



Board Report

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Agenda Number: 10.

REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 17, 2023

SUBJECT: FY24 AUDIT PLAN

ACTION: ADOPT RECOMMENDATION

RECOMMENDATION

ADOPT the Fiscal Year 2024 (FY24) Proposed Annual Audit Plan (Attachment A).

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.

All priority projects included in the FY23 AAP were either completed or initiated during FY23. Those expected to still be in progress as of June 30, 2023, are included in the FY 24 audit plan as carryovers. In addition, one FY23 discretionary project is expected to be completed by June 30, 2023, and another has been carried over to the FY24 AAP as a priority project. All carryover projects included in the FY23 AAP have either been completed or will be completed by June 30, 2023.

DISCUSSION

The FY24 AAP is developed with consideration to the current state of the agency, which is emerging 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 as well as 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 lead 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 January and March 2023. The agency-wide risk assessment is 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's 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 FY24 AAP which include:

- Identification of auditable units
- Identification of potential risks, including emerging risks
- Categorization of identified risks
- Assessment of the likelihood of identified risks
- Assessment of the impact of identified risks

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 Metro's 20% non-contract vacancy rate, caused by the competitive labor market, and the agency's inability to recruit and retain the critical workforce needed to fulfill the agency's mission, goals, and objectives. The staffing shortage presented as a high-level risk. This includes employees working beyond their capacity, skilled labor, and the professional workforce needed to support the delivery of the agency's capital program. Widespread internal hiring exacerbates staffing vacancies as the issue creates vacancies in other departments and, therefore, additional hiring efforts. Some departments are considering what the proper mix is for the use of consultants, as there is a desire to reduce reliance on external staffing. Other departments indicated that their inability to hire full-time staff has caused a reliance on external staffing to

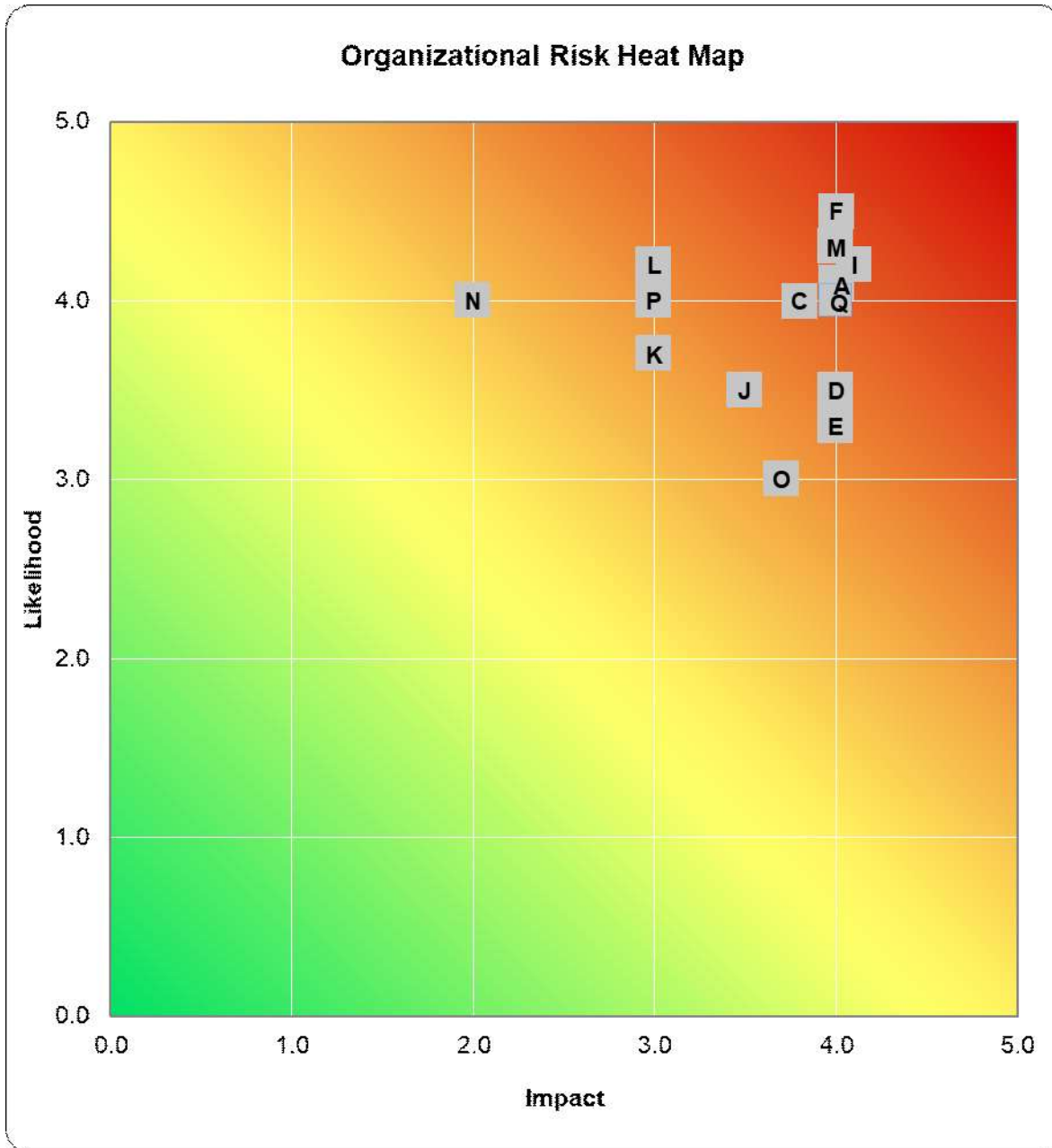
continue to meet goals and priorities. Staff has initiated efforts to resolve the staffing issue, including streamlining the recruitment process and hosting several bus operator hiring events which resulted in hiring approximately 1000 operators. In addition, a study is underway that will identify key pain points across recruiting, the hiring process, and retention driving vacancies.

