

### **Historical Perspective**

Prior to the adoption of the FY05 plan, MAS prepared an annual audit plan for internal audits beginning in FY00. The plan was prepared by audit staff, then reviewed and approved by the Managing Director of Audit. At the January 2005 meeting, the Board adopted the FY06 Financial Standards, which included the requirement for management to develop a risk assessment and an audit plan each year and present it to the Board. In April 2005, the Board approved MAS's FY06 audit plan for the first time. Starting in FY06 contract and grant audits were included in the annual plan to incorporate all MAS's planned work in the audit plan. The final draft of the audit plan was reviewed by the Chief Executive Officer and then provided to the Executive Management and Audit Committee for their input and approval. At its January 2008 meeting, the Board adopted modifications to the FY07 Financial Stability Policy which superseded the agency's Financial Standards. The Financial Stability Policy was adopted in January 2007. Like the Financial Standards, the Financial Stability Policy requires management to develop a risk assessment and an audit plan each year and present it to the Board. Instrumental in developing the FY09 Annual Audit Plan was completing the FY08 agency-wide risk assessment.

**FISCAL YEAR 2019  
ANNUAL BUSINESS PLAN  
AND  
APPROVED AUDIT PLAN**



**Metro**

Management Audit Services

Fiscal Year 2019 Annual Business Plan  
And Approved Audit Plan

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# Executive Summary

## OVERVIEW

Annually, the Board requires Management Audit Services (Management Audit) to complete an agency-wide risk assessment and submit an audit plan to the Board for its input and approval.

An agency-wide risk assessment is the process of understanding an organization's strategic, operational, compliance and financial objectives to identify and prioritize threats/risks that could inhibit successful achievement of these objectives. Risk assessments provide management with meaningful information needed to understand factors that can negatively influence operations and outcomes.

An audit plan is driven by two key factors: 1) risk assessment results, and 2) audit resources. The goal of preparing an audit plan is to address the highest risk areas at the Agency given the resources available to complete the audits.

## RISK ASSESSMENT

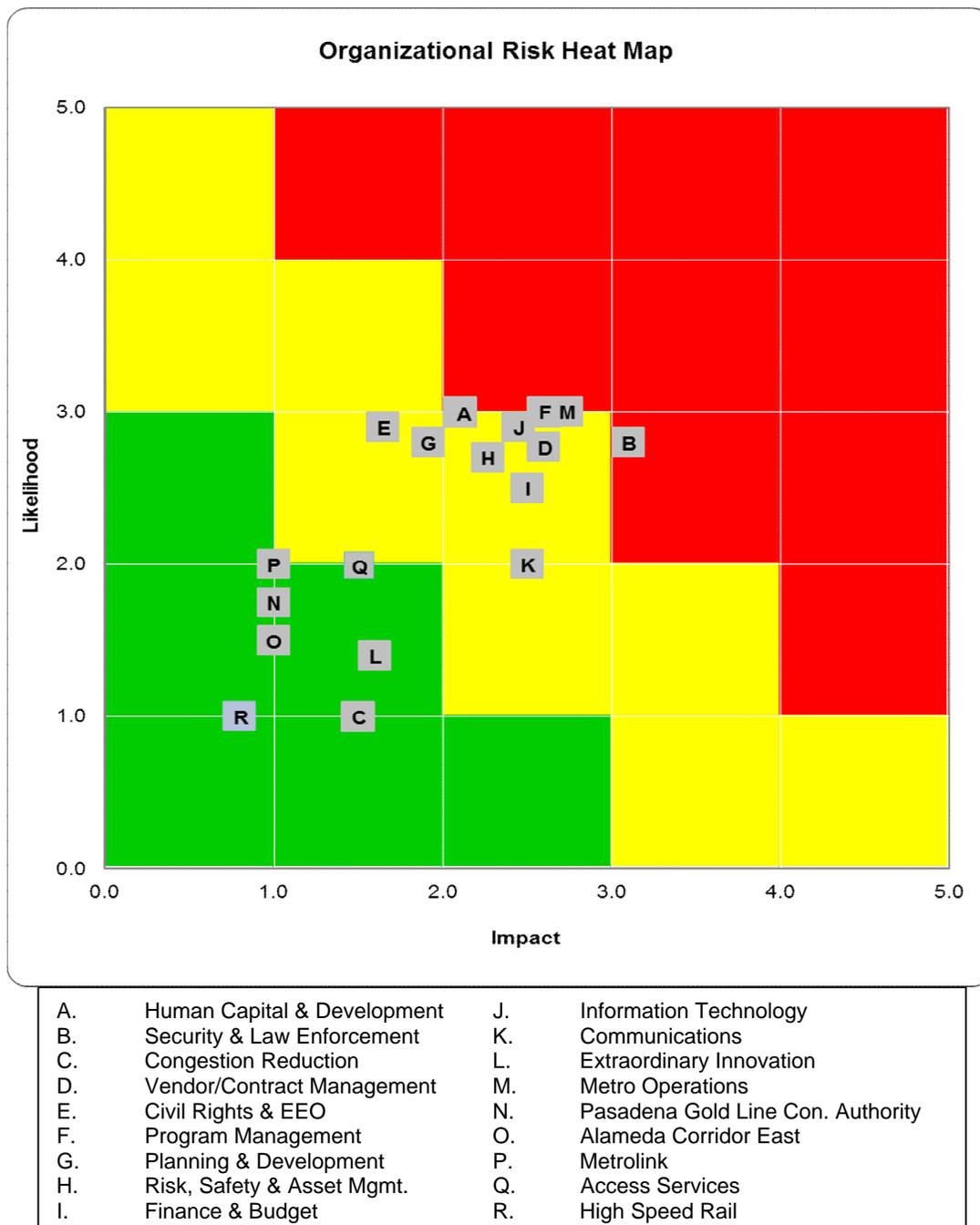
Instrumental to the development of the FY19 Audit Plan was completion of the FY18 agency-wide risk assessment. The agency-wide risk assessment is continually being refined and adjusted based upon events, issues identified during audits and agency priorities. The categorization of risks used corresponds with the current nine CEO goals identified in the Budget document:

