



**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JUNE 17, 2004**

SUBJECT: MANAGEMENT AUDIT SERVICES QUARTERLY REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the quarterly report of Management Audit Services.

ISSUE

The MTA Board of Directors requested a periodic report on audit activities by Management Audit Services.

BACKGROUND

Management Audit Services performs two types of audits – internal audits of MTA operations and external audits of our contractors and grantees. In addition, Management Audit Services administers the MTA’s contractor pre-qualification program.

The **Internal Audit Group** consists of Internal Audit which is responsible for evaluating the internal control system of the MTA, as well as determining compliance with policy and regulation, ensuring the safeguarding of assets and evaluating MTA functions, activities and processes for efficiency and effectiveness; Information Technology Audit which conducts general control audits, system development audits, application audits and technical audits of the MTA’s information technology systems, programs and activities; and Control Self Assessment which assists management in defining objectives, implementing self assessment of risks, controls, residual risks, and developing action plans to mitigate excessive risk.

The **External Audit Group** consists of Contract Audit which conducts audits related to pre-awards, change orders, and incurred costs, as well as providing support for claims, contract close-outs and related litigation; and Project Audit which conducts close-out audits of projects funded by the Call-for-Projects and also provides oversight for the annual Consolidated Audit of financial and compliance audits, which is performed by a CPA firm under contract to MTA.

DISCUSSION

Internal Audit Reports Issued

Since our last report, Internal Audit has issued the following audit reports:

<u>DATE ISSUED</u>	<u>SUBJECT</u>
01/30/04	ATMS Project Management Interim Report #3 (IT)
01/30/04	IT Process Review (IT)
02/24/04	Transit Funds Allocation
03/04/04	SFV Sector Operator Work/Time Requirements
03/22/04	SGV Sector Maintenance
03/31/04	TOTS Application Audit (IT)
04/30/04	Bus Camera Maintenance
04/30/04	M ³ Systems Development Project Interim Report #2 (IT)
04/30/04	FIS Disaster Recovery Plan Test (IT)
05/24/04	ATMS Project Management Interim Report #4 (IT)

Six of the above 10 audit reports concern the Information Technology (IT) area. Three of these 6 reports are interim reports on our on-going reviews of the *Advanced Transportation Management System (ATMS)*, *Universal Fare System (UFS)* and *Maintenance & Material Management System (M³)*. These 3 technology projects have a combined life-of-project budget of almost \$250 million. We are continuing to monitor these projects to ensure that the project management plans are adequate, that they are being implemented as intended and that reported project status is reasonably accurate. To date we have made a number of observations that have been acted upon by the respective project teams. We will continue to monitor these projects until they are fully implemented.

The purpose of the *IT Process Review* was to make an assessment of the MTA information technology processes and controls in light of the proliferation of technology solutions throughout the organization. We found that 2 of the 3 major technology projects are being developed by Metro Operations rather than ITS. We also found that MTA does not have standards for IT project planning, tracking and reporting; does not have a requirement for IT quality assurance; lacks a standard methodology for IT technology acquisition and implementation and lacks a formal IT technology project oversight group.

We recommended the establishment of an executive-level information technology steering committee to address each of these weaknesses. Management agreed with our recommendation, and we have been assisting management in developing a charter and an agenda for the steering committee. Among the first tasks established for the committee will be the development of a strategic plan for information technology at the MTA.

The objectives of the *Transit Funds Allocation* audit were to determine whether the allocation process for funds from the Transportation Development Act, State Transit Assistance, Proposition A and Proposition C are accurate, in accordance with the related legislation, and that internal controls over the allocation process are adequate. We found that changes over the years have significantly altered the formula allocation procedures and

complicated the way funds are allocated. We also found that management controls over the allocation process needed improvement.

We recommended that Countywide Planning list all assumptions and methodologies used to determine the allocations and elaborate on any specific changes and assumptions in the Board Report for the fiscal year 2005 allocations. We further recommended a study of the formula allocation process be undertaken for the fiscal year 2006 allocations with the goal of finding an equitable method of allocating funds between the municipal operators while simplifying the process and either complying with the law or seeking specific Board approval for modifications. We also recommended specific improvements in the system of internal control. Management agreed to provide a separate attachment to the FY05 Board Report disclosing all assumptions and methodologies, hired a consultant to begin conducting the study of the process and agreed to improve the internal controls.

The objectives of the *SFV Sector Operator Work/Time Requirements* audit were to determine whether Metro Operations had systems in place to ensure compliance with Federal and State restrictions on driving and on-duty time as well as whether they were adequately monitoring secondary employment. We found that Metro Operations lacks an automated system to track operator driving time and that the manual processes in use are too cumbersome to be effective. We also found a lack of documentation for monitoring secondary employment. Management agreed to improve the manual processes and documentation of secondary employment while an automated system is being developed for monitoring driving and on-duty time.

Other Matters


Recent budget cuts reduced MASD staff by about a third: mostly in the areas of Pre-qualification and Contract Audit. Two recent Ordinances submitted to the Board modify existing Pre-qualification and change-order audit procedures to better apply our remaining audit resources to high risk areas. We will also be limiting our grant audits in low risk areas.

During the period, we also performed a physical inventory of Gold Line assets involving material items worth about \$700 million. These items were identified, valued and, where appropriate, bar coded. The effort represents a major step in the process of properly accounting for and safeguarding these very substantial properties.

NEXT STEPS

Management Audit Services tracks all audit recommendations until they are either implemented or otherwise resolved.

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