Operations Officer, require Track management to log all open maintenance conditions in M3, as they are identified, to produce meaningful reports. Update: Closed as of July 2018.	6/30/2017	6/30/2018
14	Information Technology Services	16-ITS-P02 Performance Audit of IT Asset Management	2	We recommend that the ITS Department Management complete the update of the Standards Compliance and Asset Management (IT 7) Policy to clarify the roles and responsibilities of the ITS department and other cost centers in tracking and managing IT assets. The policy should include the types of IT assets that need to be maintained in IT asset inventory records. The policy revision should also include the extent of the periodic physical inventory/reconciliation based on the risk associated with the type of IT assets and the amount of investment on various types of IT assets. Update: Closed as of July 2018.	10/31/2017	6/30/2018

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
15	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1a	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: appropriate prioritization methodology to prioritize travel requests. Update: Policy and procedures will be updated to include prioritization methodology to prioritize travel requests.	6/30/2018	12/31/2018
16	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1b	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: Target turnaround time for booking completely filled Travel Authorization Forms received. Update: Policy and procedure will be updated to include target turnaround time for booking completely filled Travel Authorization Forms received.	6/30/2018	12/31/2018
17	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1c	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: requirement to obtain justification which is approved by the department management for late requests (submitted less than 30 days of travel date). Update: Closed as of July 2018.	6/30/2018	
18	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1d	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: requirement when to return incomplete travel request forms to the requestors to complete. Update: Closed as of July 2018.	6/30/2018	
19	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1e	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: requirement to document traveler's management approval and travel change cost records for cost increases in excess of the 20% threshold, resulting from changes made after the initial booking. Update: Closed as of July 2018.	6/30/2018	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
20	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	1f	We recommend the General Services Management to develop a written policy and/or procedure manual for the Travel Program Administrator which addresses the following but not limited to: guideline of acceptable nature and established threshold for allowable cost differences when accommodating traveler preferences or requests. Specify the required traveler's management approval if any, and whose responsibility it will be to pay the cost difference in excess of the allowable threshold. Update: Closed as of July 2018.	6/30/2018	
21	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	3	We recommend the General Services Management to continue to collaborate with the ITS Department to implement a Travel Information Management System to automate the travel coordination, booking, supporting documentation retention, and expense reimbursement processes.	12/31/2018	
22	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	5	We recommend the General Services Management to update the current Travel and Business Expense Policy (FIN 14) to require travelers to submit the Travel Authorization Form at least 30 days prior to the travel date. Require justification and management approval for travel request submitted less than the 30 days requirement. Update: Closed as of July 2018.	6/30/2018	
23	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	6	We recommend the General Services Management to extend no show penalty provision to flights and other travel reservations to enforce the travelers to inform the Travel Office of the cancelled travel. Clarify traveler's responsibility if any, to pay for the cost of the missed flights. Update: FIN-14 will be updated to clarify traveler's responsibility if any, to pay for the cost of the missed flights.	6/30/2018	12/31/2018
24	Human Capital & Development	18-CEO-P01 Consulting Engagement for the Travel Booking Process	9	We recommend the General Services Management to consider evaluating staffing resource adequacy as a result of the Travel Program Administrator's increased responsibilities related to the monthly credit card reconciliations.	6/30/2019	
25	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	1	We recommend that the Chief Information Officer require training for the new IT Project Management Methodology for all ITS Project Managers, Delivery Managers, and Resource Managers, and any other ITS personnel heavily involved in the implementation of IT projects to ensure every ITS resource understands the new IT Project Management Methodology.	3/30/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
26	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	2	We recommend that the Chief Information Officer rollout the IT Project Management Methodology developed by the Program Management Office.	3/30/2019	
27	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	3	We recommend that the Chief Information Officer require that all IT required project documentation be completed for each phase of all IT projects, based on the IT Project Management Methodology. This is especially important to show adequate requirements analysis and measurement of end-user involvement, testing, and acceptance.	6/30/2019	
28	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	4	We recommend that the Chief Information Officer require that project documentation be maintained in a central location during and after the completion of IT projects to ensure proper management oversight and transparency is available during the course of a project, and for purposes of historical reference on future and similar projects.	8/31/2018	
29	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	5	We recommend that the Chief Information Officer require that IT controls are designed into new systems and reflected within IT project management plans, and resulting operational procedures. A risk-based approach to the design and implementation of controls, related to application and related systems and business processes, should be utilized. Focus should be placed on risks that have the highest impact and likelihood to occur. At a minimum, the following controls should be addressed on all IT projects to ensure a sound control environment upon completion: Data Security Controls, Financial Controls, Application Controls, General Computer Controls (Infrastructure), Data Conversion Controls, Interface Controls, Data Integrity Controls.	6/30/2019	
30	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	6	We recommend that the Chief Information Officer include IT Security personnel in the system delivery life-cycle to identify potential areas of IT control risk and the remediation plans that are required after implementation occurs. Update: IT is currently hiring a Security Executive Officer who will determine the level of support and involvement for security staff in system delivery life cycle.	8/31/2018	2/28/2019
31	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	7	We recommend that the Chief Information Officer perform periodic resource planning and obtain approval for adequate staffing to meet the demand in project management and delivery capability that will be required to complete the strategic initiatives and anticipated changes in work load.	6/30/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
32	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	8	We recommend that the Chief Information Officer consider centralizing the IT project management function within the Program Management Office to ensure a consistent project management approach is applied to all IT projects, and to facilitate the segregation of between project managers and delivery managers.	6/30/2019	
33	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	9	We recommend that the Chief Information Officer in the event that a delivery manager is required to perform as a project manager on a specific project, we recommend that: a second delivery manager be assigned to handle all engineering aspects of the project and the Project Management Office initiate an independent quality control review that will allow the reviewer to review for key controls/requirements during key phases of the project (e.g. at the end of planning, end of field work) to ensure that all IT Project Management requirements are met and that the project provides for full disclosure and transparency.	6/30/2019	
34	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	10	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on how the ITS Department can be informed/involved earlier in the Procurement and OMB process when planned procurements/budgets include requests that require technology usage at Metro. Example, consider identifying the Procurement/Budget forms that are being completed by various cost centers and add fields that will flag the need to consult/discuss with ITS Department for technology components or future maintenance/operations of projects.	8/31/2018	2/28/2019
35	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	11	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on any training needs necessary so that various cost centers understand what the additional fields in various forms mean and their requirements.	8/31/2018	2/28/2019
36	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	1	We recommend the Chief Operations Officer direct the Track Allocation Coordinator to define priorities among the activities (e.g. mandated work, maintenance work, cyclical work, etc.) for granting access on or around the ROW. Additionally, define the maximum number of crews that should be in or around the ROW at any given time. Both should be a joint effort between the Track Allocation Coordinator and Rail Operations Controller.	8/31/2018	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
37	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4a	We recommend the Chief Operations Officer consider directing Rail Operations to add more fields in the electronic Track Allocation Request Form to assist Rail Operations Controllers in minimizing some of their manual entries. For example, the Track Allocation Request Form could be further configured to include a check box indicating if the schedule was activated or not, as well as the time and date it was activated, and a drop down menu to include reasons for schedule modification.	6/30/2019	
38	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4b	We recommend the Chief Operations Officer consider directing the Track Allocation Coordinator to measure effectiveness of schedules by periodically assessing whether crews that were scheduled to access the ROW actually accessed the ROW. This will provide visibility to the stakeholders as well as assist the Track Allocation Coordinator in modifying future schedules. This periodic review will only be possible once the data from the newly implemented log has been collected.	6/30/2019	
39	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	5	We recommend the Senior Executive Officer, Rail Operations partner with the Senior Executive Officer, Rail Maintenance & Engineering and the Deputy Executive Officer, Operations to consider which of these two technologies, Google Map or HASTUS should be used to assist Rail Operations Controllers in navigating emergency crews or individuals and/or staff doing business with Metro.	9/30/2018	
40	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	6	We recommend the Chief Operations Officer direct Rail Operations work with Rail Communications to consider the enabling of the GPS feature already embedded in Metro's Portable Radios, which will assist Rail Operations Controllers in managing the number of individuals working above ground on or around the ROW. Update: Closed as of August 2018.	7/31/2018	
41	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	1	We recommend Revenue Collections collaborate with Workforce Services to develop a monthly employment status report to identify all personnel changes. (e.g. transfers, retirements, and terminations employees). Update: Closed as of August 2018.	7/31/2018	
42	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	2	We recommend Revenue Collections review the monthly employment status report and ensure that transferred, terminated, and retired employees are removed at least quarterly from the Electronic Key Dispenser database.	7/31/2018	
43	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	3	We recommend Revenue Collections update the UFS Standard Operating Procedures to include all job titles and appropriate equipment access type that is needed to complete required job responsibilities.	12/31/2018	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

Open Audit Recommendations as of June 30, 2018

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
44	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	4	We recommend that Operations Maintenance Management work with Revenue Collections to update the UFS Standard Operating Procedures to include procedures for probing and vaulting out of service buses, including: Who is responsible for probing and vaulting out service buses; What time frame the buses should be probed; How the portable probes will be stored and used in emergency situations (in collaboration with TAP and Revenue Collections); Requirement that all 12 portable probes are in good working condition. In addition, once the SOP is updated, communicate it to all Divisions.	12/31/2018	
45	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	5	We recommend Operations Maintenance Management work closely with the Revenue Collections and the TAP Department to ensure that the Buses Not Probed exception reports are accurate, complete, and reliable.	6/30/2018	9/30/2018
46	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	6	We recommend Operations Maintenance Management designate a person from each division to receive the exception reports. Communicate designee to TAP. Update: Closed as of July 2018.	5/31/2018	
47	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	7	We recommend Operations Maintenance Management designate a person from each division to monitor probing and vaulting exception reports of in service buses and follow-up on exceptions. Update: Closed as of July 2018.	5/31/2018	
48	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	8	We recommend Operations Maintenance Management work with Revenue Collections to update the UFS Standard Operating Procedures so that all references to exception reports are correct.	12/31/2018	
49	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	9	We recommend Operations Maintenance Management to require Equipment Maintenance Supervisors/Equipment Service Supervisors to report camera malfunctions to ITS as soon as identified and establish a turn-around time to follow-up with ITS in the event cameras are not repaired in a timely manner. Update: Closed as of July 2018.	6/30/2018	
50	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	10	We recommend Operations Management work with ITS to require Bus and Contracted Services Divisions to retain surveillance footage for at least 30 days. Update: Closed as of July 2018.	5/31/2018	
51	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	11	We recommend that Operations Maintenance Management enforce existing procedures to require that Equipment Maintenance Supervisors/Equipment Service Supervisors inspect garage computer rooms to ensure they are maintained in accordance with the UFS SOP, and conduct a periodic review to ensure that garage computer rooms are being inspected. Update: Closed as of July 2018.	6/30/2018	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix F