1. Advance safety and security for our customers, the public, and Metro employees.
2. Exercise fiscal discipline to ensure financial stability.
3. Plan and deliver capital projects on time and on budget, while increasing opportunities for small business development and innovation.
4. Improve the customer experience and expand access to transportation options.
5. Increase transit use and ridership.
6. Implement an industry-leading state of good repair program.
7. Invest in workforce development.
8. Promote extraordinary innovation.
9. Contribute to the implementation of agency-wide and departmental Affirmative Action and Equal Employment Opportunity (EEO) goals.

The risk assessment continues to place a strong emphasis on the Agency's internal control framework and vulnerability to fraud. We believe this year's risk assessment portrays the agency's risks in light of the changes to our risk environment and the challenges the agency faces in the next few years.

The risk environment continues to evolve with the focus this year on safety and security, state of good repair, capital projects delivery, strategic financing alternatives, integration, replacement and upgrades of key information systems, and the agency's ability to achieve all of its goals successfully with available funding and staffing.

The agency-wide risk assessment process began by reviewing and analyzing key documents such as the annual budget, the Comprehensive Annual Financial Report (financial statements), Draft Strategic Plan, Annual Program Evaluation, Board/Committee Reports, status reports on major construction projects, and past audit reports. We conducted interviews with key personnel to obtain additional information. All of this information was used to identify risks and concerns specific to individual cost centers as well as risks impacting the entire agency. In addition, similar to last year we evaluated risks related to five outside agencies that receive significant funding from Metro: Access Services, Metrolink, High Speed Rail, Pasadena Foothill Extension Authority (Foothill), and Alameda Corridor East (ACE). Risks were then scored using two factors, magnitude of impact and likelihood of occurrence. As in prior years, a heat map is still being used to display the overall risk assessment of the agency.



## High Risk Areas

The top internal risks continue to be acquisition of qualified staff and contractors, aging infrastructure and deferred maintenance, completion of multiple capital projects, safety and security, lengthy procurement process, declining ridership, dated information systems, and fiscal discipline.