- **Public Safety:** Risks identified related to the agency's ability to deal effectively with the increase in 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, the safety of Metro employees, and the potential impact these could have on restoring ridership to pre-pandemic levels. Additionally, there is concern regarding the balance between traditional law enforcement and other public service resources to increase safety on the system.
- **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 continues to be a significant risk. There is concern regarding the agency's fiscal outlook in the coming years.
- **Capital projects:** Risks and opportunities were identified related to alternative project delivery methods such as progressive design build and construction manager/general contractor. In addition, mentoring programs, and training for new project management staff are being pursued to enhance management skills and support succession planning efforts.
- **Global/supply chain:** There have been challenges, which persist, in the supply chain, including 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 impacts on the supply chain presented as a risk, including the ongoing impacts of global factors such as the conflict in Ukraine. As Metro transitions to a fully electrified fleet, it may increasingly rely on overseas suppliers that may increase supply chain risks.
- **Cyber Risks:** There is continued concern about the increased incidents of cyber attacks against not only private sector entities but public sector entities as well. Stakeholders want increased assurance that the Agency's ability to prevent, detect, and respond to cyber incidents is comprehensive and based on the latest tools, techniques, and methods.

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. MAS will continue to assess emerging risks throughout FY24 and, if necessary, adjust the AAP.

C. Audit Plan

The FY24 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.	Grant Funding Management
B.	Personnel Hiring	K.	Major Construction Contractor Prequal
C.	Westside Purple Line Extension 1	L.	Information Technology Governance
D.	Spare Parts Inventory	M.	State of Good Repair Assessment
E.	Third Party Risk Management	N.	Subrecipient Reporting
F.	Capital Project Inflation Risk	O.	Physical Security Monitoring Equipment
G.	Succession Planning	P.	Supply Chain Ethics Monitoring
H.	Operations KPIs	Q.	Planning Phase Activities Project Management

I.	Division 20 Portal Widening Project		
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The total score assigned to a risk is based on the risk7score, 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 FY24 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 that are expected to add value, mitigate potential future risks, and will lead to the advancement of enterprise opportunities.

The FY24 AAP includes ~~17~~ 14 audit projects in three categories: priority, and discretionary carryover.

- Priority: Audit projects that will be given primary focus and initiated during the first part of FY24.
- Discretionary: Audit projects in areas with lower-level risk scores that MAS will perform based on the status of priority and carryover projects throughout the course of the annual audit plan year.
- Carryover: Audit projects that were initiated in FY23 and will be completed in FY24.

A summary of the FY24 priority, carryover, and discretionary audits is provided in Attachment A.

The FY24 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 sub-recipients.

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 on 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

There are no financial impacts associated with the approval of the FY24 AAP.

EQUITY PLATFORM

In applying an equity lens to the FY24 AAP, MAS will inquire of departments when conducting the audits if any applicable and required Metro equity assessments were completed.

