EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
FEBRUARY 21, 2007

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2008 FIRST QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the first quarter report of Management Audit Services for the period ending September 30, 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 first 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 contractor's proposals/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 September 30, 2007 is as follows:

Contract Audit – 11 audits were completed, and as of September 30, 2007, 21 audits were in process with a total value of $43 million.

Grant Audit – 12 audits were completed, and 39 audits were in process with a total value of $222 million.

Financial Audit, Information Technology Audit, and Operational Audit – 22 audits and two consulting engagements were in process.

Contractor Pre-Qualification – 123 applications and validations were processed and 101 were approved. This represents a 28% increase in activity since the same time last year.

Audit Follow-up and Resolution – seven, or 10%, of all outstanding audit recommendations were completed and closed. Two new audit recommendations were added.

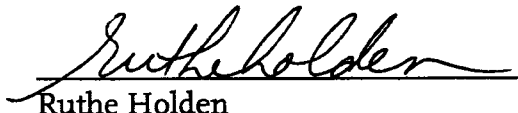MAS' FY 2008 first quarter report is included as Attachment A.

NEXT STEPS

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

ATTACHMENT

A.   Quarterly Report on Management Audit Services activity for period ending September 30, 2007.
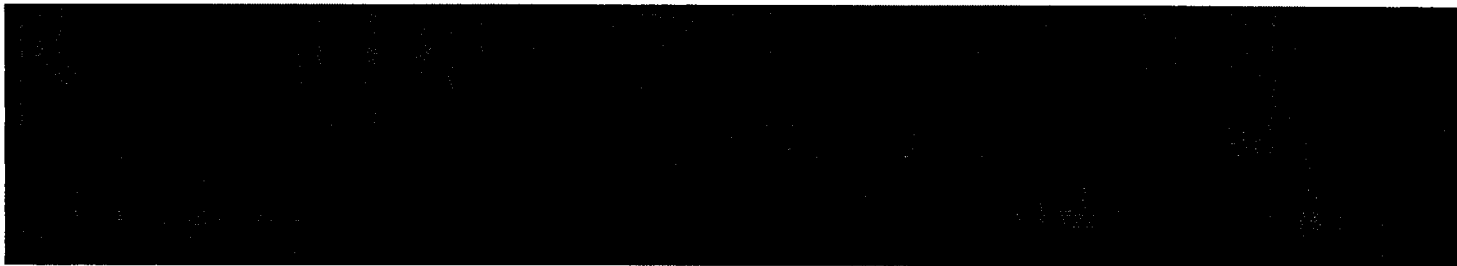
Prepared by: Ruthe Holden, Chief Auditor, MAS

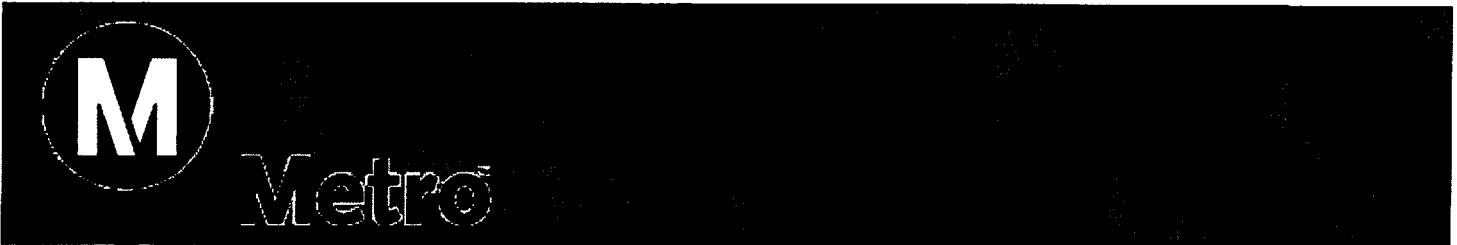_Ruthe Holden_

Ruthe Holden
Chief Auditor, Management Audit Services

Roger Snoble

Roger Snoble
Chief Executive Officer

Los Angeles County Metropolitan Transportation Authority

# FIRST QUARTER
FY 2008

M **Metro**

Overview

During the first quarter of FY 2008, 23 audits and one consulting engagement were completed. An audit memo was issued for an audit project that was stopped after the preliminary survey was completed because risk to the agency was deemed to be low.

