MANAGEMENT AUDIT SERVICES QUARTERLY REPORT TO THE BOARD

Los Angeles County Metropolitan Transportation Authority

Second Quarter FY 2016

Metro

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EXECUTIVE SUMMARY

Summary of Audit Activity

During the second quarter of FY 2016, 12 projects were completed. These include:

<u>Internal Audits</u>
- Performance Audit of Efficiency and Effectiveness of the Oversight of Contracted Bus Service.

<u>Pre-Award Audits</u>
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for ExpressLanes toll collection system operation and maintenance;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Division 13 Architectural and Engineering Services; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Regional Connector Project Design.

<u>Incurred Cost Audits</u>
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Wilmington Automated Traffic Surveillance Control Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Burbank-Glendale-Pasadena Airport Authority's Bob Hope Airport Area Transit-Oriented Development Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Duarte's Transit Oriented Development Regulatory Changes for the Support of the Gold Line Station Area Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Final Indirect Cost Rate Proposal for SR-710 Gap Alternatives Analysis; and
- Four Independent Auditor's Reports (Prime and three subcontractors) on Agreed-Upon Procedures for the Interim Incurred Cost for Construction Management Support Services for the Regional Connector Project.

The completed external audits are discussed on page 4. Discussions of the internal audits begin on page 5.

Other audits completed by external CPA firms that Management Audit supervised are discussed on page 6.

EXECUTIVE SUMMARY

Sixty-seven projects were in process as of December 31, 2015; these include 16 internal audits, nine contract pre-award audits, and 42 incurred cost audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during second quarter FY 2016:
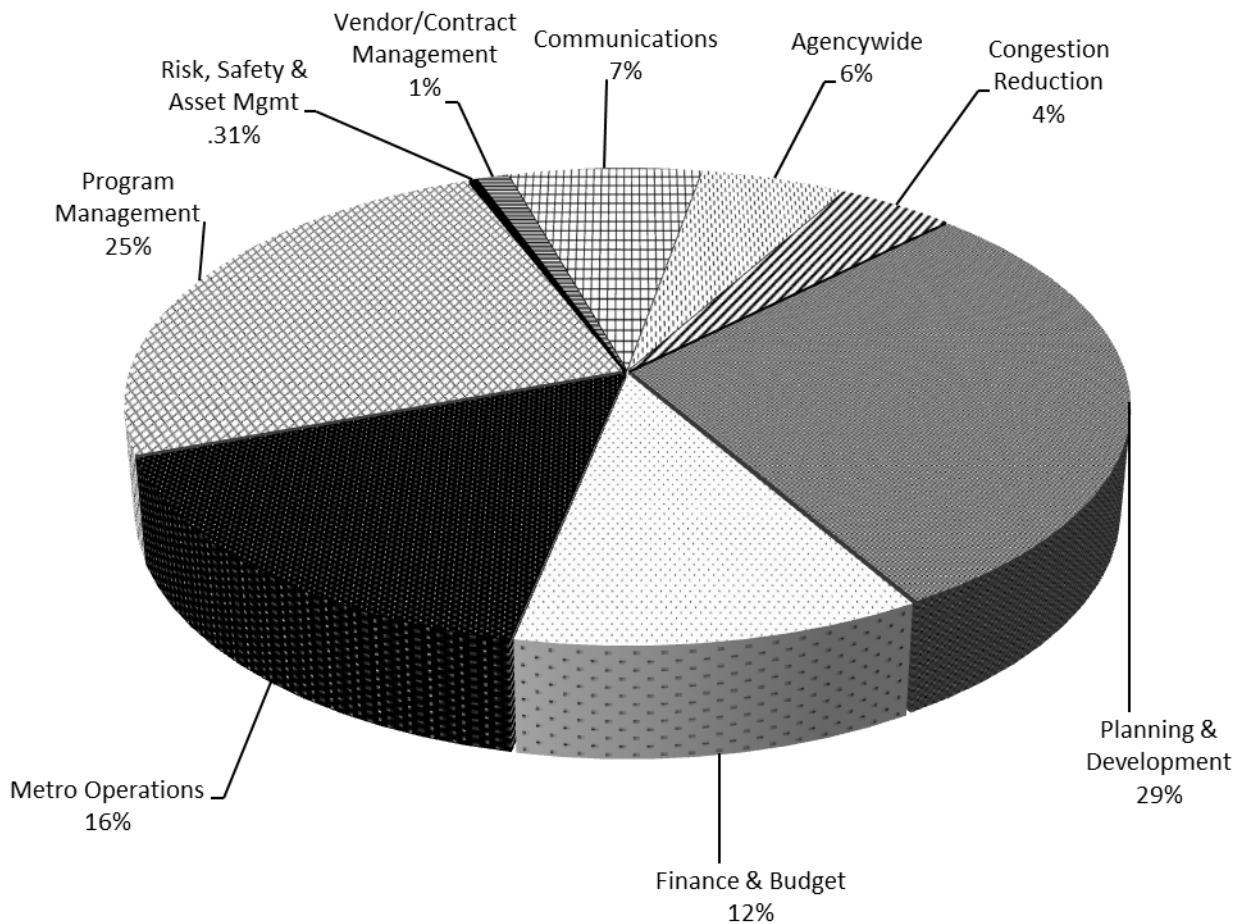
Audit follow-up:
- No recommendations were closed during the second quarter. At the end of the quarter, there were 65 open audit recommendations.

