



December 9, 2009

Mr. Gerald Long, Deputy Director
Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
P.O. Box 942874 MS-2
Sacramento, CA 94274-001

Dear Mr. Long:

Final Report—Los Angeles County Metropolitan Transportation Authority Review

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its review of the Los Angeles County Metropolitan Transportation Authority's (Metro) pre-award audits.

The enclosed report is for your information and use. Metro's response to the report observations and recommendations are incorporated into this final report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of Metro's staff. If you have any questions regarding this report, please contact Cheryl Lyon, Manager, or James Kong, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Ruthe Holden, Chief Auditor, Los Angeles County Metropolitan Transportation Authority
Ms. MaryAnn Campbell-Smith, Chief, External Audits and Investigations, California Department of Transportation

A Compliance Review

Los Angeles County Metropolitan Transportation Authority
Management Audit Services
July 1, 2007 through June 30, 2009

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Cheryl L. Lyon, CPA
Manager

James Kong, CPA
Supervisor

Staff
Alexis Calleance
Dennis Solheim, CPA
Kweku Atta-Mensah

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Executive Summary iv

Background, Scope, and Methodology 1

Results 3

Response 7

Evaluation of Response 11

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), conducted a review of the Los Angeles County Metropolitan Transportation Authority, Management Audit Services (Management Audits) internal quality control system as it relates to their Caltrans pre-award audits.

Overall, Management Audits' quality control system policies and procedures are adequate to ensure compliance with the California Department of Transportation's (Caltrans) audit requirements and the auditing standards. However, we observed areas where Management Audits should strengthen its quality control system. The following observations were noted and the related recommendations are intended to strengthen its system:

- Audit objectives were not consistent with the level of audit assurance. Management Audits should ensure pre-award audits are conducted in accordance with the most appropriate auditing standards relative to the engagement's audit objectives.
- Independence from personal impairments was not adequately documented. The audit chief and audit directors did not complete impairment statements for each audit engagement. All engagement staff should complete an impairment statement.
- Audit planning was not adequately documented. Management Audits should document the type of engagement and standards to be followed, preliminary judgments about materiality, and the nature and scope of the audit engagement.
- Continuing professional education (CPE) in attestation standards is needed. Significant audit hours were expended on attestation engagements, and Management Audits should ensure that staff performing engagements under Generally Accepted Government Auditing Standards (GAGAS) obtain sufficient CPE hours relevant to the audits performed.
- Review attestation reports were missing certain reporting elements required by the GAGAS and the Statements on Standards for Attestation Engagements (SSAE). Management Audits should ensure that attestation reports include all elements required by GAGAS and SSAE.
- Management Audits did not obtain management representation letters for its pre-award audits. While attestation standards provide some flexibility on how representations from the responsible party are obtained, Caltrans requires a management representation letter. Management Audits should coordinate with Caltrans regarding an acceptable format for ensuring appropriate management representations are obtained for each pre-award audit performed.

Subsequent to our review period, Management Audits has taken corrective actions to address some of the above recommendations; however, implementation of the corrective action has not been verified to determine whether Management Audits adequately addressed these matters.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Los Angeles County Metropolitan Transportation Authority (Metro) is unique among the nation's transportation agencies. It serves as the transportation planner and coordinator, designer, builder, and operator for one of the country's largest, most populous counties. More than 9.6 million people—nearly one-third of California's residents—live, work, and play within its 1,433-square-mile service area. Metro is responsible for the continuous improvement of an efficient and effective transportation system for Los Angeles County.

Metro receives funding from the California Department of Transportation (Caltrans) to fulfill its responsibilities. Funding is passed through to local contractors and sub-contractors who assist Metro in completing projects. To receive a Caltrans contract award, a pre-award audit must be completed to ensure the contractor's adequacy of internal control and record keeping systems.

Management Audits is comprised of 23 professional auditors and 5 support staff, and is supported by a current budget of \$5.2 million. Management Audits is comprised of the following units: Audit Support and Research Services, Internal Audit, Information Technology Audit, and Compliance Audit. The Caltrans pre-award audits are performed by the Compliance Audit unit. Management Audits performs its audit engagements in accordance with Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, or Information Systems Auditing Standards.