- 1) The ability to hire qualified technical staff and contractors to complete projects, while improving overall performance, continues to be a pervasive concern throughout the Agency. The right number of staff and consultants with the right skillset is critical given the aging workforce and growing initiatives that are underway. Management is addressing these concerns by exploring Talent Acquisition policy changes that will improve the overall hiring process. In addition, Metro is employing a combination of long and short term strategies such as: partnering with local institutions, expanding the veteran hiring initiative, promoting internal and external leadership training opportunities, implementing the Workforce Initiative Now (WIN-LA) Program, establishing the Women and Girls Governing Council, Transportation School and Career Pathways to develop tomorrow's workforce. To address the shortage of qualified contractors Metro has instituted various programs that target small, medium and large contractors and continuously reviews policies to improve all aspects of contracting opportunities.
- 2) Operations' overall risk score is impacted by aging infrastructure coupled with a significant amount of deferred maintenance that is being addressed, but is still considered a risk to achieving some of the agency's key goals. Additionally, competing priorities such as technological upgrades and short and long-term maintenance work pose challenges to Operations' resources. Condition assessments of equipment, rolling stock, infrastructure, and facilities are ongoing to keep up with State of Good Repair and comply with regulatory requirements. In addition, management is actively pursuing ways to expedite acquisition of rolling stock to replace aging assets. Also, the Agency is in the process of replacing outdated/unsupported key systems including the Material and Maintenance Management System (M3).
- 3) Metro is currently undertaking the largest transportation capital program in the nation. Given the increased number of projects, including the completion of 28 key projects in time for the 2028 Summer Olympics, our ability to attract qualified contractors, small businesses and staff to support completion of these projects is vital. In addition, there is a growing level of uncertainty due to constant regulatory policy changes that impact our purchasing ability. To address the shortage of qualified contractors the Agency has employed efforts including Small Business Prime (Set-Aside), Medium-Size Business Enterprise, and Contracting, Outreach & Mentorship Plan (COMP). Management is closely monitoring regulatory changes and potential impacts to Metro. To address the schedule and cost challenges associated with the completion of multiple capital projects, management is taking mitigating measures including conducting an Annual Program Evaluation (APE) of our capital program to ensure that current factors are always considered when assessing project risks associated with costs and schedules. In addition, Program Management is implementing various strategic initiatives to improve the planning and consistency of project delivery including: implementing a systematic approach to

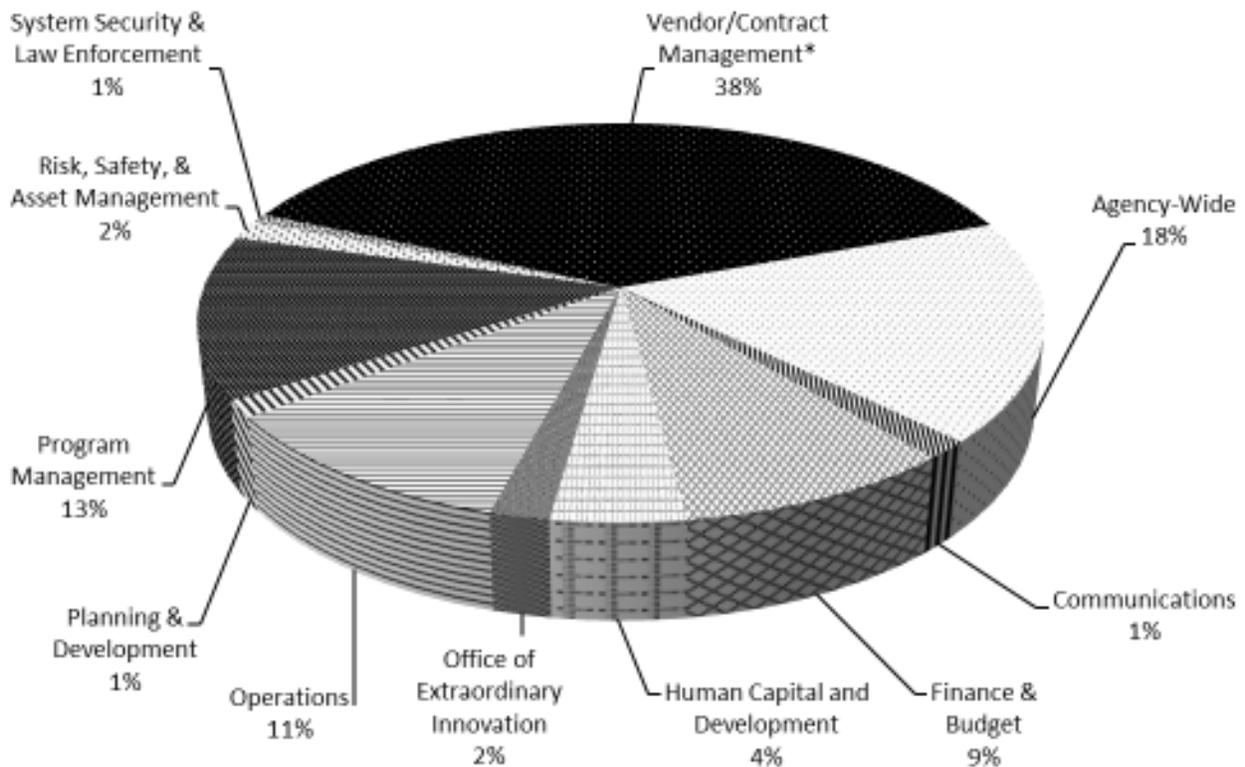
quality assurance, enhancing its project management procedures, establishing a new training program and employing best practices.

