Los Angeles County
Metropolitan Transportation Authority

MANAGEMENT AUDIT SERVICES

FISCAL YEAR 2016
ANNUAL BUSINESS PLAN
AND
PROPOSED AUDIT PLAN

Metro

Management Audit Services

Fiscal Year 2016 Annual Business Plan
And Proposed 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 completion 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 FY16 Audit Plan was completion of the FY15 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 key imperatives identified in the Budget document:
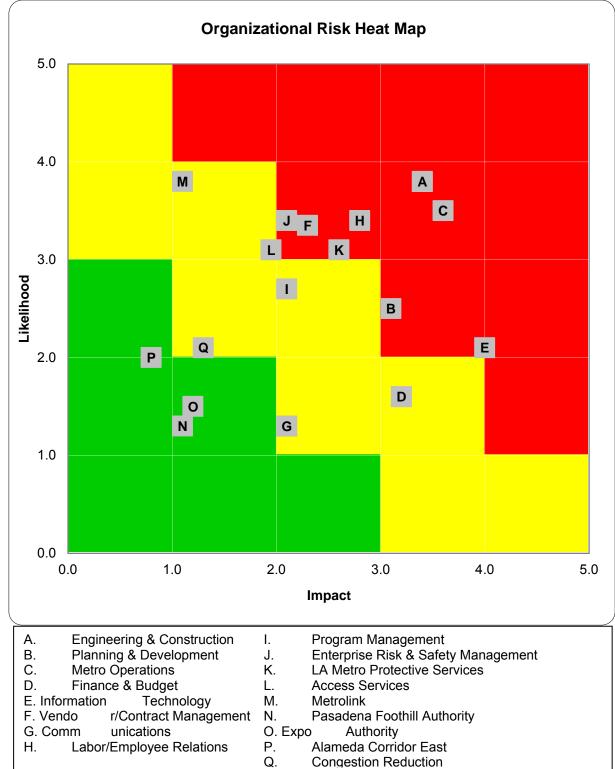1. Improve Transit Services,
2. Deliver quality capital projects on time and within budget,
3. Exercise fiscal responsibility,
4. Provide leadership for the region's mobility agenda,
5. Develop an effective and efficient workforce,
6. Secure local, state and federal funding,
7. Maintain open communication,
8. Enhance safety conscious culture with employees, contractors and customers,
9. Sustain the environment with energy efficiency and reduced greenhouse emissions.

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 capital projects, internal controls, and the agency's ability to achieve all of its goals successfully with available staffing.

The agency-wide risk assessment process began by reviewing and analyzing key documents such as the annual budget, the Basic Financial Statements, status reports on major projects, past audit reports, open and late corrective actions to prior audit findings, and the transportation plans. We then completed an extensive assessment of

the different areas within the agency. We supplemented this assessment by interviewing 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 MTA: Access Services, Metrolink, Exposition Authority (Expo), 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.

Organizational Risk Heat Map

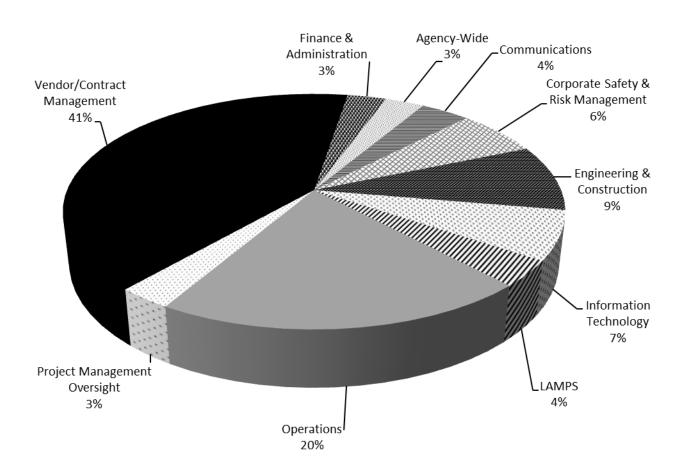| A.	Engineering & Construction	I.	Program Management
B.	Planning & Development	J.	Enterprise Risk & Safety Management
C.	Metro Operations	K.	LA Metro Protective Services
D.	Finance & Budget	L.	Access Services
E.	Information Technology	M.	Metrolink
F.	Vendor/Contract Management	N.	Pasadena Foothill Authority
G.	Communications	O.	Expo Authority
H.	Labor/Employee Relations	P.	Alameda Corridor East
		Q.	Congestion Reduction

<u>High Risk Areas</u>
The top internal risks include aging infrastructure, key information systems and completion of multiple corridor projects within the same timeframe. The top external risks include Metrolink and Access Services.

