

Quarterly Report to Metro Board of Directors

FY 2024 Third Quarter



Metro

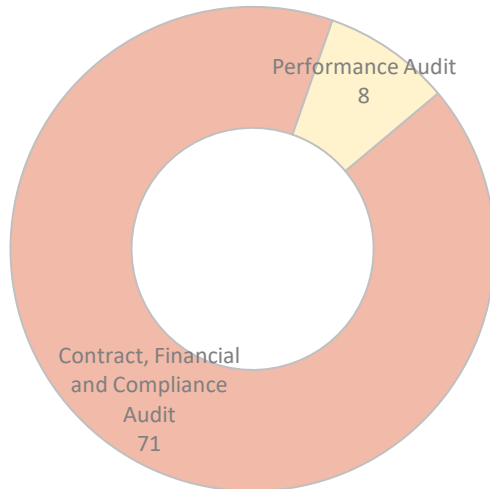
**MANAGEMENT
AUDIT SERVICES**

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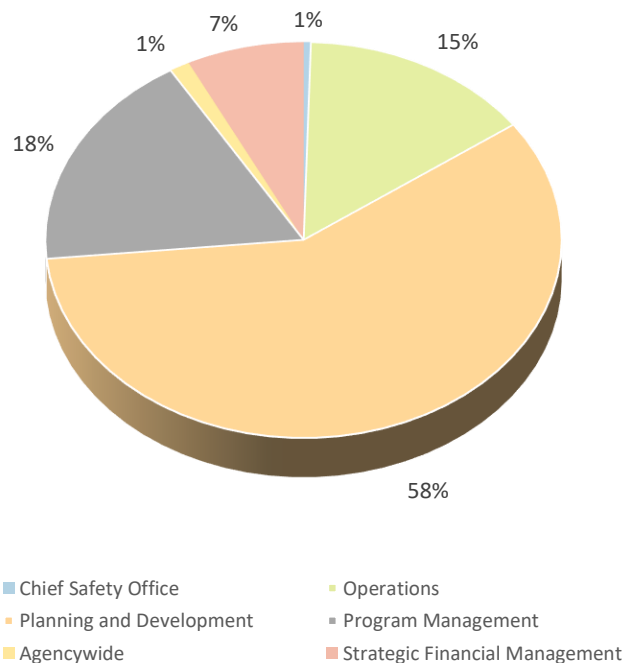
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Executive Summary

In Progress Projects
as of March 31, 2024



Summary of Audit Activity by Department
Reporting Period
January 1, 2024 – March 31, 2024



Summary of In Progress Audit Activity

Management Audit Services (MAS) has 79 in progress projects as of March 31, 2024, which include 8 performance projects and 71 contract, financial and compliance audits. The in-progress performance projects are listed in Appendix A.

As of the reporting period, there are 19 open MAS audit recommendations.

Summary of Third Quarter Completed Audit Activity

MAS completed 143 audit projects. The projects are comprised of one performance audit, 13 contract, financial and compliance audits and 129 financial and compliance audits of Metro.

The completed performance audit is highlighted on page 4. The completed contract, financial and compliance audits are highlighted on page 5. The financial and compliance audits of Metro issued by the external Certified Public Accounting (CPA) firms are highlighted beginning on page 6.

A summary of the open audit recommendations is included on page 7.

Performance Audits

This section includes performance audits completed in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards in addition to other types of projects performed by the Performance Audit team to support Metro. The other types of projects may include independent reviews, analyses, or assessments of select areas. The goal of non-audit projects is to provide Metro with other services that help support decision-making and promote organizational effectiveness.

Rail Operations Continuity of Operations Plan

MAS completed a report summarizing the results of the Performance Audit of Rail Operations' Continuity of Operations Plan (COOP). The objective of the audit was to assess the adequacy of Rail Operations' COOP and Standard Operating Procedures (SOPs) for supporting mission essential functions during emergencies.

MAS noted that Rail Operations has a COOP and SOPs in place. However, the adequacy of both documents could be enhanced to better support Rail Operations' Mission Essential Functions during emergencies. MAS provided management with 14 recommendations and will follow up to ensure their implementation.

