

Quarterly Report to Metro Board of Directors

FY 2023 Third Quarter



Metro

**MANAGEMENT
AUDIT SERVICES**

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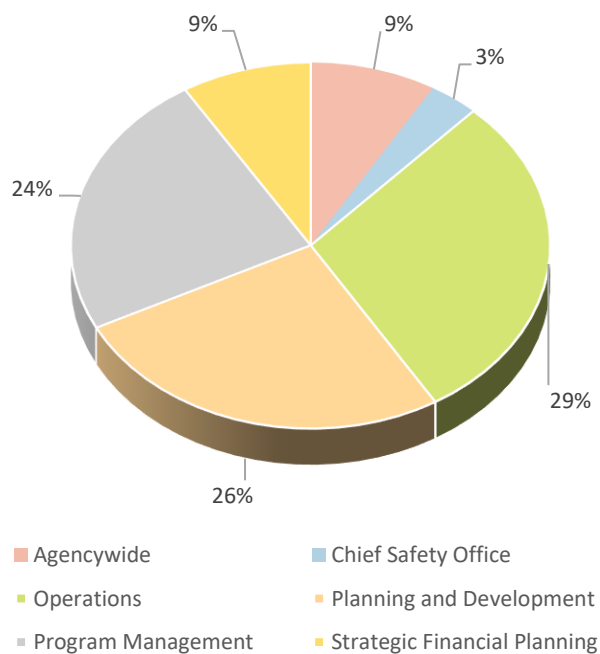
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Executive Summary

In Progress Audits
as of March 31, 2023



Summary of Audit Activity by Department
Reporting Period
January 1, 2023 – March 31, 2023



Summary of In Progress Audit Activity

Management Audit Services (MAS) has 64 in progress projects as of March 31, 2023, which include 7 performance audits and 57 contract, financial and compliance audits. The in-progress performance audits are listed in Appendix A.

As of the reporting period, there are 37 open MAS audit recommendations; and 8 open Office of Inspector General (OIG) audit recommendations.

Summary of Third Quarter Completed Audit Activity

MAS completed 159 audit projects and closed 16 open audit recommendations. The projects are comprised of one (1) performance audit, 12 contract, financial and compliance audits and 146 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 on page 6.

A summary of closed and open audit recommendations is included on page 9.

Performance Audits

This section includes performance audits completed according to 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, analysis, 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.

Business Interruption Fund

MAS contracted with BCA Watson Rice to conduct an audit of the Pilot Business Interruption Fund and Pacific Coast Regional Small Business Development Corporation's (PCR) compliance with the Los Angeles County Metropolitan Transportation Authority's (Metro) Business Interruption Fund (BIF) Administrative Guidelines and Fund Disbursement Procedures. The objective of this audit was to determine PCR's compliance with Metro's BIF Administrative Guidelines and Fund Disbursement Procedures for the fiscal year ended June 30, 2022.

The auditors found that PCR complied, in all material respects, with Metro's Business Interruption Fund Administrative Guidelines and Fund Disbursement Procedures.

Contract, Financial & Compliance Audits

MAS staff completed 12 independent auditor's report on agreed-upon procedures for the following projects:

Project	Reviewed Amount	Questioned and/or Reprogrammed Amount
Pacifica Services, Inc. – Westside Subway Extension Project	N/A	N/A
City of El Segundo – Park Place Roadway Extension and Railroad Grade Separation Project	\$1,068,895	\$247,769
City of Commerce – Commerce Goods Movement Atlantic Blvd. Project	\$4,324,408	\$48
BA Inc. – Regional Connector Transit Corridor Project	N/A	N/A
BA Inc. – Regional Connector Transit Corridor Project	N/A	N/A
City of Commerce – Atlantic Blvd. Improvements Project	N/A	N/A
City of Palmdale – Rancho Vista Widening Project	\$724,261	\$1,886,399
City of Santa Clarita – Golden Valley Road Widening / Gap Closure over SR14 Project	\$9,333,558	\$568,424
City of Downey – Lakewood/Rosemead at Telegraph Road Intersection Improvements Project	\$2,703,444	\$-
CH2M Hill, Inc. – SR-710 Gap Alternative Analyses Project	\$2,852,230	\$141,103
City of Santa Clarita – ITS Phase IV Interconnect Gap Closure and Signal Synch Project	\$3,742,369	\$289,625
Virtek Company – Airport Metro Connector/96th Street Transit Station	N/A	N/A
Total Amount	\$24,749,165	\$3,133,368

