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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
FEBRUARY 21, 2008

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2008 SECOND QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the second quarter report of Management Audit Services for the period ending December 31, 2007.

ISSUE

At its January 2005 meeting, the Board designated the Executive Management and Audit Committee (EMAC) as their audit committee. The EMAC requested a quarterly report from Management Audit Services on its audit activities. This report fulfills the requirement for the second quarter of FY 2008.

DISCUSSION

Management Audit Services (MAS) provides audit support to the Chief Executive Officer (CEO) and his executive management. MAS provides audit services both internally reviewing agency processes, functions and systems, as well as externally reviewing compliance to contracts and memorandums of understanding (MOUs).

There are five audit groups in MAS, contract audit, grant audit, financial audit, information technology audit, and operational audit. Contract Audit audits vendor's proposals and contractor's claims to support the Office of Procurement and Material Management. Grant Audit audits compliance to MOUs for projects funded by Countywide Planning and Development. Financial Audit specializes in financial transaction reviews, Information Technology Audit audits the information technology (IT) systems, infrastructure, IT programs and activities, and Operational Audit focuses on agency operations and processes.

The summary of MAS audit activity for the quarter ending December 31, 2007 is as follows:

Contract Audit – 18 audits were completed, and 18 audits were in process with a total value of $43 million.

Grant Audit – 9 audits were completed, and 41 audits were in process with a total value of $257 million.

Financial Audit, Information Technology Audit, and Operational Audit – 4 audits were completed, and 24 audits, three control self assessments, and two consulting engagements were in process.

Contractor Pre-Qualification – 152 applications and validations were processed and 138 were approved.

Audit Follow-up and Resolution – 14, or 26%, of all outstanding audit recommendations were completed and closed. Eight new audit recommendations were added.

MAS' FY 2008 second quarter report is included as Attachment A.

NEXT STEPS

Management Audit Services will provide the third quarter summary of FY 2008 audit activity to the Board at the May 2008 Executive Management and Audit Committee meeting.

ATTACHMENT

A.   Quarterly Report on Management Audit Services activity for period ending December 31, 2007.

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

SECOND QUARTER
FY 2008

Metro

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EXECUTIVE SUMMARY

Overview

During the second quarter of FY 2008, 31 audits and one consulting engagement were completed.

The completed audits for second quarter include four internal audits, 18 contract audits and nine grant audits. The completed contract and grant audits are summarized on page three. Summaries of the internal audits begin on page four.

Eighty-three audit projects, three CSA reports and two consulting engagement were in process as of December 31, 2007.

The following chart identifies the functional areas where Management Audit Services (MAS) focused staff time and efforts during second quarter FY 2008:
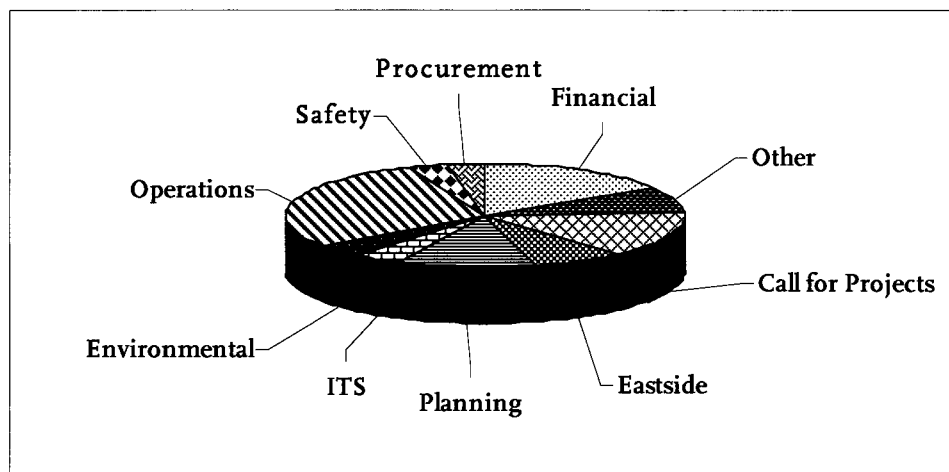
"Other" includes hours spent on real estate and human resources projects, risk assessment and quality assurance.