1) Ability to hire qualified technical staff, minimal increase in support staffing and increased efforts needed for multiple major capital projects are pervasive concerns that surfaced in most of the risk assessment discussions. Lean support staffing combined with multiple complex Measure R funded projects is one of the key risks the agency still faces. This risk is higher because multiple, major rail transit projects such as Crenshaw/LAX, Westside Subway Extension and Regional Connector will be competing for services from a limited pool of project support staff. There have been ongoing discussions with Senior Management to address these concerns and to shift available resources to key risk areas, but the ability of the support staff to provide oversight to these projects is still considered a significant risk.

2) Operations' overall risk score is impacted by aging infrastructure coupled with a significant amount of deferred maintenance that is being addressed and is still considered a risk to achieving some of the agency's key goals.

3) The interrelationship of key information systems and increased reliance on data generated from systems to manage daily systems continues to impact the overall technology risk scoring. In addition, lean staffing in the support areas is also seen in Information Technology Services. Several key information systems have been identified with "single points of failure", meaning some systems have only a single individual with extensive knowledge of that system. This impacts coordination of services, disaster recovery planning, backup and strong central internal controls.

4) Access Services' risk ranking increased because of increased costs in their current budget, and projected increases in passengers that will need to use Access Services in the future as the baby boomers continue to age.

5) Metrolink's risk ranking is based upon reports that cite concerns regarding availability of financial information, Metrolink's struggle to complete their required financial statement and A-133 audits on time and a prior OCTA review of Metrolink's Internal Audit function.

6) Management has identified an issue in the architecture and engineering area of procurement regarding project management oversight. As a result, Engineering and Construction and Project Management Oversight are working on developing a plan to expand the current process for oversight of major construction projects to all projects. We will review the efficiency and effectiveness of this in FY16, once the plan has been developed. In addition, we have included 750 hours in the proposed auidt plan to assess the administration of indefinite delivery, indefinite quantity contracts including the appropriateness of consultant hours and tasks.

AUDIT PLAN

For purposes of the audit plan, the agency has been organized into 11 departmental functions and 5 other agencies funded by MTA. The FY16 audit plan is summarized as follows:

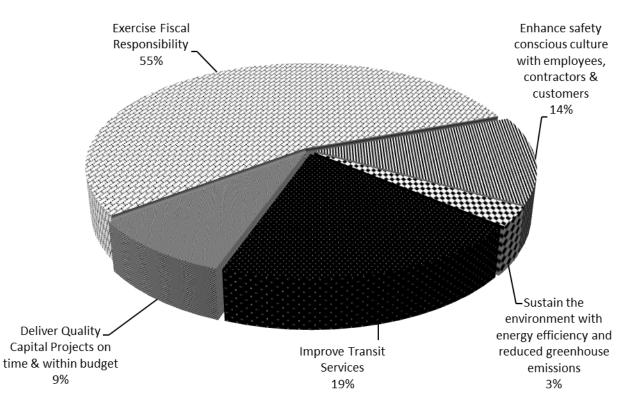A detailed list of audits is included in Appendix A.

Audit Plan Strategy
The audit plan leveraged the information obtained during the agency-wide risk assessment process and included audits in those areas identified as critical or high risk to the agency.

The projects proposed in the audit plan correlate to the 9 agency strategic goals:
1. Improve Transit Services,
2. Deliver quality capital projects on time and within budget,
3. Exercise fiscal responsibility,
4. Provide leadership for the region's mobility agenda,
5. Develop an effective and efficient workforce,
6. Secure local, state and federal funding,
7. Maintain open communication,
8. Enhance safety conscious culture with employees, contractors and customers,
9. Sustain the environment with energy efficiency and reduced greenhouse emissions.

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

Audit Resources
Management Audit is constrained by available staff resources and budgeted professional services dollars. In FY16, the audit plan is based on budgeted staffing and resources.

In developing the plan, the hours included for each audit are an estimate. There are occasions where some audits may take longer and therefore absorb more hours than proposed and in other cases; the audit will be completed in fewer hours than estimated.

In addition, urgent requests arise that need audit support. When this occurs, the plan must be reassessed and Management Audit may supplement internal resources with outside consultants as long as there is funding and consultants available for the task. Therefore, all planned audit work may not be completed and the audit plan may be reassessed and adjusted during the year for unanticipated risks and work.

AUDIT PLAN AREAS

Internal Audits
The internal audits were selected based on the results of the FY15 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 FY16 audit plan. Since there are more risks than available resources, resources were the key factor in selecting the number of risks and areas to audit. The audits identified for the FY16 proposed 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

Beginning in FY09, Management Audit started focusing audit resources on information systems identified as critical to agency operations. Audit resources will continue to be focused on information technology controls in FY16. In selecting potential FY16 audits, Management Audit identified areas that would provide assurance that the critical system's internal controls are adequate and working effectively and that the system is providing timely and accurate information to management.

