



Board Report

File #: 2022-0508, File Type: Plan

Agenda Number: 15.

FINANCE, BUDGET AND AUDIT COMMITTEE AUGUST 17, 2022

SUBJECT: FY23 AUDIT PLAN

ACTION: ADOPT RECOMMENDATION

RECOMMENDATION

ADOPT the Fiscal Year 2023 (FY23) Proposed Annual Audit Plan (AAP).

ISSUE

Management Audit Services (MAS) is required to complete an annual agency-wide risk assessment and submit an annual audit plan to the Board of Directors for approval.

BACKGROUND

The Board approved Financial Stability Policy requires MAS to develop a risk assessment and an annual audit plan (AAP) each year and present it to the Board. It also requires the Finance, Budget, and Audit Committee to provide input and approve the audit plan.

DISCUSSION

The FY23 AAP has been developed with consideration to the current state of the agency, which is still recovering from the impacts of the COVID-19 pandemic. In addition, the AAP was prepared with consideration of the results of the agency-wide risk assessment. The agency-wide risk assessment incorporated research and input received from Metro's senior leadership teams across the agency. MAS leveraged the results of the risk assessment to prepare an AAP that is flexible, relevant and risk based. The AAP includes audit projects which add value, provide actionable information to support agency risk management efforts, and will lend to the achievement of organizational goals aligned with Metro's Vision 2028 Strategic Plan.

A. Risk Assessment

MAS staff performed an agency-wide risk assessment between March 2022 and July 2022. The agency-wide risk assessment was a structured, systematic process consisting of both research and stakeholder engagement. The agency-wide risk assessment is the primary basis for selecting internal audit projects which will add value and support the agency's objectives. The recognized risks

varied in nature, the likelihood of occurrence, and their potential impact on the agency. The agency-wide risk assessment also identified areas of potential future opportunity related to the agency goals and objectives.

To help MAS understand the various risks the agency currently faces and their potential impacts, MAS incorporated the following foundational principles in the development of the FY23 AAP which include:

- Identification of auditable units
- Identification of potential risks
- Categorization of identified risks
- Assessment of the likelihood of identified risks qualitatively and quantitatively
- Assessment of the impact of identified risks qualitatively and quantitatively

The following risk categories were considered in the performance of the agency-wide risk assessment:

- Capital Project
- Financial
- Human Capital
- Information Technology
- Legal / Regulatory
- Operational
- Public Image / Reputational
- Safety / Security.

B. Enterprise Risk Themes

The agency-wide risk assessment process led to the identification of the core enterprise-risk themes summarized below:

