



Board Report

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FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 16, 2022

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2022 SECOND QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Management Audit Services FY 2022 second quarter report.

ISSUE

Management Audit Services (MAS) is required to provide a quarterly activity report to Metro's Board of Directors (Board) that presents information on audits that have been completed or in progress, including information related to audit follow-up activities.

BACKGROUND

It is customary practice for MAS to deliver the quarterly audit report. The FY 2022 second quarter report covers the period of October 1, 2021 through December 31, 2021.

DISCUSSION

MAS provides audit services supporting Metro's ability to provide responsive, accountable, and trustworthy governance. The department performs internal and external audits. Internal audits evaluate the processes and controls within the agency, while external audits analyze contractors, cities, and/or non-profit organizations that are recipients of Metro funds. The department delivers management audit services through functional groups: Performance Audit; Contract, Financial and Compliance Audit; and Administration and Policy, including audit support functions. Performance Audit is mainly responsible for internal audits related to Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management including the Chief Executive Office; and other internal areas. Contract, Financial and Compliance Audit is primarily responsible for external audits in Planning, Program Management and Vendor/Contract Management. MAS' functional units provide assurance to the public that internal processes and programs are being managed efficiently, effectively, economically, ethically, and equitably; and that desired outcomes are being achieved. This assurance is provided by MAS' functional units conducting audits of program effectiveness, economy and

efficiency, internal controls, and compliance. Administration and Policy is responsible for administration financial management, including audit support, audit follow-up, and resolution tracking.

The following chart summarizes MAS activity for FY 2022 second quarter:

	Completed in FY 2022 Second Quarter	In-Progress as of December 31, 2021
Performance Audits	3 audit projects	5 audit projects
Contract, Financial and Compliance Audits	5 audit projects with a total value of \$830,000	66 audit projects
Financial and Compliance Audits of Metro	8 audit projects	
Audit Follow-up and Resolution	6 follow-up recommendations closed	

The FY 2022 Second Quarter Report is included as Attachment A.

EQUITY PLATFORM

There are no equity impacts or concerns from audit services conducted during this period.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Management Audit Services FY 2022 Second Quarter Report support Metro’s Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

Management Audit Services will continue to report audit activity throughout the current fiscal year.

ATTACHMENT

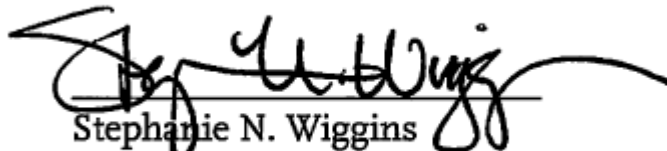
- A. FY 2022 Second Quarter Report

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Chief Executive Officer

Quarterly Report to Metro Board of Directors

FY 2022 Second Quarter



Metro

**MANAGEMENT
AUDIT SERVICES**

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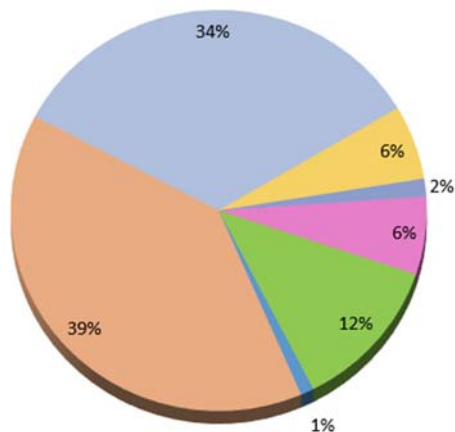
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Executive Summary

In Progress Audits
as of December 31, 2021



Summary of Audit Activity
by Department
Reporting Period
October 1, 2021 – December 31, 2021



Summary of In Progress Audit Activity

Management Audit Services (MAS) has 71 in progress projects as of December 31, 2021, which include 5 performance audits and 66 contract, financial and compliance audits. The in-progress performance audits are listed in Appendix A.

As of the reporting period, there are 57 open MAS audit recommendations; and 57 open Office of Inspector General (OIG) audit recommendations.

Summary of Second Quarter Completed Audit Activity

MAS completed 16 audit projects and closed 6 open audit recommendations. The projects are comprised of 3 performance audits; 5 contract, financial and compliance audits; and 8 financial and compliance audits of Metro and subrecipients issued by independent certified public accountant (CPA) firms.

The completed performance audits are highlighted on page 4. The completed contract, financial and compliance audits are highlighted on page 6. The financial and compliance audits of Metro issued by the external CPA firms are highlighted on page 7.

A summary of closed and open audit recommendations is included on page 11.

Department Highlights

MAS initiated the development and implementation of a formal Quality Assurance Improvement Program (QAIP). In addition, in accordance to audit standards and practices an independent quality self-assessment (IQSA) of MAS was completed for FY 2020 and FY 2021. A summary of department highlights is included on page 9.

Performance Audits

This section includes performance audits completed according to Generally Accepted Government Auditing Standards in addition to other types of projects performed by the Performance Audit team to support Metro. The other types of projects may include independent reviews, analysis or assessments of select areas. The goal of non-audit projects is to provide Metro with other services that help support decision making and promote organizational effectiveness.

Performance Audit of Program Management Support Services (PMSS)

The objective of this audit was to assess conformity of services performed and billed by KKCS/Triunity JV (Contractor) to the scope of work and other provisions of the Contract. In addition, MAS identified two focus areas for the performance audit, which were to:

- evaluate compliance with specific terms of the contract related to qualifications, performance, and quality; and
- verify whether work order billing is accurate, substantiated by supporting documents and in compliance with the contract.

MAS' general assessment is that services performed and billed by the Contractor in most respects conformed to the Scope of Work and other provisions of the Contract.

KKCS/Triunity JV consultants appear to be well-qualified and experienced. Metro Program Management was broadly satisfied with the Contractor and the staff augmentation consultants; and Program Management considered the PMSS Contract essential to the ongoing accelerated project delivery program due to Metro's internal staffing constraints. However, MAS noted certain internal control deficiencies that kept KKCS/Triunity JV and Metro from having a fully mature and effective internal control system undergirding the Contract.

Performance Audit of Internal Controls Over Overtime Payments – AFSCME Transportation Operations

The objective of this audit was to evaluate the adequacy of internal controls over overtime payments to American Federation of State, County and Municipal Employees (AFSCME) employees in Bus and Rail Transportation. Specifically, Transit Operations Supervisors (TOS) and Rail Transit Operations Supervisors (RTOS).

MAS found that internal controls over AFSCME TOS and RTOS overtime (OT) were generally adequate. However, MAS noted the following conditions:

1. There were some pay code usage errors which resulted in some inaccurate OT payments.
2. There was no provision for exceptions to the 12-hour continuous work policy.
3. OT documentation issues:
 - a. Certain OT related documents were not retained at eight locations.

-
- b. There were no procedures for TOS on how to document hours worked outside of their home divisions.
 - c. Copies of payroll records were not kept at a transferred employee's former division.
4. The Vacation Worked (TOW) payroll code may have been used inappropriately to cash out accrued vacation time.

Performance Audit of Expanded Discount Programs

The objectives of this audit were to evaluate the effectiveness of internal controls over the purchase process for the Small Employer Pass (SEP) and E-Pass discount passes and identify opportunities for internal control and process improvements.

MAS found that controls over the SEP appeared to be working as intended. However, internal controls over the E-Pass and U-Pass programs should be enhanced to mitigate risks. Also, automating the billing process is a business process improvement opportunity.

Management concurred with the recommendations for the performance audits completed. MAS will continue to follow-up to verify that the audit recommendations are implemented; and report the results of audit recommendations or corrective actions as part of MAS' quarterly reporting to Metro Board of Directors.

Contract, Financial & Compliance Audits

MAS staff completed 5 independent auditor's report on agreed-upon procedures for the following projects:

Project	Reviewed Amount	Questioned / Reprogrammed Amount
City of Inglewood – Signal Synchronization Project (4 audits)	\$352,249	\$317,751
City of El Monte – Main Street Transit Oriented District Specific Plan Project	\$ 478,978	\$ 229,053
Total Amount	\$831,227	\$546,804

Details on contract, financial and compliance audits completed during FY 2022 second quarter are included in Appendix B.

Financial and Compliance Audits of Metro

The following highlights the financial and compliance audits of Metro completed by the external CPA firms:

Financial and Compliance Audits – Issued Various Dates

MAS contracted with BCA to conduct an audit of the financial statements and Independent Auditor's Report on Schedule of Revenues and Expenditures for the year ended June 30, 2021 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The resulting reports include:

- Gateway Center Financial Statements;
- Los Angeles Union Station Property Financial Statements;
- PTSC-MTA Risk Management Authority (PRMA) Financial Statements;
- ExpressLanes Fund Financial Statements;
- Regional Transit Access Pass (TAP) Service Center TAP Settlement and Clearing Accounts;
- Propositions A & C Schedules of Revenues and Expenditures;
- Measure R Schedule of Revenues and Expenditures; and
- Measure M Schedule of Revenues and Expenditures.

BCA found that above financial statements present fairly, in all material respect, for the fiscal year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America. In addition, BCA found that Regional TAP Services Center complied, in all material respects, with the compliance requirements described in the TAP Financial Position Rules that could have a direct and material effect on the tap settlement and Clearing Accounts and Metro complied, in all material respects, with the requirements described in the Ordinances that could have a direct and material effect on the Proposition A Proposition C, Measure R and Measure M Revenues and Expenditures for the fiscal year ended June 30, 2021.

The results of the audits will be presented to the Independent Taxpayer Oversight Committees.