The majority of Management Audit's projects are focused on completing assurance work on "hard controls", such as segregation of duties, safeguarding agency assets, accurate original entries and transactions, and compliance with regulations, contracts, and memorandums of understanding (MOUs). However, business process improvement is also an important focus for the agency. Therefore, the FY16 audit plan contains projects that assess whether greater efficiencies can be achieved and where appropriate provide recommendations for business process improvements.

Contract Pre-Award & Incurred Cost Audits
Incurred Cost Audits review costs associated with MOU's issued under the Call for Projects program or contract incurred costs and Contract Pre-award Audits review costs proposed for contracts and change orders issued by Procurement. The planned audits were identified based on discussions with project managers and contract administration staff, analysis of Call for Project's audit universe and Financial Information Systems' (FIS) data for contract audits. The universe of audits was balanced against the associated budget authorized to complete the work. Any additional work required beyond what is planned in the FY16 audit plan or unplanned audits requested will need to be outsourced to consultant firms and funded by the project. The grant audit work was completely outsourced in FY15 and will continue to be outsourced in FY16 because of audit staff reductions. The MOU's selected for grant audit work are either projects that expect to be finished next fiscal year or in the case of longer term projects whether

an audit has been completed in the last few years.

Currently, contract audits requested for large construction projects, Corridor Projects, and rolling stock regulatory projects are the highest priority. The next highest priority is pre-award audits for all other projects, and incurred cost and closeout audits have the lowest priority when assigning work. Because staffing in Management Audit is limited, external resources will be used if there are available funds to meet critical project deadlines.

Special Request Audits
The FY16 plan also includes 3,000 hours or approximately 10% of available 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 needs audit resources to review and provide recommendations to correct a problem or to provide information about a specific issue.

Also, in order to comply with Government Accountability Office's Generally Accepted Government Auditing Standards and Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), this year the self-assessment will be completed with audit management and external sources. The Standards require the audit activity adopt a process to monitor and assess the overall effectiveness of the audit quality process. The work will assess 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. This internal review will also help prepare Management Audit for the external quality assurance review mandated by the Standards that is scheduled for Fall of 2016.

OTHER PLANNED ACTIVITIES

Audit Tracking and Follow-up
For all external audit findings (OIG, State of California, FTA etc.), Management Audit is required to track and follow-up on all audit recommendations until the audit finding is closed. In addition, Management Audit tracks and follows up on internal audit findings in compliance with the Standards. To do this, Management Audit maintains an audit database which staff uses to manage, track and follow-up on all recommendations.

Beginning in March 2005, Management Audit assumed responsibility to report to the Board on all outstanding audit issues. These reports include all outstanding audit findings and a summary of the findings closed. Both the CEO and Management Audit continue to focus on this area to ensure that any significant risks to the agency are addressed in a timely manner.

MANAGEMENT AUDIT SERVICES FRAMEWORK

Metro's vision is to provide 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 our work is consistently reliable, independent and objective, Management Audit completes work under 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
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:
- Monitor and verify key regulatory and legislative compliance;
- Assess internal controls effectiveness and fiscal responsibility;
- Evaluate cost reasonableness of contracts and grants;
- Identify and recommend business process improvements;
- Evaluate and recommend efficiencies and effectiveness of programs and functions;
- Evaluate safety and security of agency systems, programs and initiatives; and
- Track and report 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.

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 FY16 audit plan included in Appendix A is based on IIA's definition and attempts to provide a balanced and effective review of the entire agency constrained by Management Audit resource limitations. Our FY16 plan is based on 29,750 direct audit hours to be provided by 13 budgeted audit professionals, 4 entry-level trainees and 1 intern. The audit hours for the Chief Auditor and her management team are not included in the direct audit hours.

This is the CEO's audit plan being presented to the Board for approval. 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.

ALLOCATION OF AUDIT RESOURCES

The direct audit hours are allocated as follows:

- 22,900 hours (77%) for new audits,
- 3,000 hours (10%)for CEO requested projects, and
- 3,850 hours (13%) for audits which are still in process.

OUTSOURCED & CO-SOURCED AUDITS

Based on industry best practices, we outsource some of the audits. On some of the work that we outsource, Management Audit now includes at least one staff auditor on the contracted work (co-sourcing) so that information is transferred internally. In addition, on some audits, staff auditors manage the work and external consultants are added to provide subject matter expertise.