- 4) Terrorism and other crimes continue to be potential threats to the Agency and ridership. System Security and Law Enforcement has started to implement innovative ways to use technology and has partnered with the Sheriff's Department, Los Angeles Police Department, Long Beach Police Department, and the community to secure high risk areas. Increased law enforcement visibility, since the multi-agency contracts began, has resulted in a significant reduction in crime. In addition, System Security is exploring the use of various technological improvements such as motion detection lasers, "dark screen" monitoring and drones to assist them in improved monitoring and intrusion detection throughout our system. Systems Security has completed, through use of experts, a risk assessment of physical security of Metro facilities to create a prioritization plan to ensure the safety and security of staff and assets.
- 5) Procurement of goods and services is expected to increase due to our expansive capital program projects. Management has prioritized streamlining the procurement process such as expediting the change order process to improve the timely awarding of contracts to meet agency needs. This streamlining effort also includes simplifying the process for Small and Disadvantaged Businesses. In addition, Vendor / Contract Management is continuously reviewing policies and processes to improve the procurement process.
- 6) Although economic conditions continue to improve, the Agency has suffered from a steady decline in ridership. To address the declining ridership, management has undertaken a comprehensive analysis (NextGen) of all existing bus service to identify the needs of current and potential riders in order to restructure routes and schedules most effectively. Also, the Agency is evaluating all aspects of conditions to improve the overall customer experience and is employing various strategies such as utilization of digital signage, systemwide Wi-Fi, expansion of Transit Oriented Development, First/Last Mile Program, MicroTransit Pilot Program, Universal TAP, and U-Pass Program. The Agency is also heavily partnering with local jurisdictions to address the challenge of homelessness which impacts the customer experience. Metro is undertaking an extensive modernization of the Blue Line which will extend the service life of the Blue Line, improve reliability and resiliency, and enhance safety.
- 7) Information Technology risk continues to be driven by the need to integrate key systems and upgrade and replace aging systems. Having reliable, complete and timely information is becoming more critical in order to achieve efficiencies and allow informed decision-making. Management has developed a plan to upgrade and/or replace aging systems. Concerns over cyber security vulnerabilities require a more robust approach to monitor and keep up with our security strategy in ensuring system reliability and data integrity. Information Technology and Risk, Safety and Asset Management are collaborating on the business continuity disaster recovery plan to resume operations in the aftermath of a catastrophic event. Also, management has established an Information Technology governance framework to ensure the administering of IT resources by the processes of strategic planning, prioritization, decision-making, and performance measurement.

