



**Metro**

Los Angeles County  
Metropolitan Transportation Authority

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**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE**  
**July 16, 2009**

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

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file this OIG Activities Report.

**ISSUE**

The OIG reports periodically on its activities. This report covers the 2<sup>nd</sup> Half of FY 2009.

**DISCUSSION**

1. During the 2<sup>nd</sup> Half of FY 2009, the OIG Audit Unit issued seven final audit reports, started seven audit projects, and issued three draft audit reports. The final audit reports issued are:
  - Department Information Security (Report No. 08-AUD-15, February 24, 2009).

The audit found that Metro departments/business units had not implemented Metro's ITS policy requirements concerning information security. Metro departments/business units had not developed written operating procedures for information security. Written procedures would reduce Metro's vulnerability of unauthorized individuals gaining access to personal, confidential, and other sensitive information. In addition, departments had not validated and assessed business and information security risks, which were also required by Metro policy.

The audit report made 11 recommendations to strengthen departmental information security controls, which included actions to:

- Notify and reinforce to departments/business units the requirement in Metro's Information Technology Policy IT 1 that business units are required to (1) validate and assess the information security risk, and (2) implement written standard operating procedures.
- Provide additional direction and/or support to departments/business units on information security requirements.

- Provide additional guidance to departments/business units as to areas that should be covered by department standard operating procedures.
- Include guidance on controlling and monitoring data in Metro Policy GEN 8.

Metro management agreed with the recommendations in the report and to take corrective actions.

This report is consistent with a subsequent Financial Management Oversight Review, which noted the importance for risk assessments of the Information Technology Organization.

- Follow-up Review on Metro Rewards Program (Report No. 09-AUD-02, March 20, 2009).

The review found that Metro management had implemented four of the seven recommendations in our prior report, partially implemented two recommendations, and had not implemented one recommendation.

- The required two gift card inventories and reconciliations were not performed in fiscal year 2008.
- A formal method was not used to forecast gift card purchasing needs.
- Gift card purchases were not based on current inventory levels and forecasted usage over the next 3 to 6 months.

The review also found additional areas where improvements were needed to the Metro Rewards Program.

- A joint gift card inventory and reconciliation was not conducted when the Project Manager of the program changed.
- The Excel spreadsheet that is used to record gift card transactions and track inventory balances is cumbersome to maintain and the recorded inventory balances were not accurate.

Metro management initiated the following actions:

- The Project Manager and Accounts Supervisor will perform a count of gift cards balanced to accounting records twice per fiscal year.
- The Inventory Projections Form as well as Policies, Procedures, and User Manual to forecast gift card purchasing will be revised.
- Metro Commute Services will add instructions to also question each selected employee for the mode of transportation they used to get to work to qualify for the program, and these responses will be documented.

- The Metro Rewards Policies, Procedures, and User Manual will be revised to require that a joint inventory and reconciliation be taken when the Project Manager changes.
- Only the Target and Starbucks gift cards will be re-ordered in the future, as these are the two types of cards that accounted for the most issuance in the past.
- Metro Commute Services is working with the ITS Department and is in the early stages of creating a database to replace the current Excel spreadsheet to track and monitor the gift cards more efficiently.

Metro management agreed with five of the seven recommendations in the report and initiated corrective actions. Management disagreed with one recommendation; however, we believe that management's actions met the intent of the recommendation. Management partially agreed with another recommendation; we plan to follow up on this matter in the future.

- Controls over Accounts Payable Checks (Report No. 09-AUD-04, April 15, 2009)

The audit found that overall controls over check disbursements were adequate, except for two areas that need improvement. The Accounts Payable Policies and Procedures Manual was outdated and did not reflect current cash disbursement practices. Also, the Outstanding Check list generated by the Cash Management System did not accurately reflect the total number and dollar amount of checks that were outstanding because the list contained un-cashed checks that had been written off.

Metro management concurred with the findings in the report, and initiated the following corrective actions:

- Accounting is in the process of updating the Accounts Payable Procedures Manual for processing cash disbursements.
  - Accounting submitted a service request to the Information Technology Services Department to create an interface process that would update the Cash Management System when stale dated checks are written off and the funds escheat to Metro.
- Advertising Revenue (Report No. 09-AUD-08, June 30, 2009).

Overall, controls over advertising revenue were generally adequate. We found that the two main advertising revenue contracts with the same company, totaling about \$22 million per year, are generating the specified revenue. However, some improvements were needed. Also, two small contracts, valued at less than \$1 million per year total, require close monitoring because one contractor is in bankruptcy and the other is seeking refinancing in order to continue operations, and is past due in payments to Metro. Both of the smaller contractors have their own equipment installed on Metro property. In addition, we found that Metro had established policy for advertising revenue, but that

policy needed to be updated, which was accomplished during the review. The report makes recommendations to:

- Ensure that the number of “wrapped” buses meets the contract requirements.
- Continue the joint effort to determine and protect Metro in terms of liability and responsibilities for the bankruptcy situation with the contractor for transit television.
- Continue efforts to collect monies due for the tunnel advertising contract.
- Include the period covered by invoices when billing for the tunnel advertising contract.
- Determine the feasibility to locate the meter for the tunnel advertising equipment in an easily accessible location. If this is done, consider billing for electricity use as specified in the contract.