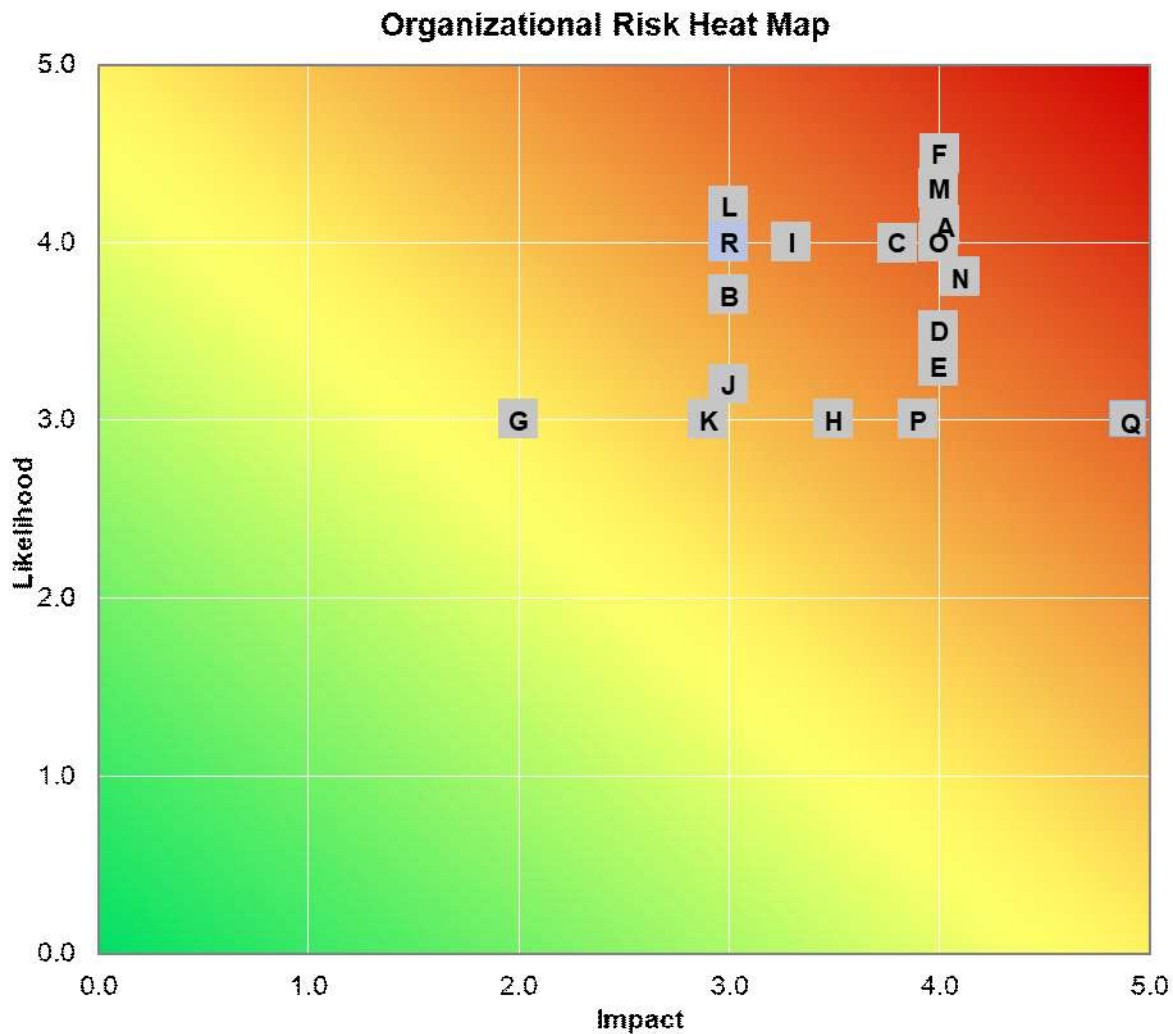
- **Staffing:** Metro leadership across all departments expressed concern related to the competitive labor market, and the agency's ability to recruit and retain critical workforce needed to fulfill the agency's mission, goals, and objectives. The staffing risks presented as a high-level risk, particularly in regard to recruitment of bus operators, skilled labor, and the professional workforce needed to support the delivery of the agency's capital program.
- **Political/external:** Risks were identified related to the agency's ability to deal effectively with the increase of the unhoused and other crisis populations on Metro buses, trains, and throughout stations. Risks were also identified regarding the public perception of safety while riding Metro buses and trains, and the potential impact this could have on restoring ridership to pre-pandemic levels.
- **Financial:** The agency's ability to replace lost revenues when one-time large-scale infusions of federal funds are exhausted presented as a concern. This includes funding that was provided as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The

impact of inflation on the cost of utilities, fuel, and spare parts inventories were also risks identified as part of the agency-wide risk assessment. In addition, uncertainty about the definitive amount of funding that will be made available to the agency from the November 2021 Infrastructure Investment and Jobs Act lends to potential exposure.

- **Resources for capital projects:** As projects move from the planning phase to the construction phase risks were identified related to the reliance that Program Management has on consultant resources. Risks and opportunities were identified related to alternative project delivery methods such as progressive design build and construction manager/general contractor.
- **Global/supply chain:** The impacts of the pandemic led to disruptions in the supply chain, such as key material shortages and delays in delivery. The current rate of inflation may exacerbate the effects of supply chain disruptions and in-turn remain an enterprise risk to the agency. These continued impacts to the supply chain presented as a risk, including the ongoing impacts of global factors such as the conflict in Ukraine.
- **Unknown:** There are also unique risks that do not fit clearly into one of the outlined major risk categories, as well as unique risks that may have not been identified and/or presented during the agency-wide risk assessment, hence defined as “unknown” risks.