8) Metro’s ability to provide a world-class transportation system necessitates both effective fiscal management and prioritization of financial resources. This is heightened as we strive to deliver multiple complex mega projects on-time and within budget given the regulatory uncertainties and market conditions related to material and labor which impact the costs of construction and operations. In addition, a continued decline in ridership could jeopardize our share of valuable state and federal funds. Management has implemented several fiscal management tools such as the 10-year budget process, Performance Management System, and Long Range Transportation Plan Update in order to effectively plan, allocate resources, monitor performance, strengthen fiscal discipline, and ensure accountability.

**AUDIT PLAN**

For purposes of the audit plan, the agency has been organized into 13 departmental functions and 5 other agencies funded by MTA. The audits in the FY19 approved audit plan are distributed across the organizational structure as follows:



\* Audit requests generated by Vendor / Contract Management that support various business units.

A detailed list of audits is included in Appendix A.

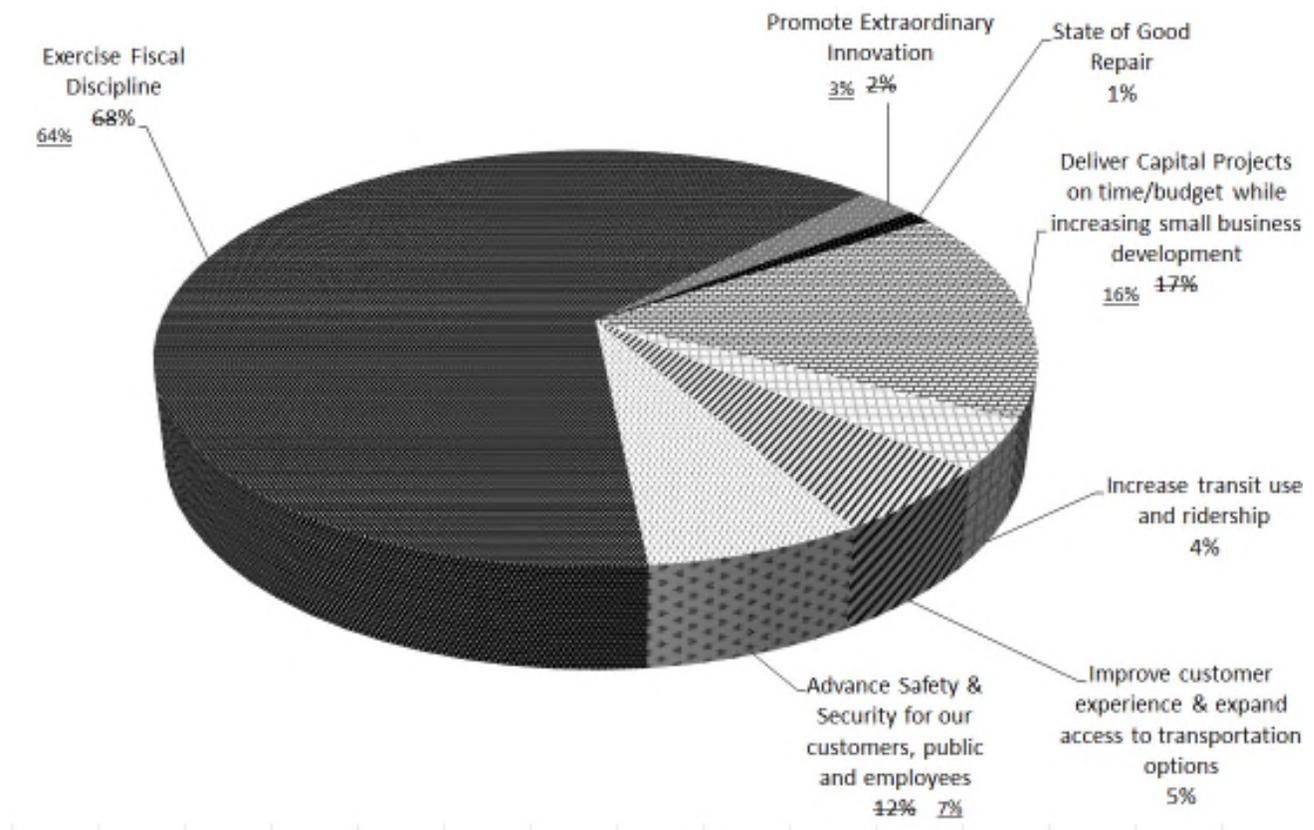
Audit Plan Strategy

The audit plan is based on the information obtained during the agency-wide risk assessment process and includes audits in those areas identified as high risk to the agency.

