



**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE  
APRIL 21, 2005**

**SUBJECT: FY06 ANNUAL AUDIT PLAN**

**ACTION: ADOPT THE PROPOSED FY06 ANNUAL AUDIT PLAN**

**RECOMMENDATION**

Adopt the proposed FY06 Annual Audit Plan (Attachment A).

**ISSUE**

At the January 2005 meeting, the Board adopted the amended FY06 Financial Standards, which require management to develop a risk assessment and an audit plan each year and present it to the Board. It also required that the Executive Management and Audit Committee, as the audit committee for the agency, provide input and approval of the audit plan.

Recommendations for improvement to the system of internal controls are requirements of regularly scheduled and specifically directed audits performed in accordance with generally accepted governmental auditing standards. These recommendations, management's action plans and progress toward implementation will be reported to the Executive Management and Audit Committee on a regular basis.

**POLICY IMPLICATIONS**

An audit plan defines the audit work that will be completed or directed by Management Audit Services' (MAS) each fiscal year. It indicates both the depth and breadth of audit activities addressing financial, operational and compliance risks for the agency. Through the audit plan, MAS will convey a current sense of the internal control environment. The audit plan also identifies the extent to which; controls are being assessed by routine audit activities, addressed proactively through advisory services, or as a result of concerns from management.

The annual audit plan is driven by two key factors: (1) risk assessment results, and (2) audit resources. The goal in drafting the audit plan is to address the highest risk areas at the agency given the resources available to complete the audits.

When developing the plan, the hours included for each audit are an estimate based on MAS preliminary knowledge of the audit areas. Each audit uses a stop and go audit technique that allows MAS to stop an audit if at any time during the process the auditor determines that there are no or limited substantial risks to the agency and there is a strong probability there will be no adverse findings. The plan is also intended to be flexible to allow an audit to be rescheduled, deleted and/or replaced with relative ease. The plan will be reassessed during the year based on a continuous review of audits completed compared to the plan. MAS may supplement internal resources with consultants from the CPA bench as long as funding and CPAs are available for the task.

## **OPTIONS**

One option would be not to complete an annual audit plan. This was not considered since the audit plan is a management tool to systematically assign resources to areas that are a concern or high risk to the agency. An audit plan that strategically utilizes available resources in the highest risk audit area is among the industry's best practices.

## **FINANCIAL IMPACT**

There is no financial impact in adopting the FY06 annual audit plan.

## **DISCUSSION**

### **Developing the Audit Plan**

The audit plan is prepared based on two factors, risk and resources. In developing the FY06 Annual Audit Plan, MAS first polled executive management for areas of audit concern. Using the information received, prior audit findings, requests by executive management and other relevant data, a list of areas of concerns was identified.

Each area identified on the initial list was analyzed by MAS and based on internal risk criteria and knowledge of the agency; the initial audit plan was drafted. The audit plan was then further refined to ensure there was both depth and breadth of coverage across the entire agency. The initial assessment of hours required was analyzed and compared to audit resources available to complete the plan. The plan was then compared to the list of Office of the Inspector General completed audits to eliminate any overlap of audit efforts. The proposed audits were also reviewed to determine whether to complete them using staff or whether the audit should be outsourced. The decision to outsource is based on expertise required, resources available and cost to outsource.

Once this process was complete, the proposed audit plan was then reviewed with the CEO and his direct reports for their input and comments. The result is the proposed audit plan (Attachment A).

MAS' audit philosophy has changed and is reflected in the audit plan. Because of attrition and position reductions, MAS has redirected its resources from auditing areas on a global basis to doing targeted, focused audits. Therefore, the hours budgeted are much less for

each area, and the audit objective will be very tight and will audit smaller areas of a larger process. This translates into more audits scheduled than in previous years.

#### Agency-wide Risk Assessment

Risk assessment is the process of identifying the possibility that events will occur that, will be harmful to the agency and/or will be detrimental to the achievement of the agency's goals. Once the criteria are identified that are applicable to the agency, such as reputation or dollars, each area is then compared to those criteria to assess overall risk.

Each audit in the FY06 plan has been assigned a risk rating based on MAS' understanding of the agency and the audit being performed. However, in developing the FY07 audit plan, the risk assessment will be done differently. At the request of the CEO, an agency wide risk assessment has been included as part of the Proposed FY06 audit plan and budget. This risk assessment will be outsourced to a CPA firm to provide a systematic risk assessment of the entire agency based upon an independent, fact based analysis utilizing experts in the field and will be instrumental in developing future plans. MAS intends to update the agency-wide risk assessment every five years or sooner if there are significant changes warranting an earlier update.

#### NEXT STEPS

Once the Board adopts the annual audit plan, MAS will develop the audit schedule for FY06. MAS will report to the Board quarterly on its progress in completing the annual audit plan.

#### ATTACHMENT

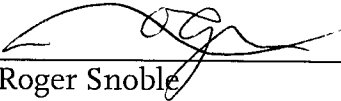
- A. FY06 Annual Audit Plan

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Roger Snoble  
Chief Executive Officer

**MANAGEMENT AUDIT SERVICES**

**FY06 Annual Audit Plan**

**APRIL 2005**



**Metro**

Management Audit Services  
Fiscal Year 2006 Proposed Audit Plan

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## EXECUTIVE SUMMARY

### OVERVIEW

The fiscal year 2006 proposed annual audit plan (FY06 plan) is more comprehensive than prior years. This year's proposed audit plan encompasses all audit services provided by Management Audit Services (MAS) including internal, information technology, contract and grant audits. Another change implemented this year is the presentation of the plan to the Chief Executive Office (CEO), his executive team and the Board for input prior to finalizing the FY06 plan.