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

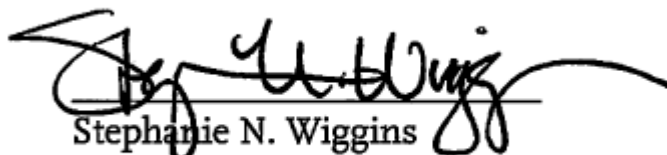
Upon Board approval, MAS will develop the FY24 AAP schedule and deliver quarterly status reports to the Board of Directors.

ATTACHMENTS

Attachment A - FY24 Proposed Audit Plan

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Stephanie N. Wiggins
Chief Executive Officer

Priority Projects

Project Management of Planning Phase Activities

Office: Planning & Development

Objective: To assess Planning & Development's Mobility Corridors project management processes (including cost and schedule considerations) for major projects during the planning phase including ROW acquisition, environmental, and preliminary design and engineering.

Physical Security Monitoring Equipment

Office: Chief Safety Office / Operations / Chief People Office

Objective: To assess the process used to ensure that physical security monitoring equipment (audio/video and intrusion detection) is in good working order, and that the data it produces is monitored and responded to appropriately, in accordance with established policies and procedures.

Supply Chain Ethics Management

Offices: Strategic Financial Management / Ethics

Objective: To assess actions taken by Metro to address current and future supply-chain reputational and ethical risks previously identified.

Division 20 Portal Widening Project

Office: Program Management

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

Purple (D-Line) Extension 1 (PDLE1)

Office: Program Management

Objective: To evaluate the state of processes and planning for final-year activities (testing, certification, training, activation) of the Purple (D-Line) Extension 1 transit project prior to the start of revenue operations.

Priority Projects**Management of Metro Project Grant Funding**

Office: Planning & Development

Objective: To assess the process related to grant funding of major projects, including procedures for identification of funding sources, monitoring grant activity, and communication.

Major Construction Contractor Pre-qualification Process

Office: Program Management / Strategic Financial Management

Objective: To evaluate the pre-qualification process for contractors for major construction projects, including appropriate depth and breadth of experience, safety history, and background checks. Also, examine how teaming structures and joint venture structures are considered in the prequalification and evaluation process.

Information Technology Governance

Office: Chief People Office

Objective: To assess Metro's IT governance effectiveness, including assessing if established practices are followed and working as intended.

Discretionary Projects

State of Good Repair (SGR) Assessment Process

Office: Operations / Chief Safety Office

Objective: To evaluate the process for assessing the condition and maintenance of Metro's inventoried transit assets in compliance with FTA and CPUC requirements. Also examine how forecasting is done for SGR projects, including reviewing if activities are being done in accordance with forecasting schedules.

Metro Sub-recipients' Reporting Portals

Office: Planning & Development / Strategic Financial Management / Chief Safety Office

Objective: To assess the current sub recipient reporting process.

Carry Over Projects

Continuity of Operation Plan (COOP) Bus

Offices: Operations / Chief Safety Office

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

Spare Parts Inventory

Office: Operations / Strategic Financial Management

Objective: To assess Metro's identification of key spare parts for Rail and Bus Operations, including Metro's reliance on third parties. Also, identification of alternates in the event of supply-chain disruption, and Metro's determination of minimum on-hand and reorder quantities considering both supply-chain and inflation risks.

Capital Project Inflation Risk

Office: Program Management / Strategic Financial Management

Objective: To review Metro's process for projecting and managing inflation risk for construction projects. Review the construction market analyses done by Program Management as well as hedging strategies, estimating and forecasting efforts related to this area.

Third Party (Outsource Service Providers) Risk Management

Office: Chief People Office

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

Contract, Financial and Compliance Audits
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Contract Pre-Award Audits

Office:	Strategic Financial Management
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Objective:	To perform pre-award audits for procurements and modifications
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Incurred Cost Contract and Grant Audits
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Office:	Planning and Development / Program Management
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Objective:	To verify whether costs are reasonable, allowable, and allocable on cost-reimbursable contracts and grants for contractors and grantees, respectively
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Financial and Compliance External Audits

Offices:	Agencywide
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Objective:	To complete legally mandated financial and compliance audits
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Business Interruption Fund

Offices:	Strategic Financial Management
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Objective:	To verify the Business Interruption Fund (BIF) Administrator's compliance with the Los Angeles County Metropolitan Transportation Authority's (Metro) Business Interruption Fund (BIF) Administrative Guidelines and Fund Disbursement Procedures.
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FY24 Proposed Annual Audit Plan

Finance, Budget and Audit Committee

May 17, 2023



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 FY23 to be completed in FY24.