The projects approved in the audit plan directly or indirectly support the nine CEO Goals for the agency:

1. Advance safety and security for our customers, the public and Metro employees.
2. Exercise fiscal discipline to ensure financial stability.
3. Plan and deliver capital projects on time and on budget, while increasing opportunities for small business development and innovation.
4. Improve the customer experience and expand access to transportation options.
5. Increase transit use and ridership.
6. Implement an industry-leading state of good repair program.
7. Invest in workforce development.
8. Promote extraordinary innovation.
9. Contribute to the implementation of agency-wide and departmental Affirmative Action and Equal Employment Opportunity (EEO) goals.

The following chart summarizes the audits by the primary agency strategic goal.



### ALLOCATION OF AUDIT RESOURCES

Our FY19 approved audit plan is based on 24,700 audit hours to be provided by staff and contracted subject matter experts. The audit hours are allocated as follows:

- 22,200 hours for audits identified in the plan, and
- 2,500 hours for CEO requested projects.

In developing the plan, the hours included for each audit are an estimate. There are occasions where some audits may take more or fewer hours than estimated. In

addition, urgent requests from the CEO or Executive Management may arise that require audit support. When this occurs, Management Audit will reassess the plan and may supplement internal resources with outside consultants, pending available funding. Management Audit may also use external consultants to provide subject matter expertise when necessary.

The FY19 approved audit plan included in Appendix A attempts to provide a balanced and effective review of the entire agency constrained by Management Audit resource limitations.

The CEO has the discretion based on agency need or Board direction to reprioritize audit resources. We are dedicated to completing our audit plan while continuing to be flexible and responsive to the agency's needs.

## **AUDIT PLAN AREAS**

### Internal Audits

The internal audits were selected based on the results of the FY18 agency-wide risk assessment. Areas identified as critical or high risk during the agency-wide risk assessment were given priority when identifying potential audits for the FY19 approved audit plan. Since there are more risks than available resources, we selected the risk areas based on available resources. The audits identified for the FY19 approved audit plan were selected based on one of the following four strategic audit objectives:

1. Support agency-wide goals and objectives
2. Evaluate governance, risk and internal control environment
3. Review efficiency and effectiveness of operations
4. Validate compliance to regulatory requirements

We strive to identify business process improvements and innovative ways to support the agency's strategic initiatives on every audit. This is in addition to our traditional assurance work on "hard controls", such as segregation of duties, safeguarding agency assets, reliability of financial and operational information, and compliance with regulations, contracts, and memorandums of understanding (MOUs). Since the agency is currently undertaking numerous major IT system enhancements and development, audit resources will also provide assurance that the internal controls of critical systems are adequate and working effectively.

### Contract Pre-Award & Incurred Cost Audits

Incurred Cost Audits review costs associated with MOUs issued under the Call for Projects program or contract incurred costs. Contract Pre-award Audits review costs proposed for contracts and change orders issued by Vendor/Contract Management. The audits included in the FY19 approved plan are based on discussions with project managers and contract administration staff. The grant audit work was completely outsourced in FY18 and will continue to be outsourced in FY19 due to a shortage of permanent staff.

The highest priority for FY19 are contract audits for large construction, corridor, and rolling stock regulatory projects followed by pre-award audits for all other projects. This

is followed by incurred cost and closeout audits in the priority list. External resources will be used if there are available funds to meet critical project deadlines.

#### External Financial and Compliance Audits

In 2009, Management Audit assumed the responsibility for managing the agency's planned audits by external auditors. The FY19 approved audit plan includes hours to ensure that these audits are completed within the scope and schedule of the contracts.