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

#### Risk Assessment

Risk assessment is the process of identifying the possibility that events will occur that, will be harmful to the agency and/or will be detrimental to the achievement of the agency's goals. Once the risk criteria are identified that are applicable to an agency, such as reputation or dollars, each area is then compared to those criteria to make a risk ranking determination based on the average risk score.

Each audit in the proposed FY06 plan has been assigned a risk rating based upon the Audit Manager's understanding of the agency and the audit being performed. This is consistent with prior audit plans. However, in developing the FY07 annual audit plan, the risk assessment will be done differently. At the request of the CEO, an agency wide risk assessment has been included as part of the proposed FY06 plan and budget. This risk assessment will be outsourced to a CPA firm to provide a systematic risk assessment of the entire agency based upon an independent, fact based analysis utilizing experts in the field (i.e., fuel, bonding, etc.) and will be instrumental in developing future audit plans (Appendix A, 1).

#### Audit Resources

Audit resources are constrained by the staff resources available and professional services dollars budgeted to outsource the audits. In FY06, the proposed audit plan is based on the available staffing (17 auditors) and budget resources (\$1,001,515).

In developing the plan, the hours included for each audit are an estimate. There are occasions where some reviews may take longer and therefore absorb more hours than proposed. When this occurs, the plan must be reassessed and MAS may supplement internal resources with consultants from the CPA bench as long as there is funding and CPAs are available for the task.

There are four audit groups within MAS, Internal Audit, Information Technology Audit, Contract Audit and Grant Audit. The following provides a brief highlight of each audit group's FY06 plan:



### Internal Audit

The prior years' audit plans were solely focused on internal control reviews in areas MAS considered to be high risk. The focus of this year's proposed audit plan is to provide a more balanced approach to the types of audits being performed by including economy and efficiency reviews, program effectiveness and results audits, and compliance testing as well as the internal control reviews. Economy and efficiency audits focus on how the agency performs its process as compared to industry best practices. Program effectiveness and results audits determine how well the program/process is meeting its stated goals. Compliance testing determines whether the area being reviewed is complying with policies or laws.

Internal audits are divided into two areas in the FY06 plan; cyclical audits and planned audits. Cyclical audits are audited every few years based on business judgement whether or not there are any significant findings in prior audits in that area, an example would be petty cash or accounts payable. Planned audits are audited based on risk to the agency. (Appendix A, 2 – 26)

The FY06 plan emphasizes two specific areas: financial transactions and security. The purpose of financial transaction testing is to sample transactions to determine whether they are recorded in accordance with agency policy and generally accepted accounting principles. These are cyclical audits that will be completed annually. There are six security audits planned in FY06, three in internal audit (Appendix A, 33-35) and three in information technology audit (Appendix A, 38-40). The security audits will test whether staff is complying with security policies and procedures.

### Control Self Assessment

The internal audit group is also responsible for Control Self Assessments (CSA). CSA is a methodology used to review key business objectives, risks involved in achieving the objectives and internal controls designed to manage those risks. In 1998, MAS added a Control Self Assessment group to implement the CSA process at the agency as well as identify the universe of significant processes to review. Since 1998, 100 CSAs have been completed.

Both the documentation and risk analysis performed in the CSA review is an important first step in conducting internal audits. In the past, the auditor assigned to complete CSAs was also responsible for updating the documents as processes changed. To improve the coordination and documentation of the processes, MAS combined the Internal Audit and the CSA groups into one unit in 2003. To continue the focus on this important area, auditors assigned to all Internal and Information Technology audits will update the CSA documents as a part of their preliminary audit stage in FY06.

The FY06 plan includes six new CSAs processes that will be completed in FY06. (Appendix A, 27-32). The updating of existing CSA reviews are incorporated in the Internal and Information Technology audits.



### Information Technology Audits

Focusing audit resources in the information technology (IT) area is important because the pace of technological advancement and the benefits realized by implementing these advances are increasing at an accelerating speed. Technology creates opportunities for growth and development and is an integral part of all business processes. But it also provides the means and tools for threats, including disruption, deception, theft, and fraud.

IT controls, which rarely exist in isolation, range from the automation of business controls to the general and technical controls over IT infrastructures such as systems, networks, processes, data, and people. Assessing IT controls is a continuous process: business processes are changing constantly, technology continues to evolve, threats evolve as new vulnerabilities emerge, and audit methods improve.

In FY05, the IT audit group was assigned to its own cost center to provide increased importance to IT audits. The FY06 plan continues to increase focus on IT audits, with 125% increase (from 8 to 18) in the number of audits in FY06 as compared with FY05. Similar to internal audit, the IT audits are also identified as either cyclical or planned (Appendix A, 33-50).

### Contract Audit

Contract audit is responsible to complete the legally and contractually required contract compliance audits. Contract audit resources have continued to decline to reflect the reduction in workload and the implementation of the Change Order ordinance. The level of contract audits in FY06 estimated to keep current with contract requirements exceed the level of resources approved in those cost centers. This challenge will be dealt with by prioritizing audits in conjunction with Procurement and Project Management. Any audits deemed to be high priority by Project Management that cannot be completed with existing audit staff will be outsourced using available project dollars. The FY06 plan identifies both the planned audit work and estimated work based on project management information (Appendix A, 51 – 84).

### Grant Audit

Grant audit is responsible to complete the legally and contractually required Memorandum of Understandings (MOU) compliance audits. Grant audit focuses on completing audits of MOUs issued as a part of the call-for projects process. Audit priorities in this area are established in coordination with Countywide Planning and Development. Under the Grant Audit category, 84 audits are summarized into three areas that need interim or closeout audit work so the agency stays in compliance with the Memorandum of Understanding (Appendix A, 85-87).