C. Audit Plan

The FY23 AAP is based primarily on the results of the agency-wide risk assessment. The most prominent risks from the risk assessment and the projects associated with those risks are presented in the heat map below:



A.	Continuity of Operations Plan - Bus Operations	J.	Monitoring of Environmental Contracts
B.	Metro Center Street Project	K.	Contract price structures for professional services
C.	Westside Purple Line Extension 1	L.	Information Technology Governance
D.	Spare Parts Inventory	M.	Continuity of Operations Plan - Rail
E.	Information Security Risk - Contractors	N.	Micro Transit
F.	Construction Inflation Risk	O.	Operations Central Instruction & Development Training
G.	Business Interruption Fund	P.	Central Maintenance Shops Manufacturing Process
H.	Operations and Maint. of CNG Div.	Q.	Cybersecurity Follow-Up
I.	Division 20 Portal Widening Project	R.	Real Estate Management System

The total score assigned to a risk is based on the risk score, which is a consideration of the assigned likelihood and potential impact. The risk score may place the risk in a low, moderately low, moderate, moderately high, or a high- risk range. Higher risk scores occur when the risk identified is high in likelihood and potential impact. These risks were therefore identified as areas that would benefit from

independent audit engagement.

Of note, risk scores were not the only guide used by MAS to select audit projects for the FY23 AAP. Additional factors were considered as part of the agency-wide risks assessment such as:

- Perceived strength of management controls
- Prior audits or reviews
- Subject matter expertise/capacity required by MAS to perform an audit or review
- Complexity of the risk area
- Input from senior leadership

Accordingly, the AAP includes audit projects to address areas of moderate risk which are expected to add value, mitigate potential future risks, and will lead to advancement of enterprise opportunities.

The FY23 AAP includes 18 audit projects in three categories: priority, carryover, and discretionary.

- Priority: Audit projects that will be given primary focus and initiated during the first part of FY23. The priority projects address high-level risk areas.
- Carryover: Audit projects that were initiated in FY22 which will be completed in FY23.
- Discretionary: Audit projects in areas with relatively lower-level risk scores. These are projects that MAS will perform based on the status of Priority and carryover projects throughout the course of the annual audit plan year.

A summary of the FY 23 priority, carryover, and discretion audits is provided as Attachment A.

The FY23 AAP also includes the required Contract and Financial Compliance Audits throughout the year. These audits include contract pre-award and incurred cost audits as requested by Vendor/Contract Management, incurred cost audits of various grant projects, and external financial and compliance audits of Metro and subrecipients.

Professional audit standards and leading practices indicate that the agency is best served if the audit plan is a dynamic plan that can be modified based upon changing business conditions, the discovery of new information, or areas being elevated to priority status based upon the needs of the Board of Directors, Chief Executive Officer, and/or senior leadership.

DETERMINATION OF SAFETY IMPACT

Approval of this item will not impact the safety of Metro patrons or employees.

FINANCIAL IMPACT

Funding for the annual audit plan has been included within Management Audit's FY23 budget and corresponding cost center.

EQUITY PLATFORM

In applying an equity lens to the FY23 AAP, MAS included a program area for audit in the FY 23 AAP where MAS will assess if the department overseeing the selected program completed a Rapid Equity Assessment or Equity Planning and Evaluation Tool. The inclusion of this project is consistent with goals articulated in FY 23 Comprehensive Agency Performance Evaluation for MAS.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Approval of this item supports Metro Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization. The projects included in the Audit Plan directly or indirectly support various goals outlined in Metro's Vision 2028 Strategic Plan.