OIG Open Audit Recommendations as of June 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Program Management	16-AUD-01 Capital Project Management Best Practices Study	38 Total	The 109 recommendations included in this report address Training, Stakeholder Engagement, Life Cycle Costs, Risk Management, Partnering with Utility Companies, Adv. Utility Relocation, Addressing Delays, Change Control, and Improving Contract Administration. Update: As of September 2018, 108 of 109 recommendations were closed. The last remaining recommendation is currently being evaluated based on the responses provided by Program Management.		
2	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1a	We recommend that the Maintenance Department should ensure that Maintenance management communicate to staff the importance of completing inspection forms in accordance with Metro's policies and procedures.	8/31/2018	
3	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1b	We recommend that the Maintenance Department should ensure that Maintenance management determine how the documentation of mileage will be handled on inspection forms.	8/31/2018	
4	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	2	We recommend that the Maintenance Department should ensure Maintenance management clarifies in the Preventive Maintenance Inspection Guidelines that mileage should also be recorded on the inspection forms.	8/31/2018	
5	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	3	We recommend that the Maintenance Department should ensure all policies and procedures are incorporated into Metro's written Bus Maintenance Plan and Preventive Maintenance Inspection Guidelines.	8/31/2018	
6	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	4	We recommend that the Maintenance Department should ensure management monitors past due PMP work orders on a continuous basis and identify and work with those divisions that have a high number of past due work orders. Update: Closed as of September 2018.	8/31/2018	
7	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	5	We recommend that the Maintenance Department should ensure Maintenance managers review bus pullout cancellation information on a regular basis and identifies and works with those divisions that have a high number of cancellations. Update: Closed as of September 2018.	8/31/2018	
8	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	6	We recommend that the Maintenance Department should ensure Metro's Bus Maintenance Plan and Preventive Maintenance Inspection Guidelines (a) accurately cite the most current Federal regulations, and (b) all sections of the Bus Maintenance Plan are updated at the same time.	8/31/2018	
9	Operations	17-AUD-04 Review of Metro Safety Culture and Rail Operational Safety	117 Total	The 117 recommendations included in this report address findings in Safety Culture, Red Signal Violations, Safety Assessment of Infrastructure Elements, Technology, Operations and Maintenance, Human Resources, and etc. Update: As of July 2018, 65 of 117 recommendations were closed.		

The above list does not include recommendations for the 1) Audit of Westside Purple Line Extension Section 2- Modification No. 52, 2) Review of Metro Rail Services Disruptions and 3) Increasing Public Transit and Ridership Use Study, as the management response and/or estimated completion dates are still pending.



Management Audit Services Audit Charter

I. INTRODUCTION

Los Angeles County Metropolitan Transportation Authority ([LACMTA](#)) maintains an active audit function under the direction of Deputy Chief Executive Officer (DCEO); with responsibility to report its activities to the Chief Executive Officer (CEO) and the Board. This charter defines the mission, scope, commitment to quality, authority and accountability, independence, and responsibility of [LACMTA](#)'s audit department, Management Audit Services.

II. MISSION

Management Audit Services provides highly reliable, independent, objective assurance and consulting services designed to add value and improve [LACMTA](#)'s operations. Management Audit Services ~~accomplishes this~~ [helps \[LACMTA\]\(#\) \[Metro\]\(#\) accomplish its objectives by understanding \[LACMTA\]\(#\)'s strategies and](#) by bringing a systematic, disciplined, [and risk-based](#) approach ~~to~~ evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

III. SCOPE

The scope of work performed by Management Audit Services is to determine whether [LACMTA](#)'s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Risks are appropriately identified and managed;
- Significant financial, managerial, and operating information is accurate, reliable and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, projects and objectives are achieved;
- Quality and continuous improvement are fostered;
- Significant legislative or regulatory issues impacting [LACMTA](#) are recognized, addressed appropriately and interaction with governance groups occurs;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- Opportunities for improving management control, streamlining processes, and improving public perception may be identified during audits. These will be communicated to the appropriate level of management.



Management Audit Services Audit Charter

IV. COMMITMENT TO QUALITY

Management Audit Services commits to providing world-class service through timely, unbiased, value-added assurance and consulting services. We will work as a team with our clients to improve processes and meet strategic goals and objectives. We will enhance the services we provide by continuously improving our audit activities. Management Audit Services adheres to the following professional standards and codes:

- Government Auditing Standards promulgated by the Comptroller General of the United States;
- [International Standards for the Professional Practice of Internal Auditing \(Standards\) including Mandatory Elements issued by the Institute of Internal Auditors International Professional Practices Framework](#);
- Information Systems Auditing Standards promulgated by the Information Systems Audit and Control Association;
- LACMTA's Employee Code of Conduct and Administrative Code;
- Institute of Internal Auditor's Code of Ethics, and
- Management Audit Services' Audit Policy Manual and applicable procedures.

V. AUTHORITY AND ACCOUNTABILITY

Management Audit Services audits all departments, programs, functions, systems, contracts and activities based on the approved audit plan or specific requests that have been approved by the CEO.

Management Audit Services is authorized to:

- Have full, free and unrestricted access to all information, functions, operations, systems, property, personnel and other relevant materials necessary to accomplish its work. All employees will cooperate fully in making available material or information requested by Management Audit Services or any external auditors managed by Management Audit Services. Access to contracted third parties will be handled in accordance with contractual terms. Management Audit Services staff signs Confidentiality Statements annually. Documents provided to Management Audit Services will be handled in the same prudent manner as by those employees normally accountable for them;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in functions where audits are being performed, as well as other specialized services from external consultants.



Metro

Management Audit Services Audit Charter

Management Audit Services is not authorized to:

- Initiate or approve accounting transactions external to Management Audit Services and
- Direct the activities of any employee not part of Management Audit Services, except to the extent such employees have been appropriately assigned to auditing teams.

Management Audit Services, in the discharge of duties, is accountable to the DCEO, CEO and the Board of Directors to:

- Report significant issues related to the processes for controlling the activities, including potential improvements to those processes, and provide information concerning such issues through resolution; and
- Provide periodic information on the status and results of the annual audit plan and the adequacy of progress as it relates to management action plans.

VI. INDEPENDENCE

Management Audit Services is independent of the activities it reviews. Specifically, Management Audit Services staff may not review areas where they were responsible for the design or operation of the area. Auditors are responsible for maintaining their independence and integrity in all services they provide.

All Management Audit Services activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Chief Auditor shall report any impairment to independence, or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content promptly to the [DCEO/Office of the CEO \(OCEO\)](#) and the Board.

As a means of ensuring independence, Management Audit Services will report to the [DCEO/OCEO](#) and the Board of Directors. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits. The Board of Directors' will review and concur in the appointment, replacement or dismissal of the Chief Auditor of Management Audit Services.

VII. RESPONSIBILITIES

A. Management Audit Services is responsible for:

- Developing and executing a flexible risk based audit plan [which considers LACMTA's objectives and strategies](#), including any risks or control concerns



Metro

Management Audit Services Audit Charter

- identified by management; and submitting that plan to the [DCEO/CEO](#) and Board of Directors for review and approval;
- Preparing or updating the agency-wide risk assessment annually and incorporating the results into the annual audit plan;
 - Implementing the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management ;
 - Reporting significant audit findings to management and the Board of Directors;
 - Providing management with adequate time to respond to audit findings and including management's response in the final report;
 - Following up on audits to ensure agreed-upon corrective actions have been taken and provide periodic follow up reports;
 - Presenting quarterly reports to the Board highlighting progress on the Audit Plan;
 - Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter;
 - Conducting objective and constructive assurance services, which include performance and attestation audits;
 - Consulting services, which are advisory in nature, can be provided as long as the services do not impair -Management Audit Services' independence and fall within the scope outlined in the Charter;
 - Exercising due professional care in all of our work products;
 - Conducting ourselves at all times in a professional manner;
 - Coordinating external audits of [LACMTA](#);
 - Considering external auditors and regulators' scopes of work, as appropriate, for the purpose of providing optimal audit coverage at a reasonable overall cost; and
 - Referring suspected fraud, waste, or abuse promptly to the Inspector General.

B. Management is responsible for:

- Maintaining an effective system of internal controls, documenting policy and procedures, and ensuring information is accurate and reliable;
- Complying with policies and procedures;
- Cooperating fully with auditors during discharge of their duties including prompt reply to -Management Audit Services requests and recommendations; and
- Providing a response to audit findings and recommendations. Assuring timely implementation of agreed upon corrective action(s) to audit recommendations.



Management Audit Services Audit Charter

The Audit Charter may be modified by a written document executed by all of the participating parties. This Audit Charter will be effective upon execution and will continue indefinitely until it is modified.

DRAFT



Management Audit Services Audit Charter

IN WITNESS WHEREOF, the parties hereto have caused this Audit Charter to be executed by their proper officers thereunto duly authorized, and their official seals to be affixed as of ~~February _____, 2016~~ October _____, 2018

Los Angeles County Metropolitan Transportation Authority

Board of Directors

Phillip A. Washington

By _____
Board Secretary

DRAFT



Board Report

File #: 2018-0685, **File Type:** Informational Report

Agenda Number: 13.

