



Board Report

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Agenda Number: 13.

**FINANCE, BUDGET AND AUDIT COMMITTEE  
MAY 15, 2024**

**SUBJECT: FY25 AUDIT PLAN**

**ACTION: ADOPT RECOMMENDATION**

**RECOMMENDATION**

ADOPT the Fiscal Year 2025 (FY25) 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 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.

Certain projects included in the FY25 (Audit Plan) are identified as carryovers. These are FY24 Audit Plan projects initiated in FY24 but expected to be completed in FY25. Certain other projects from FY24 that were not initiated during the year but are still deemed important to execute are included in the Audit Plan in the priority category. These projects were not initiated due to resource constraints and special projects requested during FY24.

**DISCUSSION**

The FY25 Audit Plan is developed with consideration to the current state of the agency and the results of the agency-wide risk assessment. The agency-wide risk assessment incorporated research as well as input received from Metro’s leadership teams across the agency. MAS leveraged the risk assessment results to prepare an Audit Plan that is flexible, relevant, and risk based. The Audit Plan includes audit projects that 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 and the CEO 2023 strategic aspiration placemat.

**A. Risk Assessment**

MAS staff performed an agency-wide risk assessment between January and March 2024. The agency-wide risk assessment is a structured, systematic process involving research and stakeholder engagement. The agency-wide risk assessment is the primary basis for selecting internal audit projects to 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 FY25 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
- Environmental, Social, and Governance

## 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 many departments expressed concern related to the agency's ability to recruit and retain the critical workforce needed to fulfill the agency's mission, goals, and objectives. The inability to hire in an expedited time frame may lead to existing employees working beyond their capacity. In addition, widespread internal hiring creates vacancies in other departments and, therefore, additional hiring efforts. There is also concern that other employers may be more agile in their hiring efforts creating a challenge for the agency in competing for highly qualified candidates.
- **Public Safety:** Progress has been made in this area with Agency leadership anticipating benefits from opening its new Emergency Security Operations Center in FY 25. Opportunities exist for the agency to make greater use of data analytics and robotics and to deploy additional Transit Security Officers to bus-riding teams.

- **Operational:** The agency's ability to provide maintenance, including cleaning, mechanical upkeep, and security for all future projects opening in the near term was a risk mentioned by some stakeholders. This is reasonable, given that the increased ridership expected from the opening of newly completed projects will require increased maintenance efforts.
- **Capital projects:** As indicated in the 2023 Metro Construction Market Analysis, The agency accounts for 30% of the construction spending by public agencies within Southern California. Management expressed concern over the tight labor market for skilled labor needed for the agency's large-scale projects in the upcoming years. There is also both risk and opportunity for the agency as more projects are expected to be delivered in the future using collaborative delivery methods such as the construction manager/general contractor and progressive design-build methods.
- **Financial:** Some stakeholders expressed concern about having adequate funding to support the infrastructure augmentation needed to support upcoming major events, such as the 2026 World Cup and the 2028 Summer Olympic and Paralympic Games.
- **Environmental, Social, and Governance Risks:** There is continued concern about the potential for cyber-attacks against Agency systems and the ability to prevent, detect, and respond to cyber incidents using the latest tools, techniques, and methods. In general, there is also increased awareness that supply chains rely on ethically sourced materials.

There are also unique risks that do not fit clearly into one of the outlined major risk categories and 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 FY25 and, if necessary, adjust the Audit Plan.

### C. Audit Plan

The FY25 Audit Plan is based primarily on the results of the agency-wide risk assessment.

Scores were assigned to individual risks in our risk assessment, with consideration given to the potential likelihood and impact of the individual risks. Individual risk scores fall into a range that encompasses low to high. Higher risk scores occur when the risk identified is high in likelihood and potential impact. These risk scores helped guide the selection of projects for inclusion in the FY25 Audit Plan.

Risk scores were not the only guide used by MAS to select audit projects for the FY25 Audit Plan. Additional factors considered included:

- 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 Audit Plan includes audit projects to address areas of moderate risk that are expected to add value, mitigate potential future risks, and support the achievement of agency goals and objectives.

The FY25 Audit Plan includes 12 audit projects in three categories: priority, discretionary, and carryover.

- Priority: Audit projects that will be given primary focus during FY25.
- Discretionary: Audit projects that MAS will perform based on the status of priority and carryover projects and time and resources permitting.
- Carryover: Audit projects initiated in FY24 and will be completed in FY25.