Details on contract, financial and compliance audits completed during FY 2023 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:

Basic Financial Statements and Component Units Audits – Issued Various Dates

MAS contracted with Crowe, LLP to conduct the basic financial statements and component unit audits for the year ended June 30, 2022. The resulting reports include:

- Annual Comprehensive Financial Report (ACFR);
- Single Audit for the Federal Funds;
- Federal Funding Allocation Data for NTD as a Transportation Operating Agency;
- Transportation Development Act (TDA) Operations Agency – 50% Expenditure Limitation Schedule;
- TDA Schedule of Revenue, Expenditure and Changes in Fund Balances;
- State Transit Assistance (STA) Special Revenue Fund Financial Statements;
- Service Authority for Freeway Emergencies (SAFE) Financial Statements; and
- Low Carbon Transit Operations Program (LCTOP) Compliance Audit.

The independent auditor issued unmodified opinions on all audit reports for FY22, which indicates that all financial statements for FY22 were fairly presented and that Metro complied in all material respects with the applicable financial reporting framework and compliance requirements.

Crowe identified two findings in the Single Audit Report related to internal controls over procurements and compliance with federal wage rate requirements. Management concurred with the recommendations and has implemented corrective action plans to address the findings.

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, 2022:

- 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

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, 2022.

The auditors found 48 instances of non-compliance for Proposition A and C, consisting of 21 minor findings related to untimely form submittals. Twenty (20) findings with questioned costs totaling \$1.6 million for Proposition A and \$1.6 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, 2022.

The auditors found 18 instances of non-compliance for Measure R, consisting of 11 minor findings related to untimely form submittals. Seven (7) findings with questioned costs totaling \$1.3 million for Measure R represent approximately 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, 2022.

The auditors found 18 instances of non-compliance for Measure M, consisting of 11 minor findings related to untimely form submittals. Seven (7) findings with questioned costs totaling \$1.8 million for Measure M represent 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; sixteen (16) findings for the TDA Article 3 program, five (5) findings for the LIFE program, and one (1) finding for the EZ Pass program. Metro Program Managers are working with the funds 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 and closed audit recommendations as of March 31, 2023.

MAS and External Audit Recommendations				
Executive Area	Closed	New	Currently Open	Past Due
Chief of Staff			1	
Chief People Office	12		5	
Chief Safety Office	1		5	
Operations			17	
Planning & Development	1			
Program Management	2			
Total	16		28	

OIG Audit Recommendations				
Executive Area	Closed	New	Currently Open	Past Due
Operations			1	
Chief Safety Office			7	2
Total			8	2

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

Appendix A

Performance Audit - In Progress Audits as of March 31, 2023				
No.	Area	Audit Number & Title	Description	Estimated Date of Completion
1	Operations	22-OPS-P01 - Micro Transit Program	Assess Shared Mobility's efforts in managing the Micro Transit Program.	5/2023
3	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.	5/2023
4	Operations	21-SEC-P01 - Business Continuity Plan	Evaluate the adequacy of Rail Operations' Continuity of Operations Plan and Standard Operating Procedures to support Rail Operations' mission essential functions during emergencies.	5/2023
5	Strategic Financial Management	23-VCM-P01 - Performance Audit of 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.	6/2023
2	Planning & Development	21-PLN-P02 - Real Estate Management System	Determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.	6/2023
6	Program Management	23-OMB-C01 - Capital Project Inflation Risk	Review Metro's process for projecting and managing inflation risk for construction projects. Consider the construction market analyses done by Program Management as well any consideration that has been given to hedging strategies, estimating and forecasting efforts related to this area.	8/2023
7	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.	9/2023

