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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
October 19, 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:

- Disposal of Computer Equipment and Data Storage Media
- Metro Rewards Program
- Follow-up Review on Controls over Equipment

- Follow-up Review on Contract for Workers' Compensation Claims Administration
- Audit of MTA Miscellaneous Expenses, January 1 to March 31, 2006

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

Disposal of Computer Equipment and Data Storage Media

We performed a review to evaluate procedures for ensuring that sensitive information is permanently erased from computer equipment and removable electronic storage media prior to their disposition.

We found that written procedures were not established for (1) erasing information on hard drives prior to disposal, and (2) disposing of unneeded and damaged electronic storage media (e.g., removable disks). Written controls are essential for ensuring that procedures designed to safeguard MTA information are followed, and unauthorized individuals do not obtain or recover sensitive business and personal information.

We also found that MTA departments and staff did not follow the requirement in Policy GEN 8 to turn in unneeded removable electronic storage media, such as floppy disks, tape, Zip disks, CD's, flash drives, etc., to the Records Management Center for disposal. During a 1-year period, numerous storage media were issued — 11,555 CDs, 4,240 3½ inch diskettes, and 2,080 zip disks. Based on the large number of media issued, there was significant potential that many damaged or older disks could have been discarded. One Department manager advised us that "if the media is damaged (not readable), media is thrown away." On March 20, 2006, we toured the central trash collection point at the USG building, and found a box which contained electronic storage media.

There are at least three major risks involved if files on computer hard drives are not erased and/or electronic storage media are not destroyed prior to disposal:

- Unauthorized release of personal or confidential information, which could result in identity theft.
- Unauthorized disclosure of sensitive business information.
- Violation of software license agreements.

Metro Rewards Program

This review was conducted because we noted potential systemic control weaknesses during two prior OIG investigations of alleged theft in the Metro Rewards Program. One of the investigations determined that an outside agency's employer transportation coordinator (ETC) carried out alleged theft by submitting numerous fraudulent Employee Claim Forms to MTA for gift cards totaling over \$10,000. The other investigation found that an ETC misappropriated about \$700 in gift cards. ETCs, assigned within various government agencies and companies that participated in the Program, distributed rewards (retail gift cards) to participating employees.

Our review found that subsequent to our investigative report, MTA has initiated actions to improve internal controls over the Program. However, MTA still faces challenges in establishing a sound internal control system because the structure and nature of the Program relies on input from participants and administration and control by ETCs who are not MTA employees. We believe that additional controls are needed in the areas of periodic audits and increased management oversight of the Program. We also found that key Program duties were not adequately segregated, and the amount of retail gift cards on hand appeared excessive.

Follow-up Review on Controls over Equipment

We performed a follow-up review on our prior report on *Controls over Equipment Items*. The prior audit found that the program to inventory and track MTA equipment (such as computers, office equipment, and maintenance items) was not effective and did not ensure that assets were accounted for. Over half (10,518 of the 20,500) of the equipment items were not located during the past inventory cycles. Some items had not been located for five annual inventory cycles.

Our follow-up review found that MTA has developed guidelines for tracking and controlling capital equipment; however, additional steps are needed to ensure that equipment items are inventoried on an annual basis as required by the Equipment Tracking Program.

As of February 15, 2006, 783 (75.9 percent) of 1,031 equipment items had not been inventoried on an annual basis as required by Material Management Policy. The fiscal year 2006 inventory was not performed in October 2005, as planned, due to staffing vacancies in Material Management. On February 28, 2006, Property Management initiated the delayed October 2005 inventory and sent a letter to 23 user divisions/departments. The letter requested the divisions/departments to perform equipment inventories, and submit the completed inventories by March 17, 2006. However, as of May 5, 2006, only 11 (48 percent) of the 23 divisions/departments had submitted inventory results to Property Management. Materiel Management officials advised us that the fiscal year 2007 inventory is planned for October 2006.

Follow-up Review on Contract for Workers' Compensation Claims Administration

We performed a follow-up review on our prior report on the *Review of the Contract for Workers' Compensation Claims Administration*. The prior audit found that MTA staff approved the contractor's invoices for payment although some labor rates, job classifications, and overtime charged did not conform to contract terms. MTA paid \$822,859 for services that were not authorized by the contract.

Our follow-up review found that MTA management had taken adequate corrective actions to implement the recommendations. The corrective actions taken by management should provide better controls over the contract for workers' compensation claims administration.

Audit of Miscellaneous Expenses

The expenses reviewed for the period January 1, 2006, through March 31, 2006, generally complied with policies, were reasonable, and were generally adequately supported. However, we found two payments for membership and dues made via the Procurement Card (P-Card) that did not have the required approvals. These payments were approved by the P-Card cost center approving officials, but the required special purchase approval forms were not completed prior to making the purchase.

Prepared by: Jack Shigetomi, Deputy Inspector General - Audits

A handwritten signature in black ink, appearing to read "William Waters", with a horizontal line extending from the end of the signature.

WILLIAM WATERS
Inspector General