EXECUTIVE SUMMARY

Audit Standard Reporting Requirements

Independence
The International Standards for the Professional Practice of Internal Auditing requires that we report annually on our organizational independence. Organizational independence is achieved if the chief auditor reports to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

Management Audit reports to the CEO and the Audit Charter requires that the Board of Directors' review and concur in the appointment, replacement or dismissal of the Chief Auditor. Therefore, we are organizationally independent and in compliance with this standard.

Audit Charter
The International Standards for the Professional Practice of Internal Auditing requires that we review our internal audit charter periodically, present it to executive management and obtain board approval. The internal audit charter is a formal document that defines management audit activity's purpose, authority, and responsibility.

The Audit Charter was approved by the Board in July 2009. In 2011, the International Standards for the Professional Practice of Internal Auditing were revised. The Board approved Charter was compared to the updated standards and is in compliance with the new requirements, therefore we only made an administrative change on the signature page. It is included in Appendix E for Board and management review.

Internal Quality Self-Assessment
The International Standards for the Professional Practice of Internal Auditing and the Government Auditing Standards require that we report annually to executive management and the board on the quality assurance and improvement program.

An independent quality self-assessment was completed for FY15 and we are in compliance with the audit standards. We identified two areas of improvement: internal processes over engagement management and integrating staff input survey to future departmental improvements. As a result of the quality assessment, we enhanced our engagement procedures and updated department policies to include staff in the development of the annual audit plan.

EXTERNAL AUDITS

Contract Pre-Award Audit

Contract Pre-Award Audit provides support to the Vendor/Contract Management Department for a wide range of large-dollar procurements and projects. This support is provided throughout the procurement cycle in the form of pre-award, interim, change order, and closeout audits, as well as assistance with contract negotiations.

During second quarter FY 2016, three audits were completed, reviewing a net value of $9.8 million. Auditors questioned $119 thousand or 1% of the proposed costs. The three audits supported procurements in the following areas:
  ➢ ExpressLanes Project procurement;
  ➢ Division 13 Project procurement; and
  ➢ Regional Connector Transit Corridor Project procurement.

Nine contract pre-award audits were in process as of December 31, 2015.

Details on Contract Pre-Award Audits completed during second quarter FY 2016 are in Appendix A.

Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Program Management's highway projects, federally funded transportation programs, and various other transportation related projects, including CalTrans projects. The purpose of the audits is to ensure that funds are spent in accordance with the terms of the grants/contracts and federal cost principles.

Incurred Cost Audit completed eight audits during second quarter FY 2016. We reviewed $6.4 million of funds and identified $502 thousand or 8% of unused funds that may be reprogrammed. Forty-two incurred cost audits were in process as of December 31, 2015.

Details on Incurred Cost Audits completed during second quarter FY 2016 are in Appendix B.

INTERNAL AUDITS

For the second quarter of FY 2016, one internal audit was completed. Sixteen internal audits were in process as of December 31, 2015. The internal audits in process are listed in Appendix C.

The following internal audit was issued in the second quarter FY 2016.

Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services

Metro contracts 18 or 7% of its bus routes with three private operators; MV Transportation, Southland Transit, Inc., and Transdev/Veolia Transportation. Contracted Services performs contract and fiscal monitoring of these contractors to ensure that service delivery is consistent with contract provisions. The audit objective was to evaluate the efficiency and effectiveness of Metro's oversight of contracted bus services.

We found that Metro's oversight of contracted bus services is fairly effective; however, the process can be improved by implementing a contract monitoring system to ensure service delivery is consistent with contract provisions and by enhancing the fiscal monitoring process to validate charges to independent supporting documentation. Management agreed with the recommendations and has already taken steps to correct the issues.

OTHER AUDITS

Other Audits

Other audits completed during Second Quarter FY16 by external CPA firms include:

Proposition A and C Special Revenue Funds Audit – Issued November 2015
The MTA Reform and Accountability Act of 1998 requires the completion of an independent audit to determine compliance by the Los Angeles County Metropolitan Transportation Authority with the provisions of Propositions A and C. BCA Watson Rice LLP (BCA) completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds, which fulfills the requirement for the year ended June 30, 2015. The auditors found that MTA complied, in all material respects, with the requirements applicable to the Proposition A and Proposition C revenues and expenditures. As required by law, BCA presented their audit report to the Independent Citizens Advisory and Oversight Committee on January 12, 2016.