The completed audits for first quarter include 11 contract audits and 12 grant audits. The completed contract and grant audits are summarized on page three. Internal audits that were in process as of September 30, 2007 are summarized on page four.
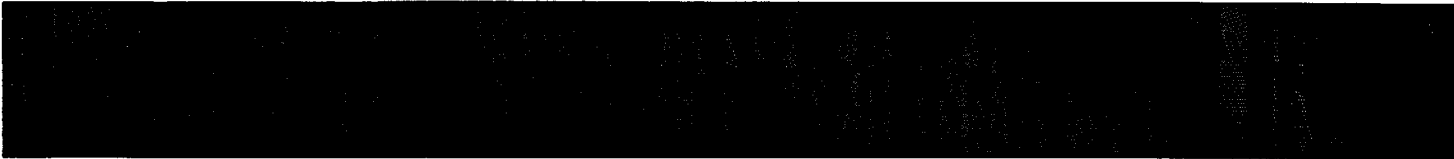
Eighty-two audit projects, three CSA reports and two consulting engagement were in process as of September 30, 2007. We are also providing audit staff support to PriceWaterhouse Coopers on Metro's Comprehensive Annual Financial Report (CAFR).

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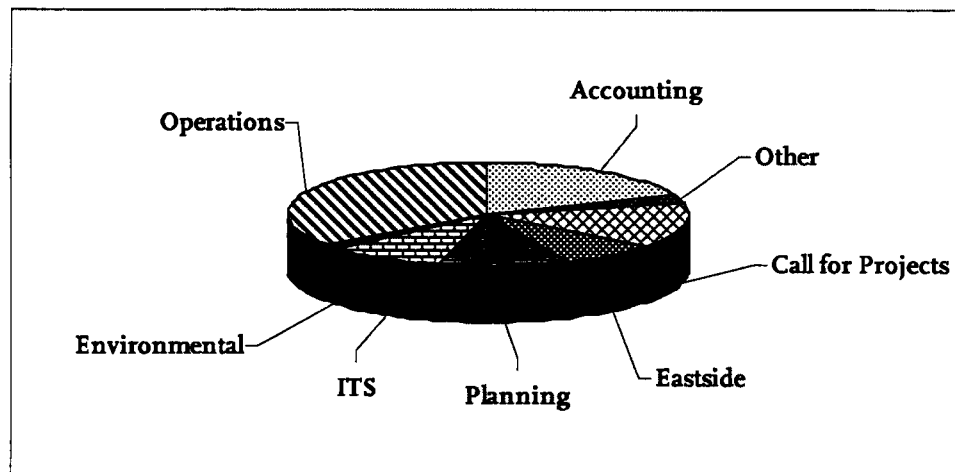
"Other" includes hours spent on financial projects, risk assessment and quality assurance.

Work plans have been established for all auditors based upon the Board approved FY 2008 annual audit plan. Audits for the entire year have been scheduled to ensure smooth transition between audits and adequate planning and notification time for each department being audited.

Audit Follow-up and Resolution continues to work with management to resolve open recommendations. Seven or 10% of the recommendations were completed and closed during the quarter out of a total universe of 71. Two audit recommendations were added during first quarter.

The pre-qualification group processed 123 applications and validations during first quarter FY 2008. This represents a 28% increase in activity compared to the same time last year.

Agency Wide Risk Assessment

In January 2007, the Board approved the Financial Stability Policy requiring an annual risk assessment be completed for the agency. MAS has begun the process of updating last year's risk assessment.

Risk assessments are a means of providing management with information needed to understand factors that can negatively influence operations and outcomes. The agency wide risk assessment is the process of identifying the possibility that events will occur that will be harmful to Metro, and/or will be detrimental to the achievement of the Metro's strategic goals. Not all risks are equal. Some are more likely than others to occur, and some will have a greater impact than others if they occur. So, once risks are identified, their probability and significance must be assessed.

The risk assessment process is an ongoing one. Internal and external threats constantly develop, presenting new hazards to the agency. Change itself is a risk, and management must continually adapt its policies and procedures to manage its changing risks to a comfortable level.

The agency wide risk assessment for Metro is a formal process that captures risks and issues identified during prior audits as well as information available in key documents published by the agency. This data is analyzed and used during interviews with management, staff and other interested parties to:

- Identify threats that could adversely affect critical operations and assets;
- Estimate the likelihood that such threats will materialize and their potential impact;
- Identify and rank the value, sensitivity, and criticality of the operations and assets that could be affected should a threat materialize.

The assessment of risk is an important planning step in developing the annual audit plan. The information gathered from this risk assessment will be used to develop the FY 2009 annual audit plan, which will be presented to the Board in 4th quarter FY 2008.

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 first quarter FY 2008, 11 audits were completed, reviewing a net value of $2.2 million. Five of these completed audits were for Planning projects, three were for an Environmental project, two were for the Eastside project, and one was for Operations. As of September 30, 2007, 21 audits were in process with a total dollar value of $43 million.