The pre-award audits are also conducted in accordance with the Caltrans Local Assistance Procedures Manual, Local Program Procedures 06-02 (LPP). In addition to requiring that pre-award audits be conducted in accordance with generally accepted government auditing standards, the LPP provides standard audit program procedures for evaluating a contractor's cost proposal and internal control structure. During our review period, Management Audits conducted its Caltrans pre-award audits in accordance with attestation standards for review engagements and performed its procedures either on-site at the contractor/sub-contractor or at the Management Audits' office.

SCOPE

In accordance with an interagency agreement with Caltrans, the Department of Finance, Office of State Audits and Evaluations (Finance) performed a review of Management Audits' internal quality control system for fiscal years 2007-08 through 2008-09.

The review objectives were to determine whether Management Audits' Caltrans pre-award audit engagements are performed in compliance with GAGAS and the LPP.

Due to Management Audits' recently completed peer review and to minimize duplication of effort, the scope of this review was limited to reviewing the internal quality control system over the Caltrans pre-award contract audits.

METHODOLOGY

To determine whether Management Audits' Caltrans pre-award audits were performed in compliance with GAGAS and the LPP, we performed the following procedures:

- Reviewed a sample of pre-award audit work papers and audit reports.
- Interviewed key Management Audits and Caltrans staff.
- Reviewed employee training records.
- Reviewed and verified Management Audits' organizational structure and internal audit quality control policies and procedures.
- Reviewed Management Audits' internal controls to mitigate internal and external organizational impairments.

The results of our review are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for conducting Caltrans pre-award audits. Our review was conducted at the Management Audits office from July 27, 2009 through August 7, 2009.

This review was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Management Audits maintains a well developed internal quality control system. The audit staff possesses the education and experience for being well qualified to perform the pre-award audits and their work is adequately supervised. Management ensures staff obtains required continuing education hours and audit policies are documented. Organizational independence is maintained for pre-award audits as the audit entities are external to Management Audits.

Management Audits recently underwent an Association of Local Government Auditors (ALGA) external quality control review (peer review) for the period ending June 2008. During our review, Management Audits either had implemented or was in the process of implementing corrective actions for observations identified in the ALGA review. While some of the results of our review are consistent with issues identified in the ALGA peer review, we also identified other matters specific to the Caltrans pre-award audits. Recommendations have been provided to guide Management Audits in ensuring compliance with applicable standards and Caltrans audit requirements.

Observation 1: Audit Objectives Were Not Commensurate With Assurance Levels

The audit standards Management Audits followed while conducting Caltrans pre-award audits were not commensurate with the level of assurance required by the audit objectives. During our review period, Management Audits conducted its pre-award audits in accordance with attestation standards for review engagements. These standards required the auditor to provide negative assurance based on inquiry and analytical review of information, and did not permit reporting on internal control or compliance. However, the Caltrans pre-award audit scope and objectives, as specified in the LPP, required a review of the internal control system and tests to verify amounts reported in the contract proposal. While Management Audits performed internal control system reviews and tests of supporting documentation, they cited review attestation standards which were not the most appropriate auditing standards to follow for pre-award audits. The LPP requires Government Auditing Standards be followed when conducting pre-award audits; however the particular standards to be followed is at the discretion of the performing audit entity. When determining the appropriate standards to follow, the audit entity should base its determination on the required objectives.

GAGAS, paragraph 1.18 specifies that all audits and attestation engagements begin with objectives and those objectives determine the type of audit to be performed and the applicable standards to be followed. GAGAS, paragraph 1.23(b), reiterates that as stated in the SSAE, auditors should not perform review-level work for reporting on internal controls or compliance with laws and regulations. Caltrans LPP 06-02, Section II states that the examination scope shall include reviews of the Contractor's internal control and audit tests of accounting records.

Recommendation

1. Ensure pre-award audits are conducted in accordance with the most appropriate auditing standards in order to meet the engagement's audit objectives.