Contract, Financial & Compliance Audits

MAS staff completed 13 independent auditor reports on agreed-upon procedures for the following:

Project	Reviewed Amount	Questioned and/or Reprogrammed Amount
City of Bell	\$902,912	\$0
City of Westlake Village	\$4,410,844	\$303,278
City of Calabasas	\$888,999	\$0
City of South Pasadena	\$1,637,174	\$36,405
City of Los Angeles	\$597,543	\$57,438
City of Los Angeles Department of Transportation	\$1,163,626	\$0
City of Whittier	\$662,801	\$246,128
<i>Reviewed and questioned costs were not identified for the following as these audits reviewed labor rates for pre-award or indirect cost rates.</i>		
SHA Analytics	N/A	N/A
SunWest Engineering Constructors, Inc.	N/A	N/A
Hatch Associates Consultants, Inc.	N/A	N/A
Capital GCS, Inc.	N/A	N/A
Turner Engineering	N/A	N/A
Virginkar & Associates	N/A	N/A
Total Amount	\$10,263,899	\$643,083

Details on contract, financial and compliance audits completed during FY 2024 third quarter are included in Appendix B.

Financial and Compliance Audits of Metro

The following highlights the financial and compliance audits of Metro completed by the external CPA firms:

Consolidated Audits – Issued Various Dates

MAS contracted with two firms, Simpson & Simpson, CPAs and Vasquez & Company, to conduct the financial and compliance audits of the following programs for the year ended June 30, 2023:

- Local Funding Program to 88 cities and Unincorporated Los Angeles County
 - Proposition A Local Return
 - Proposition C Local Return
 - Measure M Local Return
 - Measure R Local Return
 - Transportation Development Act (TDA) Article 3, Article 4 and Article 8 Programs
 - Proposition A Discretionary Incentive Program
- Prop A Discretionary Incentive Grant
 - Antelope Valley Transit Authority
 - Pomona Valley Transportation Authority
- Transit System Operators of Commerce, Redondo Beach, Torrance
 - Transit System Funds
 - Measure M 20%
 - Measure R 20%
- Proposition A Growth Over Inflation (GOI) Fund to Burbank, Glendale, LADOT and Pasadena
- Fare Subsidies Programs
 - Low-Income Fare is Easy (LIFE) Program
- Metrolink Program
- EZ Transit Pass Program
- Access Services*
- LADOT

The 129 audits issued by external CPA firms reviewed a total of \$1.05 billion in funds allocated to jurisdictions for these programs.

**The Access Services audit will be included in the FY24 fourth quarter report as it is pending determination of carryover amounts in Access Services' FY2025 budget.*

Local Return

Proposition A and C

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinances and Guidelines that are applicable to the Proposition A and Proposition C Local Return program for the fiscal year ended June 30, 2023.

The auditors found 43 instances of non-compliance for Proposition A and C, consisting of 26 findings not resulting in questioned costs. Seventeen (17) findings with questioned costs totaling \$2.1 million for Proposition A and \$1.2 million for Proposition C represent less than 1% of each total fund reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Measure R

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance and Guidelines that are applicable to the Measure R Local Return program for the fiscal year ended June 30, 2023.

The auditors found 14 instances of non-compliance for Measure R, consisting of 10 findings not resulting in questioned costs. Four (4) findings with questioned costs totaling \$442 thousand for Measure R represent less than 1% of the total amount reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Measure M

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance that are applicable to the Measure M Local Return program for the fiscal year ended June 30, 2023.

The auditors found 11 instances of non-compliance for Measure M, consisting of 9 findings not resulting in questioned costs. Two (2) findings with questioned costs totaling \$17 thousand for Measure M represent less than 1% of the total amount reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Non-Local Return

The auditors found that schedules/financial statements for the various programs included in the Consolidated Audit present fairly, in all material respects. They also found that the entities complied, in all material respects, with the compliance requirements of their respective guidelines. However, the auditors noted several compliance findings; nine (9) findings for the TDA Article 3 program, one (1) finding for the TDA Article 8 program, and two (2) findings for the LIFE program. Metro Program Managers are working with the fund recipients to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

A receive and file report with additional details on the Consolidated Audit will be brought to the committee in the coming months.

Audit Follow-Up and Resolution

The tables below summarize the open audit recommendations as of March 31, 2024.

MAS and External Audit Recommendations				
Executive Area	Closed	Currently Open	Added in Q3	Past Due
Chief People Office		3		
Chief Safety Office		2	4	
Operations			10	
Total		5	14	

Details of open audit recommendations for MAS are included in Appendix C.

