



Board Report

File #: 2020-0633, File Type: Informational Report

Agenda Number: 9.

FINANCE, BUDGET AND AUDIT COMMITTEE OCTOBER 14, 2020

SUBJECT: FY21 AUDIT PLAN

ACTION: ADOPT THE FY21 PROPOSED AUDIT PLAN

RECOMMENDATION

ADOPT the FY21 Proposed Audit Plan.

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

At its January 2008 meeting, the Board adopted modifications to the FY07 Financial Stability Policy. The Financial Stability Policy requires Management Audit Services (MAS) to develop a risk assessment and an audit plan each year and present it to the Board. It also requires that the Finance, Budget and Audit Committee provide input and approval of the audit plan.

DISCUSSION

The FY21 Audit Plan (Audit Plan) has been developed with consideration to the current state of the agency as result of the impacts of COVID-19 and the results of the agency-wide risk assessment including input from Metro's senior leadership. As a result, the Audit Plan is flexible, relevant and risk based; and the plan includes audit projects that will provide actionable information to support risk management efforts, add value to the agency and lend to the achievement of organizational goals in alignment to Metro's Vision 2028 Strategic Plan.

A. Risk Assessment

MAS staff performed an agency-wide risk assessment between the period of March 2020 and July 2020 through a comprehensive and systematic process that entailed the review of financial, operational and strategic reports and data; internal stakeholder meetings with the senior leadership teams of each Metro department; and the analysis of risks by themes and impact. The risk assessment ensured continued emphasis on the agency's internal control framework, vulnerability to

fraud and the identification of new and emerging risks that have the potential to affect the agency-wide performance.

B. Enterprise Risk Themes

The agency-wide risk assessment process lent to the identification of core enterprise-risk themes by internal stakeholders summarized as:

- **Staffing:** The impacts of the pandemic have led to the decentralization of planning and customer service efforts, more reliance on e-training, remote work practices and restrictions on the backfill of vacant positions.
- **Political/external:** During this period of uncertainty, there are risks related to the agency's ability to react to new federal, state and local directives, the increase in crisis populations, and uncertainty related to additional federal funding for public transit.
- **Financial:** Financial constraints have deferred the progress of selected capital projects and delayed the initiation of certain process improvement initiatives; and expressed risk related to decreased toll and transit fare revenues and availability of funds for emergency management activities.
- **Scale of capital projects:** The financial impacts of the pandemic and the general period of uncertainty have required an adjusted approach to the capital projects while ensuring adherence to Measure M schedules; and the completion of various environmental studies may be impacted due to the pandemic.
- **Global/supply chain:** Perceived risks related to the agency's internal capability to handle future procurement needs given existing resource constraints, potential impacts to global supply chains and the disruption to small business vendors.
- **Unknown:** There are some unique risks that do not fit clearly into one of the major risk categories. These risks include recovery of lost ridership, changes in population and societal behaviors and the restoration of pre-pandemic service levels and commuter patterns; including the general unknown of the "new normal" post pandemic.

C. Audit Plan

The FY21 Audit Plan includes 20 audit projects broken down into two categories; priority and discretionary. The priority audit projects will be given primary focus and initiated at the onset of the annual plan. The priority projects address high-level risk areas and risk impacts. The discretionary audit projects address lower-level risk areas and will be reassessed by MAS staff at mid-year review and initiated based on the status of priority audits, internal capacity and resources. MAS staff may also exercise the discretion to carry-forward discretionary audit projects to the FY22 annual audit plan.

The priority and discretionary audit projects listed below are summarized in Attachment A.

Priority	Discretionary
Business Interruption Fund	Access Services Operations and KPIs
COOP - Rail Operations	EAMS Pre-Implementation Reviews
COVID-19 Regulatory Compliance	EIS-EIR
Cybersecurity Follow Up	IT Awareness Third Party Vendors
M3 Replacement - Controls and Readiness	Metrolink Security
Metrolink Rehabilitation Projects	Microtransit
Micro Mobility Program	Pre-Award Cost Price Analysis
Telecommuting - Policy Revision	Rail Overhaul - Project Management
Transit Asset Inventory Records	Real Estate Management System
Westside Purple Line Extension	Access Services Operations and KPIs

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 Management Audit's FY21 budget and corresponding cost center.