Observation 2: Independence Was Not Adequately Documented

During the review of Management Audits' work paper files, we noted that not all members of the audit team signed the impairment statements. Management Audits required an impairment statement to be prepared by each audit team member to confirm whether the auditor is free of personal impairments to independence. During our review, we noted that all auditors and senior auditors completed an impairment statement without exception. Yet, the chief auditor and audit directors themselves did not complete a statement of impairment.

Subsequent to the review period, Management Audits revised its impairment statement to require all team members and audit management to complete the form; however we did not verify the sufficiency of its implementation.

GAGAS, paragraph 3.07 requires auditors participating on an audit assignment to be free from personal impairments to independence. GAGAS, paragraph 3.08 (f) requires documentation of the steps taken to identify potential personal independence impairments be maintained.

Recommendation

2. Ensure all staff, including audit management assigned to an engagement conducted in accordance with GAGAS, complete a statement of impairment (personal) and that the statement is updated, as needed, to reflect the most current GAGAS requirements.

Observation 3: Planning of Audit Engagements Was Not Adequately Documented

During our review of the pre-award audit work papers, we noted that the documentation in the planning and risk assessment sections of work papers was lacking necessary information. The following were not adequately documented in the pre-award audit work papers:

- Level of assurance the auditor will provide was not included in the audit planning. The pre-award audits reviewed were engagements performed in accordance with attestation standards for review engagements. However, the audit standards the auditors planned to conduct their engagements in accordance with and the level of assurance provided by those standards were not documented in the audit planning work papers.
- Engagement materiality levels were not documented in the work papers. Documentation of materiality provides, for planning purposes and evaluation of results, the matters the auditor considers material or immaterial either individually or in aggregate to the engagement.
- Nature and scope of work to be performed was not fully explained. While the engagement risk assessment is documented, the work papers did not include explanation or fully document whether the planned audit procedures would or would not include observation of the contractor accounting system controls or physical examination or inspection of original source documents. By not including an explanation of whether the audit plan included observation, physical examination, or inspection audit procedures, the planned audit scope and nature of work to be performed was not always clear.

Section 101.45 of the SSAE, AT, specifies factors to be considered in planning for an attest engagement to include, among others, the preliminary judgments about materiality and the nature of the report expected to be issued. Section 101.47 of the SSAE, AT specifies that as part of the planning process, the practitioner should consider the nature, extent, and timing of the work to be performed. Section 101.52 of the SSAE, AT provides that selecting and applying procedures that will accumulate evidence that is sufficient in the circumstances to provide a reasonable basis for the level of assurance to be expressed in the attest report requires the careful exercise of professional judgment. Information obtained from the independent attester's direct personal knowledge (such as through physical examination, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly. GAGAS, paragraph 6.21 requires auditors to prepare attest documentation in sufficient detail to enable an experienced auditor with no previous connection to the attestation engagement to understand from the documentation the nature, timing, extent, and results of procedures performed.

Recommendation

3. Document in the pre-award audit work papers the:
 - Type of engagement to be performed and the audit standards to be followed.
 - Preliminary judgments about materiality as required by the standards being followed.
 - Nature and scope including the plan to either perform or not perform observation, physical examination, or inspection audit procedures.

Observation 4: Continuing Professional Education in Attestation Standards is Needed

While Management Audits staff maintained the required continuing professional education (CPE) hours to meet or exceed GAGAS requirements, audit staff need more continuing education in the attestation standards. Of the total time expended by Management Audits on audit activities during our review period, 51 percent of the time was spent on attestation engagements. While Management Audits training course listing indicate staff has received training in GAGAS, there were no courses dedicated to the attestation standards. Subsequent to the review period and during our fieldwork, Management Audits recognized the need in this area and was in the process of developing an in-house training course dedicated to attestation standards.

GAGAS, paragraph 3.47 states that CPE programs are structured educational activities with learning objectives designed to maintain or enhance participant's knowledge, skills, and abilities in areas applicable to performing audits or attestation engagements. Section 101.19 of the SSAE, AT require the practitioner to have adequate technical training and proficiency to perform the attestation engagement.