Department Highlights

Quality Assurance Improvement Program (QAIP)

During FY 2022 second quarter, MAS continued its efforts in the Quality Assurance Improvement Program (QAIP). Following is a summary of the various QAIP activities to support improved performance, quality, and value-added internal audit services:

- **Completed Activities**
 - Commissioned an independent Internal Quality Self-Assessment (IQSA) for FY 2020 and FY2021: assessment to evaluate MAS' conformance with auditing standards
 - Performed a comprehensive review and update of the performance audit library and procedural guidelines in accordance with auditing standards and best practices
 - Performed a comprehensive review and update of MAS policies and procedural guidelines
 - Performed a comprehensive review and update of MAS Audit Charter
- **In-progress Activities**
 - Perform comprehensive review and update of audit libraries (Consulting and Contract, Financial & Compliance) and procedural guidelines in accordance with auditing standards and best practices
 - Assess the suggested improvement recommendations of the IQSA for FY 2020 and FY 2021; and revise as necessary
- **Upcoming Activities**
 - Perform comprehensive review and update of MAS strategic plan
 - Initiate efforts to determine MAS' maturity model as a business practice, industry standard, and continuous improvement tactic.

Internal Quality Self-Assessment for FY 2020 and FY 2021

The International Standards for the Professional Practice of Internal Auditing and the Government Auditing Standards requires MAS report annually on the quality assurance and improvement program.

MAS contracted with TAP International (TAP) to conduct an independent quality self-assessment for FY 2020 and FY 2021. TAP determined that MAS complies with auditing standards and highlighted several areas in which the department excels. The following areas were highlighted:

- MAS' Policy Manual is very thorough;
- Continuing professional education (CPE) requirements tracking process was well designed;
- Audit work was complete and consistent; and
- Chief Audit Executive (CAE) reports to the Board provide clear and complete information on audit reports and activities.

The IQSA team provided suggestions for improvement to assist MAS in strengthening its compliance in the following areas:

- MAS Audit Charter
- MAS Policy Manual
- audit documentation; and
- efficiency in conducting engagements.

MAS will assess the suggested improvement recommendations and incorporate the needed improvements and/or revisions as necessary. Of note, MAS will present the updated Audit Charter to Metro's Chief Executive Officer and the Board of Directors in the FY2022 Third Quarter Report.

The Internal Quality Self-Assessment for Fiscal Years 2020 and 2021 report is included in Appendix E.

Audit Follow-Up and Resolution

The tables below summarize the open and closed audit recommendations as of December 31, 2021.

MAS and External Audit Recommendations				
Executive Area	Closed	New	Currently Open	Open Past Due
Communications	1	2		
Human Capital & Development			3	
Operations	4	8	19	
Program Management	1	11	1	
Risk, Safety & Asset Management			3	
Systems Security and Law Enforcement			9	
Vendor/Contract Management			1	
Total	6	21	36	

OIG Audit Recommendations				
Executive Area	Closed	New	Currently Open	Open Past Due
Congestion Reduction			1	
Human Capital & Development			28	
Operations			6	
Systems Security and Law Enforcement			22	
Total			57	

Details of open audit recommendations for MAS and OIG are included in Appendix C and D.

Appendix A

Performance Audit - In Progress Audits as of December 31, 2021				
No.	Area	Audit Number & Title	Description	Estimated Date of Completion
1	Program Management	21-CON-P02 Attest Engagement for Metro Owned Renewable Identification Numbers (RINs) & low Carbon Fuel Standards (LCFS) Annual Verification	To support the annual reporting by the Agency of RINs related information to the Environmental Protection Agency.	1/2022
2	Agency-Wide	20-ITS-P03 Performance Audit of IT Security Awareness	Evaluate the extent of information technology security awareness within the Agency.	2/2021
3	Planning & Development	21-PLN-P01 Micro Mobility Vehicles Program	Assess the progress made in achieving program goals and objectives, including assessing the consideration given to the Metro rapid equity assessment tool.	2/2022
4	Risk, Safety & Asset Management	21-RSK-P03 Transit Asset Inventory Records	Evaluate the adequacy of the records for this area, with a focus on accuracy, completeness and proper controls over asset records.	3/2022
5	Planning & Development	21-PLN-P02 Real Estate Management System	Determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.	3/2022

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of December 31, 2021				
No.	Area	Audit Number & Type	Auditee	Date Completed
1	Planning & Development	21-HWY-A05A - Closeout	City of Inglewood	11/2021
2	Program Management	21-HWY-A05B - Closeout	City of Inglewood	11/2021
3	Planning & Development	21-HWY-A05C - Closeout	City of Inglewood	11/2021
4	Planning & Development	21-HWY-A05D - Closeout	City of Inglewood	11/2021
5	Planning & Development	18-PLN-A01 - Closeout	City of El Monte	12/2021

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Systems Security and Law Enforcement	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	1a	We recommend that the Emergency Management Unit collaborate with the business units, starting with V/CM, to ensure that the business unit COOPs, and all related documents (e.g., Standard Operating Procedures [SOPs]), include the essential content necessary to support the agency-wide program. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist V/CM.	6/30/2020	6/30/2022
2	Vendor/Contract Management	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	3	We recommend that V/CM management work with Emergency Management to arrange for COOP execution training by an emergency management expert concurrently with each annual update. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist V/CM.	7/31/2020	6/30/2022
3	Program Management	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	4	We recommend that the Chief Program Management Officer take the lead role in collaborating with all responsible parties, such as V/CM, Project Delivery Third Party Coordination, County Counsel, etc., to establish agreements with utility companies to guarantee service continuity and restoration in emergency situations. Update: Metro continues to negotiate Essential Use designation with SCE, DWP & CPUC as a basis for utility emergency service agreements.	3/31/2020	6/30/2022
4	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	1	We recommend that Emergency Management should coordinate with Payroll to facilitate training and add the additional details to Finance (Payroll)'s COOP and SOPs, including criteria for COOP activation and relocation decisions, flow charts, decision trees and step-by-step instructions. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	2/28/2021	7/29/2022
5	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	2	We recommend that Emergency Management should coordinate with Payroll to create an SOP template to include names, titles and contact details (phone numbers and emails) for all continuity personnel, such as the CMG, key continuity positions and successors. Advance team references should state "provided by ITS". Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
6	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	3	We recommend that Emergency Management should coordinate with Payroll to review and assess the COOP and SOPs annually and verify that any resulting updates are implemented. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022
7	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	4	We recommend that Emergency Management should coordinate with Payroll to schedule COOP execution training by an emergency management expert concurrently with each annual COOP update. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022
8	Operations	19-OPS-P02 Performance Audit of the Rail Communications Systems	8 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of December 2020, 4 of 12 recommendations were closed.	On-going	
9	Operations	19-OPS-P03 Performance Audit of the SCADA Security Controls	7 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of September 2021, 6 of 13 recommendations were closed.	On-going	
10	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	2	We recommend that the Chief Risk, Safety & Asset Management Officer raise awareness of the Field Observation and Feedback (FOF) program. Update: A new mandatory FOF online training program has been set to release in November 2020 to train all supervisory personnel, including the proper fashion for completing a FOF, discussion items while conducting a FOF and requirements of the FOF Policy. FOFs are regularly discussed at LSC meetings and a FOF awareness campaign is currently being discussed with Operations.	3/31/2020	12/31/2021
11	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	3	We recommend that the Chief Risk, Safety & Asset Management Officer develop additional input controls in the Transit Safe System, by designating required FOF form fields as mandatory, including Supervisors sign-off to review for accuracy of information, to prevent the close out of FOF records without completion of all required fields and to ensure quality of information is maintained. Update: TransitSafe's replacement software is in the process of being configured and implemented and will include FOF reporting functionality. Due to the pandemic, vendor staffing changes and historical data transition issues, the implementation has been delayed.	7/31/2020	3/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
12	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	4	We recommend that the Chief Risk, Safety & Asset Management Officer incorporate recommendation #3, above, in the upcoming replacement system of Transit Safe.	12/31/2021	
13	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	1	We recommend that Emergency Management collaborate with SS&LE to establish at least three new locations to accommodate emergency back-up SS&LE command centers. As a suggestion, not more than one facility should be close to Gateway Plaza. The other two should be far enough away from Gateway and from each other that there is little risk that a wide area emergency could affect all three locations. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2020	7/29/2022
14	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	3	We recommend that Emergency Management should coordinate with SS&LE to facilitate training and add the additional details to the SS&LE COOP and SOPs, including criteria for COOP activation and relocation decisions, flow charts, decision trees and step-by-step instructions. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2021	7/29/2022
15	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	4	We recommend that Emergency Management should coordinate with SS&LE to create a Standard Operating Procedures template to include names, titles and contact details (phone numbers and emails) for all continuity personnel, such as the CMG, key continuity positions and successors; and reference and attach all COOP-related SOPs as Appendices to the COOP. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2020	7/29/2022
16	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	7	We recommend that Emergency Management should coordinate with SS&LE to schedule COOP execution training by an emergency management expert concurrently with each annual COOP update (See COOP Appendix M). Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/31/2021	7/29/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
17	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	1	MAS recommends that Contract Services management establish a timeline and finalize the Contract Monitoring Plan.	7/30/2022	
18	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	2	MAS recommends that Contract Services management develop formal written policies and procedures that include a) a requirement that decisions requiring executive approval be documented and b) a requirement that all modifications of contractual terms be documented and executed by the Contract Administrator.	12/31/2021	
19	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	3	MAS recommends that Contract Services management formulate and establish a formal training program to support skills development in the monitoring of contractor's performance.	12/31/2021	
20	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	4	MAS recommends that Contract Services management continue to work with appropriate stakeholders to resolve the fareboxes issue and establish a timeline by when this will be completed. Once fareboxes are operational, the reconciliation process should be fully restored to include the triggering of a revenue compliance inspection for variances exceeding the threshold by above or below 2%. Update: The Fareless System Initiative has delayed the resolution of the fareboxes issue.	4/30/2021	3/31/2022
21	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	1	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: deadlines are specified in the system for every mandatory training program.	1/31/2022	
22	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	2	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: automated notifications are enabled to remind employees to complete both upcoming and overdue training.	1/31/2022	
23	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	3	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: completion status relative to deadlines is being reported accurately for all mandatory training to departments' management.	1/31/2022	