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 Audit Plan is a management tool to systematically assign resources for the delivery of an agency-wide audit plan in accordance to the Financial Stability Policy. Additionally, the development of an annual internal audit plan is in accordance to MAS' Charter and the Generally Accepted Government Auditing Standards.

NEXT STEPS

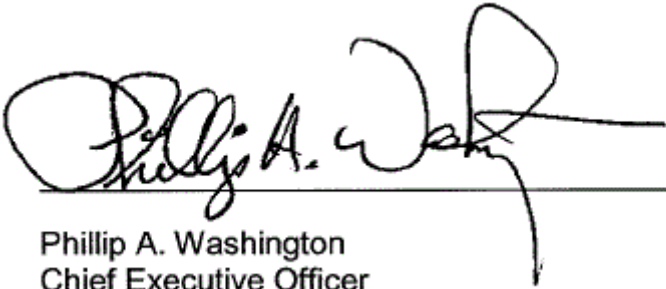
Upon Board approval, MAS will develop the Audit Plan schedule; and deliver quarterly status reports to the Board of Directors.

ATTACHMENTS

Attachment A - FY21 Proposed Audit Plan

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Phillip A. Washington
Chief Executive Officer

Priority Projects

Vision 2028 Goal #1 – Provide high-quality mobility options that enable people to spend less time traveling

	Title	Objective	Area
1.	Continuity of Operations Plan (COOP) – Rail Operations	This audit will evaluate the adequacy of the rail COOP and SOPs to support the achievement of Mission Essential Functions in emergency situations.	Operations
2.	Metrolink Rehabilitation Projects	This audit will assess the efficiency and effectiveness of project controls designed to ensure that these projects are completed timely and with minimal overruns.	Program Management
3.	Transit Asset Inventory Records	This audit will evaluate the adequacy of the records for this area, with a focus on accuracy, completeness and proper controls over asset records.	Risk, Safety and Asset Management

Vision 2028 Goal #3 – Enhance communities and lives through mobility and access to opportunity

	Title	Objective	Area
1.	Micro Mobility Program	This audit will assess the progress made in achieving program goals and objectives, including assessing the consideration given to the Metro rapid equity assessment tool.	Planning and Development

Vision 2028 Goal #5 – Provide responsive, accountable, and trustworthy governance within the Metro organization

	Title	Objective	Area
1.	Pre-Award Audits	Pre-award audits for procurements and modifications.	Vendor / Contract Management
2.	Incurred Cost Contract Audits	Incurred cost audits to verify costs are reasonable, allowable and allocable on cost reimbursable contracts for contractors.	Vendor / Contract Management
3.	Incurred Cost Grant Audits	Grant audits to verify costs are reasonable, allowable and allocable on cost reimbursable contracts for Caltrans, Cities & County MOUs.	Planning & Development / Program Management
4.	Financial and Compliance External Audits	Complete legally mandated financial and compliance audits.	Agencywide
5.	Buy America Post-Award and Post-Delivery	Conduct Buy America Post-Award / Post- Delivery Audits for rolling stock procurements.	Vendor / Contract Management
6.	US Employment and Local Employment Program	Determine vendor's compliance with the US Employment and Local Employment Program terms and conditions.	Vendor / Contract Management
7.	Business Interruption Fund	This audit will validate compliance with administrative guidelines and fund disbursement procedures.	Vendor / Contract Management
8.	COVID-19 Regulatory Compliance	This audit will determine Metro's compliance with the COVID-19 planned document as well as with applicable state transit industry guidelines.	Systems, Security & Law Enforcement
9.	Cybersecurity Follow Up	This audit will verify if corrective actions have been taken by ITS on the prior external audit recommendations provided for this area.	Information Technology Services

FY21 Proposed Audit Plan

Appendix A

10.	M3 Replacement – Controls and Readiness	This audit will assess if system controls and other aspects of project preparedness have been adequately considered prior to project implementation.	Information Technology Services
11.	Telecommuting – Policy Revision	This engagement will compile information on best practices for this area, and verify selected information already collected by Metro that will inform policy decisions.	Human Capital & Development
12.	Westside Purple Line Extension	This audit will evaluate mid-life efficiency and effectiveness over project management, including monitoring of schedule, budget, risk management and quality assurance.	Project Management