Category Factors

Relevance

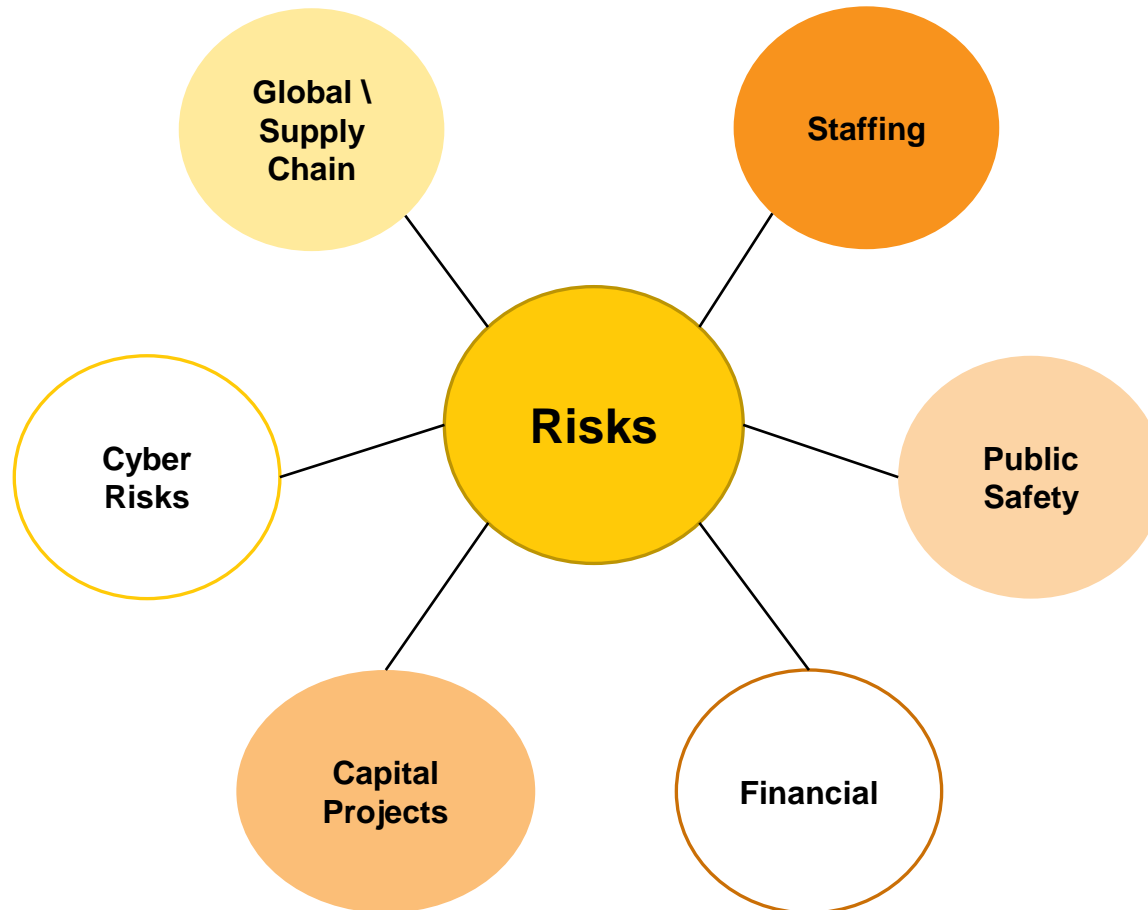
Potential
Value

Timely
Completion

Resource
Balancing

Stakeholder
Feedback

Risk Discussion Themes



Proposed Audit Plan

Priority	Discretionary	Carry Over
Project Management of Planning Phase Activities	State of Good Repair Assessment Process	Continuity of Operation Plan - Bus
Physical Security Monitoring Equipment	Metro Sub-recipient Reporting Portals	Spare Parts Inventory
Supply Chain Ethics Management		Capital Project Inflation Risk
Division 20 Portal Widening		Third-Party Risk Management
Purple (D-Line) Extension 1		
Management of Metro Project Grant Funding		
Major Construction Contractor Pre-qual Process		
IT Governance		

Next Steps

- Initiate kick-off process – July 2023
- Quarterly reporting to the Board – through June 30, 2024

Questions