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
24	Communications	20-COM-P01 Performance Audit of Expanded Discount Programs	2	MAS recommends that Communications Management ensure that all contracts are enforceable by including signatures from all parties, including County Counsel and the CEO. Update: 3 participating entities requested contract variations which are under County Counsel review.	12/31/2021	3/31/2022
25	Communications	20-COM-P01 Performance Audit of Expanded Discount Programs	3	MAS recommends that Communications Management prepare standard operating procedures manuals for both the E-Pass and the U-Pass programs aligned with the written agreements. Key operating and internal controls should include: a. Segregation of duties i. Approval of accounts ii. Approval of invoices iii. Issuance of monthly customer statements iv. Independent handling of customer queries and complaints v. Review and reconciliation of financial records b. Physical control over assets, e.g., ensuring payment checks and TAP cards / stickers are secured and access restricted c. Monthly review and reconciliation of passes sold vs. passes on the spreadsheet d. Periodic request of documentary proof of eligibility for a sample of participants from various participating institutions as a low-cost form of audit e. An explanation of when a "certificate of good standing" and a "site visit" are required. Update: ITS is now implementing new system features to correspond to the new procedure manual.	12/31/2021	3/31/2022
26	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	1	Bus and Rail Transportation management should implement periodic training or retraining for all Transit Operations Supervisors (TOS), Rail Transit Operations Supervisors (RTOS) and first line transportation management concerning the calculation of overtime eligible hours and the proper use of payroll codes. Update: Training content is nearing completion; work on delivery media is in progress.	12/31/2021	2/28/2022
27	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	2	Bus Transportation management should revise the 12-hour work limit policy to specify conditions for allowable exceptions to the rule. Update: Definitions of permitted policy exceptions are under review.	11/30/2021	1/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
28	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	3	Bus Transportation management should provide training to Bus Transportation managers, scheduling staff and TOS on these exceptions to enable proper scheduling and approvals of actual time incurred. Update: Training will be provided in the month following issuance of the new policy.	12/31/2021	2/28/2022
29	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	4	Bus and Rail Transportation management should enforce retention of required overtime (OT) related documents for all instances of OT worked, including partial and split shifts. Update: An on-line overtime request tool to replace paper request forms is now under development, which will permit storage, retention, retrieval and reporting of all overtime requests across the system at any time.	9/30/2021	3/31/2022
30	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	5	Bus and Rail Transportation management should train and periodically remind all line management, TOS and RTOS of overtime documentation and retention requirements. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
31	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	6	Bus and Rail Transportation management should require employees to file copies of system overtime request forms for other divisions at their home division. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
32	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	7	Bus and Rail Transportation management should require employees to bring supporting paperwork back to their home division each time they work at another division. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
33	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	8	Bus and Rail Transportation management should ensure copies of documentation supporting overtime are retained as required at both divisions when employees transfer permanently from one division to another. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
34	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	1	Review and verify that terms and conditions of the Contract are understood, including standards, regulations, guidelines, policies, and procedures. KKCS/Triunity JV should comply with all applicable Metro policies and procedures per the Contract.	11/30/2021	
35	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	2	Begin tracking and monitoring vehicle use and maintenance, as required by the Contract.	11/30/2021	
36	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	3	KKCS/Triunity JV should document verification of qualifications and experience to support job titles billed to the Contract; and Metro should, by contract modification, require the Contractor to perform and document background, resume, and reference checks for all new consultants proposed to Metro.	12/31/2021	
37	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	1	Metro management should re-evaluate any need for 24-hour non-revenue passenger vehicles (NRVs) and establish a formal requirement for written approval prior to assignment of NRVs to Metro employees.	2/28/2022	
38	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	2	Metro should lease required project vehicles directly through Metro's procurement processes, and only include NRVs in professional services and/or consulting contracts upon conducting a needs assessment and cost-benefit analysis.	2/28/2022	
39	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	3	If Metro continues to allow employees to operate contractor owned/leased vehicles, Metro policies and procedures should be developed to guide usage by employees.	2/28/2022	
40	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	4	Metro management should provide relevant staff with compliance training for the Contract and related policies.	2/28/2022	
41	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5a	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Assess whether 24-hour use of an NRV is necessary, document the justification and obtain approval for use in writing.	2/28/2022	

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
42	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5b	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Determine how best to resolve and enforce the commuter mileage (fringe benefit tax) issue retroactively and ensure the required forms are completed and filed, including applicable penalties and interest for Metro and its employees to be in compliance. Any required forms that have not been submitted should be submitted, including 24-Hour Assigned Vehicle & Overnight Use Commuter Mileage Forms, if necessary and amended W-2s.	2/28/2022	
43	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5c	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Determine whether the monthly parking, that should have been paid by the six (6) Metro employees, that was paid through the Contract should be repaid by the employees to Metro.	2/28/2022	
44	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5d	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Ensure Metro staff involved and injured in the vehicle incident as well as the Program Management Department complete all required forms to properly report the accident to the appropriate Metro department(s).	12/31/2021	

Appendix D

OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Operations	17-AUD-04 Review of Metro Safety Culture and Rail Operational Safety	6 Total	The 117 recommendations included in this report address findings in Safety Culture, Red Signal Violations, Safety Assessment of Infrastructure Elements, Technology, Operations and Maintenance, Human Resources, and etc. Update: As of December 2020, 111 of 117 recommendations were closed.	Pending	
2	Congestion Reduction	20-AUD-06 Review of LA Metro's Freeway Service Patrol Program	6	LA Metro FSP should set a target for its Benefit-to-Cost ratio, either in comparison to the statewide average or develop its own annual target. This is especially important as costs are expected to rise over the next several years as insurance and vehicle costs continue to escalate. If such the annual target is not met, it would trigger LA Metro FSP to conduct a deeper evaluation of its program and identify potential strategies to improve the following year's performance.	10/1/2020	7/1/2022
3	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	1	Employ Oracle Talent Acquisition Cloud (OTAC), Metro's new Applicant Tracking System, to obtain and utilize talent analytics	7/30/2021	
4	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	2	Hold hiring process stakeholders accountable for faster decision making	7/30/2021	
5	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	3	Decrease post-testing communication time for the candidates	7/30/2021	
6	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	4	Select interview dates and interviewers prior to the Hiring Plan Meeting	7/30/2021	
7	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	5	Implement a digital workflow to autoroute forms and utilize electronic signatures and assign a back-up signatory	7/30/2021	
8	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	6	Implement digital interview note-taking, scoring, and uploading of candidate results	7/30/2021	
9	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	7	Improve communication between Talent Acquisition (TA) and Hiring Managers regarding changes in the hiring process	7/30/2021	
10	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	8	Encourage greater use of department interviews	7/30/2021	
11	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	9	Allow Qualified Candidate Pools (QCPs) with similar Minimum Qualifications (MQs) to be shared	7/30/2021	
12	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	10	Clarify decision-making roles and responsibilities throughout the entire hiring process	7/30/2021	

Any findings that have not been corrected 90 days after the due date are reported as late.