Audit Follow-up and Resolution continues to work with management to resolve open recommendations. Fourteen or 26% of the recommendations were completed and closed during the quarter out of a total universe of 53. Eight audit recommendations were added during second quarter.

The pre-qualification group processed 152 applications and validations during the quarter FY 2008.

We are currently completing the agency-wide risk assessment and preparing MAS' annual business and audit plan for FY 2009.

CONTRACTORS & OTHER AGENCY AUDITS

Contract Audit

Contract Audit provides support to the Office of Procurement and Material Management for a wide range of large-dollar procurements and projects. This support is given throughout the procurement cycle in the form of pre-award, interim, change order, closeout audits, and assistance with contract negotiations.

During second quarter FY 2008, 18 audits were completed, reviewing a net value of $6.4 million. Ten of these completed audits were for Planning projects, seven were for an Environmental project, and one was for the Eastside project. As of December 31, 2007, 18 audits were in process with a total dollar value of $43 million.

During the quarter, approximately 39% of Contract Audit efforts supported Planning. The rest of the audit effort for this group was split among Eastside, Environmental, and Operations.

Details on Contract Audits completed during second quarter FY 2008 are in Appendix A.

Grant Audit

Grant Audit conducts audits for Countywide Planning's Call-for-Projects program, federally funded transportation programs, and various other transportation related projects, including Alameda Corridor East and CalTrans projects. The purpose of the audits is to ensure that grantees spend funds in accordance with the terms of the grants and federal cost principles.

Grant Audit completed nine audits during second quarter FY 2008, reviewing $22 million. We identified $333 thousand of unused funds that may be reprogrammed by Countywide Planning for other projects. Forty-one audits with a total value of $257 million were in process as of December 31, 2007.

Details on Grant Audits completed during second quarter FY 2008 are in Appendix B.

INTERNAL AUDITS

Financial Audit

For the second quarter of FY 2008, one audit project was completed, Audit of Petty Cash Internal Controls, and is summarized below. Also, we completed a consulting engagement supporting the PriceWaterhouseCoopers audit of the Comprehensive Annual Financial Report (CAFR).

Four financial audits and one consulting engagement were in process as of December 31, 2007. The audits include: Expenditure Reporting, Estimating Methodologies, Real Estate Rental Income, and the Human Resources/TAP Interface and Real Estate rental income. The four financial audits in process are listed in Appendix C.

Audit of Petty Cash Internal Controls

We determined that the internal controls established over petty cash are adequate; however, we did find that there is a need to improve petty cash custodian procedural knowledge. The Controller agreed to revise the new Petty Cash Procedures and Guidelines to require the cost center managers to provide a signed acknowledgement that they have reviewed the new Petty Cash Procedures and Guidelines with the custodians, and Accounting staff have been designated to answer any petty cash procedural questions that may arise.

Operational Audit

For the second quarter of FY 2008, one audit project was completed, Audit of Business Continuity Planning. This audit contains security sensitive information and will be presented in February closed session under the Public Records Act section 6254(aa).

Eight operational audit projects were in process at the end of the second quarter of FY 2008. Three from the prior year's audit plan are Accident Management Process, Rail Service Interruption, and Scheduled Bus Performance. Five projects from the FY 2008 audit plan include: Preventative Training for High Risk Occupations, Key Metrics, M3-Inventory, Operations Safety Training and the School Tripper Program. There are also three control self assessments in process on Equipment Maintenance, Inventory, and Driver Safety Training. The eight operational audits in process are listed in Appendix E.

Audit of Business Continuity Planning

We made recommendations to improve the Business Continuity Planning process that will ensure our operations are up and running smoothly after an incident.