Measure R Special Revenue Fund Audit – Issued November 2015
The voter approved Measure R Ordinance mandates that an annual audit be conducted after the end of the fiscal year to ensure that the MTA complies with the terms of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year. BCA completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Measure R Special Revenue Fund, which fulfills the requirement for the year ended June 30, 2015. The auditors found that MTA complied, in all material respects, with the requirements applicable to the Measure R revenues and expenditures. As required by law, BCA will present their audit report to the Measure R Oversight Committee in March 2016.

Measure R Compliance Audit of the Cities and County – Issued December 2015
The voter approved Measure R Ordinance mandates that an annual audit be conducted after the end of the fiscal year to determine compliance with the provisions of the Ordinance related to the net revenues allocated to the Local Return Subfund during the fiscal year. For efficiency and effectiveness, we contracted with two firms (Simpson & Simpson and Vasquez & Company, LLP) to conduct the audits of Measure R sales tax revenues used by the 87 cities as well as the County of Los Angeles. The auditors found that the cities and county generally complied with the requirements applicable to the Measure R Local Return Guidelines. However, the auditors did find a 2% rate of non-compliance, which the MTA will follow-up for corrective action. As required by law, Simpson & Simpson and Vasquez will present their audit report to the Measure R Oversight Committee in March 2016.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the second quarter, no recommendations were completed and closed. At the end of this quarter, there were 65 outstanding audit recommendations. The table below summarizes the second quarter activity.

Summary of MAS and External Audit Recommendations
As of December 31, 2015

Executive Area	Late	Extended	Not Yet Due/Under Review	Total Open Recommendations
Program Management				
Labor/Employee Relations	1	2	4	7
Finance and Budget			1	1
Information Technology		4	2	6
Metro Operations	3	11	18	32
Planning and Development	1	17		18
Vendor/Contract Management			1	1
Totals	5	34	26	65

In addition to the above MAS and external audit recommendations, there are 23 open Inspector General recommendations.

		Contract Pre-Award Audit FY 2016 - Audits Completed During Second Quarter			
No.	Area	Audit Number & Type	Contractor	Requirement	Date Completed
1	Construction	16-CON-A02 - Attestation Agreed-upon Procedures	Regional Connector Constructors JV	Contractual	11/2015
2	Congestion Reduction	16-CEO-A01A - Attestation Agreed-upon Procedures	Xerox State and Local Solutions, Inc.	Contractual	11/2015
3	Construction	15-CON-A10 - Attestation Agreed-upon Procedures	Maintenance Design Group	Contractual	11/2015

No.	Area	Audit Number & Type	Grantee	Requirement	Date Completed
		Incurred Cost Audit FY 2016 - Audits Completed During Second Quarter			
1	Planning & Development	14-PLN-A34 - Closeout	City of Los Angeles Department of Transportation	Contractual	11/2015
2	Planning & Development	15-PLN-A33 - Closeout	Burbank-Glendale-Pasadena Airport Authority	Contractual	12/2015
3	Planning & Development	15-PLN-A32 - Closeout	City of Duarte	Contractual	12/2015
4	Planning & Development	13-PLN-A05A - Closeout	CH2M Hill, Inc.	Contractual	11/2015
5	Program Management	15-CON-A12B - Closeout	DHS Consulting, Inc.	Contractual	12/2015
6	Program Management	15-CON-A12B - Closeout	ARCADIS U.S., Inc.	Contractual	12/2015
7	Program Management	15-CON-A12C - Closeout	EPC Consultants, Inc.	Contractual	12/2015
8	Program Management	15-CON-A12A - Closeout	ABA Global, Inc.	Contractual	12/2015

		Internal Audit FY 2016 - Internal Audits in Process		
No.	Area	Audit Number & Title	Description	Estimated Date of Completion
1	Vendor / Contract Management	13-ADM-P01 - RFP Process	Assess efficiency and effectiveness and timeliness of Procurement's RFP processes.	1/2016
2	Vendor / Contract Management	12-ADM-I01 - Contract Information Management System	Assess the system implementation process to acquire, design, test and implement the Contract Information Management System that meets specific functionalities required by the MTA business processes.	2/2016
3	Communications	16-COM-P01 - Special Fares	Evaluate the effectiveness of internal controls over special fare programs.	3/2016
4	Metro Operations	13-OPS-P04 - Operations KPI Audit	Evaluate the accuracy and completeness of Operations KPIs.	3/2016
5	Planning & Development	14-EDD-P01 - Real Estate Property Management Follow-up	Evaluate accuracy and completeness of tracking real estate properties in Real Property Management System.	3/2016
6	Vendor / Contract Management	13-CEO-P01 - Cost Estimating Process	Assess efficiency and effectiveness and timeliness of Procurement's cost estimating process.	3/2016
7	Agencywide	16-AGW-P03 - Overtime Usage	Evaluate the accuracy, efficiency and effectiveness of overtime usage.	4/2016
8	Congestion	16-CEO-P02 - 511 follow-up audit	Follow Up on 511 audit.	4/2016
9	Finance & Budget	10-ACC-F01 - Accounts Receivable	Validate adequacy of current policies and procedures.	4/2016
10	Metro Operations	16-OPS-P01 - Wayside System	Evaluate effectiveness of maintenance of the Rail track & signaling systems.	4/2016
11	Metro Operations	16-OPS-P02 - Rail Overhaul and Maintenance	Evaluate the efficiency and effectiveness of the Rail Overhaul and Refurbishment Program.	4/2016