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
13	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	11	Grant Hiring Managers greater decision-making authority in screening	7/30/2021	
14	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	12	Ensure full adoption of the OTAC system coupled with adoption of an effective change management process	7/30/2021	
15	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	13	Expand Hiring Managers' influence by allowing additional Minimum Qualifications to a position	7/30/2021	
16	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	14	Reevaluate the use of blind screening in 12 months	7/30/2021	
17	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	15	Transition Equal Employment Opportunity (EEO) role from active participant to advisor, auditor, and trainer	7/30/2021	
18	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	16	Utilize self-service portal for candidates to provide evidence of education and references	7/30/2021	
19	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	17	Provide stakeholders with the ability to receive live application status updates	7/30/2021	
20	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	18	Communicate to Metro employees why it lacks a promotion process	7/30/2021	
21	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	19	Ensure OTAC's application portal meets candidates' needs	7/30/2021	
22	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	20	Update auto-generated communications to applicants after application submission to improve hiring process expectations	7/30/2021	
23	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	21	Institute a combination of standardized and non-standardized interview questions	7/30/2021	
24	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	22	Update initial communication to candidates placed on QCP	7/30/2021	
25	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	23	Send periodic automated emails to candidates in QCP to keep them engaged and aware of opportunities for which they may be considered	7/30/2021	
26	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	24	Request complete employment history earlier in the process	7/30/2021	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
27	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	25	Consider characteristics other than years of direct work experience when determining salary offers and when screening applications	7/30/2021	
28	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	26	Reduce required memos and forms and expedite their completion	7/30/2021	
29	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	27	Consider increasing the 15% cap on raises for internal candidates	7/30/2021	
30	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	28	Decrease the job posting salary ranges	7/30/2021	
31	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	2	SSLE should ensure that future contracts include a contract budget that specifies the amount of funds budgeted for each contract year and develop procedures to help ensure that the annual budgets are adhered to.	Pending	
32	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	3	SSLE should in future contracts, to more effectively control and track the use of contract funds, allocate within the budget a separate reserve amount to be used for special events and enhanced deployments.	Pending	
33	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	4	SSLE should for future contracts, consider the impact that the use of full-time contracted personnel will have on the use of funds over the life of the contract. In addition, specify within the contract the job classifications, and number of positions within each classification that can be charged to the Metro contract on a full-time basis.	Pending	
34	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	5	SSLE should execute a contract modification if it is determined that LBPD sworn personnel will be assigned to the contract on a full-time basis.	12/31/2021	
35	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	8	SSLE should review all LAPD invoices for FY20 to determine if there are other incidents where the personnel hourly billing rate exceeds the approved maximum fully burdened hourly rate for the job classification.	12/31/2021	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
36	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	9	SSLE should request a refund of \$3,170.52 and any additional overbillings identified from LAPD.	12/31/2021	
37	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	10	SSLE should for future contracts, work with each contractor to include language in their respective contracts that more thoroughly and clearly define how services will be billed and what costs will be allowed and/or disallowed.	Pending	
38	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	11	SSLE should continue to work on strengthening controls in the area of monitoring and oversight by addressing the deficiencies cited in areas such as Community Policing and Key Performance Indicators.	Pending	
39	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	12	SSLE should complete and finalize the Compliance Audit Procedures Manual.	12/31/2021	
40	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	13	SSLE should review on a periodic basis the qualifications of a sample of officers from each of the law enforcement agencies to determine that contract requirements are being adhered to.	10/31/2021	12/31/2021
41	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	14	SSLE should for required training, consider developing and requiring officers to take refresher courses after working on the contract for two or more years.	12/31/2021	
42	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	15	SSLE should for required reporting, review with input from the law enforcement agencies, the reports and information currently required to determine if changes are necessary. As part of this review determine if different or additional information would be more beneficial.	Pending	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
43	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	16	SSLE should with input from the three law enforcement agencies, develop baseline performance levels (targets and goals) for key performance indicators.	10/31/2021	1/31/2022
44	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	17	SSLE should develop and update annually a written agency-wide Community Policing Plan.	10/31/2021	1/31/2022
45	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	20	SSLE should include in future contracts the requirement of wearing body cameras by all contracted law enforcement personnel when policing the Metro System.	Pending	
46	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	21	SSLE should establish with the three contracted law enforcement agencies procedures for accessing video footage from body cameras when necessary, including for compliance, auditing, and investigative reasons.	10/31/2021	1/31/2022
47	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	22	LAPD should ensure that each personnel's hourly billing rate does not exceed the approved maximum fully burdened hourly rate for that job classification.	10/31/2021	12/31/2021
48	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	23	LAPD should develop procedures to help ensure that even during departmental wide mobilizations and/or special deployments that only those officers who meet contract requirements are placed on the Metro contract.	10/31/2021	12/31/2021
49	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	24	LAPD should include in the Annual Community Policing Plan a description of the specific training provided to its officers in the area of Problem Oriented Policing.	10/31/2021	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
50	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	25	LASD should assign personnel to the Metro contract only after they are Post Certified and have met all contract requirements.	10/31/2021	12/31/2021
51	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	26	LASD should include in its annual Community Policing Plan a description of the specific training provided to its officers in the area of Problem Oriented Policing.	10/31/2021	
52	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	28	LBPD should assign only those officers to the contract who have 18 months of law enforcement experience and have met all other contract requirements related to personnel and training.	10/31/2021	12/31/2021



TAPInternational

Final Report

Internal Quality Self-Assessment for
Fiscal Years 2020 & 2021

LA METRO Management Audit Services

November 2021



Date: November 17, 2021

Memorandum For: LA Metro, Management Audit Services

From: Drummond Kahn and Susan Hoffman
Audit Consultants, TAP International

Subject: Transmittal of IQSA FINAL REPORT, FY 2020 and FY 2021

Attached is our final report, *Internal Quality Self-Assessment for Fiscal Years 2020 & 2021, LA Metro Management Audit Services*.

The objectives of the internal quality self-assessment were to:

- Determine whether Management Audit Services is well-prepared for its up-coming Association of Local Government Auditors' external peer review on its conformance to the International Standards for the Professional Practice of Internal Auditing and Government Auditing Standards
- Provide suggestions to improve current auditing processes, procedures, and practices

Our assessment found that LA Metro's Management Audit Services quality control system was suitably designed and operating effectively, generally complied with the International Standards for the Professional Practice of Internal Auditing and comports well with Government Auditing Standards.

This report contains 12 suggestions for improvement for consideration by Management Audit Services to enhance its conformance to professional auditing standards as well as to increase efficiency and effectiveness of its audit process.

We appreciated working with Management Audit Services and thank the staff and management for their collaboration throughout this review.

TAP International, Inc.

**LA Metro Management Audit Services
Internal Quality Self-Assessment for FY 2020 and FY 2021**

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Section 1: Assessment Highlights

Why the Assessment Was Conducted

LA Metro's Management Audit Services (MAS) hired TAP International to conduct its Internal Quality Self-Assessments (IQSA) for Fiscal Years (FY) 20 and 21. Conducting an annual IQSA is a primary component of MAS' Quality Assessment Improvement Program which is an ongoing effort to ensure its work is completed in accordance with auditing standards. Completing IQSAs for FY20 and FY21 will also help ensure MAS is well-prepared for its upcoming external peer review and provides an opportunity for experts in governmental auditing and auditing standards to provide suggestions to improve MAS' current processes, procedures, and practices. The FY20 and FY21 IQSAs were completed at the same time, making some issues we found relevant to both fiscal years. This report includes the results of:

- our review of MAS' quality control system, including MAS' audit charter and policy manual
- our review of compliance with continuing professional education requirements for FY20 and FY21
- our review of nine engagements completed in FY20
- our review of seven engagements completed in FY21
- a survey of audit staff

How the Assessment Was Conducted

The IQSA was conducted according to guidance provided in the external peer review guides developed by the Association of Local Government Auditors (ALGA). These are the same guides that will be used to conduct MAS' upcoming external peer review. They are:

- ALGA's Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing, 2017 (commonly known as the *Red Book* auditing standards)
- ALGA's Peer Review Guide for Assessing Conformance with Government Auditing Standards, 2019 Revision (commonly known as the *Yellow Book* auditing standards)

Both the Red Book and Yellow Book ALGA external peer review guides were used to conduct the IQSA because MAS follows both sets of auditing standards to conduct its work. The ALGA guides provide a systemic approach to assessing whether MAS' quality control system is suitably designed and operating effectively. To make this determination, we assessed MAS' quality control system against each set of standards and reviewed nine judgmentally selected engagements completed in FY20 and seven judgmentally selected engagements completed in FY21 to see how well that system ensured both sets of auditing standards were followed when completing engagements. We also conducted an anonymous survey of audit staff to determine whether they had been informed of, understood, and applied MAS' policies and procedures designed to ensure auditing standards are followed in conducting their work.

What the Assessment Found

We found that for FY20 and FY21, LA Metro's Management Audit Services' quality control system was suitably designed and operating effectively, generally complied with Red Book auditing standards and comports well with Yellow Book auditing standards. More specifically, we found:

- the quality control system was designed in accordance with Red Book and Yellow Book auditing standards
- all audit staff and long-term consultants working on engagements completed in FY20 and FY21 met the continuing professional education requirements set by the standards
- all nine engagements completed in FY20 and all seven engagements completed in FY21 that we reviewed were conducted in accordance with Red Book and Yellow Book auditing standards
- results from the audit staff survey suggested policies and procedures to ensure staff understand and follow auditing standards have been adequately communicated to them, they understand how to use them, and that they are being used on the engagements they worked on completed in FY20 and FY21

Summary of Suggested Improvements

In conducting the IQSA for FY20 and FY21, we also identified several opportunities for improvement, including:

- three suggested revisions to MAS' audit charter to clarify roles and responsibilities of the MAS Chief Audit Executive (CAE), the Office of the Chief Executive officer (OCEO) and the LA Metro Board of Directors (Board)
- three suggested revisions to MAS' policy manual to bring policy more in line with auditing standards
- three suggested modifications to audit documentation completed in TeamMate to ensure certain items are completed and documented consistently on every engagement where they are relevant
- three suggestions related to improving efficiency in conducting engagements including:
 - reviewing how engagements are categorized by type to determine whether they are completed at the most appropriate level of assurance
 - reviewing TeamMate procedures used for each engagement type to ensure they only include the work required by standards for that engagement type
 - considering the reasons for continuing to follow both Red Book and Yellow Book auditing standards and whether efficiencies can be gained from following just one set of standards while maintaining audit quality

Section 2: Methodology

Methodology

We conducted the MAS FY20 and FY21 IQSA using Association of Local Government Auditors' (ALGA) Red Book and Yellow Book external peer review guides. We used both ALGA guides because MAS follows both sets of auditing standards to conduct its work. The ALGA guides provide a systemic approach to assessing whether MAS' quality control system is suitably designed and operating effectively. To conduct the IQSA, we followed guidance in:

- ALGA's Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing, 2017 (commonly known as the *Red Book* auditing standards)
- ALGA's Peer Review Guide for Assessing Conformance with Government Auditing Standards, 2019 Revision (commonly known as the *Yellow Book* auditing standards)

To complete the IQSA, we used review checklists provided in ALGA's Red Book and Yellow Book guides to assess whether the design of MAS' quality control system met both Red Book and Yellow Book auditing standards. We also reviewed continuing professional education (CPE) records for audit staff and long-term consultants that worked on audit engagements completed in FY20 and FY21 to ensure they met the CPE requirements set by standard. We judgmentally selected nine engagements completed in FY20 and seven engagements completed in FY21 for review using both a Red Book and Yellow Book checklist to determine how well auditing standards were being followed in practice. We also conducted an anonymous on-line survey to gather information on staff understanding and use of Red Book and Yellow Book auditing standards.