### CEO Special Requests

The FY06 plan also includes 1,200 hours or 4% of available hours for special projects requested by the CEO (Appendix A, 88). These hours are reserved for emerging issues where the CEO needs audit resources to review and provide recommendations to correct a problem or to provide information for a specific request.

## SIGNIFICANT PLANNED ACTIVITIES

### Peer Review

At the direction of the CEO, MAS has requested the Internal Audit Committee of the American Public Transportation Association perform a peer review of MAS for the period ending 6/30/05. The peer review is expected to begin in FY06. MAS underwent a peer review in 2001 for the period ending 12/31/00. The review stated that MAS was substantially compliant with Government Auditing Standards (GAS) and no material issues were noted in the report.

GAS 3.49 requires that each audit organization performing audits in accordance with GAS should have an appropriate internal quality control system in place and should undergo an external peer review.

### Quality Assurance

In accordance with industry best practices and as a way to prepare for the peer review, MAS has implemented a compliance review of the audit files. This is intended as a self-assessment of our compliance to MAS policies and procedures and applicable audit standards. Based on the preliminary compliance review findings, MAS is revising its policies and procedures to reflect changes in the industry, changes in GAS and other applicable standards, and the expected implementation of a paperless work paper system.

### Charter

The Charter is currently being revised to reflect the latest changes in standards and audit criteria. The purpose of the audit charter is to identify the function, authority, responsibility and accountability of MAS. The Charter defines MAS duties and communicates our mission to the rest of the agency.

### Paperless work paper system

Auditing is paper intensive and with the reduced number of staffing resources available to provide audit services, it is important to streamline the audit process where possible. Therefore, MAS is currently reviewing audit work paper package requirements and capabilities with the intention of converting the current work paper package to a paperless one. The Office of Inspector General (OIG) has also been invited to participate in the procurement. The paperless system is expected to be purchased and installed in FY05 with a goal of converting in-process and any new audits in FY06. Completed audit files and permanent files will be converted to a paperless format over time to free up floor space and allow for easier search capabilities of prior audit findings and information.

## STRATEGIC PLAN

### Mission

Our mission is to provide highly reliable, independent, objective assurance and consulting services designed to add value and improve LACMTA's 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.

### Objectives and Core Functions

The primary objective of MAS is to assist the CEO and his management team with their important business and financial decisions by:

- Providing recommendations to protect and safeguard the agency's resources and assets,
- Providing assistance in improving and streamlining processes and operations,
- Providing assurance services regarding the effectiveness of the internal control systems and processes,
- Testing financial transaction to verify accuracy and completeness of accounting entries,
- Providing assistance during contract/MOU negotiations in determining whether contract prices are fair and reasonable,
- Completing legally mandated audits to determine compliance to regulations,
- Pre-qualifying vendors in compliance with law and LACMTA's Ordinance 4.05, and
- Tracking and reporting on all outstanding external and internal audit findings.

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

### Standards

To meet our client's expectations and for us to function with reliability and credibility, MAS must ensure our audits are independent, unbiased and accurate. Therefore, MAS follows the ethical and professional standards promulgated by Government Accounting Office, GAS. Depending on the type of audit being done, MAS may also follow the standards promulgated by the American Institute of Certified Public Accountants (AICPA), by the Institute of Internal Auditors (IIA), and by the Information Systems Audit and Control Association (ISACA).

## **COORDINATION WITH EXTERNAL AUDITORS AND THE OFFICE OF INSPECTOR GENERAL**

Where appropriate within the context of the established FY06 plan, and to the extent that organizational and professional constraints allow, audit projects are undertaken with the view of maximizing the efficiencies of the internal and external audit processes and minimizing audit duplication.

### Office of Inspector General

There are several outside groups that audit LACMTA ranging from the Triennial Audit completed by Booz-Allen Hamilton, to the California State Auditor's review of specific processes within the agency. Included in this group is the audit and investigative group of the Board of Directors, the OIG. The OIG differs from MAS in that OIG's primary focus is

the investigation and reporting of fraud, waste and abuse at LACMTA. The OIG's audit unit provides audit support for investigations, and it performs any reviews and audits requested by the Board of Directors or referred by their Investigative unit. To avoid any duplication of work, MAS and OIG coordinate their audit activities monthly.

#### Audit Tracking and Follow-up

For all external audit findings, MAS is required to track and follow-up on all audit recommendations until the audit finding is closed. In addition, MAS tracks and follows up on internal audit findings in compliance with GAS. To do this, MAS maintains an audit database which staff uses to manage, track and follow-up on all recommendations.

Beginning in March, MAS assumed responsibility for a monthly reporting to the Board on all outstanding audit issues. These reports are issued as Board boxes and include all outstanding audit findings and a summary of the findings closed during the month. Both the CEO and MAS continue to focus on this important and time-consuming area to ensure that any significant risks to the agency are addressed in a timely manner.

#### Increased Coordination with Financial Auditors

At the request of the CEO, MAS has begun actively coordinating its audit work with PricewaterhouseCoopers (PWC), LACMTA's financial auditors. Included in this year's proposed audit plan are hours to embed an internal auditor with the PWC auditors for the duration of their financial audit (Appendix A, 4). The purpose of this is two-fold: (1) to gain a better understanding of PWC's areas of concerns and audit methodologies so that information can be incorporated into Internal Audit's audit process, and (2) to identify areas that MAS can complete audits in anticipation of next year's financial statement audits to provide assurances that the risk levels are at an acceptable level.

## PROPOSED FY06 ANNUAL AUDIT PLAN

### INTRODUCTION

The Institute of Internal Auditors (IIA) defines internal auditing as:

“...an 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 effectiveness of risk management, control, and governance processes.”

