



Metro

Los Angeles County
Metropolitan Transportation Authority

Office of the Inspector General
818 West 7th Street, Suite 500
Los Angeles, CA 90017

213.244.7300 T
213.244.7343 F

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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
October 16, 2008

SUBJECT: OFFICE OF INSPECTOR GENERAL (OIG) ACTIVITIES REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file OIG Activities Report.

ISSUE

The OIG reports periodically on its activities.

DISCUSSION

1. During the 1st Quarter of FY 2009, the OIG Audit Unit started seven projects, issued five final audit reports, and issued two draft reports:
 - a. Final Reports Issued
 - Fueling Non-Revenue Vehicles (Report No. 08-AUD-08, July 18, 2008). The audit found that Metro had substantially improved compliance with procedures for using the automated fueling system to record essential vehicle and employee information; however, additional improvements were needed. The report made two recommendations to strengthen controls and enforce the use of the automated fueling system to record key vehicle and employee information.
 - Bus Inspections (Report No. 08-AUD-07, August 1, 2008). The audit found that required bus inspections were being made. However, the outcome of these inspections indicated that improvements are needed to ensure that all defects found are corrected and the number of buses placed out-of-service is minimized. The report made four recommendations to ensure that defects found during inspections are corrected and the number of buses placed out-of-service is minimized.
 - Follow-up on Selected Payroll Payments (Report No. 08-AUD-10, August 20, 2008). The follow-up review found that management had taken appropriate actions to implement the recommendations in the prior audit report. However, some additional improvements were needed. The report made three

recommendations to ensure that leave for jury duty, bereavement, and military duty comply with Metro policies.

- Fuel Tax Credits and Exemptions (Report No. 08-AUD-13, September 25, 2008). The audit found that adequate procedures and processes were in place to ensure that Metro received all available Federal and State fuel tax credits and exemptions. Since October 2006, Metro has received credits totaling \$33.2 million for CNG. In addition, the exemptions from Federal and State excise taxes for diesel and gasoline totaled about \$750,000 for FY 2008.
- Audit of Miscellaneous Expenses for the Period January 1, 2008 to March 31, 2008 (Report No. 08-AUD-14, September 26, 2008). The audit found no reportable conditions.

b. Draft Reports Issued

- Electronic Fund Transfers. The audit found that opportunities exist for Metro to increase the use of electronic fund transfers (EFT) to pay vendors and employees. EFT is less expensive, more secure, and a more efficient way to make payments. EFT would also reduce the vulnerability of lost, stolen, or fraudulent checks. The draft report makes five recommendations designed to increase participation in the EFT Program.
 - Corporate and Professional Membership. The audit found that controls over corporate and professional memberships were generally adequate and payments for memberships were reasonable and complied with Metro policies. However, opportunities for improvement existed in several areas. The draft report makes three recommendations to strengthen controls over the corporate and professional membership program.
2. As of September 30, 2008, the Audit Unit is on schedule to meet the number of new audit starts in the FY 2009 Audit Plan.
3. During the 1st Quarter of FY 2009, the Investigations Unit opened 54 matters, and completed 35 matters. The 54 matters opened consisted of: 5 investigations, 36 multi-site reviews in 3 areas (division site checks, inventory verifications, and records management compliance), 11 inquires referred or not warranting investigation, and 2 professional investigation services. In addition, six summary reports were issued during the period.

a. Summary reports issued:

- Unauthorized Parking Citations (IN-08-025, July 15, 2008)
- Omission of Information on Employment Application (IN-08-032, August 13, 2008)
- Alleged Violation of Employment Restrictions and Conflict of Interests (IN-07-030, July 24, 2008)

- Alleged Time Fraud (IN-08-006, July 31, 2008)
- Alleged Theft from Petty Cash Fund (IN-08-31, September 2, 2008)
- Alleged Violation of Metro Ethics and Procurement Policies (IN-08-022, August 19, 2008)

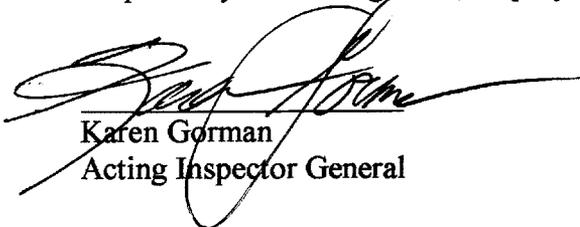
b. The report on Unauthorized Parking Citations found that Metro and its contractor might not be in conformance with certain provisions of the California Vehicle Code relating to how parking citations are processed and how motorists can appeal the citations. A Metro contractor issued parking citations, processed the citations, collected fines, and distributed the resulting revenue. However, in 2002, the California Attorney General opined: "A general law city may not enter into a contract with a private security company authorizing the company's employees to issue citations for Vehicle Code parking violations." This discovery requires Metro to cease outsourcing the enforcement of parking permit citations and begin utilization of Metro security personnel.

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 two requests for these services during the 1st Quarter of FY 2009, making a total of six service requests since the program was launched in the last quarter of FY 2008.

The Investigation Services Group has also developed a 2-hour training class on interviewing techniques. This class is intended for Metro employees whose duties include conducting interviews to gather data. On August 20, 2008, 14 individuals, primarily from the Diversity and Economic Development Department, attended the class on interviewing techniques. Approximately 45 employees have attended these courses since the start of the program. We are preparing to provide next quarter the course to Metro staff who conduct accident investigations.

5. The OIG began a risk assessment process to enhance the FY 2009 work plan and develop future work plans. During the 1st Quarter of FY 2009, we held discussions with senior Metro managers concerning goals, challenges, and areas where the agency might be at risk for fraud. These discussions resulted in a positive exchange of ideas.

Prepared by: Jack Shigetomi, Deputy Inspector General for Audits



Karen Gorman
Acting Inspector General

