



**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE**

**April 20, 2006**

**SUBJECT: OFFICE OF INSPECTOR GENERAL (OIG) AUDIT  
ACTIVITIES REPORT**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file OIG Audit Activities Report.

**ISSUE**

The Board of Directors requested the OIG to report on audit activities.

**BACKGROUND**

The OIG Charter states that the OIG was established to provide an independent and objective unit reporting directly to the Board of Directors. The OIG has numerous responsibilities as defined in the Charter, and the OIG Audit Unit has a broad responsibility for oversight in a cooperative support mode with MTA management for increased accountability and improvement of organizational performance.

A large measure of the OIG audit focus is to provide the Board of Directors and MTA management with independent analyses, evaluations, and appraisals of performance effectiveness, accuracy of information, efficient use of resources, and adequacy of internal controls. In addition, the Audit Unit is charged with the detection and analysis of those items indicative of fraud, waste, or abuse.

**DISCUSSION**

The OIG has recently issued the following audit reports:

- Payroll Earnings Codes
- Contract Administration Procedures
- Advisory Report on Cash In of Sick Leave
- Miscellaneous Expenses for the Period July 1, to September 30, 2005

The audit reports were previously submitted to the Board and MTA management in their entirety.

### **Payroll Earnings Codes**

We found that payroll earnings code information provided to users and Payroll staff was not current because spreadsheets of earnings codes were not updated in a timely manner. Employee time processed and paid is based on earnings codes in the Payroll System.

Our review found that data in the Payroll System (HR Central Control Table, Tab for Earnings Codes) contained 311 earnings codes while the Users' Version of the Payroll Earnings Codes Spreadsheet contained 291 codes, a net difference of 20 codes. For example:

- Twenty-five earnings codes in HR Central were not in the Users' Version of the Spreadsheet.
- Five codes in the Users' Version of the Spreadsheet were not on HR Central.

These differences occurred because the Users' Version of the Payroll Earnings Codes by Union Spreadsheet, dated March 8, 2004, was over 16 months old and outdated.

It is important that payroll earnings code data are kept current, accurate, and consistent to minimize errors and misunderstandings on their proper use. The misuse of earnings codes could result in misallocating payroll expenses, inaccurate payments, or other errors.

When we advised Payroll Department staff of the inconsistencies found, they promptly initiated actions to establish a new updating procedure that would help to ensure the earnings code information provided to users is accurate, current, and consistent.

### **Contract Administration Procedures**

This review was conducted because a prior audit noted potential systemic internal control weaknesses regarding contract administration. We found that opportunities existed to improve internal controls over contract administration by:

- developing guidance on the roles and responsibilities of project managers, and
- clarifying policies concerning the responsibilities and delegations of authority for contract administration functions.

It is important that contract administration procedures are clearly defined and followed because the contract administration function is the process used to enforce the terms of the contract through such actions as evaluating performance and progress, monitoring contract deliveries, inspections, and approval of payments.

We also found that MTA had not developed a policy or other guidance on the roles and responsibilities of Project Managers. Without written guidance that clearly defines responsibilities, there is an increased risk that an employee could act outside his/her limitations. In addition, the Procurement Policy Manual was not clear on who is responsible for certain contract administration functions.

Management agreed with the findings and recommendations, and initiated the recommended corrective actions.

### **Cash In of Sick Leave**

Overall, we found that payments and leave balances were accurate for the cash in of sick leave, and controls were adequate. Our review determined that employees were correctly paid for the cash in of sick leave, and the number of hours cashed in agreed with the union agreements, with a few exceptions.

We attributed the good controls to the fact that requests for cash in of sick leave hours were sent to the Payroll Department for verification in lieu of letting the cost centers input/process the requests. Payroll staff have the expertise and information needed to verify that the amount of requested cash in sick leave hours complies with the requirements in the union agreements.

### **Audit of Miscellaneous Expenses**

The quarterly audit of miscellaneous expenses did not reveal any reportable conditions.

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