Appendix A

Performance Audit - In Progress Projects as of March 31, 2024				
No.	Area	Project Number & Title	Description	Estimated Date of Completion
1	Operations	22-OPS-P03 - OCI Training	Assess the compliance of training records of new Bus Operators and of Operations employees working in Maintenance and Transportation with applicable Federal, State, and technical requirements. Training records will be assessed for accuracy and completeness.	4/2024
2	Strategic Financial Management	23-VCM-P01 - Contract Price Structures for Professional Services	Assess the process performed by contract administrators and project managers for firm fixed-price professional service contracts, payment structures and performance milestones. Assess the process used to determine the use of firm fixed price professional services contracts.	4/2024
3	Strategic Financial Management \ Chief People Office	23-ITS-P01 - Third Party Risk Management (Outsourced Service Providers)	Assess Metro's third party risk management policy and program, with a focus on management of information security risks.	5/2024
4	Chief Safety Office	24-OPS-P01 - <i>Special Review</i> Fire Safety Response	Examine the adherence to Metro protocols in response to USG fire alarm activation.	5/2024
5	Operations	23-SEC-P01 - Bus Operations Continuity of Operations Plan (COOP)	Evaluate the adequacy of Bus Operations' COOP and Standard Operating Procedures to support mission essential functions during emergencies.	5/2024
6	Program Management	24-CON-P01 - Eastside Access Improvement Project (EAIP)	Assess whether usage of EAIP funds, including grants, complied with applicable terms, conditions, and restrictions, and determine whether the executed scope of the EAIP aligned with the scope described in the Board Report, Grant, and other funding agreements and assess reasons for variances, including change orders.	6/2024
7	Strategic Financial Management	23-VCM-P03 - Spare Parts Inventory	Assess whether Logistics manages critical spare parts inventory effectively and in accordance with Metro policies and procedures. This includes examining methodology for identifying critical components and ensuring that necessary spare parts are readily available.	6/2024
8	Program Management	24-CON-P01 - Purple (D-Line) Extension 1 (PDLE1)	Evaluate the state of processes and planning for final-year activities (testing, certification, training, activation) of PDLE1 transit project prior to start of revenue operations.	7/2024

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of March 31, 2024				
No.	Area	Audit Number & Type	Auditee	Date Completed
1	Planning & Development	24-PLN-A01	City of Bell	1/2024
2	Program Management	23-CON-A04	SHA Analytics, LLC	2/2024
3	Planning & Development	24-PLN-A02	City of Westlake Village	2/2024
4	Planning & Development	24-PLN-A10	City of Calabasas	3/2024
5	Planning & Development	24-PLN-A17	City of South Pasadena	3/2024
6	Planning & Development	22-PLN-A01	City of Los Angeles Department of Transportation	3/2024
7	Planning & Development	20-PLN-A01	City of Los Angeles Department of Transportation	3/2024
8	Planning & Development	23-PLN-A12	City of Whittier	3/2024
9	Program Management	22-CON-A03	SunWest Engineering Constructors, Inc.	3/2024
10	Operations	24-OPS-A02(A)	Hatch Associates Consultants, Inc.	3/2024
11	Operations	24-OPS-A02(B)	Capitol GCS, Inc.	3/2024

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of March 31, 2024				
No.	Area	Audit Number & Type	Auditee	Date Completed
12	Operations	24-OPS-A02(C)	Turner Engineering Company	3/2024
13	Operations	24-OPS-A02(D)	Virginkar & Associates, Inc.	3/2024

Appendix C

Open Audit Recommendations as of March 31, 2024						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	16	We recommend the Deputy Chief Information Technology Officer require Information Technology Services team to instruct system owners to review, update and/or deactivate the user access lists immediately.	12/31/2024	
2	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	17	We recommend the Deputy Chief Information Technology Officer require Information Technology Services team to clarify and enforce the roles and responsibilities of system owners and data custodians to review and update the access list periodically.	12/31/2024	
3	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	18	We recommend the Deputy Chief Information Technology Officer require Information Technology Services team to instruct system owners to review, update and/or deactivate the user access lists immediately.	12/31/2024	
4	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	1b	We recommend the Deputy RSAM officer periodically review accounting records for acquisitions (at least annually) to update the TAM database and to help ensure completeness. b) Continue working with the EAMS implementation team to plan, design, develop and implement a system integration/interface to transfer available asset data from the accounting system to the new EAMS. Update: Sufficient evidence of implementation of this recommendation will be available after Phase 3 of the EAMS is completed.	11/30/2022	12/31/2024
5	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	3	Work with the EAMS implementation team and other functional groups (Accounting, ITS, Operations etc.), who maintain an asset list, to consolidate inventory records in the upcoming EAMS. Update: Sufficient evidence of implementation of this recommendation will be available after Phase 3 of the EAMS is completed.	11/30/2022	12/31/2024
6	Operations	21-SEC-P01 - Performance Audit of Rail Operations' Continuity of Operations Plan	10 total	The recommendations included in this report address findings in Metro's Operational System.	ongoing	
7	Chief Safety Office	21-SEC-P01 - Performance Audit of Rail Operations' Continuity of Operations Plan	4 total	The recommendations included in this report address findings in Metro's Operational System.	ongoing	

Any findings that have not been corrected 90 days after the due date are reported as late.