Quality Control System Assessment – Review of system design

Quality Control System Review - Red Book

To conduct our Red Book assessment of MAS' quality control system, we used ALGA's Red Book guide *Form 7: Audit Organization's Description of Quality Control System* completed by MAS, that included relevant citations to MAS' audit charter, policy manual, and other relevant documents for each Red Book auditing standard. MAS also provided a copy of their policy manual and additional relevant documents needed to complete our review. The results of our assessment were documented on ALGA's Red Book guide *Form 8: Review of Audit Organization's Quality Control System*. For each standard, we reviewed the cited materials. In cases where the cited materials were not sufficient to complete our review, we requested and reviewed additional materials from MAS.

Using our professional judgement, we made determinations for each standard on whether it "generally conforms" "partially conforms" "does not conform" or is "not applicable." Our final determination on the quality control system of "generally conforms" is based on our determinations made at the individual standard level. "Generally conforms" means "there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives."

Quality Control System Review – Yellow Book

To conduct our Yellow Book assessment of MAS' quality control system, we used the ALGA Yellow Book guide *Form 7: Audit Organization's Description of Quality Control System* provided by MAS, that was used for their IQSA completed in FY19. It included citations to MAS' Policy Manual and other relevant documents. We conducted our review using ALGA's Yellow Book guide *Form 8: Review of Audit Organization's Quality Control System*. For each standard included, we reviewed the cited materials.

Using our professional judgment, we made determinations for each standard on whether MAS' quality control system "complied" – yes or no - or was "not applicable." Our final determination on the quality control system complying with Yellow Book standards is based on our determinations at the individual standard level.

Assessing Compliance with CPE Requirements

Part of assessing MAS' quality control system is determining whether audit staff and long-term consultants who worked on engagements completed in FY20 and FY21 met the continuing professional education (CPE) requirements included in auditing standards. As MAS conducts audit work in accordance with both the Yellow Book and the Red Book, they must comply with CPE requirements for both. The Yellow Book includes specific requirements for audit staff to complete 80 hours of CPE every two years with 20 of those 80 hours being completed in each of the two years, and 24 of the 80 hours to cover governmental topics or issues related to the specific environment the office operates in. The Red Book does not include a specific CPE hourly requirement but does require that audit organizations track auditor certifications and the number of CPEs completed each year as CPE hours are required to maintain certifications.

To assess MAS compliance with CPE requirements, we reviewed MAS' CPE log for its current CPE period (FY20 & FY21). MAS' CPE log includes class names and CPE hours earned for CPE courses completed by its audit staff, and tracks staff progress on meeting CPE requirements. To be credited with CPE hours in the log, audit staff must provide certification of the course completed. We also reviewed the CPE information MAS maintains for its long-term audit consultants. To ensure CPE records were maintained for all audit staff and long-term audit consultants that worked on engagements completed in FY20 and FY21, we compared them to the staff assignments listed on the list of engagements completed in FY20 and FY21 provided to us by MAS. We also asked for all back-up CPE documentation for two MAS audit staff and traced it back to the summary log to determine it was complete. We also requested and reviewed documentation maintained by MAS on audit staff years of experience, educational background, and relevant certifications for FY20 and FY21.

Engagement Assessment – Review of Quality Control System in Practice

Engagement Selection – Fiscal Year 2020

MAS primarily conducts two types of engagements – performance audits and agreed-upon procedures (AUP) attestations. They also conduct consulting engagements, but none were completed in FY20. To assess how well MAS' quality control system worked in practice in FY20, we judgmentally selected nine engagements completed in FY20 from a list provided to us by MAS. The list included 50 engagements completed in FY20 for a total of 14,136 audit hours.

We categorized the 50 engagements completed by MAS by the following activity types:

- 5 - performance audits
- 1 – AUP attestation for compliance with a US employment program
- 44 – AUP attestations – 20 related to incurred costs and 24 related to pre-awards

We judgmentally selected nine engagements for review during the FY20 IQSA. The criteria used to make our selections included ensuring our sample of engagements had a variety of:

- engagement type – select engagements for each activity type
- audit manager – select engagements under each audit manager – if possible
- number of audit hours – select engagements that are small and large in terms of audit hours
- construction project under audit – select incurred cost and pre-award attestation AUPs of different construction projects (as in not all the same construction project)

We selected nine engagements for review for the FY20 IQSA. They cover 5,802 audit hours, which is 41% of the total audit hours for FY20:

- 3 – performance audits
- 6 – AUP attestations – 3 related to incurred costs and 3 related to pre-awards

Each of the nine selected engagements for FY20 was assessed against both Red Book and Yellow Book auditing standards.

Engagement Selection – Fiscal Year 2021

MAS primarily conducts two types of engagements – performance audits and agreed-upon procedures (AUP) attestations. They also conduct consulting engagements, two were completed in FY21. To assess how well MAS's quality control system worked in practice in FY21, we judgmentally selected seven engagements completed in FY21 from a list provided to us by MAS. The list included 26 engagements completed in FY21 for a total of 13,475 audit hours. We categorized the 26 engagements completed by MAS by the following activity types:

- 3 - performance audits
- 2 – consulting engagements
- 21 – AUP attestations – 18 related to incurred costs and 3 related to pre-awards

We judgmentally selected seven engagements for review during the FY21 IQSA. The criteria used to make our selections included ensuring our sample of engagements had a variety of:

- engagement type – select engagements for each activity type
- audit manager – select engagements under each audit manager – if possible
- number of audit hours – select engagements that are small and large in terms of audit hours
- construction project under audit – select incurred cost and pre-award attestation AUPs of different construction projects (as in not all the same construction project)

We selected seven audits for review for the FY21 IQSA. They cover 4,638.5 audit hours which is 34.4% of the total audit hours for FY21:

- 2 – performance audits
- 1 – consulting engagement
- 4 – AUP attestations – 3 related to incurred costs and 1 related to pre-awards

Each of the seven selected engagements for FY21 was assessed against both Red Book and Yellow Book auditing standards.

Engagement Review –Red Book

To conduct our Red Book assessment of the nine selected engagements completed in FY20 and seven selected engagements completed in FY21, we used ALGA’s Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both AUP attestations and performance audits. We used *Form 10: Review of Consulting Engagement* to review the consulting engagement. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. At the individual standards level, the criteria for each level of conformance are:

- generally conforms – conforms to the requirements of the standard
- partially conforms – a good faith effort is being made to conform with the standard
- does not conform – is not aware of, is not making a good faith effort to conform with the standard, or is failing to achieve many or all of the objectives of the standard
- N/A – not applicable

To conduct our engagement reviews, we reviewed the referenced final reports and supporting documentation in the TeamMate file for each selected engagement. We also reviewed the planning work to determine if relevant planning standards were met. Based on our review, and our understanding of the standards, we used our professional judgement to determine the extent individual engagements met individual standards and used those results to draw an overall conclusion on whether the engagement met standards.

Engagement Review - Yellow Book

To conduct our Yellow Book assessment of the nine selected engagements completed in FY20 and seven selected engagements completed in FY21, we used ALGA’s Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist*. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP attestations were assessed against the general and attestations sections of the form. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. At the individual standard level, the Yellow Book engagement review form asks the reviewer to determine whether the engagement under review meets individual standards by replying:

- Yes
- No
- N/A – not applicable

To conduct our engagement reviews, we reviewed the referenced final reports and supporting documentation in the TeamMate file for each selected engagement. We also reviewed the planning work to determine if relevant planning standards were met. Based on our review, and our understanding of the standards, we used our professional judgement to determine whether the engagements met individual standards and used those results to draw an overall conclusion on whether each selected engagement met standards.

Staff Survey

Both of ALGA's Red Book and Yellow Book external peer review guides include audit staff interview questions. The purpose of the interviews is to assess audit staff understanding of and compliance with Red Book and Yellow Book auditing standards. Rather than conduct interviews, we decided to conduct an anonymous online survey. The survey was based on the staff survey in the National State Auditors Association's External Peer Review Guide for Yellow Book. Additional questions were added to address standards unique to the Red Book. Survey Monkey was used to conduct the anonymous online audit staff survey. An email explaining the purpose of the survey and a link to the survey was sent out to all audit staff. The survey was open for two weeks to allow audit staff the opportunity to reply.

Section 3: Assessment Results

Results

We found that for FY20 and FY21, LA Metro’s Management Audit Services (MAS) quality control system was suitably designed and operating effectively, generally complied with Red Book auditing standards and comports well with Yellow Book auditing standards. More specifically, we found:

- the quality control system was designed in accordance with Red Book and Yellow Book auditing standards
- all audit staff and long-term consultants working on engagements completed in FY20 and FY21 met the continuing professional education requirements (CPE) set by the standards
- all nine engagements we reviewed completed in FY20 were conducted in accordance with Red Book and Yellow Book auditing standards
- all seven engagements we reviewed completed in FY21 were conducted in accordance with Red Book and Yellow Book auditing standards
- results from the audit staff survey suggested policies and procedures to ensure staff understand and follow auditing standards have been adequately communicated to them, they understand how to use them, and that they are being used on the audits they worked on that were completed in FY20 and FY21

In addition, we would like to acknowledge the following areas where we believe MAS performs exceptionally well:

- MAS’ policy manual is very thorough and thoughtful, easy to understand and follow, and comports well with Red Book and Yellow Book standards
- the process used to track audit staff progress in meeting their continuing professional education (CPE) requirements is well designed and works well to ensure all audit staff and long-term consultants meet these requirements
- the documentation of audit work completed in TeamMate was complete and consistent, for each engagement we reviewed, we were able to understand how the audit team planned and completed its work and reached its conclusions
- the audit reports we reviewed accurately and clearly communicated the findings developed and were well supported by the work documented in TeamMate
- the survey showed that audit staff were aware of MAS’ policies and procedures and applied them in practice on engagements they worked on
- the quarterly and year-end Chief Audit Executive (CAE) reports to Board provide clear and complete information on audits completed and progress being made by MAS

Quality Control System Assessment – Review of System Design

Quality Control System Review - Red Book

Overall, MAS’ quality control system generally conforms with Red Book auditing standards, although we found that the area of organizational independence only partially conforms due to the need to better define the relationships of the Chief Audit Executive (CAE) to the Office of the Chief Executive Officer (OCEO) and to the LA Metro Board of Directors (Board) in the audit charter and the MAS policy manual. This issue was also identified as an area where improvement could be made by MAS’ prior external peer

review completed in November 2017. We also identified some additional areas where we suggest revisions to the MAS Policy Manual to better align it with Red Book auditing standards.