FINANCE, BUDGET AND AUDIT COMMITTEE NOVEMBER 14, 2018

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2019 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, 2018.

ISSUE

Management Audit must provide a quarterly activity report to the Finance, Budget and Audit Committee which includes information on: completed audits, audits that are in progress, our follow-up activities and any other pertinent matters.

BACKGROUND

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 2019.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management team. 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, 2018 is as follows:

Internal Audits: One internal audit was completed during the first quarter. As of September 30, 2018, 13 internal audits were in process.

External Audits: Six contract pre-award audits with a total value of \$32.7 million and nine incurred cost audits with a total value of \$925 million were completed during the first quarter. One contract pre-award audit and 51 incurred cost audits were in process.

Audit Follow-up and Resolution: Twenty-one recommendations were closed during the first quarter. In addition, 104 recommendations for the OIG were closed during the first quarter. 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 2019 first quarter report is included as Attachment A.

NEXT STEPS

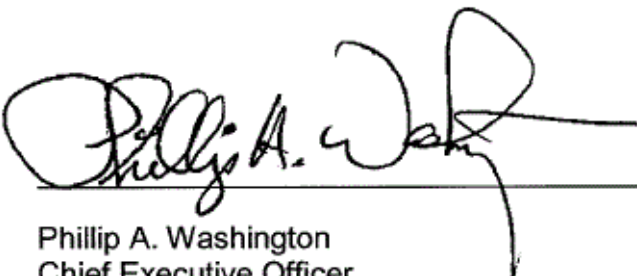
Management Audit will provide the FY 2019 Second Quarter report of audit activity to the Board at the February 2019 Finance, Budget and Audit Committee meeting.

ATTACHMENT

Attachment A - Management Audit Services Quarterly Report to the Board for the period ending September 30, 2018

Prepared by: Monica Del Toro, Audit Support Manager
(213) 922-7494

Reviewed by: Diana Estrada, Chief Auditor
(213) 922-2161



Phillip A. Washington
Chief Executive Officer

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

**Los Angeles County Metropolitan
Transportation Authority**

***First Quarter
FY 2019***



Metro™

TABLE OF CONTENTS

EXECUTIVE SUMMARY	
Summary of Audit Activity	1
EXTERNAL AUDITS	
Contract Pre-Award Audit	3
Incurred Cost Audit	3
INTERNAL AUDITS	
Performance Audit of the Pre-Award Process	4
AUDIT SUPPORT SERVICES	
Audit Follow-Up and Resolution	5
SUMMARY TABLES	
Appendix A – Contract Pre-Award Audits Completed	6
Appendix B – Incurred Cost Audits Completed	7
Appendix C – Internal Audits in Process	8
Appendix D – Open Audit Recommendations	10
Appendix E – OIG Open Audit Recommendations	14

EXECUTIVE SUMMARY

Summary of Audit Activity

During the first quarter of FY 2019, sixteen (16) projects were completed. These include:

Internal Audits

- Performance Audit of the Pre-Award Process.

Pre-Award Audits

- Three (3) Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Metro Countywide Bikeshare Program;
- Two (2) Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Metro Eastside Transit Corridor Phase 2 Project; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the SR-91 Auxiliary Lane Improvement Project.

Incurred Cost Audits

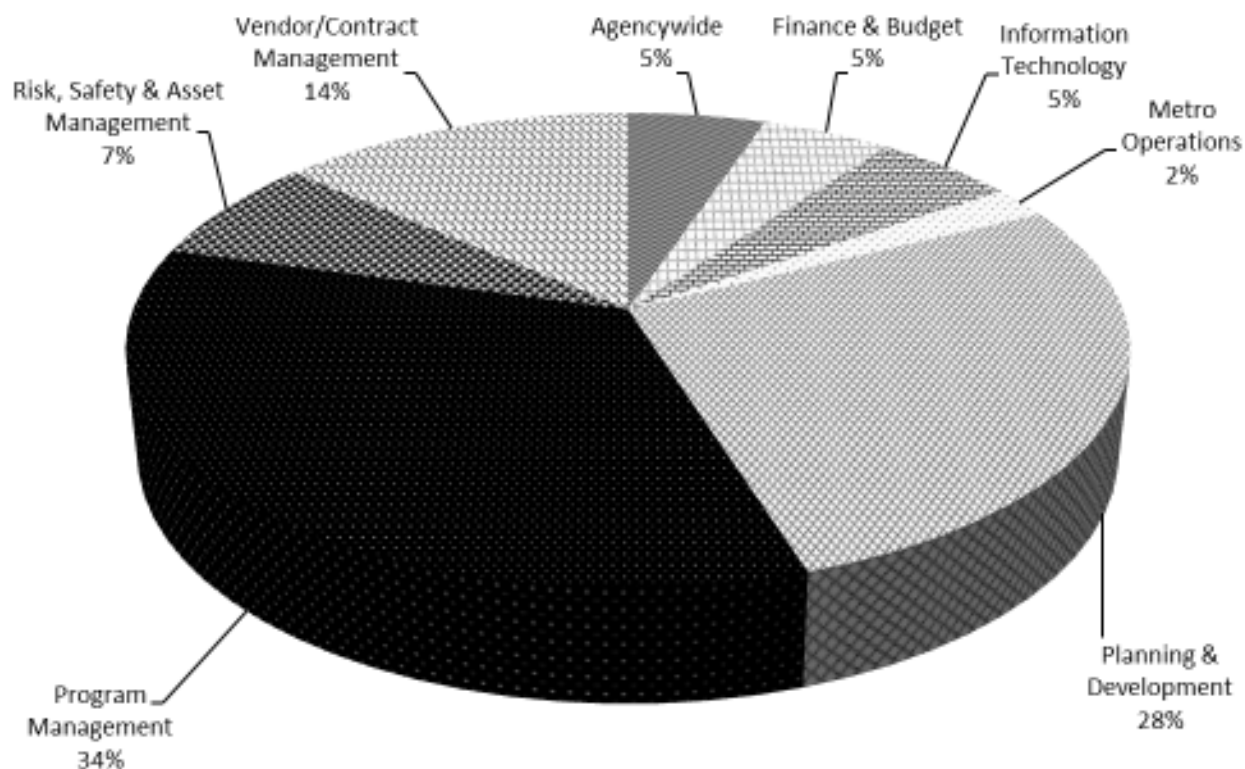
- Independent Auditor's Report on Agreed-Upon Procedures of Ramos Consulting Services, Inc.'s final indirect cost rate for calendar year 2016 for Regional Connector Transit Corridor Project;
- Independent Auditor's Report on Agreed-Upon Procedures of DHS Consulting, Inc.'s final indirect cost rate for fiscal year 2016 for Regional Connector Transit Corridor Project;
- Independent Auditor's Report on Agreed-Upon Procedures of Brierley Associates' final indirect cost rate for calendar year 2013 for Regional Connector Transit Corridor Project;
- Two (2) Independent Auditor's Reports on Agreed-Upon Procedures of AMEC Environment & Infrastructure, Inc.'s final indirect cost rate for calendar year 2013 and 2016 for Westside Purple Line Extension Project;
- Independent Auditor's Report on Agreed-Upon Procedures of Safe Utility Exposure, Inc.'s final indirect cost rate for fiscal year 2015 for Westside Purple Line Extension Project;
- Independent Accountant's Report of Arcadis U.S., Inc.'s indirect rate for calendar year 2016 for Regional Connector Transit Corridor Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Torrance's PCH Calle Mayor to Janet Lane Safety Improvements Project; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Signal Hill's Cherry Avenue Widening Project.

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

EXECUTIVE SUMMARY

Sixty-five projects were in process as of September 30, 2018; these included 13 internal audits 51 incurred cost audits and one contract pre-award audit.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during first quarter FY 2019:



Audit follow-up:

- Twenty-one (21) recommendations were closed during the first quarter. At the end of the quarter there were 27 open audit recommendations.
- In addition, we closed 104 OIG recommendations. At the end of the quarter there were 58* open audit recommendations.

*This total does not include recommendations for the 1) Audit of Westside Purple Line Extension Section 2- Modification No. 52, 2) Review of Metro Rail Services Disruptions, 3) Increasing Public Transit and Ridership Use Study and 4) Metro Transit Security Performance Review, as the management response and/or estimated completion dates are still pending.

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 2019, six audits were completed, reviewing a net value of \$32.7 million. Auditors questioned \$1.9 million or 6% of the proposed costs. The audits supported procurements in the following areas:

- Metro Countywide Bikeshare Program;
- Metro Eastside Transit Corridor Phase 2 Project; and
- SR-91 Auxiliary Lane Improvement Project.

One contract pre-award audit was in process as of September 30, 2018. Details on Contract Pre-Award Audits completed during first quarter FY 2019 are included in Appendix A.

Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Program Management'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 2019. We reviewed \$925 million of funds and identified \$41.7 million or 5% of unused funds that may be reprogrammed. Fifty-one incurred cost audits were in process as of September 30, 2018.

Details on Incurred Cost Audits completed during first quarter FY 2019 are included in Appendix B.

INTERNAL AUDITS

For the first quarter of FY 2019, one internal audit was completed. Thirteen internal audits were in process as of September 30, 2018. The internal audits in process are listed in Appendix C.

The following internal audit was issued in the first quarter FY 2019.

Performance Audit of the Pre-Award Process

The audit objective was to determine Vendor/Contract Management's (VCM) compliance with the Acquisition Policy and Procedure Manual Acquisition Procedures (ACQ-2) specifically in the collection and maintenance of required key documentation (e.g. Independent Cost Estimate, Technical Evaluation Criteria, etc.) supporting contract award decisions and the extent of utilization of key documentation in contract award decisions.

We found that VCM is generally in compliance with ACQ-2 and Federal Transit Administration (FTA) in maintaining and utilizing required key documentation to select contract awards. However, we found instances when certain key documents used for award decisions were not on file.