No.	Area	Audit Number & Title	Description	Estimated Date of Completion
		Internal Audit FY 2016 - Internal Audits in Process		
12	Program Management	16-CON-P01 - Performance Audit of Indefinite Delivery / Indefinite Quantity (IDIQ) Type Contracts	Determine the efficiency and effectiveness of the administration of IDIQ Contracts.	4/2016
13	Vendor / Contract Management	13-ADM-O02 - Automated Storage and Retrieval System Phase I & II	Evaluate the adequacy of internal controls over the Automated Storage and Retrieval System (ASRS).	4/2016
14	Program Management	16-CON-P04 - Quality Assurance	Effectiveness and efficiency of quality assurrance processes.	5/2016
15	Program Management	12-CON-P03 - I-405 Follow-up	Verify if management's corrective actions from the prior audit were implemented and resulting in improvements.	12/2016
16	Program Management	10-CPC-K02 - Third Party Utility Relocation Agreement Efficiency	Assess the adequacy and effectiveness of the Third Party Utility Relocation.	12/2016

Appendix D

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
				Open Audit Recommendations		
1	Operations	11-OPS - O06 - HASTUS	1	We recommend the Chief Operations Officer require the Scheduling department to: Upgrade to 2013 HASTUS and change their current practices to fully utilize the ATP module to calibrate route runtimes and trip-specific operational layover requirements to feed back into key scheduling processes.	6/30/2016	12/31/2016
2	Operations	11-OPS - O06 - HASTUS	2	We recommend the Chief Operations Officer require the Scheduling department to: Provide training on all ATP features.	6/30/2016	12/31/2016
3	Operations	11-OPS - O06 - HASTUS	3	We recommend the Chief Operations Officer require the Scheduling department to: Provide training on all AP features. a. Develop the requirements to utilize AVL data to supplement missing data from the APC. b. Customize the current ATP module to improve its functionality until the proposed 2013 upgrade can be accomplished.	6/30/2016	12/31/2016
4	Operations	11-OPS - O06 - HASTUS	4	We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Defining the higher minimum of either 1) the United Transportation Union Labor Agreement, or 2) an operational minimum layover time.	6/30/2016	12/31/2016
5	Operations	11-OPS - O06 - HASTUS	5	We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Looking for opportunities to interline routes as a strategy for achieving a more cost effective solution.	6/30/2016	12/31/2016
6	Operations	11-OPS - O06 - HASTUS	6	We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Developing a more robust, realistic deadhead matrix and use the matrix during the vehicle blocking process to globally optimize its bus system schedules.	6/30/2016	12/31/2016
7	Operations	11-OPS - O06 - HASTUS	7	We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Defining the maximum number of vehicle groups possible for any given trip.	6/30/2016	12/31/2016
8	Operations	11-OPS - O06 - HASTUS	8	We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Training Schedulers to use Minbus advanced features.	6/30/2016	12/31/2016
9	Operations	11-OPS - O06 - HASTUS	11	We recommend the Chief Operations Officer: Consider multi-division operator run cutting to optimize workforce distribution amongst divisions.	6/30/2014	12/31/2016
10	Operations	11-OPS - O06 - HASTUS	12	We recommend the Chief Operations Officer: Adopt integrated scheduling to improve the efficiency of run cuts	6/30/2014	12/31/2016
11	Operations	11-OPS - O06 - HASTUS	13	We recommend the Chief Operations Officer transition to HASTUS for scheduling rail service. The plan should include transition milestones and estimated completion dates.	6/30/2016	12/31/2016
12	Planning & Development	9154-KPMG-FY13 - Independent Accountants' Report on Applying Agreed-Upon Procedures	13-03	We recommend the Authority consider expanding its current review procedures to specifically address potential transposition errors in the PMT data in the sampling worksheet.	6/30/2015	6/30/2017
13	Planning & Development	9154-KPMG-FY13 - Independent Accountants' Report on Applying Agreed-Upon Procedures	13-04	We recommend the Authority enhance the controls over the review of the NTD data to ensure errors are identified prior to the data being reported.	6/30/2015	6/30/2017
14	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	4	Document existing procedures to improve internal control and oversight of grantees/sub-recipients	6/30/2015	6/30/2016

