



EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
January 15, 2004

**SUBJECT: RECEIVE UPDATE ON OFFICE OF INSPECTOR GENERAL
(OIG) AUDIT ACTIVITIES**

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on OIG Audit Activities.

ISSUE

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

BACKGROUND

The OIG Charter mandated the creation of a unit to report directly to the MTA 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 MTA organizational performance.

A large measure of the OIG audit focus is to provide the MTA 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 recently issued the following audit reports:

- *Review of Controls Over Bus Parts and Rebuilt Items at the Regional Rebuild Center*
- *Audit of Controls Over Direct Connect Mobile Telephones*
- *Follow-up Review on Controls Over Scrap Metal Sales*
- *Follow-up Review on Overtime Payments to Non-Represented Employees*

- *Audit of MTA Miscellaneous Expenses, January 1, 2003 to March 31, 2003*
- *Audit of MTA Miscellaneous Expenses, April 1, 2003 to June 30, 2003*

The above audit reports were previously submitted to the Board and MTA management in their entirety. Two of these reports are summarized below.

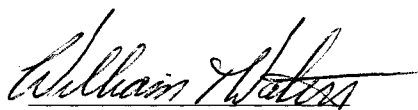
1. The report on *Review of Controls Over Bus Parts and Rebuilt Items at the Regional Rebuild Center (RRC)* focused on the adequacy of controls over bus parts and rebuilt items. Specifically, we reviewed procedures and controls for managing parts and completed rebuilt items (such as engines and transmissions). We found that in certain areas internal controls and accountability over bus parts and rebuilt items were not adequate.
 - Our review of items sent to the Central Warehouse for a 4-month period showed that many items did not have shop order numbers, which is an important internal control for protecting parts and rebuilt items. For example:
 - 375 rebuilt items valued at \$204,221 did not have shop order numbers. Without shop order numbers, there is no assurance that all rebuilt items were accounted for.
 - 11,522 parts valued at \$639,243 did not have shop order numbers. As a result, (1) the cost of the returned parts was not credited to the appropriate rebuild job, (2) the costs of rebuilding items were overstated, and (3) accountability was lost over the parts, and parts could be lost or stolen without detection, or damaged when left in shop areas for long periods. Without shop order numbers or other controls, it was not possible to identify where the returned purchased parts and rebuilt items originated.
 - Maintenance staff noted discrepancies concerning parts issued from the Central Warehouse to RRC shops.
 - The Missing Parts List for a 2-month period showed that 43 items costing \$37,871 were missing from shop orders delivered to maintenance.
 - The Incorrectly Shipped Parts List for a 2-month period showed that 29 incorrect items were received.
 - Inventory controls in the Engine Line Storeroom were not adequate. For example:
 - A large number of items had accumulated over a period of time in the storeroom.
 - A physical inventory of items in the storeroom had not been conducted.

- The mechanic who worked in the storeroom was not trained to perform the duties of a stock clerk.
2. The report on *Controls Over Direct Connect Mobile Telephone Services* focused on services provided by Nextel Communications. Our audit identified opportunities to reduce costs and strengthen internal controls and management reviews. We found that:
- MTA staff did not detect overcharges and other types of billing errors totaling over \$62,000.
 - Oversight was lax, and policies and procedures were not followed.
 - User Departments did not receive copies of bills to review.
 - Bills were not reviewed for accuracy and unauthorized usage.
 - Users of 101 mobile telephones were not identified.
 - Equipment and installation costs totaling \$46,880 were improperly charged on a monthly telephone bill.
 - Telephone bills showed large previous unpaid balances that exceeded \$170,000, and MTA staff had not researched or resolved the unpaid balances.
 - Copies of Nextel bills were not available for review or to support some payments.

This is our second report on MTA mobile telephones this year. Our first report, issued in June, found similar problems with cellular telephone services provided by Verizon Wireless.

Except for two recommendations in the Mobile Telephone Report, MTA Management agreed with the findings and recommendations discussed in the above reports and initiated the recommended corrective actions. We are following up in a separate correspondence to ascertain additional information concerning unresolved report issues.

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WILLIAM WATERS
Inspector General