Management concurred with the finding and initiated steps towards migrating all the procurement process electronically which will provide a link to Metro's centralized electronic retention system for back-up file.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the first quarter, 21 recommendations were completed and closed. At the end of the quarter there were 27 outstanding audit recommendations. The table below summarizes the first quarter activity.

Summary of MAS and External Audit Recommendations As of September 30, 2018

Executive Area	Closed	Late	Extended	Not Yet Due/Under Review	Total Open
Communications			5		5
Finance and Budget	1		1	1	2
Human Capital & Development	5				
Information Technology	2		3	7	10
Metro Operations	11		4	4	8
Planning and Development	2				
Vendor Contract Management				2	2
Totals	21		13	14	27

In addition to the above MAS and external audit recommendations, we closed 104 recommendations for the Office of the Inspector General (OIG). At the end of the quarter there were 58* outstanding OIG audit recommendations.

Details of open audit recommendations for MAS and OIG are included in Appendix D and Appendix E, respectively.

*This total does not include recommendations for the 1) Audit of Westside Purple Line Extension Section 2- Modification No. 52, 2) Review of Metro Rail Services Disruptions, 3) Increasing Public Transit and Ridership Use Study and 4) Metro Transit Security Performance Review, as the management response and/or estimated completion dates are still pending.

Appendix A

Contract Pre-Award Audit FY19 - Audits Completed During First Quarter						
No.	Area	Audit Number & Type	Contractor	Frequency	Requirement	Date Completed
1	Planning & Development	18-PLN-A18 - Attestation Agreed-upon Procedures	Bcycle, LLC	2nd Time	VCM Policy	7/2018
2	Planning & Development	18-PLN-A19 - Attestation Agreed-upon Procedures	Accel Employment Service, Inc.	2nd Time	VCM Policy	7/2018
3	Planning & Development	18-PLN-A20 - Attestation Agreed-upon Procedures	Alameda Bicylce, Inc.	2nd Time	VCM Policy	7/2018
4	Program Management	18-CON-A23 - Attestation Agreed-upon Procedures	TRC Solutions, Inc.	Once	VCM Policy	8/2018
5	Planning & Development	19-PLN-A02 - Attestation Agreed-upon Procedures	HNTB Corporation	Once	VCM Policy	9/2018
6	Planning & Development	19-PLN-A03 - Attestation Agreed-upon Procedures	Mott MacDonald Group, Inc.	Once	VCM Policy	9/2018

Appendix B

Incurred Cost Audit FY19 - Audits Completed During First Quarter						
No.	Area	Audit Number & Type	Auditee	Frequency	Requirement	Date Completed
1	Program Management	18-CON-A07 - Agreed-Upon Procedures	DHS Consulting, Inc.	Once	V/CM	7/2018
2	Program Management	17-CON-A31 - Agreed-Upon Procedures	Brierley Associates	Once	V/CM	7/2018
3	Planning & Development	18-PLN-A05 - Closeout	City of Signal Hill	Once	Per Project Manager's request and MOU.P0008095 terms	7/2018
4	Program Management	18-CON-A18 - Agreed-Upon Procedures	AMEC Environment & Infrastructure, Inc.	Once	V/CM	8/2018
5	Program Management	17-CON-A43 - Agreed-Upon Procedures	Safe Utility Exposure, Inc.	Once	V/CM	8/2018
6	Program Management	18-CON-A19 - Agreed-Upon Procedures	AMEC Environment & Infrastructure, Inc.	Once	V/CM	8/2018
7	Program Management	18-HWY-A02 - Closeout	City of Torrance	Once	Per Project Manager's request and MOU.MR312.58 terms	8/2018
8	Program Management	18-CON-A08 - Agreed-Upon Procedures	Ramos Consulting Services, Inc.	Once	V/CM	9/2018
9	Program Management	18-CON-A15 - Agreed-Upon Procedures	EPC Consultants, Inc.	Once	V/CM	9/2018

Appendix C

Internal Audit FY19 - In Process Audits as of September 30, 2018						
No.	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
1	Vendor / Contract Management	18-VCM-P01 - Annual Audit of Business Interruption Fund	Evaluate Business Interruption Fund Program.	3rd Time; Last Audit a year ago	Per FY18 Audit Plan	10/2018
2	Program Management	16-CON-P04 - Performance Audit of Effectiveness of Quality Assurance Processes	To evaluate the efficiency and effectiveness of quality assurance practices and process for minor projects (less than 100 million).	First Time	Per FY16 Audit Plan	11/2018
3	Information Technology Services / Metro Operations	18-ITS-P01 - Performance Audit of HASTUS - Confirmation of Collective Bargaining Agreement Changes	Evaluate whether changes from the SMART Collective Bargaining Agreement effective July 1, 2017 were effectively implemented in the HASTUS System, and to assess the adequacy of the implementation plans for the pending system changes.	First Time	Per FY18 Audit Plan	11/2018
4	Program Management	18-CON-P01 Performance Audit of Project Management of the Regional Connector Transit Project	Evaluate the adequacy and effectiveness of project management controls for Regional Connector Project.	First Time	Per FY18 Audit Plan	11/2018
5	Vendor / Contract Management	18-VCM-P02 - Performance Audit of Tracking of SBE/DBE Goals	To evaluate the process of tracking and monitoring SBE/DBE goals achievement and reliability of the information captured by DEOD.	First Time	Per FY18 Audit Plan	11/2018
6	Vendor / Contract Management	16-VCM- P01 - Performance Audit of P-Card	Evaluate compliance to P-card purchase requirements.	3rd Time; Last audits 4 and 8 years ago	Per FY16 Audit Plan	11/2018
7	Agency-Wide	17-AGW-P01 - Performance Audit of Consultant Hours	Evaluate efficiency and effectiveness of the use of consultants. Phase 1 – This audit will report on the agency-wide use of consultants such as the number of consultants by business unit, nature of work conducted by the consultants, consultant costs and other statistical information during the review period.	First Time	Per FY17 Audit Plan	12/2018
8	Vendor / Contract Management	17-VCM-P02 - Performance Audit of Change Order Internal Controls	To evaluate the adequacy and effectiveness of internal controls over the Contract Change Order Process, and to evaluate the utilization of Key Information by VCM.	First Time	Per FY17 Audit Plan	12/2018
9	Human Capital & Development / Finance & Budget	17-OMB-P04 - Performance Audit of Position Reconciliation Process	To evaluate the adequacy of the Position Reconciliation Process between the cost centers, Human Capital & Development and Office of Management and Budget.	2nd Time; Last Audit 9 years ago	Per FY17 Audit Plan	12/2018
10	Metro Operations	16-OPS-P03 - Performance Audit of Accident Prevention Program	Determine the efficiency and effectiveness of Operations' Accident Prevention Practices.	First Time	Per FY16 Audit Plan	12/2018
11	Metro Operations	19-OPS-P01 Performance Audit of Wayside Systems Engineering & Maintenance Training Phase I	Determine whether existing and newly hired employees of Wayside Systems Engineering & Maintenance completed the required training (technical, safety, and mandated) including required refresher courses; required certification per position is current; and employees have the right certification for the tasks assigned.	First Time	Per FY19 Audit Plan	1/2019
12	Metro Operations / Systems Security & Law Enforcement	18-AGW-P01 - Performance Audit of Internal Controls over Overtime Payments for AFSCME	Verify compliance with PUC regulation (e.g. 12 hours workhour limit) for Rail Transit Operation Supervisor and evaluate adequacy of current controls and oversight for overtime requests. In addition, follow up on prior audit recommendations.	First Time	Per FY18 Audit Plan	2/2019

Appendix C

Internal Audit FY19 - In Process Audits as of September 30, 2018						
No.	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
13	Agency-Wide	18-RSK-P01 - Performance Audit of Business Continuity Plan - Payroll, Vendor/Contract Management, Security, Bus and Rail	Evaluate how mission essential functions included in the selected departmental COOPs relate to and are supported by existing departmental Standard Operating Procedures and Emergency Procedures (SOPs/EPs).	2nd Time; Last Audit 9 years ago	Per FY18 Audit Plan	5/2019

Appendix D

Open Audit Recommendations as of September 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Communications	16-COM-P01 Special Fares Programs	20	We recommend the Communications Department to report the program performance periodically to the appropriate level of management to support decision making. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
2	Communications	16-COM-P01 Special Fares Programs	21	We recommend the Communications Department to renew the agreement with the Court to confirm mutual agreement. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
3	Communications	16-COM-P01 Special Fares Programs	22	We recommend the Communications Department to revisit the program purpose and guidelines/requirements to assess the current J-TAP Program performance. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
4	Communications	16-COM-P01 Special Fares Programs	23	We recommend the Communications Department obtain a written agreement with DCFS to confirm the mutual agreement and to retain the legal rights to enforce DCFS to meet the Program guidelines and requirements. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
5	Communications	16-COM-P01 Special Fares Programs	25	We recommend the Communications Department to assess the program performance periodically, and report to the appropriate level of management. Update: MOU is being reviewed by County Council.	3/31/2017	9/30/2018
6	Metro Operations	16-OPS-P01 Wayside Systems - Track Maintenance	1	We recommend the Chief Operations Officer require Track management to develop an inventory of linear assets and their components that can be the basis of a PMP to accurately forecast maintenance requirements and component replacements. Update: Pending release of the final RFP. A software system called OpTram is in the initial stages of being developed that will have an inventory of linear assets, including Wayside track assets. This will be a short term solution for the inventory of assets as the long term plan is to replace the M3 system which should include a requirement for linear assets inventory.	6/30/2017	9/30/2018
7	Metro Operations	16-OPS-P01 Wayside Systems - Track Maintenance	12	We recommend that the Chief Operations Officer, require Track management to provide training for track management, supervisors and/or leads that create work orders in the M3 system. Update: The training material for the new M3 App was developed and training will start in FY19 Q2. Track supervisors and leads must first create a work order in the M3 system before inspectors can use the M3 App Inspection forms.	6/30/2017	12/31/2018
8	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	1	We recommend that the Chief Information Officer require training for the new IT Project Management Methodology for all ITS Project Managers, Delivery Managers, and Resource Managers, and any other ITS personnel heavily involved in the implementation of IT projects to ensure every ITS resource understands the new IT Project Management Methodology.	3/30/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

