



## Board Report

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
JUNE 17, 2015**

**SUBJECT: MANAGEMENT AUDIT SERVICES FY 2015 THIRD QUARTER REPORT**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE the third quarter report of **Management Audit Services** for the period ending March 31, 2015.

**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 (Management Audit) on its audit activities. In July 2011, the audit responsibilities were transferred to the Finance, Budget and Audit Committee. This report fulfills the requirement for the third quarter of FY 2015.

**DISCUSSION**

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management. The audits we perform are categorized as either internal or external. Internal audits evaluate the processes and controls within the agency. External audits analyze contractors, cities or non-profit organizations that we conduct business with or receive Metro funds.

There are four groups in Management Audit: Performance Audit, Contract Pre-Award Audit, Incurred Cost Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Planning and Development, Engineering and Construction, Information Technology, Communications and Executive Office. Contract Pre-Award and Incurred Cost Audit are responsible for external audits in Planning and Development, Engineering and Construction and Vendor/Contract Management. All of these units provide assurance to the public that internal processes are efficiently, economically, effectively, ethically, and equitably performed by conducting audits of program effectiveness and results, economy and efficiency, internal controls, and compliance. Audit Support and Research Services is responsible for administration, financial management, budget coordination, and audit follow-up and resolution tracking.

The summary of Management Audit activity for the quarter ending March 31, 2015 is as follows:

**Internal Audits:** seventeen internal audits were in process.

**External Audits:** seven contract pre-award audits with a total value of \$25.5 million and six incurred cost audits with a total value of \$7 million were completed; 16 contract audits, 40 incurred cost audits were in process.

**Audit Follow-up and Resolution:** five recommendations were closed during the third quarter. At the end of the quarter, there were 49 open audit recommendations.

Management Audit's FY 2015 third quarter report is included as Attachment A.

### **NEXT STEPS**


Management Audit will provide the FY 2015 year-end summary of audit activity to the Board at the September 2015 Finance, Budget and Audit Committee meeting.

### **ATTACHMENTS**

Attachment A - Management Audit Services Quarterly Report to the Board for the period ending March 31, 2015.

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Phillip A. Washington  
Chief Executive Officer

## Appendix A

<b>Contract Pre-Award Audit FY 2015 - Audits Completed During Third Quarter</b>				
<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Contractor</b>	<b>Requirement</b>	<b>Date Completed</b>
Engineering & Construction	14-CON-A04- Attestation Agreed-upon Procedures	Los Angeles Department of Water and Power	Contractual	1/2015
Engineering & Construction	15-CON-A04B- Attestation Agreed-upon Procedures	HNTB	Contractual	2/2015
Engineering & Construction	15-CON-A04A- Attestation Agreed-upon Procedures	Biggs Cardosa Associates	Contractual	2/2015
Planning & Development	15-CON-A07- Attestation Agreed-upon Procedures	AECOM Technical Services, Inc.	Contractual	3/2015
Congestion Reduction	15-PLN-A19- Attestation Agreed-upon Procedures	Jacobs Engineering Group, Inc.	Contractual	3/2015
Congestion Reduction	15-PLN-A16- Attestation Agreed-upon Procedures	CDM Smith Inc.	Contractual	3/2015
Engineering & Construction	15-PLN-A17- Attestation Agreed-upon Procedures	Mark Thomas & Company, Inc.	Contractual	3/2015

## Appendix B

<b>Incurred Cost Audit FY 2015 - Audits Completed During Third Quarter</b>				
<b>Area</b>	<b>Audit Number &amp; Type</b>	<b>Grantee</b>	<b>Requirement</b>	<b>Date Completed</b>
Engineering & Construction	11-PLN-C15C - Closeout	Civil Works Engineers, Inc.	Contractual	2/2015
Planning & Development	12-PLN-G01- Closeout	City of Los Angeles	Contractual	2/2015
Engineering & Construction	12-PLN-A10- Closeout	City of Glendale	Contractual	2/2015
Planning & Development	14-PLN-A26- Closeout	City of Inglewood	Contractual	2/2015
Engineering & Construction	15-PLN-A02- Closeout	City of Gardena	Contractual	3/2015
Engineering & Construction	15-PLN-A12- Closeout	County of Los Angeles	Contractual	3/2015