INTERNAL AUDITS

Information Technology Audit

For the second quarter of FY 2008, two audit projects were completed, Audit of the Wireless Network Security, and Audit of the Supervisory Control and Data Acquisition (SCADA) Firewall System. These audit projects are summarized below.

Twelve Information Technology (IT) audit projects were in process as of December 31, 2007. Eight audits are in process from prior years' audit plans: Oracle Human Resources, Budget Information and Accounting System, Compliance to Software License Agreements, Oracle Change Management, Procurement Card, Vendor Master File, Payroll E-Time, and Universal Fare System. Four audits are in process from the FY 2008 audit plan - Audit of HR Central/Payroll System Controls, Audit of Transit Operator Activity Scheduling and Tracking (TOAST), Audit of Backup Recovery Management and Audit of Information Privacy. In addition, one consulting engagements was in process during the second quarter. The 12 IT audits in process are listed in Appendix D.

Audit of the Wireless Network Security

The objective of the audit was to evaluate whether internal controls for wireless networks are adequate. There are three different wireless networks that support Maintenance Materiel Management System (M3), Advanced Transportation Management System (ATMS), and Universal Fare System (UFS) wireless networks.

The audit found ATMS, M3 and UFS wireless network internal controls are inadequately configured to properly secure the Metro network because of lack of policy and/or standards. The Chief Information Officer (CIO) will draft an agency-wide policy for wireless network and will coordinate a review of the draft policy with ATMS and UFS management.

Audit of the SCADA Firewall System

The purpose of the audit was to evaluate the physical and logical SCADA firewall environment and configuration. The SCADA firewall system regulates the communication flow from the SCADA network to the Los Angeles County Metropolitan Transportation Authority (Metro) network and is a part of Metro's overall security defense.

We noted that controls need to be strengthened in the following areas: 1) information, including passwords, sent remotely over-the-wire in plaintext is not encrypted; 2) administrators use a group account and password with no accountability; and 3) 13 firewalls send thousands of security messages per day to a single log which is difficult to monitor. The CIO implemented controls to address the remote access and monitoring issues, and individual user account and passwords are in the process of being implemented.

AUDIT SUPPORT SERVICES

Contractor Pre-Qualification

California Public Utilities Code §130051.21 and Ordinance #4-05 of the Administrative Code require firms to be pre-qualified prior to doing business with the agency.

During second quarter FY 2007, 152 applications and validations were processed. One-hundred applications and 52 validations were submitted and 72 applications and two validations were in process from the end of first quarter FY 2007. Of the 152 processed, 138 firms were approved to do business with Metro, five were closed as incomplete (applicant failed to respond to requests for information), and 80 applications and three validations were still in process as of December 31. This activity represents a 7% increase in activity from the same time last year.

The applications processed during second quarter FY 2008 were in support of 34 different procurement actions, including contracts in construction, operations, and professional services.

Audit Follow-Up and Resolution

During the second quarter, eight new audit recommendations were added to the outstanding audit recommendations list, and 14 additional recommendations were completed and closed out of a total universe of 53 representing a 26% reduction in the total outstanding recommendations. The table below summarizes the second quarter activity.

Summary of MAS and External Audit Recommendations
As of December 31, 2007

Executive Area	Closed or Completed in Oct.	Closed or Completed in Nov.	Closed or Completed in Dec.	Under Review	Extended	Not Yet Due	Total Open Recom.
Chief Financial Services Officer		4				1	1
Chief Administrative Services Officer	1		1	11	7	1	19
Chief Real Property Management & Development	1					1	1
Chief Planning Officer					3	7	10
Chief Operating Officer					1	3	4
General Mgr. Rail Operations	2	2	3		2	2	4
Totals	4	6	4	11	13	15	39