ALTERNATIVES CONSIDERED

An alternative is not to approve the Annual Audit Plan. This is not recommended since the Annual Audit Plan is a management tool to systematically assign resources for the delivery of an agency-wide audit plan in accordance with the Financial Stability Policy. Additionally, the development of an annual internal audit plan is consistent with the MAS' Charter and with Generally Accepted Government Auditing Standards.

NEXT STEPS


Upon Board approval, MAS will develop the Annual Audit Plan schedule and deliver quarterly status reports to the Board of Directors.

ATTACHMENTS

Attachment A - FY23 Proposed Audit Plan

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Priority Projects

Continuity of Operation Plan (COOP) - Bus

Office: Operations

Objective: To evaluate the adequacy of the Bus Operations' COOP and Standard Operating Procedures to support Bus Operations' mission essential functions in emergency situations.

Anticipated Value: Independent assurance about bus operations emergency preparedness & response.

Metro Center Steet Project (MCP)

Office: Program Management

Objective: To evaluate the overall project management processes for the Metro Center Street Project (MCP) for sufficiency and effectiveness.

Anticipated Value: Independent assurance about MCP project management controls and effectiveness.

Westside Purple Line Extension (WPLE) 1

Office: Program Management

Objective: To evaluate the state of post-construction final-year processes and planning (acceptance, testing, certification, training, activation) for the WPLE 1 transit project prior to start of revenue operations.

Anticipated Value: Added expertise to identify any potential unaddressed gaps in readiness about key compliance controls for the area

Spare Parts Inventory

Offices: Operations, Strategic Financial Management

Objective: To assess Metro's identification of key spare parts for Rail and Bus Operations, including evaluating Metro's reliance on third parties and identification of alternatives in the event of supply-chain disruptions. The audit will also review Metro's determination of minimum on-hand and reorder quantities.

Anticipated Value: Key inventory management controls & processes will be tested for effectiveness

Third Party Risk Management – Outsourced Service Providers

Office: Chief People Office

Objective: To assess Metro's third-party information security risk management policy and program.

Anticipated Value: Insight about the agency's efforts to mitigate 3rd party information security risk

Construction Inflation Risk

Offices: Program Management, Strategic Financial Management

Objective: To review Metro's process for projecting and managing inflation risk for construction projects.

Anticipated Value: Independent and objective feedback about the agency's risk response to a critical area

Business Interruption Fund (BIF)

Offices: Chief of Staff

Objective: This audit will verify Pacific Coast Regional Small Business Development Corporation's compliance with the Los Angeles County Metropolitan Transportation Authority's BIF Administrative Guidelines and Fund Disbursement Procedures as listed in the notes to the BIF Pilot Program for the period July 1, 2021 to June 30, 2022.

Anticipated Value: Independent assurance about compliance with BIF reporting requirements

Discretionary Projects

Operations and Maintenance of Compressed Natural Gas (CNG) Divisions

Office: Operations

Objective: To assess oversight and monitoring activities over Contract No. OP749030003367 with Clean Energy, for Operation and Maintenance of CNG fueling stations at Divisions 1, 3, 5, 7, 10 & 18.

Anticipated Value: Independent assurance about contract management activity over this operational area

Division 20 Portal Widening Project

Office: Program Management

Objective: To evaluate the overall project management processes for the Division 20 Portal Widening project.

Anticipated Value: Independent assurance about project management controls and effectiveness

Monitoring of Environmental Contracts

Office: Program Management

Objective: To evaluate management oversight of Metro's environmental contracts for consistency, quality of services, risk management practices, and internal controls.

Anticipated Value: Independent assurance about contract management over this key area

Contract Price Structures for Professional Services

Office: Strategic Financial Management

Objective: To assess the process performed by contract administrators and project managers for firm fixed price professional service contracts, payment structures and performance milestones.

Anticipated Value: Assessment of the process used to determine the use of firm fixed price professional service contracts

Discretionary Projects

Information Technology Governance

Office: Chief People Office

Objective: To assess Metro's IT Governance Framework which would include examination of the strategic alignment between IT and business objectives, performance management, delivering value, and risk management.