During the quarter, approximately 53% of Contract Audit's efforts went to support of Planning. The rest of the audit effort was split among Eastside, Operations, and Environmental audit support.

Details on Contract Audits completed during first 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 the 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 12 audits during first quarter FY 2008, reviewing $37 million. We identified $6 million of unused funds that can be reprogrammed by Countywide Planning for other projects. Thirty-nine audits with a total value of $222 million were in process as of September 30, 2007.

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

Financial Audit

For the first quarter of FY 2008, we completed an assessment of Accounting's Year-End Closing controls audit. An audit memo was issued after we found no significant areas of risk during our preliminary review and risk assessment and therefore, the audit was closed without further validation or fieldwork.

Three financial audits were in process as of September 30, 2007. Two from the prior year's audit plan - Petty Cash Internal Controls and Expenditure Reporting Methodologies, and one from the FY 2008 audit plan - Estimating Methodologies. In addition, we are once again providing audit staff support to PriceWaterhouse Coopers as they complete Metro's Comprehensive Annual Financial Report (CAFR).

The audits in process are listed in Appendix C.

Information Technology Audit

For the first quarter of FY 2008, one consulting engagement was completed.

Eleven Information Technology (IT) audit projects were in process as of September 30, 2007. Ten audits are in process from prior years' audit plans: Oracle Human Resources, Budget Information and Accounting System, Supervisory Control & Data Acquisition Firewall, Compliance to Software License Agreements, Oracle Change Management, Wireless System, Procurement Card, Vendor Master File, Payroll E-Time, and Universal Fare System. One audit is in process from the FY 2008 audit plan - Audit of HR Central/Payroll System Controls. In addition, two consulting engagements were in process during the first quarter.

The IT audits in process are listed in Appendix D.

Operational Audit

For the first quarter of FY 2008 eight operational audit projects were in process. Four from the prior year's audit plan are Accident Management Process, Rail Service Interruption, Business Continuity Planning, and Scheduled Bus Performance. The other four are from the FY 2008 audit plan and include: Preventative Training for High Risk Occupations, Key Metrics, M3-Inventory, and Operations Safety Training.

The eight audits in process are listed in Appendix E.

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 first quarter FY 2007, 123 applications and validations were processed. Eighty-nine applications and 34 validations were submitted, and 56 applications were in process from the end of FY 2007. Of the 123 processed, 101 firms were approved to do business with Metro, one was closed as incomplete (applicant failed to respond to requests for information), and 72 applications were still in process as of September 30. This represents a 28% increase in activity from the same time last year. The average processing time was twenty-five days for applications and two days for validations.

The applications processed during first quarter FY 2008 were in support of 17 different procurement actions, including contracts in construction, operations, and professional services.

Audit Follow-Up and Resolution

During the first quarter, two new audit recommendations were added to the outstanding audit recommendations list, and seven additional recommendations were completed and closed out of a total universe of 71 representing a 10% reduction in the total outstanding recommendations. The table below summarizes the first quarter activity.

Summary of MAS and External Audit Recommendations
As of September 30, 2007

Executive Area	Closed or Completed in July	Closed or Completed in Aug.	Closed or Completed in Sept.	Under Review	Extended	Not Yet Due	Total Open Recom.
Chief Financial Services Officer						3	3
Chief Administrative Services Officer	2				15	4	19
Chief Real Property Management & Development						2	2
Chief Planning Officer			2		3	7	10
Chief Operating Officer			1		1	1	2
General Mgr. Rail Operations	1	1		7		2	9
Totals	3	1	3	7	19	19	45

Appendix A

Contract Audit FY 2008 - Audits Completed During First Quarter

Area	Audit Number & Type	Contractor	Requirement	Date Completed
Eastside	07-BPI-C01 - Incurred Cost - FY06 reported costs and indirect expense rate	Barrio Planners	Contractual	7/2007
Operations	07-NAB-C02 - Buy America	NABI	Contractual	8/2007
Planning	07-COR-C04 S1 - Cost Proposal	The Lee Andrews Group	Contractual	8/2007
Eastside	07-LRT-C08 - Change	Eastside LRT Constructors	Legal	8/2007
Planning	07-COR-C05O S2 - Cost Proposal	Civil Works Engineers, Inc.	Contractual	9/2007
Planning	07-COR-C02 S1 - Cost Proposal	Consensus Planning Group, Inc.	Contractual	9/2007
Planning	07-COR-C05H S2 - Cost Proposal	JMDiaz, Inc.	Contractual	9/2007
Planning	07-COR-C05P S1 - Cost Proposal	Vertical Mapping Resources, Inc.	Contractual	9/2007
Environmental	07-JAS-C01B - Forward Pricing	Ninyo & Moore Geotechnical and Environmental Sciences	Contractual	9/2007
Environmental	07-JAS-C01C - Forward Pricing	Applied Earthworks, Inc.	Contractual	9/2007
Environmental	07-JAS-C01E - Forward Pricing	ArcheoPaleo Resource Management, Inc.	Contractual	9/2007