Recommendation

4. Ensure auditors performing engagements under GAGAS obtain sufficient CPE hours relevant to the audits performed.

Observation 5: Review Attestation Reports Did Not Include All Reporting Elements

A review of a sample of Management Audits' Caltrans pre-award reports issued in accordance with review engagement attestation standards indicated the reports were missing certain required reporting elements. Specifically, the reports were missing one or more of the following:

- A title that includes the word *independent*.
- The identification of the responsible party and a statement that the responsible party is responsible for the subject matter.
- A statement that the review was conducted in accordance with attestation standards established by the *American Institute of Certified Public Accountants* (AICPA).
- A statement that a review is substantially less in scope than an examination; the objective of which is an expression of opinion on the subject matter, and accordingly, no opinion is expressed.
- A statement restricting the use of the report to specified parties.

GAGAS, paragraph 6.01 states that GAGAS incorporates the AICPA standards on criteria, and the fieldwork and reporting standards unless specifically excluded or modified. The AICPA, Sections 101.88 through 101.89 of the SSAE, AT, specify the reporting elements for review attestation reports. Sections 9101.56 through .58 of the SSAE, AT provides guidance on reporting on attestation engagements in accordance with GAGAS.

Recommendation

5. Ensure attestation reports include all elements required by GAGAS and the SSAE.

Observation 6: Management Representations Were Not Adequately Documented

Management Audits did not obtain written management representation letters for its pre-award audits. Instead they relied on signed certifications provided with the information submitted by the contractors. While the attestation standards provide some flexibility on how representations from the responsible party are obtained, the Caltrans LPP specifically required a management representation letter.

Section VIII.10 of the Caltrans LPP 06-02, requires that a management representation letter be obtained.

Recommendation

6. Coordinate with Caltrans regarding an acceptable format for ensuring appropriate management representations are obtained for each pre-award audit performed.



Metro

November 5, 2009

Mr. David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

This letter is in response to your Compliance Review draft report for Los Angeles County Metropolitan Transportation Authority, Management Audit Services (Management Audit).

It should be noted that this compliance review immediately followed our professionally conducted Association of Local Government Auditors (ALGA) peer review and overlapped the period of their review. Most the recommendations were taken directly from our recent ALGA Peer Review Report which was completed June 2009. As we told your staff, we have already implemented corrective actions agreed to in the ALGA Peer review.

Our responses to the 6 recommendations included in your compliance review draft report are provided below.

Observation 1: Audit Objectives were not commensurate with Assurance levels

Recommendation 1: Ensure pre-award audits are conducted in accordance with the most appropriate auditing standards in order to meet the engagement's audit objectives.

Response: Your auditors were notified during their review that this was a finding noted during ALGA peer review which has already been corrected.

Observation 2: Independence was not adequately documented

Recommendation 2: Ensure all staff including audit management assigned to an engagement conducted in accordance with GAGAS, complete a statement of impairment (personal) and that the statement is updated as needed to reflect the most current GAGAS requirements.

Response: Again this was addressed in our ALGA peer review. We provided your staff with the corrective action that had already been implemented. We are restating the corrective action below.

"In June 2009, Management Audit Services implemented an updated Independent Review Checklist which includes a requirement for all team members to complete the Impairment Statement. For this purpose, team members include the auditor(s), Audit Director, Chief Auditor, Independent Reviewer and anyone involved in the audit project."

Observation 3: Planning of Audit Engagements was not adequately documented

Recommendation 3 Document in the pre-award audit work papers the:
Type of engagement to be performed and the audit standards to be followed
Preliminary judgments about materiality as required by the standards being followed
Nature and scope including the plan to either perform or not perform observation, physical examination, or inspection audit procedures.

Response: The type of engagement performed and audit standards to be followed were identified during our ALGA peer review. As noted in our response to the ALGA peer review the corrective action for this has already been implemented and includes revising our Policy Manual to clarify requirements for the different Attestation levels. In addition, we have already developed procedures regarding selection of the type and level of attestation engagements.

For the other 2 items listed in Recommendation 3 – the standards you cited at the closing and exit conferences are different than the standards you have cited in the draft report. SSAE 101.45b requires preliminary judgments about attestation risk and materiality for attest purposes. SSAE 101.46 and 101.52 do not require documenting preliminary judgments about materiality. Materiality is already discussed and documented during our planning phase of our audits as part of our risk assessment.