#### Special Request Audits

The FY19 approved audit plan also includes 2,500 hours for special projects requested by the CEO. These hours provide some flexibility in the audit plan to respond to emerging issues where the CEO may need audit resources to address an unanticipated issue or heightened concern.

In order to comply with Government Accountability Office's Generally Accepted Government Auditing Standards and the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing Standards, internal audit must adopt a process to monitor and assess the overall effectiveness of the audit quality process. This self-assessment measures compliance to the Standards and to Management Audit's Charter, mission statement, objectives, audit policy manual, supervision, and staff development. In addition, the internal quality assurance review assesses our effectiveness and promotes continuous improvement within Management Audit.

### **OTHER PLANNED ACTIVITIES**

#### Audit Tracking and Follow-up

In compliance with the Standards, Management Audit tracks and follows up on the implementation of all audit recommendations from both internal and external audit groups including OIG, State of California, FTA, etc. Management Audit also reports all outstanding audit issues to the CEO and Board of Directors on a quarterly basis to ensure that any significant risks to the agency are addressed in a timely manner.

#### Small and Disadvantaged Business Enterprises Training

In our continuous audit streamlining efforts to support SBE/DBE goals, Management Audit Services will continue to provide ongoing training in conjunction with Vendor/Contract Management. A minimum of two half-day training sessions will be conducted annually.

### **MANAGEMENT AUDIT SERVICES FRAMEWORK**

Metro's vision is excellence in service and support. Management Audit is committed to providing essential support to achieve this vision. To do this we have developed our department vision which is to deliver value by driving positive change through partnership and trust. In order to ensure the reliability, independence and objectivity of our work, Management Audit follows the framework of our Board approved Audit Charter. The Audit Charter includes Management Audit's mission, the standards we must comply with, and our department's objectives and core function.

## Mission

Our mission is to provide highly reliable, independent, objective assurance and consulting services designed to add value and improve operations. The department accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

## Standards

The Institute of Internal Auditors (IIA) defines internal auditing as: “independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

To meet our client's expectations and for us to function with reliability and credibility, Management Audit must ensure our audits are independent, objective and accurate. Therefore, Management Audit follows the ethical and professional standards promulgated by the Government Accountability Office, Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditors International Professional Practices Framework. Depending on the type of audit being done, Management Audit also follows the standards promulgated by the American Institute of Certified Public Accountants (AICPA) and by the Information Systems Audit and Control Association (ISACA).

## Objectives and Core Functions

As summarized in our Audit Charter, the primary objective of Management Audit is to assist the CEO and his management team with their important business and financial decisions by:

- Monitoring and verifying key regulatory and legislative compliance;
- Assessing internal controls effectiveness and fiscal responsibility;
- Evaluating cost reasonableness of contracts and grants;
- Identifying and recommending business process improvements;
- Evaluating and recommending efficiencies and effectiveness of programs and functions;
- Evaluating safety and security of agency systems, programs and initiatives; and
- Tracking and reporting on all outstanding external and internal audit findings.

In addition, Management Audit's objective is to foster a system and environment that supports the highest level of integrity and ethical conduct and provides assurance of an acceptable level of risk to management for all key business processes.

## APPENDIX A

### DETAILED LISTING OF AUDITS

**CEO Goal #1 – Advance safety and security for our customers, the public, and Metro employees**

	Title	Objective	Area
1.	Performance Audit of Rail Communications Network System	Evaluate adequacy of the network systems security, redundancy, and change management process.	Metro Operations
2.	Performance Audit of SCADA System	Determine the adequacy of the security controls for Metro’s SCADA system including server/workstations for Rail Operations Control room (ROC) equipment.	Metro Operations
3.	Follow-up Performance Audit of Track Allocation Process	Follow-up on implementation of agreed upon recommendations from the prior audit of Track Allocation Process.	Metro Operations
4.	Performance Audit of the Network Security for the TAP Program	Evaluate the adequacy of the network security for the TAP Program.	Finance & Budget

**CEO Goal #2 – Exercise fiscal discipline to ensure financial stability**

	Title	Objective	Area
1.	Pre-Award Audits	Pre-Award audits for procurements and modifications.	Vendor/Contract Management
2.	Incurred Cost Contract Audits	Verify costs are reasonable, allowable and allocable on cost reimbursable contracts for contractors.	Vendor/Contract Management