## Appendix C

<b>Internal Audit FY 2015 - Progress Toward Completing Audit Plan</b>			
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Estimated Date of Completion</b>
Information Technology	14-ADM-P01 - Mobile Devices	Evaluate efficiency and effectiveness of mobile device security and controls for personal usage.	4/2015
Operations	13-OPS-P02 - Non-Revenue Vehicle Usage (Agencywide)	Evaluate efficiency and effectiveness of bus division non-revenue vehicle usage.	4/2015
Operations	14-OPS-P03 Performance Audit of Operations Training and Qualifications System	To evaluate efficiency and effectiveness of Operations training and qualification systems.	4/2015
Operations	13-OPS-P04 - Operations KPI Audit	Evaluate the accuracy and completeness of Operations KPIs.	5/2015
Finance & Administration	10-ACC-F04 - Chart of Accounts	Verify that Chart of Accounts adequately reflect the current business process and reporting needs.	5/2015
Vendor / Contract Management	13-CEO-P01 - Cost Estimating Process	Assess efficiency and effectiveness and timeliness of Procurement's cost estimating process.	5/2015
Operations	13-OPS-P06 - Contracted Bus Services	Evaluate the efficiency and effectiveness of contracted bus services contracts.	6/2015
Operations	12-OPS-P01 - Rail Overhead and Maintenance	Evaluate the efficiency and effectiveness of the Rail Overhaul and Refurbishment Program.	6/2015
Operations	12-ROP-O01 - Wayside System	Evaluate effectiveness of maintenance of the Rail signaling systems.	6/2015
Vendor / Contract Management	13-ADM-P01 - RFP Process	Assess efficiency and effectiveness and timeliness of Procurement's RFP processes.	6/2015
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.	6/2015

## Appendix C

<b>Internal Audit FY 2015 - Progress Toward Completing Audit Plan</b>			
<b>Area</b>	<b>Audit Number &amp; Title</b>	<b>Description</b>	<b>Estimated Date of Completion</b>
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) Manager Computer System.	7/2015
Engineering & Construction	14-TPD-P01 - Construction Change Order Process	Evaluate the efficiency and effectiveness of the construction change order process including effectiveness of estimating process.	9/2015
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.	11/2015
Finance & Administration	10-ACC-F01 - Accounts Receivable	Validate adequacy of current policies and procedures.	11/2015
Engineering & Construction	12-CON-P03 - Audit Follow-up	Verify if management's corrective actions from the prior audit were implemented and resulting in improvements.	6/2016
Engineering & Construction	10-CPC-K02 - Third Party Utility Relocation Agreement Efficiency	Assess the adequacy and effectiveness of the Third Party Utility Relocation.	6/2016

**MANAGEMENT AUDIT SERVICES  
QUARTERLY REPORT TO THE BOARD**

**Los Angeles County Metropolitan  
Transportation Authority**

***Third Quarter  
FY 2015***



**Metro**



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# *EXECUTIVE SUMMARY*

## Summary of Audit Activity

During the third quarter of FY 2015, 13 projects were completed. These include:

### Pre-Award Audits

- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Rosecrans/Marquardt Grade Separation Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the I-710 Corridor Project Utility Study Central Segment;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Crenshaw/LAX Transit Corridor Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Express Lanes Operations and Maintenance Technical Oversight Support;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the I-5 North Express Lanes Traffic and Revenue Study; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Burbank-Bob Hope Airport Pedestrian Bridge Final Design Project.

