



ITEM ID: 2023-371-0

TRANSMITTAL DATE: January 19, 2024

MEETING DATE: January 26, 2024

TO: Board of Directors

FROM: Elisabeth Lazuardi, Director, Audit
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SUBJECT: Internal Audit Department Quarterly Update for Q1 FY 2024

Issue

The Internal Audit Department (Internal Audit) is providing quarterly updates on internal audits, external audits, and other activities. This item represents the first quarter of FY 2024 (July 1, 2023, to September 30, 2023).

Recommendation

Receive and file.

Strategic Commitment

This report aligns with the Strategic Business Plan commitment of:

- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair and investing in the development of our employees. By formally communicating updates on the progress of the FY 2024 Annual Audit Plan, the status of internal audits and other audit activities on a periodic basis, we are providing a snapshot of the Authority's ongoing efforts to improve business processes.

Background

The Internal Audit Charter requires the presentation of a quarterly progress report of the Annual Audit Plan to the Chief Executive Officer (CEO) and Board of Directors.

Discussion

I. Internal Audit Activities

- A. The FY 2024 Annual Audit Plan Update as of September 30, 2023 (Attachment A) is included with this report.
- B. The Contracts, Procurement & Material Management Department (CPMM) requested Internal Audit to validate the proposed labor rates for six consultants in December 2022 and 14 consultants in September 2023 for Contract E745-20 - On-Call Professional Engineering Design Services and Contract E746-20 - On-Call Engineering, Project Management, and Staff Assistance Services. Internal Audit engaged the public accounting firm Davis Farr LLP. The project is in progress.
- C. In March 2023, CPMM requested Internal Audit to validate the accuracy of rates billed and submitted by three consultants under Contract E743-16 - Engineering and Technical Support for Rolling Stock Acquisition, Maintenance and Overhaul Activities and determine if there are misbilling occurrences. The project is completed, and the final report was issued to CPMM in September 2023.

II. External Audit Activities

- A. Internal Revenue Service (IRS) Examination: The IRS initiated an examination related to payroll taxes and benefits in November 2022. The examination is in progress.
- B. FY 2023 Comprehensive Annual Financial Report and Single Audit. The audit is in progress and is scheduled to be completed by December 31, 2023.
- C. National Transit Database (NTD). The Federal Transit Administration (FTA) has established standards with regard to the data reported to it in the Federal Funding Allocation Statistics Form FFA-10 (FFA-10) for the SCRRRA annual NTD report. Agreed upon procedures were performed by the external audit firm Eide Bailly LLP to assist SCRRRA in evaluating that information included in the NTD report FFA-10 form for the year ended June 30, 2023 was in conformity with those standards. The annual NTD report package was submitted to the FTA in November 2023.
- D. FTA Triennial Review: The FY 2023 Federal Transit Administration (FTA) Triennial Review was recently completed. The FTA wants to ensure that awards are administered in accordance with the requirements of Federal Public Transportation Law, 49 U.S.C., Chapter 5. The Triennial Review is the FTA's assessment of SCRRRA's compliance with federal requirements. The site visit for the review occurred virtually during the period 07/17/2023 - 07/24/2023. The final report was issued on 09/15/2023. The Triennial Review focused on SCRRRA's compliance in 23 areas. The final report included deficiencies in two areas and no deficiencies in 21 areas. There were no repeat deficiencies from the previous FY 2019 Triennial Review. The two deficiencies are:
 - Failure to obtain FTA approval for FTA funded improvements disposal associated with the Inland Empire Maintenance Facility, which was subsequently incorporated into the Arrow Maintenance Facility as part of the Redlands Passenger Rail Project.
 - Insufficient oversight of SCRRRA contractor Equal Employment Opportunity (EEO) program.

All corrective actions related to the above deficiencies are due on 12/26/2023 and are tracked in the Internal Audit quarterly Corrective Action Status update report. Report copy of the Triennial Review report is available upon request.

Next Steps

Internal Audit will continue to report on a quarterly basis.

Prepared by: Claudia L. Casasola, Auditor II

Approved by: Elisabeth Lazuardi, Director, Audit

Attachment(s)

[Attachment A - IA Status Update FY24-Q1-Annual Audit Plan](#)