Suggestions for changes to MAS audit charter

In conducting our Red Book assessment of MAS' quality control system, we found a few instances where changes to the current audit charter would better align it with Red Book auditing standards. We noted that during the time of our assessment, MAS management was actively working on a revision to its audit charter. We were asked to review the revised audit charter draft and were able to provide comments to address the issues we found in our review of the current audit charter. We expect that the completed revision of the audit charter will address the suggested changes included in this report. We identified the following areas where we suggest changes to the current audit charter.

- 1) The current MAS audit charter does not specify the nature of reporting relationships of its Chief Audit Executive to the Office of the Chief Executive Officer (OCEO) and the LA Metro Board of Directors (Board), merely that they report to both. Red Book Standards 1000 and 1100 address the CAE and internal audit activity's position within the organization and suggest that the CAE should have an administrative reporting relationship to the CEO and a functional relationship to the Board. The purpose of the standard is to protect the independence of the CAE and the organization's internal audit function. We suggest revising the audit charter to clearly state that the CAE administratively reports to the OCEO and functionally reports to the Board to address this issue.
- 2) The current MAS audit charter states that MAS is 'under direction of' the Deputy CEO and does not state the nature of the reporting relations to the OCEO and Board, which could potentially threaten the ability of the internal audit activity to carry out its internal audit responsibilities without interference. Red Book Standard 1110.A1 states that 'The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communication results.' The use of the 'under direction' language in the current audit charter could connote that the CAE and MAS conducts its work under the direction of the Deputy rather than independent of it. We suggest revising the audit charter to remove the 'under direction of' language and replace it with language that explains that the CAE and MAS administratively reside in the office of the OCEO.
- 3) The current MAS audit charter does not include separate sections on the responsibilities of the OCEO and the Board, but instead assigns the same responsibilities to both. Red Book Standard 1100 states that organization independence is effectively achieved when the CAE reports functionally to the Board. We suggest revising the current audit charter to add sections that include the administrative responsibilities of the OCEO and the functional responsibilities of the Board. Doing so would add clarity to what is the administrative relationship between the CAE and the OCEO, and what is the functional relationship between the CAE and the Board.
- 4) One way an audit organization can show a functional relationship between the CAE and the Board is to state in its audit charter that the Board approves the remuneration of the CAE as suggested by the interpretation of Red Book Standard 1000. MAS' current audit charter does not include any language related to Board approval of CAE remuneration. We note this as deviation from the interpretation of the standard, but also note that this may not be possible within LA Metro personnel policies. We are not suggesting the audit charter be revised accordingly as the functional relationship between the CAE and the Board can be otherwise demonstrated by clearly describing the functional responsibilities of the Board in the audit charter.

Suggestions for changes to MAS policy and procedures manual

In conducting our Red Book assessment of MAS' quality control system, we noted a few instances where changes to MAS' Policy Manual would better align it with Red Book auditing standards.

- 1) MAS Policy 1.2.3 Audit Charter Policy states that 'The CEO must approve, and the Board must adopt the Audit Charter.' The Interpretation for Red Book Standard 1000 states that one way to demonstrate the functional relationship between the CAE and Board is to give the final approval of the audit charter to the Board. We suggest revising MAS policy 1.2 to state that final approval of the audit charter goes to the Board.
- 2) MAS Policy 3.3.3 Board Communication states that the CAE must periodically report to the Board on a variety of issues, including the results of internal and external quality assessments. Red Book Standard 1320 requires these communications. We suggest revising MAS Policy 3.3.3 to include language on the form and frequency of CAE communication to the board on internal and external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest to better meet Red Book auditing standards.
- 3) MAS Policy 1.6 Annual Audit Plan Policy does not include language stating that the CAE may review and adjust the plan as necessary, although similar language is included in MAS' annual audit plans. The Interpretation for Red Book Standard 2010 states that the 'CAE must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.' We suggest revising MAS Policy 1.6 to include this language to better align its policy with Red Book standards.

Quality Control System Review – Yellow Book

Based on our review, MAS' quality control system comports with Yellow Book auditing standards. We offer one suggestion for improving MAS' quality control system related documenting adherence to MAS Policy 2.7.1 – Competence and Continuing Professional Education. We suggest developing a method to more clearly document in TeamMate how the staff assigned to individual engagements collectively possess the qualifications needed to successfully complete the engagement.

We reviewed the overall quality monitoring process for FY20 and FY21 as described in Government Auditing Standards. In terms of MAS' monitoring process, including supervision, quality control review, and the areas described in this IQSA report, both overall and at the engagement level, we did not identify any systemic or repetitive issues needing improvement for monitoring MAS' system of quality control. We did not identify any deficiencies during the monitoring process, nor do we recommend any remedial action.

Assessing Compliance with CPE Requirements

MAS conducts audit work in accordance with both the Yellow Book and the Red Book, and therefore must comply with CPE requirements for both. We reviewed MAS' compliance with Yellow Book and Red Book CPE compliance using ALGA's Yellow Book and Red Book External Peer Review Guides. MAS' current two-year CPE period is FY20 and FY21. From our review of MAS' CPE log and back-up documentation, we determined that all audit staff and long-term audit consultants who worked on engagements completed in FY20 had completed at least 20 hours of CPE in FY20 and in FY21. We also determined that all audit staff and long-term audit consultants who worked on engagements completed in FY21 had completed at least 80 hours of CPE during the FY20/FY21 CPE period, with at least 24 hours

being governmental CPE. MAS also maintains an annually updated list of all audit staff that includes their educational background, years of audit experience, and relevant certifications.

Engagement Assessment – Review of Quality Control System in Practice

Overall, the nine engagements completed in FY20, and the seven engagements completed in FY21 that we selected for review generally conformed with Red Book standards and comported well with Yellow Book standards. We found the engagements we reviewed to be thoroughly documented and complete. Audit work was performed in a consistent manner making it easy to identify whether all relevant planning and fieldwork standards were met. In addition, the engagement reports were easy to follow. Findings were well documented and supported with sufficient and appropriate evidence. Report conclusions and recommendations (when provided) flowed from the report findings. Each selected engagement was reviewed against both Red Book and Yellow Book standards.

Engagement Review for Nine Engagements Completed in FY20

Engagement Review – Red Book

To conduct our Red Book review of the nine selected engagements completed in FY20, we used ALGA's Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both performance audits and AUP attestations. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. Our overall assessment of whether each reviewed engagement generally conformed with Red Book standards were based on our assessment at the individual standard level.

The completed Red Book *Form 9: Review of Assurance Engagement* for each engagement reviewed includes reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Three performance audits completed in FY20 were reviewed

All three FY20 performance audits we reviewed generally conformed with Red Book Assurance Engagement Standards. For each engagement, we were able to understand from the working papers how the audit team planned and completed its work and reached its conclusions. Audit reports accurately communicated findings.

AUP Attestations – Six AUP Attestations completed in FY20 were reviewed

All six FY20 AUP attestation engagements we reviewed generally conformed with Red Book Assurance Engagement Standards. In our review we noted that these engagements were conducted similarly to the performance audit engagements, and easily met all requirements for a Red Book Assurance Engagement.

Engagement Review – Yellow Book

To conduct our Yellow Book review of the nine selected engagements completed in FY20, we used ALGA's Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist* to review both Performance Audits and AUP Attestations. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP Attestations were assessed against the general and attestations sections of the form.

To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. Our overall assessment of whether each reviewed engagement comported with Yellow Book standards were based on our assessment at the individual standard level. We provide three suggestions for improving how performance audits comply with Yellow Book standards below.

The completed Yellow Book *Form 9: Review of Audit Engagement Checklist* for each engagement includes reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Three performance audits completed in FY20 were reviewed

All three FY20 performance audits we reviewed complied with Yellow Book Performance Audit standards. We provide the following suggestions for MAS to consider which enhance its compliance with Yellow Book Standards.

- 1) Develop a more consistent way to show the how the team members selected to work on performance audits collectively possess the competencies needed to successfully complete the audit. We found that one performance audit we reviewed did not include specific workpapers to show specific training, CPE, and competency of individual staff members
- 2) Develop a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement’s objectives. We found that one performance audit we reviewed did not include documentation that this was done during engagement planning.
- 3) Develop a method to ensure engagement reports that significantly rely on sampling results to support report findings include a description of how sampling was conducted and used to reach conclusions in the audit report methodology. One way this could be done is to include it on the Independent Reviewer Checklist MAS uses to ensure its engagement work and reports meet audit standards. We found that one performance audit we reviewed did not include a description of the samples it used to support its report findings in the report methodology section.

AUP Attestations – Six AUP Attestations completed in FY20 were reviewed

All six FY20 AUP attestation engagements we reviewed comported well with Yellow Book attestation standards. Indeed, we found these engagements met most of the standards for review attestations as well. Since the work is conducted and documented similarly to the performance audit engagements we reviewed, we believe that the AUP engagements we reviewed also comport well with performance audit standards.

