



Board Report

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**FINANCE, BUDGET AND AUDIT COMMITTEE
OCTOBER 14, 2020**

SUBJECT: FY21 AUDIT PLAN

ACTION: ADOPT THE FY21 PROPOSED AUDIT PLAN

RECOMMENDATION

ADOPT the FY21 Proposed Audit Plan.

ISSUE

Management Audit Services (MAS) is required to complete an annual agency-wide risk assessment and submit an annual audit plan to the Board of Directors for approval.

BACKGROUND

At its January 2008 meeting, the Board adopted modifications to the FY07 Financial Stability Policy. The Financial Stability Policy requires Management Audit Services (MAS) to develop a risk assessment and an audit plan each year and present it to the Board. It also requires that the Finance, Budget and Audit Committee provide input and approval of the audit plan.

DISCUSSION

The FY21 Audit Plan (Audit Plan) has been developed with consideration to the current state of the agency as result of the impacts of COVID-19 and the results of the agency-wide risk assessment including input from Metro’s senior leadership. As a result, the Audit Plan is flexible, relevant and risk based; and the plan includes audit projects that will provide actionable information to support risk management efforts, add value to the agency and lend to the achievement of organizational goals in alignment to Metro’s Vision 2028 Strategic Plan.

A. Risk Assessment

MAS staff performed an agency-wide risk assessment between the period of March 2020 and July 2020 through a comprehensive and systematic process that entailed the review of financial, operational and strategic reports and data; internal stakeholder meetings with the senior leadership teams of each Metro department; and the analysis of risks by themes and impact. The risk assessment ensured continued emphasis on the agency’s internal control framework, vulnerability to

fraud and the identification of new and emerging risks that have the potential to affect the agency-wide performance.

B. Enterprise Risk Themes

The agency-wide risk assessment process lent to the identification of core enterprise-risk themes by internal stakeholders summarized as:

- **Staffing:** The impacts of the pandemic have led to the decentralization of planning and customer service efforts, more reliance on e-training, remote work practices and restrictions on the backfill of vacant positions.
- **Political/external:** During this period of uncertainty, there are risks related to the agency's ability to react to new federal, state and local directives, the increase in crisis populations, and uncertainty related to additional federal funding for public transit.
- **Financial:** Financial constraints have deferred the progress of selected capital projects and delayed the initiation of certain process improvement initiatives; and expressed risk related to decreased toll and transit fare revenues and availability of funds for emergency management activities.
- **Scale of capital projects:** The financial impacts of the pandemic and the general period of uncertainty have required an adjusted approach to the capital projects while ensuring adherence to Measure M schedules; and the completion of various environmental studies may be impacted due to the pandemic.
- **Global/supply chain:** Perceived risks related to the agency's internal capability to handle future procurement needs given existing resource constraints, potential impacts to global supply chains and the disruption to small business vendors.
- **Unknown:** There are some unique risks that do not fit clearly into one of the major risk categories. These risks include recovery of lost ridership, changes in population and societal behaviors and the restoration of pre-pandemic service levels and commuter patterns; including the general unknown of the "new normal" post pandemic.

C. Audit Plan

The FY21 Audit Plan includes 20 audit projects broken down into two categories; priority and discretionary. The priority audit projects will be given primary focus and initiated at the onset of the annual plan. The priority projects address high-level risk areas and risk impacts. The discretionary audit projects address lower-level risk areas and will be reassessed by MAS staff at mid-year review and initiated based on the status of priority audits, internal capacity and resources. MAS staff may also exercise the discretion to carry-forward discretionary audit projects to the FY22 annual audit plan.

The priority and discretionary audit projects listed below are summarized in Attachment A.

Priority	Discretionary
Business Interruption Fund	Access Services Operations and KPIs
COOP - Rail Operations	EAMS Pre-Implementation Reviews
COVID-19 Regulatory Compliance	EIS-EIR
Cybersecurity Follow Up	IT Awareness Third Party Vendors
M3 Replacement - Controls and Readiness	Metrolink Security
Metrolink Rehabilitation Projects	Microtransit
Micro Mobility Program	Pre-Award Cost Price Analysis
Telecommuting - Policy Revision	Rail Overhaul - Project Management
Transit Asset Inventory Records	Real Estate Management System
Westside Purple Line Extension	Access Services Operations and KPIs

DETERMINATION OF SAFETY IMPACT

Approval of this item will not impact the safety of Metro patrons or employees.

FINANCIAL IMPACT

Funding for the annual audit plan has been included Management Audit's FY21 budget and corresponding cost center.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Approval of this item supports Metro Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization. The projects included in the Audit Plan directly or indirectly support various goals outlined in Metro's Vision 2028 Strategic Plan.

ALTERNATIVES CONSIDERED

An alternative is not to approve the annual Audit Plan. This is not recommended since the Audit Plan is a management tool to systematically assign resources for the delivery of an agency-wide audit plan in accordance to the Financial Stability Policy. Additionally, the development of an annual internal audit plan is in accordance to MAS' Charter and the Generally Accepted Government Auditing Standards.

NEXT STEPS


Upon Board approval, MAS will develop the Audit Plan schedule; and deliver quarterly status reports to the Board of Directors.

ATTACHMENTS

Attachment A - FY21 Proposed Audit Plan

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