Appendix B

Grant Audit FY 2008 - Audits Completed During First Quarter

Area	Audit Number & Type	Grantee	Requirement	Date Completed
Planning	07-FHT-G02 - Closeout	Foothill Transit	Contractual	7/2007
Planning	07-CLA-G02 - Closeout	City of L.A.	Contractual	7/2007
Planning	07-CLA-G12 - Closeout	LADOT	Contractual	7/2007
Planning	07-COS-G02 - Closeout	Santa Clarita	Contractual	8/2007
Planning	07-CLA-G09 - Interim	City of L.A.	Contractual	8/2007
Planning	07-COS-G01 - Closeout	Santa Clarita	Contractual	8/2007
Planning	07-CLA-G03 - Closeout	City of L.A.	Contractual	8/2007
Planning	07-CLA-G16 - Closeout	City of L.A.	Contractual	8/2007
Planning	07-CLA-G07 - Closeout	City of L.A.	Contractual	8/2007
Planning	07-COG-G01 - Closeout	Glendale	Contractual	9/2007
Planning	07-CSM-G01 - Closeout	Santa Monica	Contractual	9/2007
Planning	07-CAL-G02 - Closeout	Caltrans	Contractual	9/2007

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-F03 - Petty Cash	Performance audit to review internal controls over the handling of petty cash funds.	High	10/2007
Executive Officer Finance	07-ACC-F05B - Expediture Reporting	Performance audit to review OMB and Accounting expenditure reporting methodologies.	High	3/2008
Executive Officer Finance	08-ACC-F03 - Estimating Methodologies	Evaluate Methodologies for estimating significant information for CAFR	High	12/2007

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	Completion of FY06 audit in process. Assess Oracle HR security controls.	High	10/2007
Executive Officer Finance/ITS	06-OMB-005 - Budget Input & Analysis System	Completion of FY06 audit in process. Assess the adequacy of controls for processing budget information.	Medium	11/2007
Executive Officer Procurement & Material Management/ITS	06-MRL-I07 - SCADA Firewall	Completion of FY06 audit in process. Assess the internal controls implemented in the firewall system for the SCADA network.	High	10/2007
Agency-wide	06-ITS-012 - Compliance to Software License Agreements	Completion of FY06 audit in process. Assess compliance with vendor licensing agreements and copyright laws.	High	12/2007
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	12/2007
Agency-wide	07-ITS-I06 - Wireless System	Assess the confidentiality, integrity and availability of the wireless network.	High	10/2007

Appendix D

Information Technology Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Financial	07-PMM-I10 - Procurement Card	Assess procurement card policies, procedures and controls and determine compliance with policies and procedures.	High	12/2007
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	1/2008
Agency-wide	07-ACC-I05 - Audit of Payroll E-Time	Validate internal controls of new E-Time System.	High	1/2008
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	5/2008
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	4/2008

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	11/2007
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	11/2007
Operating	07-OPS-O06 - Business Continuity Planning	Identify existence and relevance of business continuity plan; validate that the process to update the plan is adequate and performed on a timely basis; determine that the ongoing update includes all appropriate stakeholders and that it addresses stakeholders' requirements.	Critical	11/2007
Operating	08-OPS-O08 Preventative Training g for High Risk Occupation	Validate preventative safety training for high risk professions . Analyze relationship between safety training and accidents. Determine adequacy of the process.	High	11/2007

Appendix E

Operational Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Operating	07-OPS-O11 - Scheduled Bus Performance	Validate that bus performance metrics are accurate, complete, and timely.	High	12/2007
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	12/2007
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	12/2007
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	12/2007

Appendix E

Operational Audit FY 2008 - Progress Toward Completing Audit Plan

Area	Audit Number & Title	Description	Risk	Estimated Date of Completion
Operating	07-CSA-O01B - Equipment Maintenance, RRC Power Plant	Control Self Assessment - Document business process objectives, risks and activies.	-	12/2007
Operating	08-CSA-O01B - Inventory	Control Self Assessment - Document business process objectives, risks and activitie	-	12/2007
Operating	08-CSA-O05 - Driver Safety Training	Control Self Assessment - Document business process objectives, risks and activitie	-	12/2007