Open Audit Recommendations as of September 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
9	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	2	We recommend that the Chief Information Officer rollout the IT Project Management Methodology developed by the Program Management Office.	3/30/2019	
10	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	3	We recommend that the Chief Information Officer require that all IT required project documentation be completed for each phase of all IT projects, based on the IT Project Management Methodology. This is especially important to show adequate requirements analysis and measurement of end-user involvement, testing, and acceptance.	6/30/2019	
11	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	5	We recommend that the Chief Information Officer require that IT controls are designed into new systems and reflected within IT project management plans, and resulting operational procedures. A risk-based approach to the design and implementation of controls, related to application and related systems and business processes, should be utilized. Focus should be placed on risks that have the highest impact and likelihood to occur. At a minimum, the following controls should be addressed on all IT projects to ensure a sound control environment upon completion: Data Security Controls, Financial Controls, Application Controls, General Computer Controls (Infrastructure), Data Conversion Controls, Interface Controls, Data Integrity Controls.	6/30/2019	
12	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	6	We recommend that the Chief Information Officer include IT Security personnel in the system delivery life-cycle to identify potential areas of IT control risk and the remediation plans that are required after implementation occurs. Update: IT is currently hiring a Security Executive Officer who will determine the level of support and involvement for security staff in system delivery life cycle.	8/31/2018	2/28/2019
13	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	7	We recommend that the Chief Information Officer perform periodic resource planning and obtain approval for adequate staffing to meet the demand in project management and delivery capability that will be required to complete the strategic initiatives and anticipated changes in work load.	6/30/2019	
14	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	8	We recommend that the Chief Information Officer consider centralizing the IT project management function within the Program Management Office to ensure a consistent project management approach is applied to all IT projects, and to facilitate the segregation of between project managers and delivery managers.	6/30/2019	

Appendix D

Open Audit Recommendations as of September 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
15	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	9	We recommend that the Chief Information Officer in the event that a delivery manager is required to perform as a project manager on a specific project, we recommend that: a second delivery manager be assigned to handle all engineering aspects of the project and the Project Management Office initiate an independent quality control review that will allow the reviewer to review for key controls/requirements during key phases of the project (e.g. at the end of planning, end of field work) to ensure that all IT Project Management requirements are met and that the project provides for full disclosure and transparency.	6/30/2019	
16	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	10	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on how the ITS Department can be informed/involved earlier in the Procurement and OMB process when planned procurements/budgets include requests that require technology usage at Metro. Example, consider identifying the Procurement/Budget forms that are being completed by various cost centers and add fields that will flag the need to consult/discuss with ITS Department for technology components or future maintenance/operations of projects.	8/31/2018	2/28/2019
17	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	11	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on any training needs necessary so that various cost centers understand what the additional fields in various forms mean and their requirements.	8/31/2018	2/28/2019
18	Metro Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4a	We recommend the Chief Operations Officer consider directing Rail Operations to add more fields in the electronic Track Allocation Request Form to assist Rail Operations Controllers in minimizing some of their manual entries. For example, the Track Allocation Request Form could be further configured to include a check box indicating if the schedule was activated or not, as well as the time and date it was activated, and a drop down menu to include reasons for schedule modification.	6/30/2019	
19	Metro Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4b	We recommend the Chief Operations Officer consider directing the Track Allocation Coordinator to measure effectiveness of schedules by periodically assessing whether crews that were scheduled to access the ROW actually accessed the ROW. This will provide visibility to the stakeholders as well as assist the Track Allocation Coordinator in modifying future schedules. This periodic review will only be possible once the data from the newly implemented log has been collected.	6/30/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

Open Audit Recommendations as of September 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
20	Metro Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	5	We recommend the Senior Executive Officer, Rail Operations partner with the Senior Executive Officer, Rail Maintenance & Engineering and the Deputy Executive Officer, Operations to consider which of these two technologies, Google Map or HASTUS should be used to assist Rail Operations Controllers in navigating emergency crews or individuals and/or staff doing business with Metro.	9/30/2018	10/31/2018
21	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	2	We recommend Revenue Collections review the monthly employment status report and ensure that transferred, terminated, and retired employees are removed at least quarterly from the Electronic Key Dispenser database.	7/31/2018	1/31/2019
22	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	3	We recommend Revenue Collections update the UFS Standard Operating Procedures to include all job titles and appropriate equipment access type that is needed to complete required job responsibilities.	12/31/2018	
23	Metro Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	4	We recommend that Operations Maintenance Management work with Revenue Collections to update the UFS Standard Operating Procedures to include procedures for probing and vaulting out of service buses, including: Who is responsible for probing and vaulting out service buses; What time frame the buses should be probed; How the portable probes will be stored and used in emergency situations (in collaboration with TAP and Revenue Collections); Requirement that all 12 portable probes are in good working condition. In addition, once the SOP is updated, communicate it to all Divisions.	12/31/2018	
24	Metro Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	5	We recommend Operations Maintenance Management work closely with the Revenue Collections and the TAP Department to ensure that the Buses Not Probed exception reports are accurate, complete, and reliable.	6/30/2018	10/31/2018
25	Metro Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	8	We recommend Operations Maintenance Management work with Revenue Collections to update the UFS Standard Operating Procedures so that all references to exception reports are correct.	12/31/2018	
26	Vendor/Contract Management	17-VCM-P04 Performance Audit of Contract Pre-Award Process	1	We recommend the Chief Vendor/Contract Management Officer to establish a process that requires maintaining an electronic backup of hard copy contract files in a centralized location and limit the access to appropriate staff. We recommend this process be performed at each phase of the vendor contract management process which includes Planning, Solicitation, Evaluation, etc. and reside in a secured environment with limited access to prevent deletion or modifications to files.	2/28/2019	
27	Vendor/Contract Management	17-VCM-P04 Performance Audit of Contract Pre-Award Process	2	We recommend the Chief Vendor/Contract Management Officer to consider requiring Contract Administrators to prepare a justification memo e.g. factor(s) considered and/or rationale for not obtaining or maintaining certain key documents that are left to the discretion of the Contract Administrators. This process is exclusively for procurement steps that are not mandated by the FTA.	11/30/2018	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix E

OIG Open Audit Recommendations as of September 30, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Program Management	16-AUD-01 Capital Project Management Best Practices Study	1 Total	The 109 recommendations included in this report address Training, Stakeholder Engagement, Life Cycle Costs, Risk Management, Partnering with Utility Companies, Adv. Utility Relocation, Addressing Delays, Change Control, and Improving Contract Administration. Update: As of September 2018, 108 of 109 recommendations were closed. The last remaining recommendation is currently being evaluated based on the responses provided by Program Management.		
2	Metro Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1a	We recommend that the Maintenance Department should ensure that Maintenance management communicate to staff the importance of completing inspection forms in accordance with Metro's policies and procedures.	8/31/2018	
3	Metro Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1b	We recommend that the Maintenance Department should ensure that Maintenance management determine how the documentation of mileage will be handled on inspection forms.	8/31/2018	
4	Metro Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	2	We recommend that the Maintenance Department should ensure Maintenance management clarifies in the Preventive Maintenance Inspection Guidelines that mileage should also be recorded on the inspection forms.	8/31/2018	
5	Metro Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	3	We recommend that the Maintenance Department should ensure all policies and procedures are incorporated into Metro's written Bus Maintenance Plan and Preventive Maintenance Inspection Guidelines.	8/31/2018	
6	Metro Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	6	We recommend that the Maintenance Department should ensure Metro's Bus Maintenance Plan and Preventive Maintenance Inspection Guidelines (a) accurately cite the most current Federal regulations, and (b) all sections of the Bus Maintenance Plan are updated at the same time.	8/31/2018	
7	Metro Operations	17-AUD-04 Review of Metro Safety Culture and Rail Operational Safety	52 Total	The 117 recommendations included in this report address findings in Safety Culture, Red Signal Violations, Safety Assessment of Infrastructure Elements, Technology, Operations and Maintenance, Human Resources, and etc. Update: As of September 2018, 65 of 117 recommendations were closed.		



Board Report

File #: 2018-0595, **File Type:** Resolution

Agenda Number: 14.

**FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 14, 2018**

SUBJECT: PROPOSITION C BONDS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the negotiated bond sale and issuance of up to \$650 million in aggregate principal amount of bonds (Proposition C Sales Tax Revenue Bonds, 2019) in one or more series, to finance capital projects and refinance outstanding commercial paper and revolving credit notes;
- B. APPROVES the forms of the supplemental trust agreement, continuing disclosure certificate, preliminary official statement and such other documents as required for the issuance of the bonds, and approves related documents on file with the Board Secretary as set forth in the resolution and all of which are subject to modification as set forth in the Resolution;
- C. APPROVES the form of the bond purchase contract on file with the Board Secretary, that will be entered into with the underwriters as listed in Attachment B hereto; and
- D. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of the bond purchase contract and bond documentation associated with the issuance of the 2019 Prop C bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

The Debt Policy provides guidelines for new money financings that may be long-term or short-term. Prop C new money bond issues are permitted to provide funding for eligible expenditures on highway, commuter rail, bus and rail capital projects.

BACKGROUND

The 2019 Prop C Bonds, with a par amount not to exceed \$650 million of fixed rate bonds, will fund

or reimburse LACMTA for Prop C eligible capital projects and expenditures and refinance commercial paper, the proceeds of which financed such costs. We need to obtain the funds for ongoing and planned transportation capital projects and lock in current interest rates.