The proposed FY06 plan included in Appendix A is based on IIA’s definition and attempts to provide a balanced and effective review of the entire agency based on resource limitations. Our FY06 plan is based on 30,120 direct audit hours to be provided by 17 audit professionals. The audit hours for the Managing Director, two Audit Managers and two supervisors are not included in the above total.

The direct audit hours are allocated as follows:

- 22 in-house internal audits (Appendix A, 2-3, 5-15,16, & 18-26) and embedding staff in 4 outsourced internal audits (Appendix A, 1, 4, 14 & 17),
- 6 CSAs,
- 16 IT audits (Appendix A, 33-41 & 42-49) and embedding staff in 2 outsourced IT audits (Appendix A, 42 & 50)
- 97 Contract Audits, 54 of these audits will be outsourced, and
- 84 Grant Audits, 30 will be outsourced.

Included in the number of audit reports expected to be completed in FY06 are three internal and four IT audits started in FY05.

As discussed in the section, increased coordination with financial auditors, and noted above, we plan to embed staff in some of the significant outsourced audits to ensure information is transferred back to MAS for future audit work and to more closely coordinate our audit activities with the external auditors where possible. The audits that we plan to embed staff in for FY06 include, the agency wide risk assessment (Appendix A, 1), the financial statement audits (Appendix A, 4), the Key Performance Indicators audit (Appendix A, 14), the Information Technology functionality review (Appendix A, 17), the Wireless Network Security audit (Appendix A, 42), and the carryover of the Maintenance, Material and Management (M3) audit (Appendix A, 50).

### INTERNAL AUDITS

GAS defines the types of audits performed as either financial statement, attestation or performance audits. The internal audit group’s work tends to be concentrated in the area of performance audits. Performance audits encompass program effectiveness and results, economy and efficiency, internal control, and compliance with legal or other requirements.

The 22 audits that will be completed by staff in the internal audit group are broken into the following audit objectives:

#### Internal Control Reviews

Per GAS, internal controls (I/C) are defined as the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance. While most internal audits include some level of I/C reviews within the objectives of the audit, an I/C review focuses solely on the adequacy and compliance to the system of internal controls.

While Sarbanes-Oxley is applicable to the private industry, government agencies are now considering its applicability to their processes. Our agency's integrated framework of I/C provides assurances to management and outside auditors that data and information is accurate and can be relied upon. We routinely test and recommend improvements to the agency's integrated framework of internal controls. The proposed FY06 plan includes four audits to review I/C compliance for financial transactions (Appendix A, 2-3 & 5-6) and five audits to review the adequacy and compliance to internal controls in other areas of the agency (Appendix A, 9, 15, 18, 21, & 22).

#### Economy and Efficiency Audits

These types of audits focus on whether the agency is acquiring, protecting and using its resources in the most productive manner to achieve program objectives. The proposed FY06 plan includes four of these audits (Appendix A, 11, 13, 16, & 20).

#### Compliance Audits

These types of audits focus on compliance to criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, and use of entity's resources and the quantity, quality, timeliness, and cost of services the agency delivers. There are eight audits included with compliance objectives in the FY06 plan (Appendix A, 7, 8, 10, 12, 19 & 24-26).

#### Program Effectiveness and Results

These audits address the effectiveness of a program and typically measure the extent to which a program is achieving its goals and objectives. These types of audits can be interrelated with economy and efficiency audits, depending on the objectives of the audit planned. There is one program effectiveness and results audit included in the FY06 plan (Appendix A, 23).

### **INFORMATION TECHNOLOGY AUDIT**

Information Technology audits have a two-fold purpose. The first is to analyze and determine whether the IT system internal controls are adequate and effective. The second purpose is to provide assurances to other auditors that rely on the IT systems for data or information needed for other on-going audit efforts. The types of information technology audits are similar to the types of internal audits. The 16 audits that will be completed by the IT audit staff are broken into the following objectives:

Internal Control Reviews

The adequacy and compliance to internal controls is very important in information systems because management relies on the accuracy and completeness of information provided by these systems. The FY06 plan includes 10 I/C audits (Appendix A, 33-35, 37, 41, 44-46, 48-49).

Compliance Audits

Because of the potential fiscal risk to the agency, the FY06 plan includes two compliance audits review the agency's level of compliance to software copyright regulations (Appendix A, 43 & 47).

Program Effectiveness and Results

There are three program effectiveness and results audits included in the FY06 plan (Appendix A, 38-40).

Attestation Review

These types of reviews are more limited than an audit; they usually include examining, reviewing or performing agreed-upon procedures about a specific subject or management assertion. The disaster recovery plan has been audited annually for several years with little to no audit findings in FY04. Since a disaster recovery plan is extremely important to the agency's ability to recover from a major catastrophe, MAS will continue to monitor it. However, the level of review in FY06 is significantly less based upon prior year's audit findings. (Appendix A, 36)

**CONTRACT AUDIT**

Most of Contract Audit's work is either a review to determine conformance with law or attestation reviews that are focused on compliance to contract agreements. The 43 audits that will be completed by Contract Audit staff are broken into the following objectives:

Compliance Audits

FTA requires the agency to complete Buy America audits to determine whether the rolling stock purchased for agency use complies with the Buy America Act. The FY06 plan includes four Buy America audits based on input from the Contracting Officer (Appendix A, 54-55).

Attestation Reviews

The remainder of the FY06 plan includes attestation reviews to determine whether vendors have complied with contractual requirements and to provide assistance to the Contracting Officer prior to and during negotiations of change orders and vendors' proposals (Appendix A, 51-53, 56-84).