A summary of the FY25 priority, carryover, and discretionary audits is provided in Attachment A.

The FY25 Audit Plan 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**

No financial impacts are associated with the approval of the FY25 Audit Plan.

### **EQUITY PLATFORM**

In applying an equity lens to the FY25 Audit Plan, 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 and the CEO 2023 strategic aspiration placemat.

### **ALTERNATIVES CONSIDERED**

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An alternative is not to approve the Audit Plan. This is not recommended since it 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 Audit Charter and with Generally Accepted Government Auditing Standards.

**NEXT STEPS**

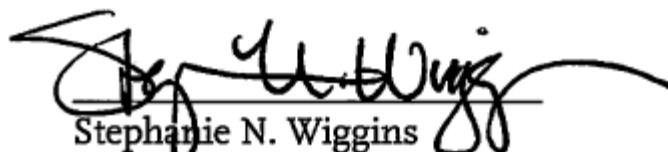
Upon Board approval, MAS will develop the FY25 Audit Plan schedule and deliver quarterly status reports to the Board of Directors.

**ATTACHMENTS**

Attachment A - FY25 Proposed Audit Plan

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Chief Executive Officer

## Priority Projects

### Security Response to Reported Issues

Office: Chief Safety Office / Customer Experience Office

Objective: Assess the management and measurement process of Metro security personnel to distress calls from employees and the public.

### Personnel Hiring Process

Office: Chief People Office

Objective: Examine the hiring process for new employees and identify any challenges to the process being agile and efficient.

### Gold (L) Line Extension

Office: Program Management / Operations

Objective: Assess the oversight of Program Management and Operations over the construction efforts of the Foothill Gold Line Construction Authority and review preparations for operations when the Pomona station opens.

### Project Management of Planning Phase Activities

Office: Planning & Development

Objective: Assess Planning & Development's Mobility Corridors project management processes for major projects during the planning phase including Right of Way acquisition, environmental, and preliminary design and engineering.

### Management of Metro Project Grant Funding

Office: Planning & Development

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

**Information Technology Governance**

Office: Chief People Office

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

**Discretionary Project**

**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.

**Continuous Auditing Of Capital Projects**

Office: Program Management

Objective: Review capital projects for effectiveness and efficiency of Metro project procedures for critical project areas such as change management, quality management, and risk management.

**Carryover Projects****Division 20 Portal Widening Project**

Office: Program Management

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

**Employee Health Benefits**

Office: Chief People Office

Objective: Assess the controls over the accuracy and completeness of data related to employee enrollment, claims, and benefits.

**Physical Security Monitoring Equipment**

Office: Chief Safety Office / Operations / Chief People Office

Objective: 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**

Office: Strategic Financial Management and Ethics Office

Objective: Assess actions taken by Metro to address current and future supply-chain reputational and ethical risks.



**Contract, Financial and Compliance Audits**

**Contract Pre-Award Audits**

Office: Strategic Financial Management  
Objective: Perform pre-award audits for procurements and modifications

**Incurred Cost Contract and Grant Audits**

Office: Planning and Development / Program Management  
Objective: Verify whether costs are reasonable, allowable, and allocable on cost-reimbursable contracts and grants for contractors and grantees, respectively

**Financial and Compliance External Audits**

Offices: Agencywide  
Objective: Complete legally mandated financial and compliance audits

**Business Interruption Fund**

Offices: Strategic Financial Management  
Objective: 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.

# FY25 Proposed Annual Audit Plan

Finance, Budget and Audit Committee

May 15, 2024



MANAGEMENT AUDIT SERVICES

# Risk Assessment Results

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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 FY24 to be completed in FY25.

# Category Factors

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Relevance

Potential  
Value

Timely  
Completion

Resource  
Balancing

Stakeholder  
Feedback

# Risk Discussion Themes

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# Proposed Audit Plan

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Priority	Discretionary	Carry Over
Security Response to Reported Issues	State of Good Repair Assessment Process	Division 20 Portal Widening Project
Personnel Hiring Process	Continuous Auditing of Capital Projects	Employee Health Benefits
Gold (L) Line Extension		Physical Security Monitoring Equipment
Project Management of Planning Phase Activities		Supply Chain Ethics Management
Management of Metro Project Grant Funding		
IT Governance		

# Next Steps

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- Initiate kick-off process – July 2024
- Quarterly reporting to the Board – through June 30, 2025

# Questions

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