Appendix A

Contract Audit FY 2008 - Audits Completed During Second Quarter

Area	Audit Number & Type	Contractor	Requirement	Date Completed
Planning	07-COR-C06C S2 - Cost Proposal	Diverse Strategies for Orgainzing	Contractual	10/2007
Environmental	07-JAS-C01H - Forward Pricing	Wagner Engineering & Survey, Inc.	Contractual	10/2007
Environmental	07-JAS-C01F - Forward Pricing	Weston Solutions, Inc.	Contractual	10/2007
Environmental	07-JAS-C01D - Forward Pricing	Kroner Environmental Services, Inc.	Contractual	10/2007
Environmental	07-JAS-C01G - Forward Pricing	Consensus Planning Group, Inc.	Contractual	10/2007
Planning	07-COR-C06B S1 - Cost Proposal	Valencia, Perez & Echeveste, Inc.	Contractual	10/2007
Environmental	07-JAS-C01I - Forward Pricing	The Robert Group	Contractual	10/2007
Environmental	07-JAS-C01J - Forward Pricing	ATS Consulting, LLC	Contractual	10/2007
Environmental	07-JAS-C01K - Forward Pricing	Alellano Associates	Contractual	10/2007
Planning	07-COR-C01E S2 - Cost Proposal	Terry A. Hayes Associates	Contractual	10/2007
Planning	07-COR-C03B S2 - Cost Proposal	Terry A. Hayes Associates	Contractual	11/2007
Planning	07-COR-C01I S2 - Cost Proposal	Lenax Construction Services, Inc.	Contractual	11/2007

Appendix A

Contract Audit FY 2008 - Audits Completed During Second Quarter

Planning	07-DMU-C01 - Cost Proposal	LTK Engineering Services	Contractual	11/2007
Planning	07-DMU-C01A - Cost Proposal	Wilbur Smith Associates, Inc.	Contractual	11/2007
Eastside	08-LRT-C02 - Change/ICE	Eastside LRT Constructors	Legal	12/2007
Planning	07-COR-C07H S1 - Cost Proposal	Ted Tokio Tanaka Architects	Contractual	12/2007
Planning	07-COR-C01F S2 - Cost Proposal	Bullock & Associates, Inc.	Contractual	12/2007
Planning	07-COR-C07I S1 - Cost Proposal	Sharon Greene and Associates	Contractual	12/2007

Appendix B

Grant Audit FY 2008 - Audits Completed During Second Quarter

Area	Audit Number & Type	Grantee	Requirement	Date Completed
Planning	07-SCR-G01 - Closeout	Southern California Regional Rail Authority	Contractual	10/2007
Planning	07-CPE-G02 - Closeout	Palmdale Commuter Service Center	Contractual	11/2007
Planning	07-FHT-G01 - Closeout	Foothill Transit	Contractual	11/2007
Planning	07-CLA-G05 - Closeout	Los Angeles Department of Transportation	Contractual	11/2007
Planning	08-COM-G01 - Closeout	City of Malibu	Contractual	11/2007
Planning	07-CPE-G01 - Closeout	City of Palmdale	Contractual	11/2007
Planning	06-WGI-01 - Closeout	Washington Group International	Contractual	12/2007
Planning	07-CLA-G05R - Closeout	Los Angeles Department of Transportation	Contractual	12/2007
Planning	08-STIP-C01 - Closeout	LACMTA	Contractual	12/2007

Appendix C

Financial Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Executive Officer Finance	07-ACC-F05B - Expenditure Reporting	Performance audit to review Office of Management (OMB) and Budget and Accounting expenditure reporting methodologies.	High	3/2008
Executive Officer Finance	08-ACC-F03 - Estimating Methodologies	Evaluate Methodologies for estimating significant information for the Comprehensive Annual Financial Report (CAFR).	High	3/2008
Executive Officer Real Estate Mgt & Development	08-REA-F01 - Real Estate Rental Income	Determine whether lease database is accurate and complete, evaluate whether rental revenue is tied to property leases, and whether Real Estate records reconcile with Accounting records.	High	4/2008
Executive Officer Procurement & Mat Mgt.	08-TAP-F01 - Human Resources/TAP Interface	Review Employee, Dependent, & Retiree Badging Process and Interface with Transit Access Pass (TAP).	High	4/2008