## GRANT AUDIT

Most of Grant Audit's work focuses on compliance to MOU agreements. The 54 audits that will be completed by Grant Audit staff are broken into the following objectives:

### Attestation Reviews

All of the audits included in the FY06 plan in the Grant audit area are attestation reviews to ensure compliance to the terms and conditions of the MOU (Appendix A, 85-86). There are 84 audits summarized in the 3 lines included in the FY06 plan.



# APPENDIX

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited	
<b>INTERNAL AUDIT</b>								
<b>Cyclical</b>								
1	Agency Wide Risk Assessment	Agency Wide	A comprehensive risk assessment is needed to determine overall areas of risk based on pre-determined risk factors. There has never been an agency-wide risk assessment, so the first one will be outsourced in FY06. The end result will be a document that identifies an overall risk assessment for all key processes and functions within the agency that is jointly developed by the auditors, staff, and executive management. An auditor will be embedded in external audit team transfer knowledge back to Internal Audit group upon completion of the risk assessment.	High	5	500	Outsourced included in FY06 budget	new
2	Accounts Payable	Chief Financial Officer/ Accounting	Update COSO Control Self Assessment documents. This will be a performance audit to test sample transactions for compliance to policies and procedures, incorrect payment amounts, and wrong vendor paid. Verify internal controls over the processing of accounts payable are adequate. Area is considered high risk due to the high volume and large dollar amount of transactions processed annually.	High	3	400		MAS 2001, OIG 2005 review of dup. prmts. only
3	Credit & Collections	Chief Financial Officer/ Accounting	Update COSO Control Self Assessment documents. Performance audit to review adequacy of internal controls. Sample test to determine if transactions comply with policies and procedures.	Medium	3	350		COSO document completed on 11/20/2000
4	Financial Statement Audit	Chief Financial Officer/ Accounting	Embed Management Audit Services auditor in PricewaterhouseCoopers external audits to provide audit service assistance to PWC. This will provide increased coordination between MAS and PWC and additional information to MAS to utilize in future audits.	High	1	450	Outsourced	new
5	General Ledger	Chief Financial Officer/ Accounting	Update COSO Control Self Assessment documents done in 2000. Performance audit to review adequacy of internal controls and test sample of bank reconciliations and account analyses.	High	1	350		2001
6	Payroll Cycle - test all input systems to payroll through payroll disbursement.	Chief Financial Officer/ Accounting Deputy Chief Executive Officer/ Operations	Update COSO Control Self Assessment documents. Integrated audit with Information Technology Audit group. Comprehensive testing of all payroll hour input systems to verify accuracy and completeness of payroll data. Sample test payroll transactions and payroll exceptions to compliance with policies and procedures. Review adequacy of internal controls.	High	3	650		MAS new/ OIG review of selected limited scope areas 2004, 2002, 2001, 2000
7	Fixed Assets	Chief Financial Officer/ Accounting/ Material Management Chief of Staff / Real Estate Deputy Chief Executive Officer / Vehicles	Update COSO Control Self Assessment documents. FTA requires a biannual fixed asset report from the agency. This performance audit will sample the fixed assets included in the report to test for accuracy and completeness. Follow up on OIG audit findings.	Medium	3	400		MAS new/ OIG review of equipment 2004

## PROPOSED FY06 ANNUAL AUDIT PLAN

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
8 Grants Process	Chief Financial Officer/ Grant Accounting Chief Planning Officer/Grants Chief Capital Management Officer/ Program Management	Carryover from FY05. Performance audit to review entire grant process from Chief Planning Officer responsibility to manage grants through Chief Financial Officer billing and receipt of payment for grants through Chief Capital Management Officer reporting on grants. Update COSO Control Self Assessment documents. Review adequacy of internal controls for grant process. Test sample of grants for compliance to policies and procedures. Test sample of federal/state reports for compliance to policies and procedures and accuracy and completeness. Review economy & efficiency of process between accounting & planning.	High	5	300		Carryover from FY05
9 Inventory purchasing and receiving Audit	Chief Financial Officer/ Inventory Management	Update COSO Control Self Assessment documents. Performance audit to verify adequacy of internal controls over inventory purchasing, receiving and disbursement. Sample test inventory amounts to General Ledger to determine accuracy of account balance. Review level of inventory to agency policy to determine if amount of inventory is at optimal levels.	High	1	650		new
10 Procurement System Review	Chief Financial Officer/ Procurement	Carryover from 2005. FTA audits LACMTA's procurement system every 5 years to determine whether procurements are in compliance with FTA's 4220.1e and 5010.1c. Audit tests compliance to FTA regulations prior to FTA's procurement system review.	Medium	5	100		Carryover from FY05
11 Encumbrances	Chief Financial Officer/ Procurement Chief Capital Construction/ Chief Planning Officer	Carryover from 2005. Performance audit to determine whether encumbrances are being closed out in compliance with agency policy and in a timely fashion. Review closeout process for efficiency and effectiveness.	Medium	5	100		Carryover from FY05
12 Compliance to Investment Policy	Chief Financial Officer/ Treasury	In compliance with California Government Code 53646, LACMTA issues a quarterly report on compliance to LACMTA investment policies. Periodically, an audit will be done to test the transactions and verifying the accuracy of what is being reported to the Board.	Medium	5	200		new
13 Farebox Vaulting	Chief Financial Officer / Treasury	Update COSO Control Self Assessment documents. Performance audit to test compliance to procedures and and effectiveness and efficiency of the process. Review work already done by Revenue Compliance audit/investigations. The vaulting process involves removing the cash boxes from the buses and preparing the currency, coins and tokens for transport to the Central Cash Counting Operation. This operation currently processes over \$100 million a year in currency, coins and tokens and, because of the liquidity and volume of funds processed, is considered to be high risk.	High	3	450		2002

Planned Audits.

