



**ITEM ID:** 2024-235-0

**TRANSMITTAL DATE:** October 4, 2024

**MEETING DATE:** October 11, 2024

**TO:** Audit and Finance Committee

**FROM:** Elisabeth Lazuardi, Director, Audit

**SUBJECT:** Fiscal Year 2024 Annual Audit Activities Review

### **Issue**

The Internal Audit Department (Internal Audit) is providing the Fiscal Year (FY) 2024 annual report to the Board as required by the Internal Audit Charter.

### **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. Through the audits performed in FY 2024, process improvements were made in various areas.

### **Background**

Internal Audit provides independent and objective assurance to the Authority. In conducting its day-to-day operations, Internal Audit is governed by the Board approved Internal Audit Charter and Internal Audit Policies. Internal Audit also follows the auditing standards:

- Government Auditing Standards issued by the Comptroller General of the United States; and
- International Standards for the Professional Practice of Internal Auditing (IIA Standards),

promulgated by the Institute of Internal Auditors.

## **Discussion**

### **Reporting Organizational Independence**

Auditing standards require that internal auditors be independent in fact and appearance to the entities for which they perform audit services. The Internal Audit function is organizationally independent, reporting functionally to the Board, and administratively to the Chief Executive Officer. Staff is confirming our independence for Fiscal Year 2023-24.

### **Fiscal Year 2024 Annual Internal Audit Plan and Audit Activities Summary**

1. External Audits – Served as audit liaison by coordinating and monitoring external audits, including those conducted by independent financial statement auditors and state and federal officials. For the FTA Triennial Review and FTA Subrecipient Review, Internal Audit was tasked with gathering the requested information in its liaison position, and all information requested by the external auditors was promptly provided. In preparation for the review, Internal Audit proactively reached out to departments and assisted departments in identifying potential areas of concern to address them accordingly.
  - FY 2022-23 Annual Financial Report Audit and Single Audit. Please refer to Item 6.D the Corrective Action Status Update - Fourth Quarter Ended June 30, 2024.
  - FY 2022-23 Agreed Upon Procedures – Annual National Transit Database (NTD)
  - FY 2022-23 Member Agency Memorandum of Understanding (MOU) Audit with Los Angeles Metropolitan Transportation Authority (LACMTA).
  - Internal Revenue Service (IRS) Examination - The IRS completed the examination related to payroll taxes and benefits.
  - 2023 FTA Triennial Review - The review was completed in September 2023. Please refer to Item 6.D the Corrective Action Status Update - Fourth Quarter Ended June 30, 2024.
  - 2023 OCTA & RCTC FTA Subrecipient Review - The review was completed in June 2024. Please refer to Item 6.D the Corrective Action Status Update - Fourth Quarter Ended June 30, 2024, presented on this meeting agenda.
2. Internal Audits, Contract Audits and Contract Cost Analysis - Conducted internal audits, contract audits, and contract cost analysis in accordance with the Board approved Fiscal 2023-24 Annual Audit Plan. See Attachment A.
3. CEO Special Requests:
  - Assisted the Safety, Security, and Compliance Department in completing the 2023 System Safety Program internal safety audits as required by the 49 CFR Part 270. IA assisted performing the internal safety audits for three safety elements: Element 12 – Accident Reporting, Element 13 – Safety Data Acquisition, Elements 15 & 16 – Risk Based Hazard Management.
  - Performed two limited surveys: Disadvantaged Business Enterprise (DBE) cost administrations and Full Time Equivalent (FTE) assessment agencywide.
4. Monitoring Corrective Action – Monthly follow-up on implementation of audit recommendations (internal and external audits) until all recommendations have been satisfactorily addressed. Activities included:
  - Review of support provided by management to close out corrective actions.
  - Meetings with management regarding pending items and deadlines; and
  - Quarterly updates to the Board of Directors on the status of corrective actions.

5. Internal Audit Department Projects - Conducted an agency-wide risk assessment, developed the FY 2024-25 Annual Audit Plan, and performed the annual internal quality control assessment (see Item 6.C the Fiscal Year 2024 Internal Quality Assurance Review report).
6. Internal Audit Administration – Activities included participation and preparation for board and staff meetings, on-going On-Call Audit Services contract management, FY2025 departmental budget preparation and ongoing budget monitoring, participation in various panels assisting other agency and other departments procurements and employee recruitments and attended trainings as part of the Continuing Professional Education required by the auditing standards.

### Internal Audit Productivity Fiscal Year 2023-24

Internal Audit has four full time auditor positions. The organizational structure is as follows: one (1) Director, two (2) Senior Auditors, and one (1) Auditor II. Table 1 shows the analysis of the total annual available and productive work hours, and Table 2 shows the allocation of the annual productive work hours for Internal Audit.

**Table 1: Total Annual Available and Productive Work Hours**

Item	Calculation for Projected Hours (4 FTEs)	Projected Hours FY 2023-24	Actual Hours FY 2023-24
Total Annual Available	2,080 Hours (per FTE) X 4 FTEs	8,320	8,323
Less: Vacation, Jury Duty, and Bereavement	30 days (240 hours per FTE) x 4 FTEs	(960)	(1,029)
Less: Holidays	12 days (96 hours per FTE) x 4 FTEs	(384)	(384)
<b>Total Annual Productive Work Hours</b>		<b>6,976</b>	<b>6,910</b>

**Table 2: Allocation of the Annual Productive Work Hours**

Audit Activity	<i>Projected</i> Productive Work Hours FY2023-24	%	<i>Actual</i> Productive Work Hours FY 2023-24	%
(1) External Audits	200	3%	478	7%
(2) Internal Audits, Contract Audits and Cost Analysis	2,520	36%	2,363	34%
(3) Special Requests	40	1%	371	5%
(4) Monitoring (Corrective Action Tracking)	300	4%	243	4%
(5) Internal Audit Department Projects	1,250	18%	815	12%
(6) External Quality Control Review (Peer Review)	40	1%	0	0%
(7) Internal Audit Administration	2,626	37%	2,640	38%
<b>Total Annual Productive Work Hours</b>	<b>6,976</b>	<b>100%</b>	<b>6,910</b>	<b>100%</b>

**Next Steps**

Internal Audit will report on the Board approved FY 2025 Audit Plan status on a quarterly basis.

Prepared by: Claudia Casasola, Auditor II

Approved by: Elisabeth Lazuardi, Director, Audit

**Attachment(s)**

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