Section 101.52 states that information obtained from direct personal knowledge is more persuasive than information obtained indirectly, however this standard does not require that during planning the auditor identify and document what types of testing will be done during fieldwork. We currently document the focus of our audit based on the risk assessed in our Risk Assessment document. We document the nature and types of audit steps that have been completed along with the results of those steps in the fieldwork section of our workpapers.

Also, as you explained during the exit and closing conference your major concern regarding the nature, time and extent of the audit was that your staff felt our auditors should document in planning whether a field or desk audit would be performed. We strongly disagreed with this because there is no GAGAS or AICPA standard requiring documentation of a field versus a desk audit.

Observation 4: Continuing professional Education in Attestation Standards is Needed

Recommendation 4: Ensure auditors performing engagements under GAGAS obtain sufficient CPE hours relevant to audits performed.

Response: We absolutely disagree with this finding and recommendation. As we told your team, the auditors receive GAGAS, IIA standards and Information Systems

Auditing Standards training at a minimum of every two years. The Standards training is an extensive 14 week course and includes training on attestation engagements standards requirements. Your report misstates the training that was going on during your fieldwork. The Standards training that started while you were out here is our bi-annually required standards training that occurred in 2006, 2008 and is currently being conducted again in fiscal year 2010.

Your report infers that we have not done this in the past, when you were provided documentation indicating otherwise. In fact, the information provided to you is that our ALGA peer review identified that we should include AICPA SSAE standards training into the course that we currently conduct with staff. We already implemented that prior to the start of your review and will continue to do that going forward when we normally conduct our standards training. As our professional peer reviewers noted, we are compliant with the CPE training requirements for both GAGAS and IIA standards.

Observation 5: Review Attestation Reports did not Include Reporting Elements

Recommendation 5: Ensure attestation reports include elements required by GAGAS and the SSAE

Response: As we told you, this was noted during our ALGA peer review and we already addressed the issue. As you were informed, for attestation engagements we are including three different attestation report templates in Teammate to cover each level of attestation. All report templates contain the applicable required standard language and the appropriate assurances based on AICPA and GAGAS requirements. We have also updating our compliance checklist to require Independent Reviewer's verify that the auditors used the appropriate report template based upon the Planning workpaper documentation.

Observation 6: Management Representations were not adequately documented

Recommendation: Coordinate with Caltrans regarding an acceptable format for ensuring appropriate management

Response: This is the only observation that your group independently came up with and we agree that Caltrans Local LPP Manual requires this. We have corrected this recommendation subsequent to your review and now require Management Representation letters at the end of fieldwork.

Original signed by:

Thu Nov 05 16:24:41 2009

Ruthe Holden, CPA, CISA
Chief Auditor
Management Audit Services
Los Angeles Metropolitan Transportation Authority

EVALUATION OF RESPONSE

The Management Audits' response to our draft report has been incorporated herein. Upon review of Management Audits' response, we provide the following comments:

Management Audits asserts, in relation to Observations 1 through 5, that these observations were already identified during the ALGA review. We disagree with Management Audits. Upon review of the ALGA review letter and the accompanying companion letter issued to Management Audits, Observations 1 and 3 were not identified as an observation noted in the ALGA review. Management Audits did not provide any other relevant correspondence or information indicating such. While Observations 2 through 4 were similar to those noted in the ALGA review, it was not evident that the ALGA observations specifically pertained to the Caltrans pre-award audits.

As identified in this report, the scope of our engagement was to review the Caltrans pre-award contract audits. Specifically, we reviewed Management Audits' quality control system over these audits and the audit standards cited. We reviewed Management Audits' independence, audit planning documentation, and continuing professional education as they pertain to the pre-award audits. During our review we were informed by Management Audits that it was still in the process of implementing corrective actions to the ALGA observations; however, our reported observations are specific to the sample of work products reviewed and therefore are reported herein. Clarification regarding the disagreement with those observations is provided below.