Appendix D

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
				Open Audit Recommendations		
15	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	5	Activities at high risk for error and non-compliance should be identified and procedures documented for consistent implementation across all modes and project managers.	6/30/2015	6/30/2016
16	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	7	Proceed with development of grants management module in the FIS system.	12/31/2015	12/31/2016
17	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	8	Coordinate FIS module development with a more comprehensive grants management database system for tracking grants within the RGM Unit. Consider using a user-friendlier "Windows-based" environment for the grants management database.	12/31/2015	12/31/2016
18	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	9	Inventory and evaluate current "shadow systems" to help determine project manager requirements. This may provide useful information for the creation of a centralized database.	12/31/2015	12/31/2016
19	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	10	Develop protocols on who can update the data and how often.	12/31/2015	12/31/2016
20	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	11	Develop a high-level summary of grants for Metro executive staff and Board members based on their need for that information.	12/31/2015	12/31/2016
21	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	12	Consider revising its organizational structure to provide clearer definition of responsibilities, improved levels of supervision and review, and improved management control and oversight. One possible structure would be around the key functions or elements of grants management.	6/30/2015	6/30/2016
22	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	13	Develop teams around each of these key elements, with a supervisor responsible for managing and directing each team's activities.	6/30/2015	6/30/2016
23	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	19	Develop a process to ensure implementation of timely and appropriate corrective actions to address closeout activities such as final reporting, project closeouts and other events that affect the closeout process.	6/30/2015	12/31/2016
24	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	20	Designate an individual to serve as the grant closeout liaison.	6/30/2015	12/31/2016
25	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	21	Create a tool, such as an "Aging Report" to enable the liaison to quickly identify a critical event and to perform necessary updates to close the grant.	6/30/2015	12/31/2016
26	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	24	Establish a procedure to coordinate all grants within the agency and communicate that to all Metro departments/staff.	6/30/2015	**7/31/2015 (LATE)**
27	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	26	Inventory individual roles and responsibilities and develop procedures for transfer of knowledge and cross training of other team members.	6/30/2015	6/30/2016

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
				Open Audit Recommendations		
28	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	27	Develop a process focused less on modal specialization and adopt a model whereby a greater number of team members are trained across a wider spectrum of activities and modes.	6/30/2015	6/30/2016
29	Planning & Development	13-PLN-P01 - Grants Management and Call for Projects	28	Establish formal training; verify that processes are consistent but sufficiently flexible to accommodate variations in managing grants and projects.	6/30/2015	6/30/2016
30	Vendor and Contract Management	12-HCP-P01 - Metro Freeway Service Patrol	3	Develop goals and objectives, and reinstitute performance measurements, for the oversight of he Metro Freeway Service Patrol Program	5/30/2016	
31	Information Technology	14-ADM-P01 - Mobile Devices	2	We recommend that the Chief Information Officer implement appropriate Mobile Device Management software to manage all mobile devices and enforce security	9/30/2015	11/15/2015
32	Information Technology	14-ADM-P01 - Mobile Devices	3	We recommend that the Chief Information Officer expand ITS wireless Device and Service policies and procedures to include written security requirements for mobile devices.	9/30/2015	12/31/2015
33	Information Technology	14-ADM-P01 - Mobile Devices	4	We recommend that the Chief Information Officer implement a device management platform that will provide adequate device level security controls.	9/30/2015	2/29/2016
34	Information Technology	14-OPS-P03 - Operations Training Tracking System (OTTS)	1	We recommend that the Chief Information Officer work with the Information Security Officer to disable users; access accounts timely	9/30/2015	2/29/2016
35	Information Technology	14-OPS-P03 - Operations Training Tracking System (OTTS)	2	We recommend that the Chief Information Officer work with the Information Security Officer develop an enhanced security program that provides system owners with pertinent information to validate users' access and includes periodic auditing of application and network access.	11/30/2015	
36	Information Technology	14-OPS-P03 - Operations Training Tracking System (OTTS)	3	We recommend that the Chief Information Officer work with the Information Security Officer to create a specific digital identity for all users across application, in the long term. This will enable access controls to be assigned and evaluated against this identity, simplifying access monitoring and verifications from initiation to termination.	3/30/2016	
37	Operations	NTD-KPMG-FY14 - Transportation Operating Agency - 9154	1	We recommend the Authority enhance the controls over the review of the NTD data to ensure errors are identified prior to the data being reported.	**9/30/2015 (LATE)**	
38	Operations	NTD-KPMG-FY14 - Transportation Operating Agency - 9154	2	We recommend the Authority enhance the controls over the review of the NTD data to ensure transposing errors are identified prior to the data being reported.	**9/30/2015 (LATE)**	
39	Operations	NTD-KPMG-FY14 - Transportation Operating Agency - 9154	3	We recommend the Authority enhance the controls over the review of the NTD data to ensure transposing errors are identified prior to the data being reported.	**9/30/2015 (LATE)**	
40	Operations	13-OPS-P02 - Non-Revenue Vehicle Usage	1	We recommend the Executive Director, Maintenance, require Non-Revenue Fleet management to perform a one-time analysis to establish a baseline for the optimum fleet size for the non-revenue fleet based on mission needs, vehicle utilization, life cycle costs, etc.	11/30/2015	