## PROPOSED FY06 ANNUAL AUDIT PLAN

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
14	Agency Wide	Performance audit to assess the reliability and accuracy of key performance indicators used by management to make key business decisions. This will include embedding an auditor in the external audit in order to transfer knowledge to internal audit at the end of the audit process.	High	n/a	450	Outsourced included in FY06 budget	new
15	Chief Capital Management Officer	Performance audit to evaluate the adequacy of internal controls over the processes used in managing, charging to and reporting on the agency's capital projects.	Medium	n/a	350		new
16	Chief Financial Officer/ Office of Management & Budget	Performance audit to evaluate the effectiveness and efficiency of the processes used in developing the agency's annual operating and capital budgets.	Medium	n/a	450		new
17	Chief Financial Officer/ Information Technology Systems	Request by CEO to review agency for ITS functionality, analysis of duplication of efforts. Effectiveness & efficiency review to consolidate or de-consolidate functional roles. Analyze how ITS manages systems/infrastructures against best practices with an emphasis on streamlining process. This audit will use internal staff and outsource specialty areas of audit. Benchmark against like properties, determine whether processes should be centralized vs. decentralized.	High	n/a	650	Outsourced included in FY06 budget	2004
18	Chief Financial Officer/ Procurement	Performance audit to evaluate the adequacy of internal controls over the administration of contracts following the contract award. Sample testing of files to ensure compliance with FTA regulatory requirements.	Medium	n/a	400		new
19	Chief of Staff/ Administration	Review of process for compliance with federal/state requirements. Effectiveness & efficiency review of process to industry best practices.	High	n/a	450		new
20	Chief of Staff/ Diversity & Economic Opportunity	Performance Audit to determine whether Federal reporting requirements are consistent with staffing levels. Effectiveness & efficiency review of process to industry best practices.	High	n/a	350		new
21	Chief Planning Officer	Performance audit to evaluate the adequacy of internal controls and project management process of the periodic Call-For-Projects.	Medium	n/a	400		2001
22	Chief Communications Officer / Fare Policy & Svc Compliance Deputy Chief Executive Officer/ Operations	Performance Audit to evaluate the security and controls in place to protect fare media from time it is printed until when the asset is no longer the responsibility of LACMTA. This audit will sample all fare media, but will specifically focus on day passes.	Medium	n/a	650		new
23	Chief Communications Officer	Requested by Executive Management, performance effectiveness and results audit to determine if adequacy of controls over filming process/billings. Determine if better way to manage filming process	Medium	n/a	250		new

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited	
24	Division Security	Deputy Chief Executive Officer/ Security	Performance audit to test compliance to physical security policies & procedures at a sample of the Bus and Rail Divisions including facilities, equipment & parts. The security process will be reviewed at 1 division and the rest of the divisions will be sampled to determine compliance with process.	High	n/a	250	new	
25	Gateway Building Security	Deputy Chief Executive Officer/ Security	Performance audit to test compliance to physical security policies & procedures in Gateway Building including doors, elevators & stairwells.	High	n/a	250	new	
26	RRC Security	Deputy Chief Executive Officer/ Security	Performance audit to test compliance to physical security policies & procedures at the Regional Rebuild Center including facilities, equipment & parts.	High	n/a	250	new	
<b>Subtotal</b>							10,050	

**Control Self Assessments**  
*New Areas planned for review.*

27	Customer Relations	Chief Communication Officer	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300	new
28	Rail Warehousing	Chief Financial Officer/ Material Management	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300	new
29	Contract Services	Deputy Chief Executive Officer/ Operations	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300	new
30	Manpower Planning	Deputy Chief Executive Officer/ Operations	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300	new
31	Service Planning	Deputy Chief Executive Officer/ Operations	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300	new

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
32 Bus Maintenance	Deputy Chief Executive Officer/ Operations	Attestation engagement to develop documentation which describes the business objectives, risks, controls, residual risks and action plans to mitigate any unacceptable residual risks identified for this area. The documentation will be reviewed and approved by appropriate levels of user management.		n/a	300		new
		<b>Subtotal</b>			<b>1,800</b>		

**INFORMATION TECHNOLOGY AUDIT**

Cyclical

33 Change Management System (CCHarvest)	Chief Financial Officer/ Information Technology Services	Carryover of FY05 audit. The primary objective is to maintain the integrity and reliability of the production environment, while making changes for the user community. Objective of audit is to determine the adequacy and effectiveness of internal controls to ensure any change to the system hardware, software, database or communication network are documented, authorized, tested and performed in a segregated and controlled environment.	High	3	400		Carryover from FY05
34 Storage Security Audit (SAN)	Chief Financial Officer/ Information Technology Services	Carryover of FY05 audit. The purpose of this audit is to assess the adequacy and effectiveness of data storage area network (SAN) to minimize risk of unauthorized access or disclosure, internally or externally, prevent unauthorized alteration or loss of data and minimize downtime and recovery delays. SAN is a dedicated network where data is offloaded from the servers for storage and backup to an array of storage devices.	High	3	300		Carryover from FY05
35 Disaster Recovery Plan	Chief Financial Officer/ Information Technology Services	The purpose of this audit is to assess the adequacy of internal controls in the Disaster Recovery Plan to ensure the contingent operation of LACMTA's transportation systems in the event of an emergency or disaster.	High	3	250		2001
36 Disaster Recovery Plan	Chief Financial Officer/ Information Technology Services	This is an attestation review of the DRP testing to determine the effectiveness of the Disaster Recovery Plan.	High	1	50		2004
37 FIS Environment (AIX/Unix/Oracle)	Chief Financial Officer/ Information Technology Services	This will be several audits that assess the adequacy and effectiveness of internal controls in key Oracle modules (Revenue, Disbursement, Inventory, Fixed Assets) implemented at LACMTA. This audit will focus in determining the validity of data as it moves through the computer within and between modules.	High		650		2004
Physical Access Security for ITS, facility, Bus Operations, Rail Operations (TOTS, M3, ATMS,UFS, SCADA)	Chief Financial Officer/ Information Technology Services Deputy Chief Executive Officer/ Operations	This a performance audit to assess the adequacy and effectiveness of physical access controls for safeguarding the computer resources in remote locations. TOTS, M3, ATMS and UFS computer servers are located in the divisions. SCADA computer equipment i.e. signal systems are located in remote locations. Unauthorized entry and malicious acts could result in unavailability of TOTS, M3, ATMS, UFS systems or unsafe rail operating conditions.					new