## FY19 Approved Audit Plan

## Appendix A

	<b>Title</b>	<b>Objective</b>	<b>Area</b>
3.	Incurred Cost Grant Audits	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.	Agency-Wide
5.	Performance Audit of Use of Consultant Hours - Phase 2	Evaluate selected positions for hire versus consult decision.	Agency-Wide
6.	Performance Audit of Key Information	Evaluate the adequacy of the internal controls over the preparation of key information used by Vendor/Contract Management for contract award purposes.	Agency-Wide
7.	Performance Audit of Internal Controls Over Overtime Payments	Evaluate adequacy of internal controls over overtime payments for AFSCME Union employees for selected positions.	Agency-Wide
8.	Follow-Up on FY17 Triennial Review Findings	Evaluate the extent of corrective actions for findings identified in the FTA Triennial Review.	Agency-Wide
9.	Performance Audit of Advertising Contract	Determine advertising contractor's compliance with contract terms pertaining to Metro's revenue share.	Communications
10.	Performance Audit of Assets Funded by Metro Under Los Angeles Sheriff's Department (LASD) Contract	To determine LASD's compliance with the contract terms related to asset management.	System Security & Law Enforcement

	Title	Objective	Area
11.	Performance Audit of Benefit Eligibility	Evaluate adequacy of internal controls over eligibility process for employee dependents for medical benefits.	Human Capital & Development

**Strategic Goal #3 – Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation**

	Title	Objective	Area
1.	Buy America Post-Award and Post-Delivery	Conduct Buy America Post-Award / Post-Delivery audits for rolling stock procurements.	Vendor/Contract Management
2.	US Employment and Local Employment Program	Determine vendors' compliance with the US Employment and Local Employment Program terms and conditions.	Vendor/Contract Management
3.	Annual Audit of Business Interruption Fund	Evaluate Business Interruption Fund's compliance with administrative guidelines, and fund and disbursement procedures.	Vendor/Contract Management
4.	Performance Audit of Project Management for Regional Connector Transit Project	Evaluate the efficiency and effectiveness of the overall project management processes for the Regional Connector Transit Project.	Program Management

	Title	Objective	Area
5.	Performance Audit of Environmental Impact Studies / Environmental Impact Reports (EIS/EIR) Process	Evaluate the current EIS/EIR process and identify areas for parallel paths that could reduce the time to complete the EIS/EIR process.	Planning & Development / Program Management
6.	Performance Audit of Pre-Project Closeout for Crenshaw/LAX Transit Project	Evaluate state of readiness for the Crenshaw/LAX Transit Project prior to start of operations.	Program Management

**Strategic Goal #4 – Improve the customer experience and expand access to transportation options**

	Title	Objective	Area
1.	Performance Audit of the PCI Compliance for the TAP Program	Determine compliance with PCI requirements.	Finance & Budget
2.	Performance Audit of the Project Management for the TAP Program	Determine effectiveness of project management for the TAP Program.	Finance & Budget

**Strategic Goal #5 – Increase transit use and ridership**

	Title	Objective	Area
1.	Performance Audit of Business Continuity Plan - Payroll, Vendor/Contract Management, Security, Bus and Rail	Evaluate how mission essential functions included in the selected departmental COOPs relate to and are supported by existing departmental Standard Operating Procedures and Emergency Procedures (SOPs/EPs).	Agency-Wide

**Strategic Goal #6 – Implement an industry-leading state of good repair program**

	Title	Objective	Area
1.	Performance Audit of State of Good Repair Plan	Determine Metro’s state of readiness to comply with the FTA State of Good Repair rulemaking, including the data collection process.	Risk, Safety & Asset Mgmt. / Metro Operations

**Strategic Goal #8 – Promote extraordinary innovation**

	Title	Objective	Area
1.	Performance Audit of P3 Unsolicited Proposal Process	Evaluate the compliance of the P3 unsolicited proposal process with the policy.	Office of Extraordinary Innovation