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
				Open Audit Recommendations		
41	Operations	13-OPS-P02 - Non-Revenue Vehicle Usage	2	We recommend the Executive Director, Maintenance, require Non-Revenue Fleet management to monitor the assignment and usage of non-revenue vehicles fleet.	11/30/2015	
42	Operations	13-OPS-P02 - Non-Revenue Vehicle Usage	3	We recommend the Executive Director, Maintenance direct Non-Revenue to update GEN 16 to require Department/Cost Center managers to certify annual usage via signed certification statement. Executive Officers must approve certification.	12/31/2015	
43	Operations	13-OPS-P02 - Non-Revenue Vehicle Usage	4	We recommend the Executive Director, Maintenance direct Non-Revenue to revise GEN 16 to clarify the criteria for overnight usage.	12/31/2015	
44	Operations	13-OPS-P02 - Non-Revenue Vehicle Usage	5	We recommend the Executive Director, Maintenance direct Non-Revenue to customize the M3 Motor Pool application to improve its functionality to track and report overnight usage for all department pools.	11/30/2015	
45	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	6	We recommend the Executive Director, Employee and Labor Relations direct General Services to fully utilize M3 Motor Pool application to track and report overnight usage for General Services Pool vehicles.	**9/30/2015 (LATE)**	
46	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	7	We recommend the Executive Director, Employee and Labor Relations direct General Services to immediately cancel all unknown key card assignments.	9/30/2015	3/31/2016
47	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	8	We recommend the Executive Director, Employee and Labor Relations direct General Services to recertify all key card assignees and implement a process to manage key card assignments.	3/31/2016	
48	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	9	We recommend the Executive Director, Employee and Labor Relations direct General Services to update GEN 17 to provide specific guidelines for the assignment and use of complementary key cards.	6/30/2016	
49	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	10	We recommend the Executive Director, Employee and Labor Relations direct General Services to terminate long term assignment of pool vehicles that restricts the availability of vehicles to all employees to comply with GEN 16.	9/30/2015	11/30/2015
50	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	11	We recommend the Executive Director, Employee and Labor Relations direct General Services to compare 24-hour assignments to transit subsidy recipients to ensure compliance with GEN 16.	12/31/2015	
51	Labor / Employee Relations	13-OPS-P02 - Non-Revenue Vehicle Usage	12	We recommend the Executive Director, Employee and Labor Relations direct General Services to provide training to TCU / Maintainers on GEN 16 requirements to overnight use of pool vehicles.	12/31/2015	

				Open Audit Recommendations		
No.	**Area**	**Audit Number & Title**	**Rec. No.**	**Recommendation**	**Original Completion Date**	**Extended Completion Date**
52	Operations	13-OPS-P06 - Contracted Bus Service	1	We recommend the Executive Director, Transportation require Contracted Services to: develop a Contract Monitoring System that includes but is not limited to: a. A Contract Administration Plan that specifies the performance outputs of the statement of work and describes the methodology to conduct monitoring or surveillance. The extent and frequency of monitoring activities should be based on an assessment of risk related to each contractor and the impact if the work is not performed adequately. b. Written policies and procedures that serve as a guide to ensuring consistent, high quality contract monitoring process. c. A centralized location for receiving and maintaining contractors' submittals and reports by utilizing Metro's existing web based SharePoint system.	10/1/2016	
53	Operations	13-OPS-P06 - Contracted Bus Service	2	We recommend the Executive Director, Transportation require Contracted Services to obtain appropriate training to enable the team to develop the appropriate skills and background to efficiently monitor contractors' performance.	2/1/2016	
54	Operations	13-OPS-P06 - Contracted Bus Service	3	We recommend the Executive Director, Transportation require Contracted Services to include in Policy and Procedures: a statement that documentation of decisions, requiring executive approval and authorization, be maintained. All modifications of contractual terms must be in writing and executed by the Contract Administrator, as the CEO's designee, in compliance with the contract.	10/1/2016	
55	Operations	13-OPS-P06 - Contracted Bus Service	4	We recommend the Executive Director, Transportation require Contracted Services to consult with County Counsel on their concerns regarding the liquidated damages provisions in the current contracts. Based on the outcome either reassess liquidated damages and collect amounts owed to Metro during the suspended period or issue contract amendments to change the liquidated damages provisions.	10/1/2016	
56	Operations	13-OPS-P06 - Contracted Bus Service	5	We recommend the Executive Director, Transportation require Contracted Services to validate the accuracy and completeness of contractor's submittals by recalculations, verification to original records, etc.	10/1/2016	
57	Operations	13-OPS-P06 - Contracted Bus Service	6	We recommend the Executive Director, Transportation require Contracted Services to develop procedures for monitoring contractors performance, including, but not limited to, spot checks, periodic inspections, random sampling of routine functions, based on the risk identified in the Contract Administration Plan and the analyses of contractors monthly submittals.	6/1/2016	
58	Operations	13-OPS-P06 - Contracted Bus Service	7	We recommend the Executive Director, Transportation require Contracted Services to develop a comprehensive checklist of review tasks for each procedure used to conduct the contractors review, document deficiencies identified and corrective actions taken.	6/1/2016	
59	Operations	13-OPS-P06 - Contracted Bus Service	8	We recommend the Executive Director, Transportation require Contracted Services to validate fare revenues deposits to the bank receipts or statements.	1/1/2016	
60	Operations	13-OPS-P06 - Contracted Bus Service	9	We recommend the Executive Director, Transportation require Contracted Services to establish a variance threshold for differences between the farebox report and the bank deposits to trigger a Revenue Compliance inspection.	12/1/2015	