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of March 31, 2023				
No.	Area	Audit Number & Type	Auditee	Date Completed
1	Program Management	20-CON-A08 - Agreed-upon Procedures	Pacifica Services, Inc.	1/2023
2	Planning & Development	22-HWY-A07 - Agreed-upon Procedures	City of El Segundo	1/2023
3	Planning & Development	20-PLN-A54 - Agreed-upon Procedures	City of Commerce	1/2023
4	Program Management	19-CON-A07 - Agreed-upon Procedures	BA Inc.	2/2023
5	Program Management	19-CON-A08 - Agreed-upon Procedures	BA Inc.	2/2023
6	Planning & Development	20-HWY-A14 - Agreed-upon Procedures	City of Commerce	2/2023
7	Planning & Development	23-PLN-A05 - Agreed-upon Procedures	City of Palmdale	2/2023
8	Planning & Development	22-PLN-A04 - Agreed-upon Procedures	City of Santa Clarita	3/2023
9	Planning & Development	21-HWY-A03 - Agreed-upon Procedures	City of Downey	3/2023
10	Planning & Development	20-PLN-A12 - Agreed-upon Procedures	CH2M Hill, Inc.	3/2023
11	Planning & Development	23-PLN-A06 - Agreed-upon Procedures	City of Santa Clarita	3/2023
12	Program Management	22-CON-A06 - Agreed-upon Procedures	Virtek Inc.	3/2023

Appendix C

Open Audit Recommendations as of March 31, 2023						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Chief of Staff	18-RSK-P01 - Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	4	We recommend that the Chief Program Management Officer take the lead role in collaborating with all responsible parties, such as V/CM, Project Delivery Third Party Coordination, County Counsel, etc., to establish agreements with utility companies to guarantee service continuity and restoration in emergency situations. Update: Metro continues to negotiate Essential Use designation with SCE, DWP & CPUC as a basis for utility emergency service agreements. In addition, AB 463, currently awaiting a final hearing from the Assembly, would require the PUC to consider the economic, social equity, and mobility impacts to the customers that rely on electrical service to operate public transit vehicles when establishing priorities for service during electrical or safety-related shortages.	3/31/2020	7/31/2023
2	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	2	We recommend the Deputy Chief Information Technology Officer require Information Security management to: a) Determine whether there is a need for information security awareness training to cover necessary policy requirements related to information security; and b) Incorporate any near-term policy updates related to information security in the information security awareness training material.	12/31/2023	
3	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	7	We recommend that the Deputy Chief Information Technology Officer require Information Security management to establish a formal guideline that guides decisions on who should receive information security awareness training and the type of such training method. This guideline should consider the access levels of users, the cost-benefit associated with training different groups of users, and the risks associated with not providing training to particular users. Training and its frequency may be customized and tailored to provide the education and information applicable and necessary to the group of participants.	6/30/2023	
4	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	
5	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	
6	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	
7	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	1a	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. a) Develop a formal process to obtain necessary asset information.	8/31/2023	

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

Appendix C

Open Audit Recommendations as of March 31, 2023						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
8	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	1aii	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. ii. Propose to Accounting a revised Capital Asset Transfer request form to obtain sufficient asset information when assets are acquired and/or placed in service.	8/31/2023	
9	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.	11/30/2022	12/31/2024
10	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	2	For existing assets, make use of accounting records to identify all missing assets that should be in the TAM database.	11/30/2022	8/31/2023
11	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.	11/30/2022	12/31/2024
12	Operations	19-OPS-P02 - Performance Audit of the Rail Communications Systems	3 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of June 2022, 9 of 12 recommendations were closed.	On-going	
13	Operations	19-OPS-P03 - Performance Audit of the SCADA Security Controls	7 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of September 2021, 6 of 13 recommendations were closed.	On-going	
14	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	1	Bus and Rail Transportation management should enforce retention of required overtime (OT) related documents for all instances of OT worked, including partial and split shifts. Update: The on-line Overtime Request tool, including retention, retrieval and reporting is live and in use now by those aware of it. General use will expand as training is done and awareness increases at each Division.	12/31/2021	4/30/2023
15	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	3	Bus and Rail Transportation management should train and periodically remind all line management, TOS and RTOS of overtime documentation and retention requirements. Update: Implementation of the on-line Request tool for Recommendation 4 above resolves this issue.	12/31/2021	4/30/2023
16	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	4	Bus and Rail Transportation management should require employees to file copies of system overtime request forms for other divisions at their home division. Update: Implementation of the on-line Request tool for Recommendation 4 above resolves this issue.	9/30/2021	4/30/2023