DISCUSSION

In accordance with the Debt Policy, the negotiated sale method is recommended for this sale of the 2019 Prop C bonds due to its relatively large size. The underwriter's sales force will take the lead to address any investor concerns about the transaction. The underwriters will pre-market the issue, assist with the rating process, advise on timing for pricing the bonds and purchase the bonds under the terms set forth in the bond purchase contract. A negotiated sale allows Metro to further its DBE/SBE/DVBE firm participation goals as well. A significant portion of the 2019 Prop C Bonds are expected to be certified as Green Bonds, meaning the financed projects have positive environmental and/or climate benefits and meet the requirements under the Climate Bonds Initiative for low carbon assets and infrastructure. In addition, a negotiated sale gives us the ability to access alternate investor groups dedicated to purchasing bonds that are certified as Green.

Consistent with our Debt Policy, in order to select underwriters for this transaction, a competitive Request for Proposal (RFP) was conducted by PFM Financial Advisors LLC, Metro's General Financial Advisor for debt related matters. RFPs were distributed to the 12 firms in Metro's Underwriter Pool, approved by the Board in October 2015. Treasury staff and our transaction financial advisor, Public Resources Advisory Group, reviewed the proposals, evaluating them based on the criteria listed in the RFP. Staff is recommending a team of underwriters led by Siebert Cisneros Shank & Co., LLC and Citigroup Global Markets Inc. who ranked highest in the selection process. The additional underwriting team members are Bank of America Merrill Lynch, Morgan Stanley, Drexel Hamilton LLC, and Ramirez & Co., Inc. Attachment B sets forth the "take down" the underwriters will receive as consideration for underwriting the transaction, and the percentage of bonds for which each firm will be liable. If any of the selected underwriters decide not to participate in the transaction, their liability percentage of bonds will be distributed amongst the remaining underwriter team members.

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The costs of issuance for the 2019 Prop C Bonds will be paid from proceeds of the financing and will be budget neutral. Funding for the new money bond principal and interest expense for this financing will be included in future budgets as follows: bond principal, account 51101 and bond interest, account 51121.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal(s):

Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

Authorization of the sale and the appointment of the underwriters could be delayed. We do not recommend delay as the Federal Reserve Bank actions and other market, economic and geopolitical actions may push interest rates higher thus making it more expensive to complete projects or refinance commercial paper and revolving credit notes, the proceeds of which were used to pay Project expenses.

NEXT STEPS

- Verification of Green Bond projects
- Obtain ratings on the bonds
- Complete legal documentation and distribute the preliminary official statement to potential investors and initiate the pre-marketing effort
- Negotiate the sale of the bonds with the underwriters

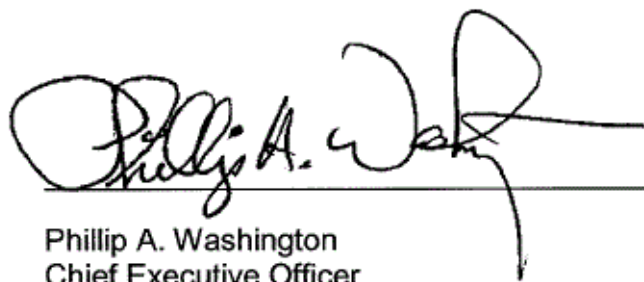
ATTACHMENTS

Attachment A - Authorizing Resolution

Attachment B - Summary of Underwriter Selection

Prepared by: Donna R. Mills, Treasurer, (213) 922-4047
LuAnne Edwards Schurtz, DEO, Finance, (213) 922-2554
Danny Ray Jasper, Jr., Debt Manager, (213) 922-4026

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Authorizing Resolution

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF ITS LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY PROPOSITION C SALES TAX REVENUE BONDS, APPROVING THE EXECUTION AND DELIVERY OF ONE OR MORE SUPPLEMENTAL TRUST AGREEMENTS, PURCHASE CONTRACTS, CONTINUING DISCLOSURE CERTIFICATES AND PRELIMINARY AND FINAL OFFICIAL STATEMENTS, AND THE TAKING OF ALL OTHER ACTIONS NECESSARY IN CONNECTION THEREWITH.

(PROPOSITION C SALES TAX)

WITNESSETH:

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transit system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval by the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 49 adopted August 28, 1990 ("Ordinance No. 49"), imposed a ½ of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the LACMTA from the imposition of the transactions and use tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payments or provision for the payment of the principal of the bonds and any premium, interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the LACMTA is planning and engineering a Countywide rail, bus and highway transit system (the "Rail, Bus and Highway Transit System") to serve the County and has commenced construction of portions of the Rail, Bus and Highway Transit System; and

WHEREAS, to facilitate the development and construction of the Rail, Bus and Highway Transit System, the LACMTA, as authorized by the Act, pursuant to the terms of the Amended and Restated Trust Agreement, dated as of January 1, 2010, as amended and supplemented (the "Trust Agreement"), by and between the LACMTA and U.S. Bank National Association, as trustee (the "Trustee"), has issued multiple series of bonds, including its Proposition C Sales Tax

Revenue Refunding Bonds, Senior Bonds, Series 2009-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-D; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-E; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2010-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2012-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2012-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2013-A; Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 2013-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2013-C; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2014-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2016-A; Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 2017-A; and Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2018-A (collectively, the “Prior Senior Bonds”); and

WHEREAS, the LACMTA now desires to provide for the issuance of one or more series of its Proposition C Sales Tax Revenue Bonds, Senior Bonds, from time to time and in one or more transactions (collectively, the “New Money Bonds”) to: (a) finance and/or refinance (through the refunding and repayment of the LACMTA’s Subordinate Proposition C Sales Tax Revenue Commercial Paper Notes, Series A-TE (Tax-Exempt Notes) (the “Proposition C Commercial Paper Notes”) and the LACMTA’s Subordinate Proposition C Sales Tax Revenue Revolving Obligations (the “Proposition C Revolving Obligations”)), or reimburse itself for prior expenditures with respect to, additional portions of the Rail, Bus and Highway Transit System; (b) make a deposit to a debt service reserve fund, if necessary; and (c) pay certain costs of issuance related thereto (collectively, the “Financing”); and

WHEREAS, the LACMTA has determined that it is in its best interest to sell the New Money Bonds to the public through a negotiated sale to the underwriters selected through a competitive process by the LACMTA and approved by the Board of Directors of the LACMTA (the “Board”) pursuant to this Resolution (the “Underwriters”); and

WHEREAS, the forms of the following documents are on file with the Secretary of the Board and have been made available to the members of the Board:

(a) a Supplemental Trust Agreement (the “New Money Supplemental Trust Agreement”) by and between the LACMTA and the Trustee, which would supplement the Trust Agreement for purposes of providing the terms and conditions of the New Money Bonds;

(b) a Preliminary Official Statement (the “Preliminary Official Statement”), which will provide information about the New Money Bonds, the LACMTA, the Proposition C Tax and certain other related matters, and will be used, from time to time, in connection with the offer and sale of the New Money Bonds;

(c) a Purchase Contract (the “Purchase Contract”), to be entered into by one or more of the Underwriters and the LACMTA, which shall set forth the terms of the sale of the New Money Bonds; and

(c) a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”), one or more of which will be executed by the LACMTA, which will be used in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), and which will provide for the annual and periodic update of certain financial and operating information with respect to the LACMTA and the collection of the Proposition C Tax, among other things, and certain enumerated events;

WHEREAS, the LACMTA has been advised by its Bond Counsel that such documents are in appropriate form, and the LACMTA hereby acknowledges that said documents will be modified and amended to reflect the various details applicable to the New Money Bonds, whether the New Money Bonds are issued in a single issuance or multiple issuances, and that said documents are subject to completion to reflect the results of the sale of the New Money Bonds; and

WHEREAS, the LACMTA has pledged the Proposition C Tax (less the 20% local allocation and the California Department of Tax and Fee Administration’s costs of administering such tax) (the “Pledged Taxes”) pursuant to the terms of the Trust Agreement to secure the Prior Senior Bonds and certain other obligations of the LACMTA, and once issued, the New Money Bonds will be “Bonds” and “Senior Bonds” as defined in the Trust Agreement and will be secured by the pledge of the Pledged Revenues under the Trust Agreement; and

WHEREAS, the LACMTA desires to designate the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them as an “Authorized Authority Representative” for all purposes under the Trust Agreement and the New Money Supplemental Trust Agreement; and

WHEREAS, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the governing body of a public body obtain from an underwriter, financial advisor or private lender and disclose, prior to authorizing the issuance of bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and charges paid to third parties not paid with the proceeds of the bonds; and

WHEREAS, the LACMTA is duly authorized and empowered, pursuant to each and every requirement of law, to authorize the Financing and to authorize the execution and delivery of one or more New Money Supplemental Trust Agreements, Purchase Contracts and Continuing Disclosure Certificates, the preparation of one or more Preliminary Official Statements and the preparation, execution and delivery of one or more Official Statements (as hereinafter defined) for the purposes, in the manner and upon the terms provided; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The LACMTA hereby finds and determines that:

(a) The issuance of one or more series of its New Money Bonds under the Trust Agreement to finance and/or refinance (through the refunding and repayment of all or a portion of the outstanding Proposition C Commercial Paper Notes and all or a portion of the outstanding Proposition C Revolving Obligations), or reimburse itself for prior expenditures with respect to, additional portions of the Rail, Bus and Highway Transit System, to make a deposit to a debt service reserve fund, if necessary, and to pay certain costs of issuance related to the issuance of the New Money Bonds, is in the public interest.

(b) Under the provisions of Ordinance No. 49, all of the Pledged Taxes are revenues of the LACMTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Senior Bonds were issued, pledged, along with the Pledged Revenues, to secure the Prior Senior Bonds and are pledged to secure the New Money Bonds, and, by this Resolution, such pledge is reaffirmed.

(c) The provisions contained in the Trust Agreement, as previously amended and supplemented, and to be set forth in the New Money Supplemental Trust Agreement, are reasonable and proper for the security of the holders of the New Money Bonds.