Open Audit Recommendations

No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
61	Operations	13-OPS-P06 - Contracted Bus Service	10	We recommend the Executive Director, Transportation require Contracted Services to work with Revenue Compliance to develop an audit process to ensure contractor's compliance with revenue regulations and perform periodic audits of the fare revenue process, as required.	12/1/2015	
62	Finance & Budget	13-OPS-P06 - Contracted Bus Service	11	We recommend the Executive Director of Finance & Budget, require that Revenue Collections reinstate fare media bus inspections for Contracted Bus Services.	12/8/2015	
63	Operations	13-OPS-P06 - Contracted Bus Service	12	We recommend the Executive Director of Transportation, require that Contracted Services follow-up variances and anomalies in KPI data and results with contractor to determine their cause and ensure that any necessary corrective actions have been implemented.	3/1/2016	
64	Operations	13-OPS-P06 - Contracted Bus Service	13	We recommend the Executive Director of Transportation, require that Contracted Services identify KPIs as measurements for contractors' performance within future contracts.	6/1/2016	
65	Operations	13-OPS-P06 - Contracted Bus Service	14	We recommend the Executive Director of Transportation, require that Contracted Services document follow-up of exceptions, cited in both CHP and QA inspection reports, and corrective actions taken.	5/1/2016	

Management Audit Services
Audit Charter

I. INTRODUCTION

Los Angeles County Metropolitan Transportation Authority (MTA) maintains an active audit function under the direction of Deputy Chief Executive Officer (DCEO); with responsibility to report its activities to the Chief Executive Officer (CEO) and the Board. This charter defines the mission, scope, commitment to quality, authority and accountability, independence, and responsibility of MTA's audit department, Management Audit Services

II. MISSION

Management Audit Services provides highly reliable, independent, objective assurance and consulting services designed to add value and improve MTA's operations. Management Audit Services accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

III. SCOPE

The scope of work performed by Management Audit Services is to determine whether MTA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- ➢ Risks are appropriately identified and managed;
- ➢ Significant financial, managerial, and operating information is accurate, reliable and timely;
- ➢ Resources are acquired economically, used efficiently, and adequately protected;
- ➢ Programs, plans, projects and objectives are achieved;
- ➢ Quality and continuous improvement are fostered;
- ➢ Significant legislative or regulatory issues impacting MTA are recognized, addressed appropriately and interaction with governance groups occurs;
- ➢ Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- ➢ Opportunities for improving management control, streamlining processes, and improving public perception may be identified during audits. These will be communicated to the appropriate level of management.

IV. COMMITMENT TO QUALITY

Management Audit Services commits to providing world-class service through timely, unbiased, value-added assurance and consulting services. We will work as

a team with our clients to improve processes and meet strategic goals and objectives. We will enhance the services we provide by continuously improving our audit activities. Management Audit Services adheres to the following professional standards and codes:

- ➢ Government Auditing Standards promulgated by the Comptroller General of the United States;
- ➢ Institute of Internal Auditors International Professional Practices Framework;
- ➢ Information Systems Auditing Standards promulgated by the Information Systems Audit and Control Association;
- ➢ MTA's Employee Code of Conduct and Administrative Code;
- ➢ Institute of Internal Auditor's Code of Ethics, and
- ➢ Management Audit Services' Audit Policy Manual and applicable procedures.