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
38		ITS controlled Facilities (TOIS & M3)	High	3	240		
39		Rail Operations Facilities (SCADA)	High	3	250		
40		Bus Operations Facilities (ATMS & UFS)	High	3	240		
41	Deputy Chief Executive Officer/ Operations	This is a performance audit to assess the adequacy and effectiveness of internal controls pertaining to the ATMS computer environment in the divisions to ensure the secure, contingent, and effective bus operation. There are 11 divisions equipped with an ATMS computer server and 2 workstations.	High	3	650		2004
42	Deputy Chief Executive Officer/ Operations Chief Financial Officer/ Information Technology Services	This is a performance audit to assess the adequacy and effectiveness of internal controls pertaining to the wireless network to ensure LACMTA is protected from unauthorized access via the internet. There are 55 vehicles, 11 division yards and 7 remote sites that are equipped with wireless technology for ATMS. This will include embedding an auditor with the external audit team so knowledge is transferred at the end of the audit.	High	3	300	Outsource included in FY06	new
43	Agency Wide	This is a compliance audit to ensure agency computers do not contain unauthorized software and the agency is complying with copyright agreements. This audit will focus on the Gateway building.	High	1	650		new

**Planned Audits**

44	Chief Financial Officer/ Information Technology Services	Carryover of FY05 audit. This is a review of adequacy and effectiveness of internal controls programmed into Budgeting system to ensure data is accurate, timely and kept confidential during budgeting process.	Medium		200		Carryover from FY05
45	Chief Financial Officer/ Information Technology Services	This is a performance audit to assess the adequacy and effectiveness of internal controls over the confidentiality and integrity of data in HRMIS. This system manages the employee movement from hiring, training, termination and rehiring and provides data to payroll, compensation, pension and benefits, etc. Existing controls may be lost during conversion or controls on the new system may not be adequate.	Medium		480		new
46	Chief Financial Officer/ Information Technology Services	This is a performance audit to assess the system of internal controls pertaining to Oracle iProcurement which automates employee requisitioning through a selfservice web-shopping system to ensure that purchasing policies and preferred pricing agreements are reflected in every transaction and ensure procurement can track approvals and delivery status, change or cancel line items, and acknowledge receipt of goods from any web browser.	High		480		new
47	Chief Financial Officer/ Information Technology Services	Performance audit to review the adequacy of policies and procedures for software purchases to ensure the agency complies with vendor licensing agreements and copyright laws.	High		240		new

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
48	Payroll Cycle (TOTS, M3, LIMS, Payroll Central)	Deputy Chief Executive Officer/ Operations Chief Financial Officer/ Information Technology Services	This is integrated audit with Internal Audit group to assess the adequacy and effectiveness of internal controls in Payroll Central. Test all payroll hour input systems to verify accuracy and completeness of payroll data. Sample test payroll transactions and payroll exceptions to compliance with policies and procedures. Review adequacy of internal controls.	High	600		2002
49	SCADA Firewall System	Deputy Chief Executive Officer/ Operations Chief Financial Officer/ Information Technology Services	This is an audit requested by management to assess the adequacy and effectiveness of internal controls implemented in the firewall system which protects the SCADA network from the public Internet and other private networks. Through the on-going analysis and monitoring of data and control equipment from remote locations, the SCADA systems provide efficient operations and safe rail transportation for the public.	High	650		new
50	M3 Audit	Deputy Chief Executive Officer/ Operations Chief Financial Officer/ Information Technology Services/ Material Management	Carryover of FY05 audit requested by CEO of M3 system development life cycle and project management.	High	240	Outsource included in FY06 budget	Carryover from FY05
<b>Subtotal</b>					<b>6,870</b>		

**CONTRACT AUDIT  
Planned Audits**

51	Booz Allen	Deputy Chief Executive Officer/ Operations	Contractual Requirement Direct Audits - FY 2003/FY2004. Overhead audits are done by Defense Contract Audit Agency	Medium	160		
52	LAPD	Deputy Chief Executive Officer/ Operations	Contractual Requirement Closeout	Medium	160		
53	Elite Security	Deputy Chief Executive Officer/ Operations	Contractual Requirement Closeout	Medium	160		
54	Breda	Deputy Chief Executive Officer/ Operations	Legal Requirement /Buy America Audit	High	160		
55	NABI	Deputy Chief Executive Officer/ Operations	Legal Requirement /3 Buy America Audits	High	480		
56	ASL Consulting	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High	400		
57	Barrio Planners	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		Outsourced included in FY06 Budget	
58	E2 Consulting	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High	400		