Anticipated Value: Independent assurance about the agency's governance framework after reorganization

Carry Over Projects

Continuity of Operations Plan - Rail

Office:	Operations
Objective:	This audit will evaluate the adequacy of the Bus Operations' COOP and Standard Operating Procedures to support Bus Operations' mission essential functions in emergency situations.
Anticipated Value:	Independent assurance about rail operations emergency preparedness & response

Micro Transit

Office:	Operations
Objective:	The general objective and scope of the audit is to assess Shared Mobility's efforts in managing the Micro Transit program, including review of monitoring processes and review of selected Micro Transit Pilot Project Contract documentation.
Anticipated Value:	Insight about contract management effectiveness and contractor compliance

Carry Over Projects

Operations Central Instruction and Development Training

Office: Operations

Objective: The general objective and scope of the audit will be to assess the training records of new Bus Operators and other Operations employees for accuracy, completeness, and compliance of with applicable requirements.

Anticipated Value: Insight about the reliability and completeness of operations staff training records

Central Maintenance Shops Manufacturing Process

Office: Operations

Objective: The objective of this engagement will be to review primarily the CMS manufacturing request process. The process will be assessed for reasonableness, efficiency (time and cost), completeness and safety considerations.

Anticipated Value: Insight about the efficiency of an important internal process

Cybersecurity Follow-Up

Office: Chief People Office

Objective: Verify if corrective actions have been taken by ITS on the prior external review recommendations provided for this area.

Anticipated Value: The results of remedial steps taken by ITS to address cybersecurity gap will be reported

Real Estate Management System

Office: Planning and Development

Objective: This project will be a collaboration with the Real Estate Department to determine if prior audit findings have been considered as part of the upcoming implementation of the new Real Estate Management System.

Anticipated Value: Confirmation that prior MAS findings have been addressed as part of a new system

Contract, Financial and Compliance Annual Audits

Pre-Award Audits

Office:	Strategic Financial Management
Objective:	Pre-award audits for procurements and modifications
Anticipated Value:	Independent verification of condition of contractor accounting system prior to award

Incurred Cost Grant Audits

Office:	Planning and Development / Program Management
Objective:	Verify that costs are reasonable, allowable and allocable on cost reimbursable contracts for contractors
Anticipated Value:	Confirmation that billed contract costs are appropriate and supported

Financial and Compliance External Audits

Offices:	Agencywide
Objective:	Complete legally mandated financial and compliance audits
Anticipated Value:	Confirmation of third-party financial condition and compliance

FY23 Proposed Annual Audit Plan

Finance, Budget and Audit Committee

August 17, 2022



MANAGEMENT AUDIT SERVICES

Risk Assessment Results

A risk assessment was done to identify areas of high importance which resulted in a tentative workplan with three project categories:

- *Priority projects* which are deemed to be of high importance and will be worked on first.
- *Discretionary projects* which are less critical but that will be performed as time and resources permit.
- *Carry Over projects* which are projects initiated in FY22 to be completed in FY23.

Category Factors

Relevance

Potential
Value

Timely
Completion

Resource
Balancing

Stakeholder
Feedback

Risk Discussion Themes



Proposed Audit Plan

Priority	Discretionary	Carry Over
Continuity of Operations Plan - Bus	Operations and Maintenance of CNG Divisions	Continuity of Operation Plan - Rail
Metro Center Street Project	Division 20 Portal Widening	Micro Transit
Westside Purple Line Ext. 1	Monitoring of Environmental Contracts	Operations Central Instruction and Development Training
Spare Parts Inventory	Contract Price Structures for Professional Services	Central Maintenance Shops Manufacturing Process
Third Party Risk Management	IT Governance	Cybersecurity Follow-up
Capital Project Inflation Risk		Real Estate Management System
Business Interruption Fund		

Next Steps

- Initiate kick-off process – September 2022
- Quarterly reporting to the Board – through June 30, 2023