Engagement Review for Seven Engagements Completed in FY21

Engagement Review – Red Book

To conduct our Red Book review of the seven selected engagements completed in FY21, we used ALGA’s Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both performance audits and AUP attestations, and *Form 10: Review of Consulting Engagement* to review the selected consulting engagement. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. Our overall assessment of whether each reviewed engagement

generally conformed with Red Book standards were based on our assessment at the individual standard level.

The completed Red Book *Form 9: Review of Assurance Engagement* for each AUP Attestation and Performance Audit engagement reviewed, and *Form 10: Review of Consulting Engagement* for the Consulting Engagement reviewed include reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Two performance audits completed in FY21 were reviewed

The two FY21 performance audits we reviewed generally conformed with Red Book Assurance Engagement Standards. For each engagement, we were able to understand from the working papers how the audit team planned and completed its work and reached its conclusions. Audit reports accurately communicated findings.

AUP Attestations – Four AUP Attestations completed in FY21 were reviewed

All four FY21 AUP attestation engagements we reviewed generally conformed with Red Book Assurance Engagement Standards. In our review we noted that these engagements were conducted similarly to the performance audit engagements, and easily met all requirements for a Red Book Assurance Engagement.

Consulting Engagements – One Consulting Engagement completed in FY21 was reviewed

The FY21 consulting engagement we reviewed generally conformed with Red Book consulting engagement standards. It should be noted that these standards are focused on ensuring a consulting engagement does not impede on independence in conducting other types of engagements. The work completed for this consulting engagement was done similarly to how MAS completes both its AUP attestations and performance audits.

Engagement Review – Yellow Book

To conduct our Yellow Book review of the seven selected engagements completed in FY21, we used ALGA's Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist* to review both Performance Audits and AUP Attestations. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP Attestations were assessed against the general and attestations sections of the form. We used *Form 10: Review of Nonaudit Services Engagement Checklist* to review the consulting engagement included in our sample.

To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. Our overall assessment of whether each reviewed engagement 'comported' with Yellow Book standards were based on our assessment at the individual standard level. We provide two suggestions for improving how performance audits comply with Yellow Book standards below.

The completed Yellow Book forms - *Form 9: Review of Audit Engagement Checklist* and *Form 10: Review of Nonaudit Services Engagement Checklist* - for each engagement include reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Two performance audits completed in FY21 were reviewed

Both FY21 performance audits we reviewed complied with Yellow Book Performance Audit standards.

We provide the following suggestions for MAS to consider which would enhance its compliance with Yellow Book Standards.

- 1) Develop a more consistent way to show the how the team members selected to work on performance audits collectively possess the competencies needed to successfully complete the audit. We found that one performance audit did not include specific workpapers to show specific training, CPE, and competency of individual staff members.
- 2) Develop a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement's objectives. We found that one performance audit that did not include documentation that this was done during engagement planning.

AUP Attestations – Four AUP Attestations completed in FY21 were reviewed

All four FY21 AUP attestation engagements we reviewed comported well with Yellow Book attestation standards. Indeed, we found these engagements met most of the standards for review attestations as well. Since the work is conducted and documented similarly to the performance audit engagements we reviewed, we believe that the AUP engagements we reviewed also comport well with performance audit standards. For example, one AUP attestation we reviewed included recommendations in its report, which is not the expectation for an attestation report. This engagement may have also worked as a performance audit with limited scope.

Consulting Engagements – One Consulting Engagement completed in FY21 was reviewed

The FY21 Consulting Engagement comports well with Yellow Book nonaudit services engagement standards. Note that while the audit report stated that the consulting service was not covered by the Yellow Book, our review concluded that the engagement did meet Yellow Book standards for nonaudit services and MAS could have included that citation in the engagement report. Another possibility could have been to conduct the work as a limited scope performance audit that just developed condition.

Staff Survey

We conducted an anonymous online survey of audit staff to determine whether they had been informed of and understood MAS policies and procedures designed to ensure their work followed Red Book and Yellow Book auditing standards, and whether those policies and procedures had been followed for engagements they worked during FY20 and FY21. Fifteen audit staff provided responses to the survey. Responses provided clearly showed that audit staff had been informed of relevant MAS policies and procedures designed to ensure their work followed Red Book and Yellow Book auditing standards, understood those policies and procedures, and used them the engagements they worked on in FY20 and FY21. We provide a short summary of results here. A more detailed summary is provided in the IQSA FY20 and FY21 supporting documentation.

Summary of Audit Staff Survey Results

Demographic Questions – Survey responses show that MAS has very experienced audit staff. Of the 15 MAS audit staff who completed the survey, 11 have 6 or more years at MAS, and just over half have supervisory responsibilities. Survey responses confirm that audit staff are:

- aware of MAS' policies and procedures including the conceptual framework used to identified threats to independence, evaluate the significance of the threats identified, and apply safeguards as necessary to eliminate them, and view MAS auditors as impartial, unbiased, and conflict avoidant

- worked on teams that collectively possessed the knowledge, skills and other competencies needed to performance their individual responsibilities and MAS' responsibilities as a whole
- aware of MAS' CPE policies and procedures
- aware of MAS' quality control system, that system and specific procedures had been communicated to them, believe they are designed to provide reasonable assurance that MAS and staff comply with standards, and that staff always (80%) or usually (20%) follows them

Summary of Comments Provided on the Survey

General Standards - Comments focused on providing more training on standards, making sure MAS updated its policies and procedures when the standards were updated, conducting internal post-engagement reviews of a sample of engagements each year, making sure audit management is providing on the job training and supervision, and having external auditors review MAS policies and procedures periodically.

Attestation Standards - Comments included suggestions to have another one or two managers to complete supervisory reviews of attestations, development of templates for attestation engagements to improve effectiveness and efficiency, provide training to staff, obtain feedback from team members, and implement any improvement actions.

Performance Standards - Comments included suggestions to hire additional staff to work on performance audits and noted that MAS is currently engaged in an improvement program to eliminate redundant, duplicate, or unnecessary steps in audit programs, and clarify and reorder steps to keep staff focused on processes and procedures that are critical to audit quality and compliance with standards.

Section 4: Suggestions for Improvement

Suggestions for Improvement

Based on the results of the IQSA for FY20 and FY21, we are making the following twelve suggestions to help MAS improve its compliance with Red Book and Yellow Book standards, and additional suggestions to consider that may improve efficiency in conducting engagements.

Suggestions to Improve the MAS Audit Charter

- 1) Revise the audit charter to clearly state that the CAE administratively reports to the OCEO and functionally reports to the Board to address this issue.
- 2) Revise the audit charter to remove the ‘under direction of’ language in the Introduction and replace it with language that explains that the CAE and MAS administratively reside in the office of the OCEO.
- 3) Revise the audit charter to add sections that include the administrative responsibilities of the OCEO and the functional responsibilities of the Board. Doing so will clarify and define the administrative relationship between the CAE and the OCEO, and the functional relationship between the CAE and the Board.

Suggestions to Improve the MAS Policy Manual

- 1) Revise MAS Policy 1.2 - Audit Charter to state that final approval of the audit charter goes to the Board.
- 2) Revise MAS Policy 3.3.3 – Board Communication to include language on the form and frequency of CAE communication to the board on internal and external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest to better meet Red Book auditing standards.
- 3) Revise MAS Policy 1.6 Annual Audit Plan Policy to include language stating that the CAE may review and adjust the plan as necessary in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

Suggestions to Improve Audit Documentation

- 1) Develop a method to more consistently document how the team members selected to work on engagements collectively possess the competencies needed to successfully complete the audit.
- 2) Developing a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement’s objectives.
- 3) Develop a method to ensure engagement reports that significantly rely on sampling results to support report findings include a description of how sampling was conducted and used to reach conclusions in the audit report methodology. One way this could be done is to include it on the Independent Reviewer Checklist MAS uses to ensure its engagement work and reports meet audit standards.

Suggestions to Improve Efficiency in Conducting Engagements

We are making these additional suggestions for MAS to consider which would help them conduct engagements more efficiently.

- 1) Consider reviewing how engagements are categorized to determine whether they are assigned to the most appropriate category, i.e. AUP attestation, performance audit, or consulting engagement.
- 2) Review TeamMate procedures for each engagement type to ensure they only include the work needed to meet standards for that engagement type, or conversely consider whether more engagements are performance audits since MAS is generally meeting those standards for the engagements we reviewed.
- 3) Consider the policy of following one set of professional auditing standards, either Yellow Book or Red Book standards as most audit organizations follow just one of the two. This would result in reducing the work required to follow and document adherence to two sets of standards without impacting audit quality.