PROPOSED FY06 ANNUAL AUDIT PLAN

APPENDIX A

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
59 EBS	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		400		
60 Group Delta	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		400		
61 Jacobs Associates	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		400		
62 JGM	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		400		
63 Moffatt & Nichol	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement for Overhead & Direct Audits FY 2003/FY2004	High		400		
64 PBQD	Chief Capital Management Officer / Gold Line Eastside Extension	FTA & Contractual Requirement Overhead (DCAA) & Direct Audits - FY2001/FY2002/FY 2003/FY2004	High		320		
65 Third Party - Utility Relocation	Chief Capital Management Officer / Gold Line Eastside Extension	FTA - Requirement/ 20 Task Orders	High			Outsource	
66 Booz Allen	Chief Capital Management Officer / Orange Line	Contractual Requirement for Overhead (DCAA) & Direct Audits - FY 2003/FY2004	Medium		160		
67 J.L Patterson	Chief Capital Management Officer / Orange Line	Contractual Requirement for Overhead & Direct Audits - FY 2003/FY2004	Medium		400		
68 Korce	Chief Capital Management Officer / Orange Line	Contractual Requirement for Overhead & Direct Audits - FY 2003/FY2004	Medium		400		
69 URS	Chief Capital Management Officer / Orange Line	Contractual Requirement for Overhead & Direct Audits - FY 2003/FY2004	Medium		400		
70 STV	Chief Capital Management Officer / Orange Line	Contractual Requirement for Overhead & Direct Audits - FY 2003/FY2004	Medium		160		
71 Environmental Contracts	Chief Capital Management Officer / Orange Line	Cost Verification/ 10 Task Orders	Medium		800		

**PROPOSED FY06 ANNUAL AUDIT PLAN**

APPENDIX A

Audit Subject	Area	Justification	Risk	Cycle (years)	Hours Needed	Outsource \$	Year Last Audited
72	Chief Capital Management Officer / Other Capital Projects	Contractual Requirement Direct Audits- FY 2004	Medium		80		
73	Chief Capital Management Officer / Other Capital Projects	Contractual Requirement Overhead (DCAA) & Direct Audits- FY 2001/FY2002/FY2003/FY2004	Medium		320		
74	Chief Capital Management Officer / Other Capital Projects	Contractual Requirement Overhead (DCAA) & Direct Audits- FY 2001/FY2002/FY2003/FY2004	Medium		800		
75	Chief Capital Management Officer / Other Capital Projects	Contractual Requirement Overhead (DCAA) & Direct Audits- FY 2001/FY2002/FY2003/FY2004	Medium		800		
76	Chief Capital Management Officer / Other Capital Projects	Contractual Requirement /Closeout	Medium		160		

**Estimated Required Audits for Change Orders & Preawards**

79	Deputy Chief Executive Officer/ Operations	Procurement requirement >\$500K/4 Change Orders	Medium		320		
80	Deputy Chief Executive Officer/ Operations	Procurement requirement >\$500K/ 4 Change Orders	Medium		320		
81	Deputy Chief Executive Officer/ Operations	Procurement requirement >\$500K/Preaward	Medium		160		
82	Chief Capital Management Officer / Gold Line Eastside Extension	Legal Requirement -PUC 130243/ 28 Change Orders	High			Outsourced included in FY06 Budget	
83	Chief Capital Management Officer / Orange Line	Legal Requirement -PUC 130243/ 5 Change Orders	High			Outsourced included in FY06 Budget	
84	Chief Capital Management Officer / Other Capital Projects	Procurement requirement >\$500K/Preaward	Medium		160		
<b>Subtotal</b>					<b>9,680</b>		

Less: hours over available staffing (audits will be completed in order of priority set by Proc. & Proj. Mgmt.)

(4,580)

5,100

Hours available for Contract Audit

**GRANT AUDIT**

85	Chief Planning Officer / TDI	Legal Requirement -Prop C/Multiple Closeout audits	High		5,100		
86	Chief Planning Officer/ ACE	Legal Requirement -Prop C/ Multiple Closeout audits	High			Outsourced included in FY06 Budget	
87	Chief Planning Officer/ ACE	Legal Requirement -Prop C/Multiple Interim audits	High			Outsourced included in FY06 Budget	
<b>Subtotal</b>					<b>5,100</b>		

**PROPOSED FY06 ANNUAL AUDIT PLAN**

Audit Subject      Justification      Area      Risk      Cycle (years)      Hours Needed      Outsource \$      Year Last Audited

<u>CEO Requests</u>							
88	To Be Determined	Various	H		1200		

Total Hours Proposed **30,120**

SUMMARY BY AUDIT GROUP	Hours Proposed	% Time Allocated to each area
Internal Audit	10,050	33.37%
New Control Self Assessment Activity	1,800	5.98%
Information Technology Audit	6,870	22.81%
Construction Audit	5,100	16.93%
Grant Audit	5,100	16.93%
Chief Executive Officer Special Requests	1,200	3.98%
<b>Grand Total</b>	<b>30,120</b>	

SUMMARY BY CEO DIRECT REPORT	Hours Needed	% Time Allocated to each area
Chief Executive Officer Requests	2,800	9.30%
Chief Capital Management Officer		
Internal & IT Audits	350	1.16%
Contract & Grant Audits	3,180	10.56%
Chief Communications Officer	1,200	3.98%
Chief Financial Officer	9,980	33.13%
Chief Planning Officer		
Internal & IT Audits	400	1.33%
Contract & Grant Audits	5,100	16.93%
Chief of Staff	800	2.66%
Deputy Chief Executive Officer		
Internal & IT Audits	4,390	14.58%
Contract & Grant Audits	1,920	6.37%
<b>Grand Total</b>	<b>30,120</b>	