Discretionary Projects

Vision 2028 Goal #1 – Provide high-quality mobility options that enable people to spend less time traveling

	Title	Objective	Area
1.	3 rd Party Coordination	This audit will assess the effectiveness and efficiency of the third-party coordination process related to major construction projects.	Program Management
2.	EIS-EIR	This audit will assess the effectiveness and efficiency of the Environmental Impact Report/Environmental Impact Statement (EIR \ EIS) process.	Program Management

Vision 2028 Goal #2 – Deliver outstanding trip experiences for all users of the transportation system

	Title	Objective	Area
1.	Metrolink Security	This audit will determine if the internal controls, including monitoring, over Metrolink's security program are effective.	Program Management
2.	Microtransit Pilot Program	This audit will determine whether the Micro-transit pilot program has appropriate system controls to ensure the accuracy, completeness, timeliness, and proper distribution of pilot program data.	Office of Extraordinary Innovation / Operations
3.	Rail Overhaul – Project Management	This audit will assess Metro's project management practices for rail overhaul & refurbishment projects to as compared to established procedures & best practice frameworks.	Operations

Vision 2028 Goal #3 – Enhance communities and lives through mobility and access to opportunity

	Title	Objective	Area
1.	Access Services Operations and KPIs	This audit will evaluate the effectiveness and efficiency of Access Services operations and assess the reliability of data used to support KPIs.	Office of Civil Rights

Vision 2028 Goal #5 – Provide responsive, accountable, and trustworthy governance within the Metro organization

	Title	Objective	Area
1.	EAMS Pre-Implementation Reviews	This audit will evaluate the condition of selected processes prior to the EAMS implementation.	Information Technology Services
2.	IT Awareness Third Party Vendors	This audit will assess third party vendors level of awareness of Metro's information security policies.	Information Technology Services
3.	Pre-Award Cost Price Analysis	This audit will evaluate the adequacy of the process performed by contract administrators for pre-award cost-price analyses.	Vendor / Contract Management
4.	Real Estate Management System	This audit will determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.	Planning & Development

Delivering value through partnership and trust

FY21 Proposed Annual Audit Plan

Finance, Budget and Audit Committee

October 14, 2020



MANAGEMENT AUDIT SERVICES

Risk Assessment Results

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

- *Priority projects* which are deemed to be of high importance and will be worked on first.
- *Discretionary projects* which are less critical and will be addressed as conditions warrant.

Category Factors

Relevance

Potential
Value

Timely
Completion

Resource
Balancing

Stakeholder
Feedback

Risk Discussion Themes



Proposed Audit Plan

Priority	Discretionary
Business Interruption Fund	3 rd Party Coordination
COOP – Rail Operations	Access Services Operations and KPIs
COVID-19 Regulatory Compliance	EAMS Pre-Implementation Reviews
Cybersecurity Follow Up	EIS-EIR
M3 Replacement – Controls and Readiness	IT Awareness Third Party Vendors
Metrolink Rehabilitation Projects	Metrolink Security
Micro Mobility Program	Microtransit
Telecommuting – Policy Revision	Pre-Award Cost Price Analysis
Transit Asset Inventory Records	Rail Overhaul – Project Management
Westside Purple Line Extension	Real Estate Management System

Risk Considerations

Priority	Underlying Risk
Business Interruption Fund	Financial
COOP – Rail Operations	Recovery & Business Continuity
COVID-19 Regulatory Compliance	Safety / Regulatory Compliance
Cybersecurity Follow Up	Information Security
M3 Replacement – Controls and Readiness	ITS Project Execution
Metrolink Rehabilitation Projects	Financial
Micro Mobility Program	Equity
Telecommuting – Policy Revision	Human Capital / Equity
Transit Asset Inventory Records	Documentation Adequacy
Westside Purple Line Extension	Quality Assurance

Next Steps

- Initiate kick-off process – October 2020
- Quarterly reporting to the Board – through June 30, 2021

Questions