Metro management agreed to the findings and recommendations and took corrective actions.

- Business and Travel Expense Reports (Report No. 09-AUD-01, February 5, 2009).

The audit found that the Travel and Business Expense Reports reviewed were generally in compliance with the Metro’s Travel and Business Expense Policy. We attributed the accuracy of the expense reports to the reviews performed by the Metro Travel Coordinator prior to submitting the expense reports to the Accounting Department for payment. Some of the errors that the Travel Coordinator found and corrected were: (1) claim of full per diem rate when some meals were provided, (2) lack of submission of conference agenda, (3) lack of approval for trips costing over \$2,500, and (4) expense reports were submitted late. To minimize future errors that travelers may make, we recommended that the Travel Coordinator develop a brief information sheet, which outlines the travel policy in areas that travelers may overlook and cause errors.

Metro management agreed with the recommendations in the report and initiated corrective actions.

- Audit of Miscellaneous Expenses for the Period July 1, 2008 to September 30, 2008 (Report No. 09-AUD-05, February 25, 2009). This audit is mandated by statutory requirement. The audit found no reportable conditions.
- Audit of Miscellaneous Expenses for the Period April 1, 2008 to June 30, 2008 (Report No. 09-AUD-03, February 6, 2009). This audit is mandated by statutory requirement. The audit found no reportable conditions.

2. We completed 20 of the 25 projects in the FY 2009 audit plan. Five projects in the original plan were deferred because 6 other unplanned projects were started. We shifted our resources to respond to more critical needs of the agency that arose during the period.

3. During the 2<sup>nd</sup> Half of FY 2009, the Investigations Unit opened 55 matters, and completed 47 matters. The 55 matters opened consisted of: 27 investigations, 7 multi-site reviews in 1 area (petty cash security reviews), 18 inquiries that were referred to Metro departments or did not warrant further investigation work, and 3 professional investigation service requests. In addition, the following 14 confidential summary investigative reports were completed during the period.
  - 24-Hour Vehicle Assignments (January 22, 2009)
  - Alleged Theft of Copper Wire (February 9, 2009)
  - Investigation of Bad Checks (March 27, 2009)
  - Alleged Payroll Fraud at Division (March 31, 2009)
  - Missing Petty Cash at Division (March 31, 2009)
  - Allegation of Consumption of Alcohol at Division (April 13, 2009)
  - Allegation of Employee Misconduct and Unreported Outside Employment (May 6, 2009)
  - Loan Sharking Activities (May 11, 2009)
  - Alleged Contractor Misconduct (May 13, 2009)
  - False Information Provided to Mortgage Lender (May 27, 2009)
  - Alleged Misuse of Metro Purchase Card (June 15, 2009)
  - Alleged Employee Misuse of Metro Vehicle (June 15, 2009)
  - Alleged Employee Misconduct and Unreported Outside Employment (June 16, 2009)
  - Alleged Attempt to Improperly Obtain a Metro Replacement Check (July 1, 2009)
4. The OIG began a program where Metro departments may request investigation assistance. The intent of this program is to avoid unnecessary outsourcing of investigation work and to assist the requesting department to expedite its reviews and evaluations or trial preparation while maximizing the quality, depth, and thoroughness of the final product. The Investigation Services Group received three requests for these services during the 2<sup>nd</sup> Half of FY 2009, making a total of 20 service requests since the program was launched in the last quarter of FY 2008. An example of such a case is one involving a request to locate a missing Metro vendor to whom payments are due and the vendor had not paid its subcontractors.
5. The OIG participated on the Sharp Credit Practices Project Team to explore ways to eliminate or curtail loan sharking activities that target Metro employees. This task force was

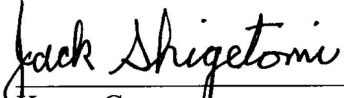
formed as a result of an OIG report issued in May 2009 that identified such activity. The team has issued a letter to the loan sharks directing them to stay off Metro properties, notified transit security, and are preparing an educational campaign. Also, an OIG investigator has accompanied two Metro employees to Small Claims Court to assist them in claims filed by one of the loan sharks that resulted in a dismissal of one claim and a reduction of \$1,900 in the second claim. Discussions with the Northrop Grumman Federal Credit Union are ongoing. The Team is continuing to meet to work on solutions to this activity.

6. Department Administration. During the 2<sup>nd</sup> Half of FY 2009, the OIG:

- Completed a draft policy on offsite back-up procedures for electronic information, as part of our continuity of information plan in case of emergencies.
- Deployed four network printers as part of our program to transition from individual printers to network printers to keep costs down.
- Hired a replacement for the current Information Technology Consultant services whose contract expires later this year.
- Continued the process to develop a website for posting audit and possibly investigation reports, and worked on a policy for determining what will be posted on the website. We also began review of the website to update it for more current information.

7. During the last quarter of this year, we began working on an undercover “ride along” program to supplement any program that Operations might carry on to monitor and confirm agency compliance with safety and customer service policies, such as the prohibition on use of cell phones while driving, calling out stops if the automated system is not in use, and various ADA compliance matters.

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for   
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