



**ITEM ID:** 2023-260-0

**TRANSMITTAL DATE:** September 15, 2023

**MEETING DATE:** September 22, 2023

**TO:** Board of Directors

**FROM:** Elisabeth Lazuardi, Senior Manager, Audit

**SUBJECT:** Fiscal Year 2023 Annual Audit Activities Review

**Issue**

The Internal Audit Department (Internal Audit) is providing the Fiscal Year (FY) 2023 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 2023, process improvements were made in various areas.

**Background**

The Internal Audit Department (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 2022-23.

### **Fiscal Year 2023 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.
  - FY 2021-22 Annual Financial Report Audit and Single Audit.
  - FY 2021-22 Agreed Upon Procedures – Annual National Transit Database (NTD)
  - FY 2021-22 Member Agency Memorandum of Understanding (MOU) Audit with Los Angeles Metropolitan Transportation Authority (LACMTA).
  - Internal Revenue Service (IRS) Examination - The IRS initiated an examination related to payroll taxes and benefits.
  - 2023 FTA Triennial 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.
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 2022-23 Annual Audit Plan. See Attachment A.
3. Special Requests - No special requests during Fiscal 2022-23.
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 risk assessment, developed FY 2023-24 Annual Audit Plan, performed the annual internal quality control assessment, and TeamMate audit software upgrade. Additional hours were incurred in comparison to the projected hours primarily due to data migration, software setup, and training.
6. External Quality Control Review (Peer Review) - The peer review was performed for IA by independent auditors from the Association of Local Government Auditors (ALGA) with a rating of pass. The peer review report was presented to the Board in April 2023.
7. Internal Audit Administration – Activities included participation and preparation for board and staff meetings, on-going On-Call Audit Services contract management, ongoing budget monitoring, conducted research, attended trainings as part of the Continuing Professional Education required by the auditing standards.

**Internal Audit Productivity Fiscal Year 2022-23**

Internal Audit has four full time auditor positions. The organizational structure is as follows: one (1) Senior Audit Manager, two (2) Senior Auditors, and one (1) Auditor II.

Table 1 exhibits the analysis of the total annual *available* and *productive* work hours for Internal Audit for Fiscal Years 2022-23.

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

Item	Calculation for Projected Hours (4 FTEs)	Projected Hours FY 2022-23	Actual Hours FY 2022-23
Total Annual Available	2,080 Hours (per FTE) X 4 FTEs	8320	8352
Less: Vacation, Jury Duty, and Bereavement	25 days (200 hours per FTE) x 4 FTEs	(800)	(1168)
Less: Holidays	10 days (80 hours per FTE) x 4 FTES	(320)	*(384)
<b>Total Annual Productive Work Hours</b>		<b>7200</b>	<b>6800</b>

\* The Board approved 2 additional holidays on 11/18/2022. There were 12 holidays for FY2022- 23.

Table 2 demonstrates the allocation of the annual productive work hours for Internal Audit for Fiscal Year 2022-23.

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

Audit Activity	<i>Projected</i> Productive Work Hours FY2022-23	%	<i>Actual</i> Productive Work Hours FY 2022-23	%
(1) External Audits	475	7%	450	7%
(2) Internal Audits, Contract Audits and Cost Analysis	1,950	27%	1,468	22%
(3) Special Requests	200	3%	-	-%
(4) Monitoring (Corrective Action Tracking)	675	9%	305	4%
(5) Internal Audit Department Projects	1,200	17%	1,468	22%
(6) External Quality Control Review (Peer Review)	100	1%	314	5%
(7) Internal Audit Administration	2,600	36%	2,795	41%
<b>Total Annual Productive Work Hours</b>	<b>7,200</b>	<b>100%</b>	<b>6,800</b>	<b>100%</b>

## **Next Steps**

Internal Audit will report on the Board approved FY 2024 Audit Plan status on a quarterly basis.

Prepared by: Claudia Casasola, Auditor II

Approved by: Elisabeth Lazuardi, Senior Manager, Audit

## **Attachment(s)**

[Attachment A - IA Status Update FY23-Q4 Annual Audit Plan Presentation - FY2023 Annual Audit Activities Review](#)