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

Appendix C

Open Audit Recommendations as of March 31, 2023						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
17	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	5	Bus and Rail Transportation management should require employees to bring supporting paperwork back to their home division each time they work at another division. Update: Implementation of the on-line Request tool for Recommendation 4 above resolves this issue.	9/30/2021	4/30/2023
18	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	6	Bus and Rail Transportation management should ensure copies of documentation supporting overtime are retained as required at both divisions when employees transfer permanently from one division to another. Update: Implementation of the on-line Request tool for Recommendation 4 above resolves this issue.	9/30/2021	4/30/2023
19	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	7	Bus and Rail Transportation management should require employees to bring supporting paperwork back to their home division each time they work at another division. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	4/30/2023
20	Operations	18-AGW-P01-B - Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	8	Bus and Rail Transportation management should ensure copies of documentation supporting overtime are retained as required at both divisions when employees transfer permanently from one division to another. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	4/30/2023

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

Appendix D

OIG Open Audit Recommendations as of March 31, 2023						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Operations	20-AUD-06 - Review of LA Metro's Freeway Service Patrol (FSP) Program	6	LA Metro FSP should set a target for its Benefit-to-Cost ratio, either in comparison to the statewide average or develop its own annual target. This is especially important as costs are expected to rise over the next several years as insurance and vehicle costs continue to escalate. If such the annual target is not met, it would trigger LA Metro FSP to conduct a deeper evaluation of its program and identify potential strategies to improve the following year's performance.	10/1/2020	7/1/2023
2	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	2	SSLE should ensure that future contracts include a contract budget that specifies the amount of funds budgeted for each contract year and develop procedures to help ensure that the annual budgets are adhered to.	6/30/2023	
3	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	3	SSLE should in future contracts, to more effectively control and track the use of contract funds, allocate within the budget a separate reserve amount to be used for special events and enhanced deployments.	6/30/2023	
4	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	4	SSLE should for future contracts, consider the impact that the use of full-time contracted personnel will have on the use of funds over the life of the contract. In addition, specify within the contract the job classifications, and number of positions within each classification that can be charged to the Metro contract on a full-time basis.	6/30/2023	
5	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	10	SSLE should for future contracts, work with each contractor to include language in their respective contracts that more thoroughly and clearly define how services will be billed and what costs will be allowed and/or disallowed.	6/30/2023	
6	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	11	SSLE should continue to work on strengthening controls in the area of monitoring and oversight by addressing the deficiencies cited in areas such as Community Policing and Key Performance Indicators.	Pending	
7	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	15	SSLE should for required reporting, review with input from the law enforcement agencies, the reports and information currently required to determine if changes are necessary. As part of this review determine if different or additional information would be more beneficial.	Pending	

Appendix D

OIG Open Audit Recommendations as of March 31, 2023						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
8	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	16	SSLE should with input from the three law enforcement agencies, develop baseline performance levels (targets and goals) for key performance indicators.	10/31/2021	1/31/2022
9	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	17	SSLE should develop and update annually a written agency-wide Community Policing Plan.	10/31/2021	1/31/2022
10	Chief Safety Office	22-AUD-02 - Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	20	SSLE should include in future contracts the requirement of wearing body cameras by all contracted law enforcement personnel when policing the Metro System.	6/30/2023	