### Incurring Cost Audits

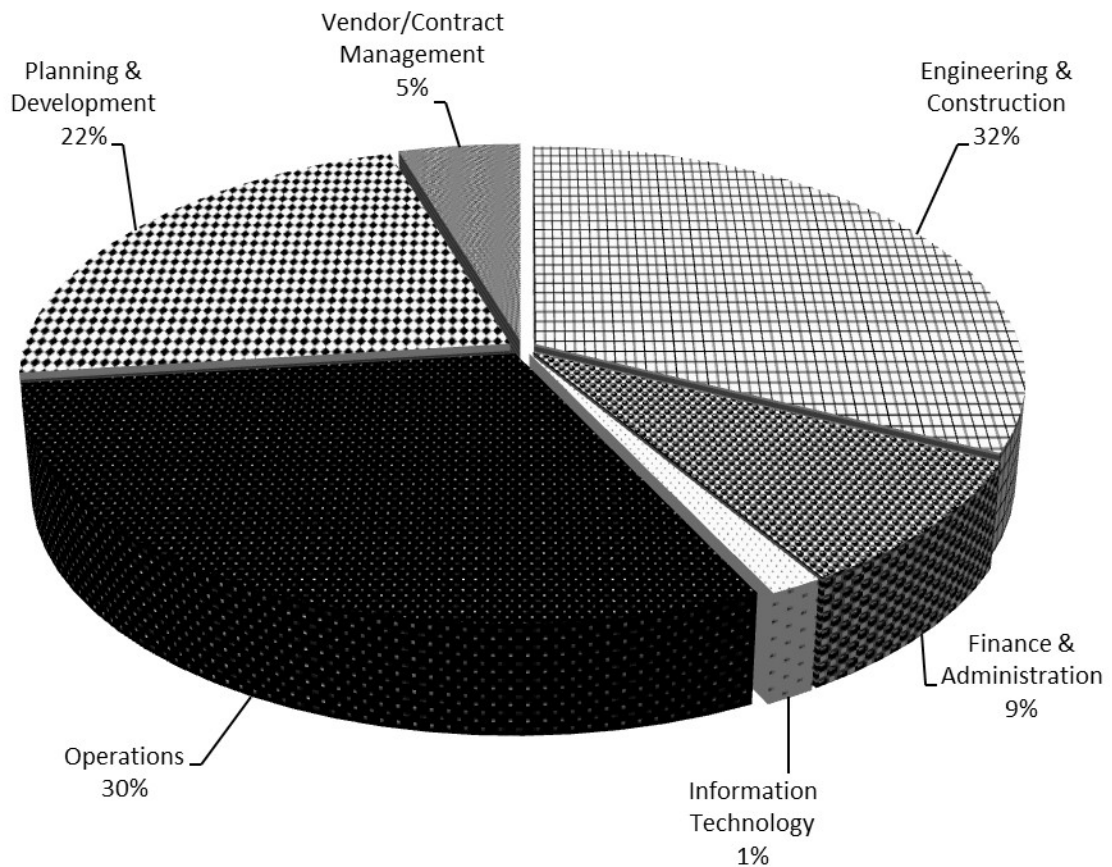
- Independent Auditor's Report on Agreed-Upon Procedures for the Incurred Cost for the I-710 Corridor Engineering/Environmental Component Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Centinela Avenue Widening Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Glendale's Arroyo Verdugo Regionwide Incident Management Strategies Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Inglewood's Intelligent Transportation System Deployment and Integration Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's Carson Street Signal Synchronization Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Gardena's Artesia Boulevard at Western Avenue Intersection Improvements Project; and
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of Los Angeles County's Santa Monica Boulevard Signal Synchronization Project.

The completed external audits are discussed on page 3. Discussions of the internal audits begin on page 4.

# EXECUTIVE SUMMARY

Seventy-three projects were in process as of March 31, 2015; these include 17 internal audits, 16 contract pre-award audits, and 40 incurred cost audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during third quarter FY 2015:



## Audit follow-up:

- Five recommendations were closed during the third quarter. At the end of the quarter, there were 49 open audit recommendations.

# *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 third quarter FY 2015, seven audits were completed, reviewing a net value of \$25.5 million. Auditors questioned \$205 thousand or 1% of the proposed costs. The seven audits supported procurements in the following areas:

- 2 Rosecrans/Marquardt Grade Separation Project procurements;
- 2 Express Lanes Project procurements;
- I-710 Project Utility Study procurement;
- Crenshaw/LAX Transit Corridor Project procurement; and
- Burbank-Bob Hope Airport Pedestrian Bridge Project procurement.

Sixteen contract pre-award audits were in process as of March 31, 2015.

Details on Contract Pre-Award Audits completed during third quarter FY 2015 are in Appendix A.

## Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Engineering and Construction'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 six audits during third quarter FY 2015. We reviewed \$7 million of funds and identified \$700 thousand or 10% of unused funds that may be reprogrammed by Planning and Development for other projects. Forty incurred cost audits were in process as of March 31, 2015.

Details on Incurred Cost Audits completed during third quarter FY 2015 are in Appendix B.

# *OTHER AUDITS*

## Other Audits

Other audits completed during third quarter FY15 by external CPA firms include:

### PTSC-MTA Risk Management Authority Basic Financial Statements – Issued February 2015

In October 1998, the Public Transportation Services Corporation (PTSC) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) entered into a joint powers agreement to create the PTSC-MTA Risk Management Authority (PRMA) for the purpose of establishing and operating a program of cooperative self-insurance and risk management. PRMA receives all of its funding from LACMTA and PTSC. As PTSC also receives its funding from LACMTA, PRMA is a component unit of the LACMTA and is included in LACMTA's financial statements as a blended component unit.