This methodology trains internal auditors in specialized areas and ensures Management Audit receives the specialized expertise needed at the most economical price. The audits that we plan on either outsourcing or co-sourcing have been identified in the FY16 detailed listing of audits.

APPENDIX A

DETAILED LISTING OF AUDITS

Strategic Goal #1 – Improve transit services

	Title	Objective	Area
1.	Buy America Post Award	Post award audit for Kinkisharyo and New Flyer Bus.	Vendor/Contract Management
2.	Rail Overhaul and Maintenance Audit	Efficiency and effectiveness of the rail overhaul and Refurbishment Projects programs. Operations	
3.	Audit of Wayside System	Evaluate effectiveness of maintenance of the rail traction, track and signals.	Operations
4.	Performance Audit of SCADA	Evaluate system-wide security of SCADA.	Operations
5.	Performance Audit of M3	Evaluate reliability of data in M3 system.	Operations
6.	Performance Audit of Power Maintenance & Usage	Evaluate efficiency and effectiveness of rail operations power maintenance and usage.	Operations
7.	Performance Audit of Division Practices	Evaluate efficiency and effectiveness of Division practices and processes.	Operations

Strategic Goal #2 – Deliver quality capital projects on-time and within budget

	Title	Objective	Area
1.	Audit of Contract Information Management System (CIMS) Phase I & II DEOD	Evaluate efficiency and effectiveness of system implementation success.	Vendor/Contract Management
2.	Performance Audit of Project Control Practices	Evaluate accuracy and completeness of project information.	Project Management Oversight
3.	Performance Audit of Effectiveness of Quality Assurance processes	Evaluate effectiveness of quality assurance practices and processes.	Engineering & Construction

Strategic Goal #3 – Exercise fiscal responsibility

	Title	Objective	Area
1.	Pre-award audits	Pre-award 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
3.	Incurred Cost Grant Audits	Verify costs are reasonable, allowable and allocable on cost reimbursable contracts for Cities & County MOUs.	Planning & Development
4.	Incurred Cost Grant Audits	Verify costs are reasonable, allowable and allocable on cost reimbursable contracts for Caltrans MOUs.	Engineering & Construction
5.	Audit of agency-wide IT Security	Evaluate effectiveness of internal controls for cyber security.	Information Technology
6.	Audit of Accounts Receivable	Validate adequacy of current policies and procedures; compliance with policies and procedures; and appropriate segregation of duties exists.	Finance & Administration
7.	Performance Audit of Request for Proposal Process	Evaluate efficiency and effectiveness of RFP process and risk of non-compliance with FTA funding requirements.	Vendor/Contract Management
8.	Audit of P-card Purchases	Evaluate compliance to P-card purchase requirements.	Vendor/Contract Management
9.	Performance Audit of Overtime Usage	Evaluate the use of Overtime.	Agency-Wide
10.	Performance Audit of IT Asset Management	Evaluate effective management of technology asset process.	Information Technology
11.	Performance Audit of Special Fare Programs	Audit of effectiveness of internal controls of A-TAP, B-TAP, I-TAP, YOTM, LACTOA and other special fare programs.	Communications
12.	Performance Audit of IDIQ type contracts	Evaluate efficiency and administration of Indefinite delivery, indefinite quantity (IDIQ) type contracts including appropriateness of consultant hours/tasks.	Engineering & Construction
13.	Annual Business Interruption Fund Audit	Annual required audit of Business Interruption Fund program.	Vendor/Contract Management

	Title	Objective	Area
14.	Annual Access Services Audit	Required annual audit of Access Services.	Finance & Administration
15.	External Audits	Outsourced audits of Measure R, Prop A&C, Consolidated, EZ pass, Metrolink, non-profits, STIP, Express Lanes, Metro Financial Audit and PRMA	Finance & Administration

Strategic Goal #8 – Enhance safety conscious culture with employees, contractors and customers

	Title	Objective	Area
1.	Annual Audit of Sheriff's Contract	Verify contract compliance and performance requirements of LASD contract.	LAMPS
2.	Performance Audit of Business Continuity Program	Evaluate efficiency and effectiveness of the plan to restore essential operations and functions after an emergency.	Corporate Safety & Risk Management
3.	Performance Audit of Safety Program	Evaluate efficiency and effectiveness of the agency wide safety program including the accuracy of reported metrics.	Corporate Safety & Risk Management
4.	Performance Audit of Accident Prevention Practices	Evaluate efficiency and effectiveness of accident prevention practices. Operations	

Strategic Goal #9 – Sustain the environment with energy and reduced greenhouse emissions

	Title	Objective	Area
1.	Performance Audit of Management of Environmental Compliance	Evaluate the effectiveness of agency's environmental compliance program.	Engineering & Construction