Section 2. Issuance of New Money Bonds. The Board hereby authorizes the issuance by the LACMTA of one or more series of New Money Bonds, from time to time and in one or more transactions, in a total aggregate principal amount not to exceed \$650 million, for the purposes of (a) financing and/or refinancing (through the refunding and repayment of all or a portion of the outstanding Proposition C Commercial Paper Notes and all or a portion of the outstanding Proposition C Revolving Obligations), or reimbursing itself for prior expenditures with respect to, additional portions of the Rail, Bus and Highway Transit System, (b) making a deposit to a debt service reserve fund, if necessary, and (c) paying certain costs of issuance related to the issuance of the New Money Bonds; *provided, however*, that the True Interest Cost (as defined below) of each series of the New Money Bonds shall not exceed 5.00%, as such shall be calculated by the LACMTA's municipal advisor as of the date of delivery of each series of the New Money Bonds. The LACMTA hereby specifies that the New Money Bonds shall not mature later than July 1, 2048.

The New Money Bonds shall be issued in a manner by which the interest thereon is excludable from gross income under the Internal Revenue Code of 1986, as amended. The Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant

Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them (each, a “Designated Officer”), acting in accordance with this Section 2, are each hereby severally authorized to determine the actual aggregate principal amount of each series of New Money Bonds to be issued (not in excess of the maximum amount set forth above), and to direct the execution and authentication of the New Money Bonds in such amount. Such direction shall be conclusive as to the principal amounts hereby authorized. The New Money Bonds shall be in fully registered form and shall be issued as Book-Entry Bonds as provided in each New Money Supplemental Trust Agreement. Payment of the principal of, interest on and premium, if any, on the New Money Bonds shall be made at the place or places and in the manner provided in each New Money Supplemental Trust Agreement.

As used herein, the term “True Interest Cost” shall be the interest rate (compounded semiannually) necessary to discount the debt service payments from their respective payment dates to the dated date of the applicable series of New Money Bonds and to the principal amount, and premium or discount if any, of the applicable series of New Money Bonds. For the purpose of calculating the True Interest Cost, the principal amount of the applicable series of New Money Bonds scheduled for mandatory sinking fund redemption as part of a term bond shall be treated as a serial maturity for such year. The calculation of the True Interest Cost shall include such other reasonable assumptions and methods as determined by the LACMTA’s municipal advisor.

Section 3. Terms of New Money Bonds. The New Money Bonds shall be issued as current interest bonds and shall be available in denominations of \$5,000 and integral multiples thereof. The New Money Bonds shall, when issued, be in the aggregate principal amounts and shall be dated as shall be provided in the New Money Supplemental Trust Agreement. The New Money Bonds may be issued as serial bonds or as term bonds or as both serial bonds and term bonds, all as set forth in the New Money Supplemental Trust Agreement. Interest on the New Money Bonds shall be paid on the dates set forth in the New Money Supplemental Trust Agreement. No New Money Bond shall bear interest at a rate in excess of 6.00% per annum. The New Money Bonds may be subject to redemption at the option of the LACMTA on such terms and conditions as shall be set forth in the New Money Supplemental Trust Agreement and the Purchase Contract, or not be subject to redemption. The New Money Bonds issued as term bonds also shall be subject to mandatory sinking fund redemption as and to the extent set forth in the New Money Supplemental Trust Agreement and the Purchase Contract.

Execution and delivery of the New Money Supplemental Trust Agreement, which document will contain the maturities, interest rates and the payment obligations of the LACMTA within parameters set forth in this Resolution, shall constitute conclusive evidence of the LACMTA’s approval of such maturities, interest rates and payment obligations.

Section 4. Special Obligations. The New Money Bonds shall be special obligations of the LACMTA secured by and payable from the Pledged Revenues and from the funds and accounts held by the Trustee under the Trust Agreement. The New Money Bonds shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide.

Section 5. Form of New Money Bonds. The New Money Bonds and the Trustee’s Certificate of Authentication to appear thereon shall be in substantially the form set forth in

Exhibit A to the New Money Supplemental Trust Agreement on file with the Secretary of the Board and made available to the Board, with such necessary or appropriate variations, omissions and insertions as permitted or required by the Trust Agreement or the New Money Supplemental Trust Agreement or as appropriate to adequately reflect the terms of such New Money Bonds and the obligation represented thereby.

Section 6. Execution of New Money Bonds. Each of the New Money Bonds shall be executed on behalf of the LACMTA by any Designated Officer and any such execution may be by manual or facsimile signature, and each bond shall be authenticated by the endorsement of the Trustee or an agent of the Trustee. Any facsimile signature of such Designated Officer(s) shall have the same force and effect as if such officer(s) had manually signed each of such New Money Bonds.

Section 7. Approval of New Money Supplemental Trust Agreement and Continuing Disclosure Certificate; Authorization for Execution. The form, terms and provisions of the New Money Supplemental Trust Agreement and the Continuing Disclosure Certificate on file with the Secretary of the Board and made available to the Board within the parameters set forth in this Resolution are in all respects approved, and each of the Designated Officers is hereby severally authorized, empowered and directed to execute, acknowledge and deliver in the name of and on behalf of the LACMTA one or more New Money Supplemental Trust Agreements and one or more Continuing Disclosure Certificates, including counterparts thereof. The New Money Supplemental Trust Agreement(s) and the Continuing Disclosure Certificate(s), as executed and delivered, shall be in substantially the forms now on file with the Secretary of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the form of the New Money Supplemental Trust Agreement and the Continuing Disclosure Certificate now on file with the Secretary of the Board and made available to the Board; and from and after the execution and delivery of each New Money Supplemental Trust Agreement and each Continuing Disclosure Certificate, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each New Money Supplemental Trust Agreement and each Continuing Disclosure Certificate.

Section 8. Sale of New Money Bonds.

(a) The Board hereby authorizes the initial sale of the New Money Bonds to the public through a negotiated sale to the Underwriters. The New Money Bonds shall be sold subject to an underwriters' discount (excluding original issue discount and premium) not to exceed \$2.00 per \$1000 of principal amount of the New Money Bonds and subject to the terms and conditions set forth in the form of the Purchase Contract. The form, terms and provisions of the Purchase Contract on file with the Secretary of the Board and made available to the Board, within the parameters set forth in this Resolution, and the Underwriters named therein, are in all respects approved, and each of the Designated Officers is hereby severally authorized, empowered and directed to execute, acknowledge and deliver from time to time, one or more, Purchase Contracts, including counterparts thereof, in the name of and on behalf of the LACMTA. Each Purchase Contract, as

executed and delivered, shall be in substantially the form now on file with the Secretary of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the LACMTA's approval of any and all changes or revisions therein from the form of the Purchase Contract now on file with the Secretary of the Board and made available to the Board; and from and after the execution and delivery of each Purchase Contract, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of such Purchase Contract.

(b) Any Designated Officer, on behalf of the LACMTA, is further authorized and directed to cause written notice to be provided to the California Debt and Investment Advisory Commission ("CDIAC") of the proposed sale of the New Money Bonds, said notice to be provided in accordance with Section 8855 et seq. of the California Government Code, to file the notice of final sale with CDIAC, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended, if necessary, and to file such additional notices and reports as are deemed necessary or desirable by such Designated Officer in connection with the New Money Bonds, and any such notices are hereby ratified, confirmed and approved.

(c) Each Designated Officer's authority to approve the final terms of the sale of the New Money Bonds and to execute or to direct the execution of the one or more Purchase Contracts shall commence upon the date of adoption of this Resolution and shall continue for twelve calendar months thereafter unless rescinded or modified by subsequent action of the LACMTA prior to the time that a Purchase Contract has been duly signed and delivered.

Section 8. Preliminary Official Statement and Official Statement. One or more Preliminary Official Statements shall be used by the LACMTA in connection with the sale and issuance of the New Money Bonds. The form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board is hereby approved. The Preliminary Official Statement shall be substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as a Designated Officer approves (such approval to be conclusively evidenced by the execution and delivery of the certificate referenced in the following sentence). The Preliminary Official Statement shall be circulated for use in selling the New Money Bonds at such time or times as a Designated Officer shall deem such Preliminary Official Statement to be final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, said determination to be conclusively evidenced by a certificate signed by said Designated Officer to said effect. The Preliminary Official Statement shall contain a description of the finances and operations of the LACMTA, a description of the Proposition C Tax and a description of historical receipts of sales tax revenues substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as any Designated Officer determines are appropriate or necessary. The Preliminary Official Statement shall also contain a description of the applicable New Money Bonds and the terms and conditions of the Trust Agreement and the New Money Supplemental

Trust Agreement together with such information and description as a Designated Officer determines is appropriate or necessary. The Underwriters are hereby authorized to circulate (via written format and/or through electronic means) the Preliminary Official Statement for use in selling the New Money Bonds from time to time. The Underwriters are hereby further authorized to distribute (via written format and/or through electronic means) copies of the LACMTA's most recent annual audited financial statements and such other financial statements of the LACMTA as any Designated Officer shall approve.

Upon the execution and delivery of the Purchase Contract, from time to time, one or more of the Designated Officers shall provide for the preparation, publication, execution and delivery of one or more final Official Statements in substantially the form of the Preliminary Official Statement deemed final by a Designated Officer with such changes as any Designated Officer approves, such approval to be conclusively evidenced by the execution of such final Official Statement. Any Designated Officer is hereby authorized and directed to execute and deliver one or more final Official Statements in the name and on behalf of the LACMTA. One or more supplements to the final Official Statement(s) or revised final Official Statement(s) may be prepared and delivered to the Underwriters reflecting updated and revised information as shall be acceptable to the Underwriters and as the Designated Officers, or any one of them, approve. Each final Official Statement shall be circulated (via written format and/or through electronic means) for use in selling the New Money Bonds at such time or times as a Designated Officer deems appropriate after consultation with the Underwriters, the LACMTA's Municipal Advisor, LACMTA's Disclosure Counsel and LACMTA's Bond Counsel and such other advisors as a Designated Officer believes to be useful. The Underwriters are hereby authorized to circulate (via written format and/or through electronic means) the final Official Statement, any supplement to the final Official Statement and any revised final Official Statement, as the case may be.