Observation 1

Management Audits states, "Your auditors were notified during their review that this was a finding noted during ALGA peer review which has already been corrected." We disagree with Management Audits. During fieldwork, Management Audits indicated attestation review standards were followed when conducting the pre-award audits. Observation 1 resulted from the review of attestation standards, consultation with the United States Government Accountability Office (GAO), and careful consideration of the pre-award audit objectives. Management Audits had questions and concerns related to this observation and informed us they would follow-up with the GAO to determine the best standards to guide the pre-award audits. Consequently, this observation was unresolved during our review.

Observation 3

Management Audits states, "...your major concern regarding the nature, time, and extent of the audit was that your staff felt our auditors should document in planning whether a field or desk audit would be performed. We strongly disagreed with this because there is no GAGAS or AICPA standard requiring documentation of a field versus a desk audit." We disagree with Management Audits. Our recommendation suggests Management Audits document in planning phases of the audit, the type of procedures to be performed, such as observation, physical examination, or inspection audit procedures. The basis for this suggestion is the result of the

Caltrans pre-award audit work products review. For example, upon review of Management Audits' Risk Assessment and other related planning documents, Management Audits did not document the nature and type of engagement to be performed. As a result, it was not evident what standards Management Audits would be following.

The standards to be followed are driven by the overall objectives of the audit; failure to document the standards followed does not provide adequate guidance for staff conducting the audit. Additionally, the standards to be followed dictate the level of work to be performed and the level of assurance to be provided. Upon review of the work papers, it was evident that the work products prepared by Management Audits staff are inconsistent with the standards followed, and that staff knowledge of the attestation requirements was not apparent.

Furthermore, Management Audits states, "Materiality is already discussed and documented during our planning phase of our audits as part of our risk assessment." We disagree. Our review of the Caltrans pre-award audits revealed that materiality levels are not documented by Management Audits. While Management Audits, in some instances, deemed items to be immaterial, the basis for evaluating materiality was not documented. For example, Management Audits may deem items less than five percent of the total proposed cost to be immaterial; however, it was not evident if this level would hold true if the total proposed cost was \$2 million, and therefore any costs under \$100,000 would be immaterial under this assumption. In evaluating the materiality of proposed costs, it is important to determine a threshold for materiality that also considers the dollar impact of any exceptions.

One of the criteria referenced in the draft observation was mistyped. Therefore, the criterion is changed from AICPA, Section 101.46 to 101.47 of the SSAE.

Observation 4

Management Audits disagrees with Observation 4. Specifically, Management Audits indicates training related to AICPA SSAE standards has been incorporated into an existing training course conducted with staff. Furthermore, Management Audits states that this was implemented prior to the start of our review. We disagree with Management Audits. During fieldwork Management Audits informed us that the AICPA SSAE training was currently being developed and had not yet been finalized; consequently, this training had not been implemented into their current training program. As noted in Observation 4 of this report, we stated that Management Audits staff maintained the required continuing professional education required to meet GAGAS requirements; however, training specific to attestation standards is needed. Therefore, we do not assert Management Audits maintained less than the required training hours. Rather, we suggest Management Audits incorporate attestation training into its current training program.

Observation 5

This observation was not identified during the ALGA review as previously mentioned. Upon review of the ALGA peer review letter and companion letter, it appears as though the ALGA review was not specific to the Caltrans pre-award audits. Upon our review of the Caltrans pre-award audit work papers, we determined that Management Audits' Caltrans pre-award audit reports do not include all the reporting elements as required by the AICPA. The reports issued by Management Audits are deficient in additional areas other than those identified by the ALGA review as disclosed in Observation 5.

It should also be noted that during our review, Management Audits informed us it was in the process of developing a new report format and had not completed the new report template. As a result, we believe Management Audits was in the process of addressing this issue; however, we were not provided documentation indicating this issue had been fully corrected and addressed by Management Audits.

Observation 6

We are pleased Management Audits has implemented corrective actions to be in compliance with the Caltrans Local LPP manual as it pertains to this observation. However, in reference to the aforementioned observations, we reiterate our recommendations to Management Audits.

We encourage Management Audits to continue its efforts to correct the observations identified during this review to ensure compliance with applicable standards.