Appendix D

Information Technology Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Executive Officer Finance/ITS	06-ITS-004 Oracle Human Resources	Assess Oracle HR security controls.	High	5/2008
Executive Officer Finance/ITS	06-OMB-005 - Budget Input & Analysis System	Assess the adequacy of controls for processing budget information.	Medium	3/2008
Agency-wide	06-ITS-012 - Compliance to Software License Agreements	Assess compliance with vendor licensing agreements and copyright laws.	High	3/2008
Executive Officer Procurement & Material Management/ITS	07-ACC-I04 - Oracle Change Management	Validate the formal change management process and assess the adequacy of controls in managing changes to Oracle applications.	High	3/2008
Financial	07-PMM-I10 - Procurement Card	Assess procurement card policies, procedures and controls and determine compliance with policies and procedures.	High	3/2008
Financial	07-ACC-I08 - FIS - Vendor Master File	Validate internal controls of the vendor master file and that the data in the file are accurate, complete, and duplicate vendors do not exist.	High	3/2008
Agency-wide	07-ACC-I05 - Audit of Payroll E-Time	Validate internal controls of new E-Time System.	High	3/2008

Appendix D

Information Technology Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Executive Officer Economic Development	07-OPS-IO2 - Audit of Universal Fare System	Identify/define key business and IT processes and determine that control requirements are integrated into the key processes and that control activities are appropriately designed to meet these requirements.	High	6/2008
Executive Officer Procurement & Material Management/ITS	08-ACC-I03 - Audit of HR Central/Payroll System Controls	Validate whether Payroll Input Systems internal controls are working properly.	High	6/2008
Operations	08-OPS-I02 - Audit of Toast	Evaluate system design for internal controls	High	6/2008
Information Technology Services	08-ITS-I01 - Audit of Backup Recovery Management	Evaluate backup procedures and controls for critical information	High	6/2008
Agency-wide	08-CEO-I01- Audit of Information Privacy	Evaluate internal controls over systems, databases, and processes that collect data subject to privacy acts.	High	6/2008

Appendix E

Operational Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Safety	07-OPS-O01 - Accident Management Process	Validate the process for monitoring and reviewing bus driver accidents and determine that system performance continues to meet transportation safety requirements.	Critical	1/2008
Operating	07-OPS-O03 - Rail Service Interruption and Contingency Planning	Validate adherence to policies for serving and assisting rail ridership when there is a service interruption.	Critical	2/2008
Operating	08-OPS-O08 Preventative Training for High Risk Occupation	Validate preventative safety training for high-risk professions, analyze relationship between safety training and accidents, and determine adequacy of the process.	High	2/2008
Operating	07-OPS-O11 - Scheduled Bus Performance	Validate that bus performance metrics are accurate, complete and timely.	High	6/2008

Appendix E

Operational Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Operating	08-OPS-O01 Key Metrics	Validate accuracy of metrics provided to managers for consistency with other metrics published. Compare GL reporting information to Balance Scorecard information. Determine whether Project Management metrics are accurate, consistent, complete, and timely.	Critical	5/2008
Operating	08-OPS-O05 M3-Inventory	Validate that M3 impacted key business process security and controls are in place and working as designed. Recommend improvements as necessary.	Critical	2/2008
Operating	08-OPS-O07 Operations Safety Training	Validate bus operator safety training and safety training selection process . Analyze relationship between safety training and accidents. Determine adequacy of the process.	High	3/2008

Appendix E

Operational Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Operating	08-OPS-O08 School Tripper	Audit of School Tripper compliance to Federal regulations outsourced to Macias Consulting Group, Inc.	High	3/2008
Operating	07-CSA-O01B - Equipment Maintenance, RRC Power Plant	Control Self Assessment - Document business process objectives, risks and activities.	-	6/2008
Operating	08-CSA-O01B - Inventory	Control Self Assessment - Document business process objectives, risks and activities.	-	3/2008
Operating	08-CSA-O05 - Driver Safety Training	Control Self Assessment - Document business process objectives, risks and activities.	-	4/2008