An audit of PRMA's financial statements by an independent CPA firm is required annually. We retained BCA Watson Rice LLP (BCA) to conduct the audit for the fiscal year ended June 30, 2014. BCA found that PRMA's financial statements present fairly, in all material respects the financial position of the entity.

### Audited Financial Statements of Metro ExpressLanes – Issued January 2015

Metro ExpressLanes started as a one-year demonstration program that tested innovations to improve existing transportation systems in three sub-regions: the San Gabriel Valley, Central Los Angeles, and the South Bay. The first Metro ExpressLanes commenced revenue operations in November 2012 on the I-110 Harbor Freeway, between Adams Blvd. and the 91 freeway. The second began revenue operations in February 2013 on the I-10 El Monte Freeway between Alameda St. and the 605 Freeway. In April 2014, the Board voted unanimously to make the ExpressLanes on the I-110 and I-10 Freeways permanent. Later that year the California State Legislature approved a motion making the toll lanes permanent in Los Angeles and that the Governor sign it to become official.

An audit of the financial statements of Metro ExpressLanes, an enterprise fund of the LACMTA, was performed by Vasquez & Company, LLP (Vasquez) for the year ended June 30, 2014 and the period November 10, 2012 to June 30, 2013. Vasquez found that the financial statements present fairly, in all material respects the financial position of the entity.

### State Transportation Improvement Program (STIP) and Planning Programming and Monitoring (PPM) - Issued January 2015

In August 2012, Metro entered into a Reimbursement Agreement (Agreement) with CalTrans to provide planning, programming and monitoring of projects for the development and preparation of the Regional Transportation Improvement Program. Metro is required to comply with the Agreement and to ensure that STIP (PPM) funds are used in conformance

## *OTHER AUDITS*

with Article XIX of the California State Constitution, and for PPM purposes as defined in the Agreement.

Mayer Hoffman McCann (MHM), CPA completed a financial and compliance audit of The State Transportation Improvement Program (STIP) for the period August 22, 2012 through December 20, 2013. MHM found that the financial schedule presents fairly, in all material respects the financial position of the entity.

### Gateway Center & Union Station Properties Financial Statements and Independent Auditor's Reports – Issued January 2015

Metro acquired the Union Station and Gateway Center properties in April 2011 and entered into a Leasing and Operations Management Agreement with Morlin Asset Management, LP for the management and operations of the Gateway Center and Union Station effective July 1, 2012.

We contracted BCA to conduct an audit of the financial statements for these two entities for the year ended June 30, 2014. The auditor found that the financial statements present fairly, in all material respects, the financial position of each entity.

### Consolidated Audit – Issued various dates

These financial and compliance audits are needed to ensure that the recipients of subsidies included in the Consolidated Audit are adhering to the statutes of each applicable funding source and that operations data used to allocate funds is fair and in accordance with Federal Transportation Administration guidelines.

Vasquez & Company and Simpson & Simpson were hired to perform the audits of Financial Statements of the Proposition A Local Return Fund, Proposition C Local Return fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund for various cities, the county, four non-profit organizations and Metrolink for the year ended June 30, 2014. As of March 31, the audits for Metrolink and the City of Pasadena were still outstanding. They will be included in the year-end report. The respective auditors will follow up on the findings identified in these audits in the following years' audits.

As a savings measure, we have not attached the audits discussed in this section however, they are on file with the Board Secretary's Office and can be requested through them.

# AUDIT SUPPORT SERVICES

## Audit Follow-Up and Resolution

During the third quarter, five recommendations were completed and closed. At the end of this quarter, there were 49 outstanding audit recommendations. The table below summarizes the third quarter activity.

### Summary of MAS and External Audit Recommendations As of March 31, 2015

Executive Area	Closed or Completed in Jan.	Closed or Completed in Feb.	Closed or Completed in Mar.	Late	Extended	Not Yet Due/Under Review	Total Open Recom.
Engineering and Construction						4	4
Executive Office							0
Finance and Administration					1		1
Information Technology			3				0
Operations					11		11
Planning and Development						31	31
Vendor/Contract Management			2			2	2
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>12</b>	<b>37</b>	<b>49</b>