Section 9. Trustee, Paying Agent and Registrar. U.S. Bank National Association is hereby appointed as Trustee, Paying Agent and Registrar for the New Money Bonds. Such appointments shall be effective upon the issuance of the New Money Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 10. Authorized Authority Representative. The Board hereby designates each of the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA, and any such officer serving in an acting or interim capacity, as an "Authorized Authority Representative" for all purposes under the Trust Agreement, the New Money Supplemental Trust Agreement, and any amendments or supplements to the Trust Agreement or the New Money Supplemental Trust Agreement. Such appointment shall remain in effect until modified by resolution. The prior designation of officers, including the Chairperson of the Board and the Chief Executive Officer of the LACMTA, as Authorized Authority Representatives under the Trust Agreement and any amendments or supplements thereto shall continue.

Section 11. Additional Authorization. The Designated Officers, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the issuance of the New Money Bonds, and the execution and delivery of each New

Money Supplemental Trust Agreement, each Purchase Contract and each Continuing Disclosure Certificate, and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Trust Agreement, each New Money Supplemental Trust Agreement, each Purchase Contract and each Continuing Disclosure Certificate or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by a Designated Officer of the investment of the proceeds of the New Money Bonds and of the Pledged Taxes including the execution and delivery of investment agreements or purchase agreements related thereto, the execution by a Designated Officer and the delivery of one or more tax certificates as required by each New Money Supplemental Trust Agreement for the purpose of complying with the rebate requirements of the Internal Revenue Code of 1986, as amended; and the execution and delivery of documents required by The Depository Trust Company in connection with the Book-Entry Bonds. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Section 12. Continuing Authority of Designated Officers. The authority of any individual serving as a Designated Officer under this Resolution by a written designation signed by the Chief Executive Officer, the Chief Financial Officer, the Treasurer, any Deputy Executive Officer, Finance, or any Assistant Treasurer (or such other titles as the LACMTA may from time to time assign for such respective positions), shall remain valid notwithstanding the fact that the individual officer of the LACMTA signing such designation ceases to be an officer of the LACMTA, unless such designation specifically provides otherwise.

Section 13. Investments. Each Designated Officer is hereby authorized to invest the proceeds of the New Money Bonds in accordance with the Trust Agreement and the New Money Supplemental Trust Agreement and the LACMTA's Investment Policy and is further authorized to enter into or to instruct the Trustee to enter into one or more investment agreements, float contracts, swaps or other hedging products (hereinafter collectively referred to as the "Investment Agreement") providing for the investment of moneys in any of the funds and accounts created under the Trust Agreement and the New Money Supplemental Trust Agreement, on such terms as the Designated Officer shall deem appropriate. Pursuant to Section 5922 of the California Government Code, the LACMTA hereby finds and determines that the Investment Agreement will reduce the amount and duration of interest rate risk with respect to amounts invested pursuant to the Investment Agreement and is designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the New Money Bonds or enhance the relationship between risk and return with respect to investments.

Section 14. Good Faith Estimates. In accordance with SB 450, good faith estimates of the following are set forth in Exhibit A attached hereto: (a) the true interest cost of the New Money Bonds, (b) the sum of all fees and charges paid to third parties with respect to the New Money Bonds, (c) the amount of proceeds of the New Money Bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the New Money Bonds, and (d) the sum total of all debt service

payments on the New Money Bonds calculated to the final maturity of the New Money Bonds plus the fees and charges paid to third parties not paid with the proceeds of the New Money Bonds.

Section 15. Further Actions. From and after the delivery of the New Money Bonds and, the Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify each New Money Supplemental Trust Agreement and each Continuing Disclosure Certificate at any time and from time to time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement, or modification, upon consultation with the LACMTA's municipal advisor and LACMTA's Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of the LACMTA's approval thereof.

Section 16. Costs of Issuance. The LACMTA authorizes funds of the LACMTA, together with the proceeds of the New Money Bonds, to be used to pay costs of issuance of the New Money Bonds, including, but not limited to, costs of attorneys, accountants, municipal advisors, trustees, the costs associated with rating agencies, printing, publication and mailing expenses and any related filing fees.

Section 17. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 18. Effective Date. This Resolution shall be effective upon adoption and shall be effective with respect to the New Money Bonds issued on or before December 31, 2019.

[Remainder of page intentionally left blank]

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____, 2018.

[SEAL]

By _____
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: _____, 2018

EXHIBIT A

GOOD FAITH ESTIMATES

The following information was obtained from Public Resources Advisory Group (the “Municipal Advisor”) with respect to the bonds (the “New Money Bonds”) approved in the attached Resolution, and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the New Money Bonds:

Section 1. True Interest Cost of the New Money Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the New Money Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the New Money Bonds, is 3.71%.

Section 2. Finance Charge of the New Money Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the New Money Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the New Money Bonds), is \$1,329,500.00, as follows:

(a)	Underwriters’ Discount	\$807,500.00
(b)	Bond Counsel and Disbursements	40,000.00
(c)	Disclosure Counsel and Disbursements	50,000.00
(d)	Municipal Advisor and Disbursements	55,000.00
(e)	Rating Agencies	292,000.00
(f)	Other	<u>85,000.00</u>
	Total	<u>\$1,329,500.00</u>

Section 3. Amount of Proceeds to be Received. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected to be received by the LACMTA for sale of the New Money Bonds less the finance charge of the New Money Bonds described in Section 2 above and any reserves or capitalized interest paid or funded with proceeds of the New Money Bonds, is \$628,050,971.10.

Section 4. Total Payment Amount. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the LACMTA will make to pay debt service on the New Money Bonds plus the finance charge of the New Money Bonds described in Section 2 above not paid with the proceeds of the New Money Bonds, calculated to the final maturity of the New Money Bonds, is \$968,150,472.22.

Attention is directed to the fact that the foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment amount may vary from the estimates above due to variations from these estimates in the timing of New Money Bonds sales, the amount of New Money Bonds sold, the amortization of the New Money Bonds sold and market interest rates at the time of each sale. The date of sale and the amount of New Money Bonds sold will be determined by the LACMTA based on need to provided funds for the Financing and other factors. The actual interest rates at which the New Money Bonds will be sold will depend on the bond market at the time of each sale. The actual amortization of the New Money Bonds will also depend, in part, on market interest rates at the time of sale. Market interest rates are affected by economic and other factors beyond the LACMTA's control. The LACMTA has approved the issuance of the New Money Bonds with a maximum true interest cost of 5.00%.

Summary of Underwriter Selection

Recommended Firms for 2019 Proposition C New Money Bonds

Position	Firm	Alloc.
Joint Senior Manager	Siebert Cisneros Shank & Co., LLC (Minority/Woman Owned)	35%
Joint Senior Manager	Citigroup Global Markets Inc.	35%
Co-Senior Manager	Bank of America Merrill Lynch	10%
Co-Senior Manager	Morgan Stanley	10%
Co-Manager	Drexel Hamilton LLC (Disabled Veteran Business Enterprise)	5%
Co-Manager	Ramirez & Co., Inc. (Minority Owned)	5%

Proposed Price (Takedown): \$1.25 per \$1,000 of Bonds (0.125% of the bond issue)

The takedown is normally the largest component of the spread, similar to a commission, which represents the income the selling broker or dealer derives from the sale of the bonds. It compensates the underwriters for their work in structuring the transaction, marketing the transaction, and underwriting any bonds that are not sold to investors. Note that the actual takedown rate will be in accordance with the senior manager's proposal. The takedown rates for all of the underwriting team will be at the rates of the senior manager. Out of pocket expenses will be an additional charge.

Evaluation of Proposals

The Request for Proposals ("RFP") was sent on September 10, 2018 to all 12 firms that are in our underwriter pool, which was approved by the Board in October, 2015. Proposals were due September 24, 2018 and were received from the 12 firms listed below:

List of Proposers
Bank of America Merrill Lynch
Barclays Capital Inc.
Citigroup Global Markets Inc.
Drexel Hamilton LLC (Disabled Veteran Business Enterprise)
J.P. Morgan Securities LLC
Loop Capital Markets LLC (Minority Owned)
Morgan Stanley
Ramirez & Co., Inc. (Minority Owned)
RBC Capital Markets
Siebert Cisneros Shank & Co., LLC (Minority/Woman Owned)
Stifel, Nicolaus & Company, Incorporated
Wells Fargo Bank, N.A.

Proposals were evaluated in accordance with the guidelines and the following criteria established in the RFP:

- Relevant experience of the firm and its individuals 30%
- Quality of the proposal 30%
- Capabilities of the firm of underwriting & distributing the 2019 Bonds 40%

Relevant experience included transportation debt, sales tax revenue secured debt, experience and working with complex financial structures. One factor that was considered in evaluating the capabilities of a firm was the demonstrated commitment of a firm in bidding on our recent competitive bond issues. The RFP also included questions about providing specific suggestions for the structuring of the 2019 Proposition C Bonds. The selection committee made up of four staff and one of our financial advisors reviewed all proposals and scored the firms based on the evaluation criteria. These recommendations also reflect the LACMTA's Debt Policy of finding opportunities to contract with small, local, disadvantaged and disabled veteran firms; given the relatively large size of the transaction, this bond issue provides an opportunity to fulfill this policy goal. One Joint Senior Manager and one Co-Manager are minority owned and one Co-Manager on this transaction is a disabled veteran business enterprise. Given the size of the transaction, the other members of the recommended syndicate are large broker-dealer firms with strong marketing and distribution capabilities.

Documents on File

The following linked documents are on file with the Board Secretary's Office.

http://libraryarchives.metro.net/DB_Attachments/2018-0595_Continuing_Disclosure_Certificate_Prop_C.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0595_POS_Prop_C.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0595_Purchase_Contract_Prop_C.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0595_Twenty_Ninth_Supplemental_Trust_Agreement.pdf