



**Metro**

Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952

213.922.2000 Tel  
metro.net

7

EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE  
SEPTEMBER 16, 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

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

<u>DATE ISSUED</u>	<u>SUBJECT</u>
05/24/04	ATMS Project Management – Interim Report #4 (IT)
06/15/04	RRC Allocation of Maintenance Costs
06/25/04	General Services Expenditures
06/30/04	ATMS Transit Database System Final Report (IT)
06/30/04	Selected South Bay Sector Performance Measures
06/30/04	Dial-up/Virtual Private Network Access Controls (IT)

- We are continuing to conduct interim reports on the *ATMS Project Management* 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 will continue to monitor the project until it is fully implemented.
- The purpose of the review of *RRC Allocation of Maintenance Costs* was to determine whether all appropriate costs were being captured and included in the allocation of RRC costs to the divisions. The audit found that, at the time of the audit, the methodology for allocating RRC was still being developed. We recommended that when the methodology is finalized it should be reviewed by the Chief Financial Officer and that agreements be reached with Departments that would be assigned responsibilities under the policy. Management concurred with our recommendation.
- The review of *General Service Expenditures* was performed at the request of the then Executive Officer, Administration. The audit found inadequate segregation of duties among General Services personnel for ordering, receiving and approving payment. We also found that justifications for purchasing items on a sole source basis were inadequate. We recommended that the functions for ordering, receiving and authorizing payment be separated and that competitive quotes be obtained for items being ordered to the maximum extent possible. Management generally concurred with our recommendations.
- The purpose of the *ATMS Transit Database system (TDBS)* audit was to determine whether the database had been developed in accordance with the technical specifications and included appropriate controls. We found that appropriate controls had been established except that the ATMS TDBS server was not set up in a neutral zone to prevent unauthorized access to the database and ATMS. Instead, it was setup within the internal Metro network for ease of support by Information Technology Services. We recommended the reassessment of the TDBS architecture and the development of a Configuration Management User Guide to help minimize the potential risk of disruption to TDBS and ATMS resulting from unauthorized access,

improper set up and administration. Management concurred with the recommendation.

- The purpose of the audit of *Selected South Bay Sector Performance Measures* was to determine whether reported performance data was accurate and based on reliable data. We found that the reported percentage of on-time pullouts was overstated and that the data reported for in-service, on-time performance included “pass-ups” (buses passing the designated bus stop without stopping) and excluded cancellations (buses that did not appear at designated bus stops due to cancellation of the run). We recommended several changes to the performance indicators as well as changes to the monitoring of the indicators. Management concurred with some of our recommendations and continues to study the others.
- In the audit of *Dial-up/Virtual Private Network Access Controls* we sought to determine whether access to the MTA’s network was secure and adequately controlled. We found that the policies for this area need to be finalized, monitoring needs to be established and setup standards need to be developed. We recommended finalization and enforcement of the policies for dial-up and modem lines, establishment of the roles and responsibilities for monitoring these accounts, and development of standards for dial-up system administration. Management generally concurred with these recommendations and are in the process of implementing them.

During the 4<sup>th</sup> quarter of FY04, **Project Audit** completed 20 audits of grants totaling almost \$18.5 million. In these audits, we questioned nearly \$200,000, reported just over \$300,000 as unused funds and recommended the deobligation of nearly \$500,000.

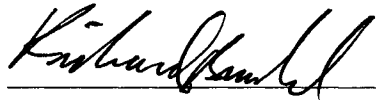
Also in the 4<sup>th</sup> quarter of FY04, **Contract Audit** completed 19 audits with a total reviewed amount of \$24.5 million, 16 were contract modification audits, 2 were close-out audits and 1 was an interim audit. We questioned amounts totaling just over \$1.5 million and reported \$2.6 million in unsupported costs.

Finally, our **Contractor Pre-Qualification** unit has begun implementing the ordinance approved in July to streamline and improve the pre-qualification program.

## **NEXT STEPS**

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

Prepared by: John Beamer, Internal Audit Manager, MASD



---

RICHARD BRUMBAUGH  
Chief Financial Officer



---

ROGER SNOBLE  
Chief Executive Officer