V. AUTHORITY AND ACCOUNTABILITY

Management Audit Services audits all departments, programs, functions, systems, contracts and activities based on the approved audit plan or specific requests that have been approved by the CEO.

Management Audit Services is authorized to:

- ➢ Have full, free and unrestricted access to all information, functions, operations, systems, property, personnel and other relevant materials necessary to accomplish its work. All employees will cooperate fully in making available material or information requested by Management Audit Services or any external auditors managed by Management Audit Services. Access to contracted third parties will be handled in accordance with contractual terms. Management Audit Services staff signs Confidentiality Statements annually. Documents provided to Management Audit Services will be handled in the same prudent manner as by those employees normally accountable for them;
- ➢ Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- ➢ Obtain the necessary assistance of personnel in functions where audits are being performed, as well as other specialized services from external consultants.

Management Audit Services is not authorized to:

- ➢ Initiate or approve accounting transactions external to Management Audit Services and
- ➢ Direct the activities of any employee not part of Management Audit Services, except to the extent such employees have been appropriately assigned to auditing teams.

Management Audit Services, in the discharge of duties, is accountable to the DCEO, CEO and the Board of Directors to:

➤ Report significant issues related to the processes for controlling the activities, including potential improvements to those processes, and provide information concerning such issues through resolution; and

➤ Provide periodic information on the status and results of the annual audit plan and the adequacy of progress as it relates to management action plans.

VI. INDEPENDENCE

Management Audit Services is independent of the activities it reviews. Specifically, Management Audit Services staff may not review areas where they were responsible for the design or operation of the area. Auditors are responsible for maintaining their independence and integrity in all services they provide.

All Management Audit Services activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Chief Auditor shall report any impairment to independence, or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content promptly to the DCEO, CEO and the Board.

As a means of ensuring independence, Management Audit Services will report to the DCEO, CEO and the Board of Directors. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits. The Board of Directors' will review and concur in the appointment, replacement or dismissal of the Chief Auditor of Management Audit Services.

VII. RESPONSIBILITIES

A. Management Audit Services is responsible for:

➤ Developing and executing a flexible risk based audit plan including any risks or control concerns identified by management; and submitting that plan to the CEO and Board of Directors for review and approval;

➤ Preparing or updating the agency-wide risk assessment annually and incorporating the results into the annual audit plan;

➤ Implementing the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management ;

➤ Reporting significant audit findings to management and the Board of Directors;

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- ➤ Providing management with adequate time to respond to audit findings and including management's response in the final report;
- ➤ Following up on audits to ensure agreed-upon corrective actions have been taken and provide periodic follow up reports;
- ➤ Presenting quarterly reports to the Board highlighting progress on the Audit Plan;
- ➤ Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter;
- ➤ Conducting objective and constructive assurance services, which include performance and attestation audits;
- ➤ Consulting services, which are advisory in nature, can be provided as long as the services do not impair Management Audit Services' independence and fall within the scope outlined in the Charter;
- ➤ Exercising due professional care in all of our work products;
- ➤ Conducting ourselves at all times in a professional manner;
- ➤ Coordinating external audits of MTA;
- ➤ Considering external auditors and regulators' scopes of work, as appropriate, for the purpose of providing optimal audit coverage at a reasonable overall cost; and
- ➤ Referring suspected fraud, waste, or abuse promptly to the Inspector General.

B. Management is responsible for:

- ➤ Maintaining an effective system of internal controls, documenting policy and procedures, and ensuring information is accurate and reliable;
- ➤ Complying with policies and procedures;
- ➤ Cooperating fully with auditors during discharge of their duties including prompt reply to Management Audit Services requests and recommendations; and
- ➤ Providing a response to audit findings and recommendations. Assuring timely implementation of agreed upon corrective action(s) to audit recommendations.

The Audit Charter may be modified by a written document executed by all of the participating parties. This Audit Charter will be effective upon execution and will continue indefinitely until it is modified.
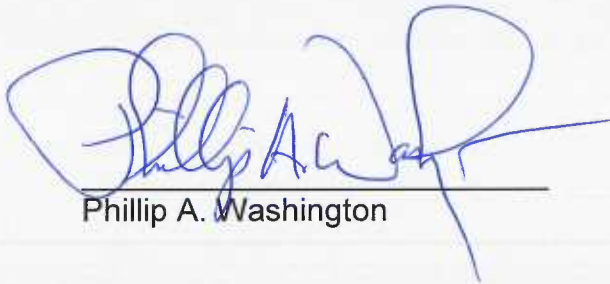
IN WITNESS WHEREOF, the parties hereto have caused this Audit Charter to be executed by their proper officers thereunto duly authorized, and their official seals to be affixed as of February 12, 2016.

Los Angeles County Metropolitan Transportation Authority

Board of Directors

Phillip A. Washington

By _____
Board Secretary

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