Management Audit Services

FY 2022 Second Quarter Report

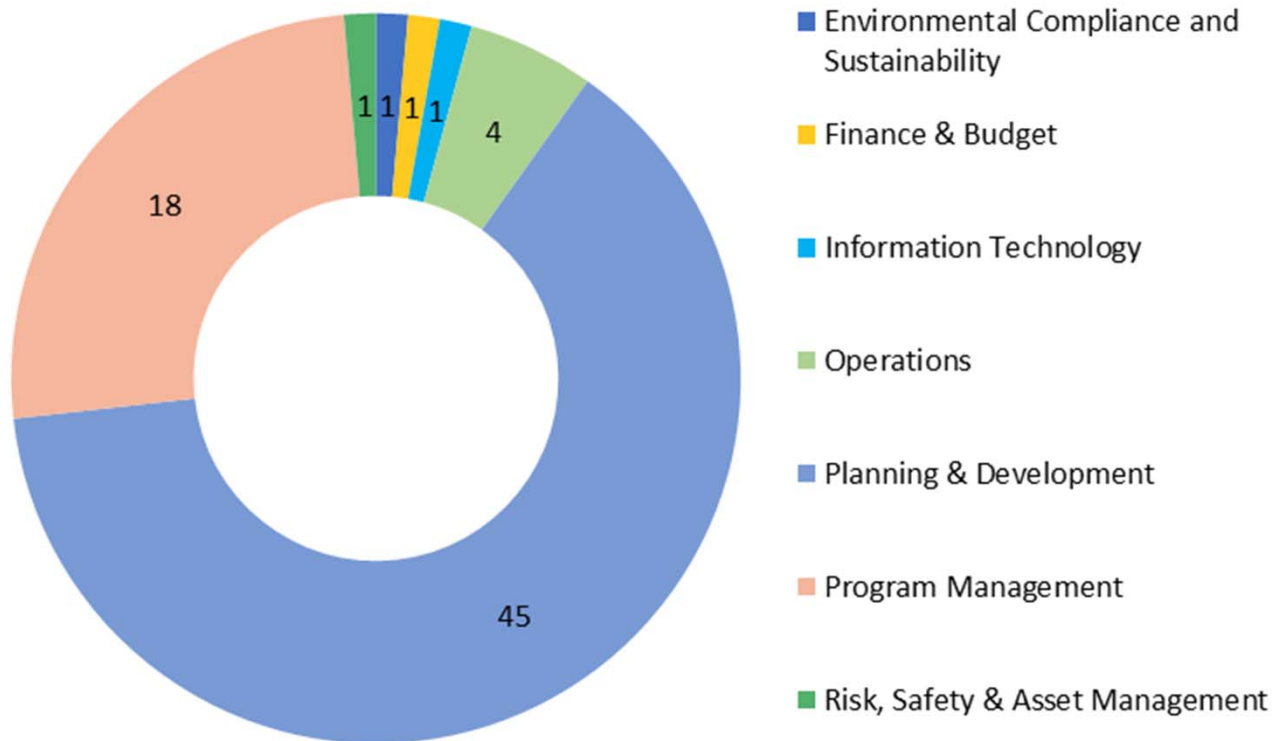
Finance, Budget & Audit Committee
February 16, 2022



MANAGEMENT
AUDIT SERVICES






In Progress: MAS Audit Activity

Agency Representation



- 5 Performance Audits
- 66 Contract, Financial and Compliance Audits

In Progress: Performance Audits

	Audit Title	Description	Estimated Completion			
			FY22 Q1 Jul - Sept	FY22 Q2 Oct - Dec	FY22 Q3 Jan - Mar	FY22 Q4 Apr - Jun
1	Metro Owned Renewable Identification Numbers (RINs) & Low Carbon Fuel Standards (LCFS) Annual Verification	To support the annual reporting by the Agency of RINs related information to the Environmental Protection Agency.				
2	IT Security Awareness	Evaluate the extent of information technology security awareness within the Agency.				
3	Micro Mobility Vehicles Program	Assess the progress made in achieving program goals and objectives, including assessing the consideration given to the Metro Rapid Equity Assessment Tool.				
4	Transit Asset Inventory Records	Evaluate the adequacy of the records for this area, with a focus on accuracy, completeness and proper controls over asset records.				
5	Real Estate Management System	Determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.				

Completed: Performance Audit of Program Management Support Services (PMSS)

Objective

Assess conformity of services performed and billed by KKCS/Triunity JV (Contractor) to the scope of work and other provisions of the Contract.

Audit Results

MAS' general assessment is that services performed and billed by the Contractor in most respects conformed to the Scope of Work and other provisions of the Contract.

Findings / Recommendation Themes

Finding 1: Non-compliance with contract terms & conditions regarding leased project vehicles

- Contract terms and conditions
- Compliance training

Finding 2a: No consistency in performing background / reference checks

- Qualification and experience verification

Finding 2b: No consistency in signing off for acceptance of final consulting deliverables

- Consulting deliverables

BPI 1: Invoices contained immaterial errors and/or omissions

- Checklist, timesheet and billing summary template
- Invoice package process
- Responsibilities of reviewers s/b delineated

BPI 2: Invoices contained immaterial errors and/or omissions

- Contract costs s/b tracked by element

BPI 3: Annual indirect cost rate reconciliations submitted late

- Contract costs s/b tracked by element

Completed: Performance Audit of Internal Controls Over Overtime Payments – AFSCME Transportation Operations

Objective

Evaluate the adequacy of internal controls over overtime payments to AFSCME employees in Bus and Rail Transportation.

Audit Results

MAS found that internal controls over AFSCME Transit Operations Supervisors (TOS) and Rail Transit Operations Supervisors (RTOS) overtime (OT) were generally adequate.

Findings / Recommendation Themes

Finding 1: Errors in use of pay codes resulted in some over / under payments

- Periodic training or retraining

Finding 2: 12-hour continuous work policy does not provide for exceptions resulting in apparent violations that were in fact appropriate

- Policy revision and training

Finding 3: OT related documents not prepared or retained

- Documentation retention and training

Finding 4: Vacation payroll code may have been used to cash out accrued vacation time

- Policy communication

Completed: Performance Audit of Expanded Discount Programs

Objective

Evaluate the effectiveness of internal controls over the purchase process for the Small Employer Pass (SEP) and E-Pass discount passes and identify opportunities for internal control and process improvements.

Audit Results

MAS found that controls over the SEP appeared to be working as intended.

Findings / Recommendations

Finding 1: E-Pass program contract agreements not renewed once program transitioned from pilot to permanent

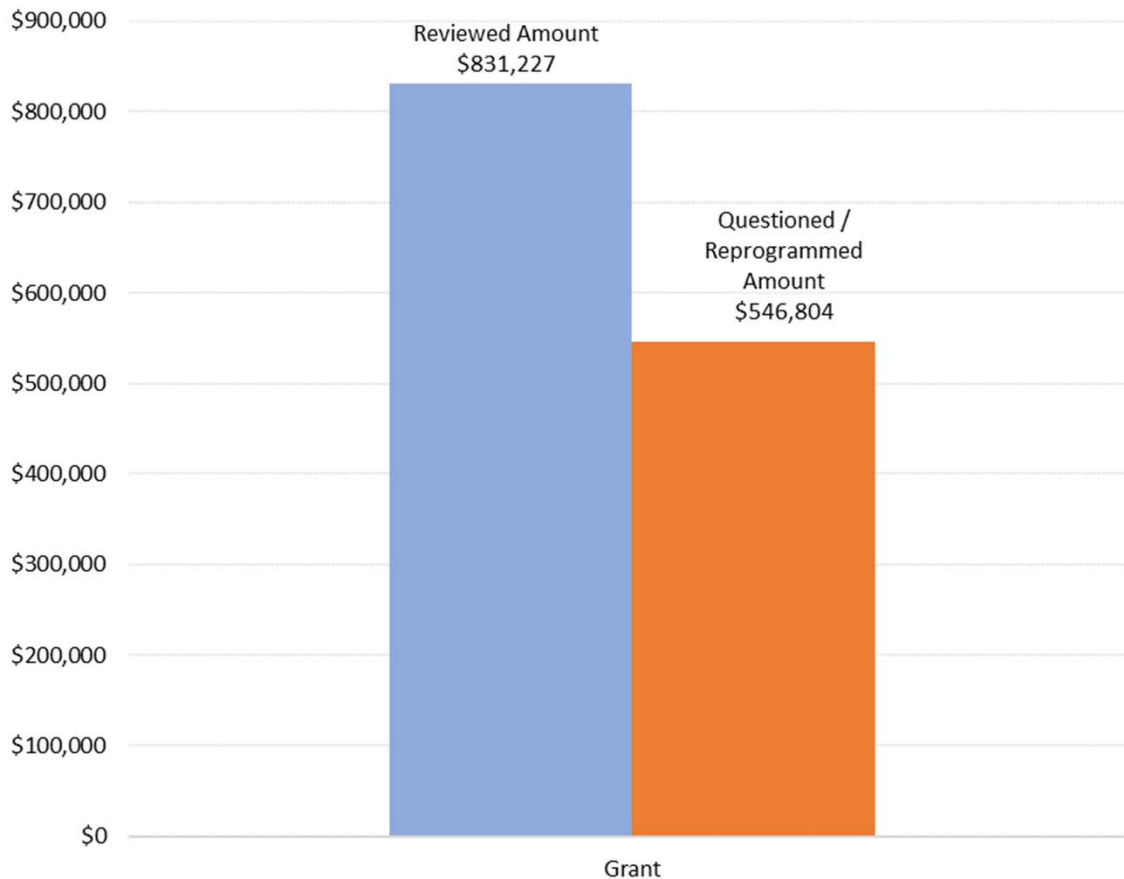
- Update all E-Pass contracts with new language
- Ensure all contracts are enforceable by including signatures from all parties

Finding 2: No written procedure manuals for E-Pass or U-Pass programs.

- Prepare SOPs for both programs aligned with written agreements
- Use SEP checklist for transitioned accounts
- Update the SEP Handbook
- Build / procure a billing system to generate invoices automatically
- Develop a monthly report that includes amounts collected / billed

Completed: Contract, Financial & Compliance Audits

Reviewed / Questioned Amount



- Delivered financial audits that reviewed \$830 thousand of funding; and identified \$546 thousand (66%) for reprogramming

Next Steps

- Report on Consolidated Audit Reports and Annual Comprehensive Financial Reports (FY 21)
- Present MAS Audit Charter for approval
- Ensure ongoing implementation of performance and financial audits and reporting

Thank you