



Internal Audit

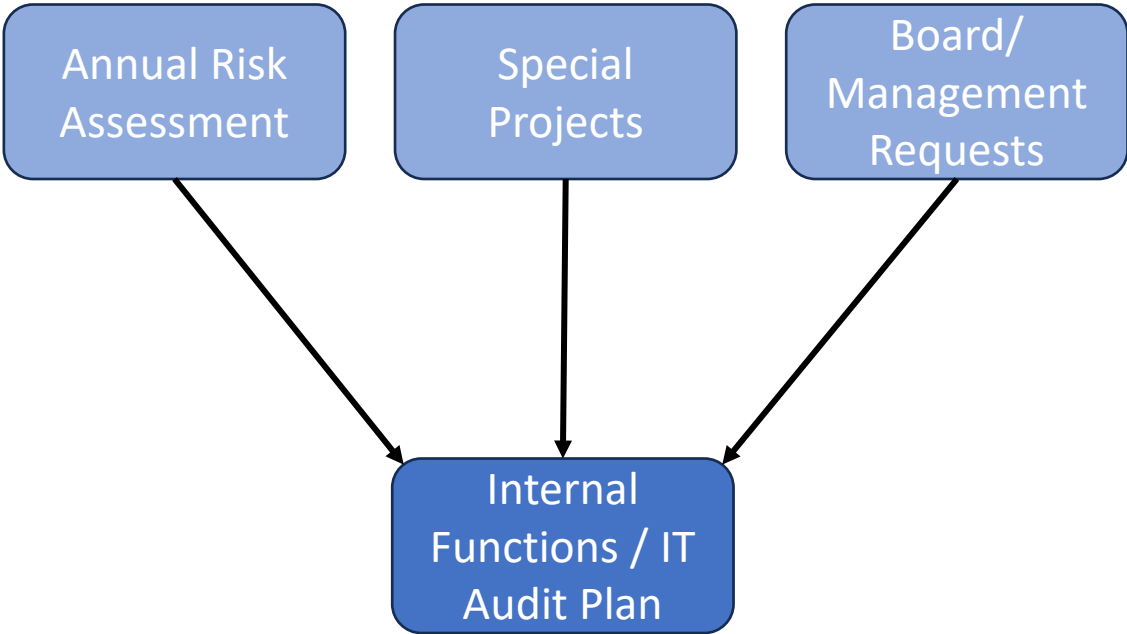
# Annual Risk Assessment & Audit Plan

FY 2025

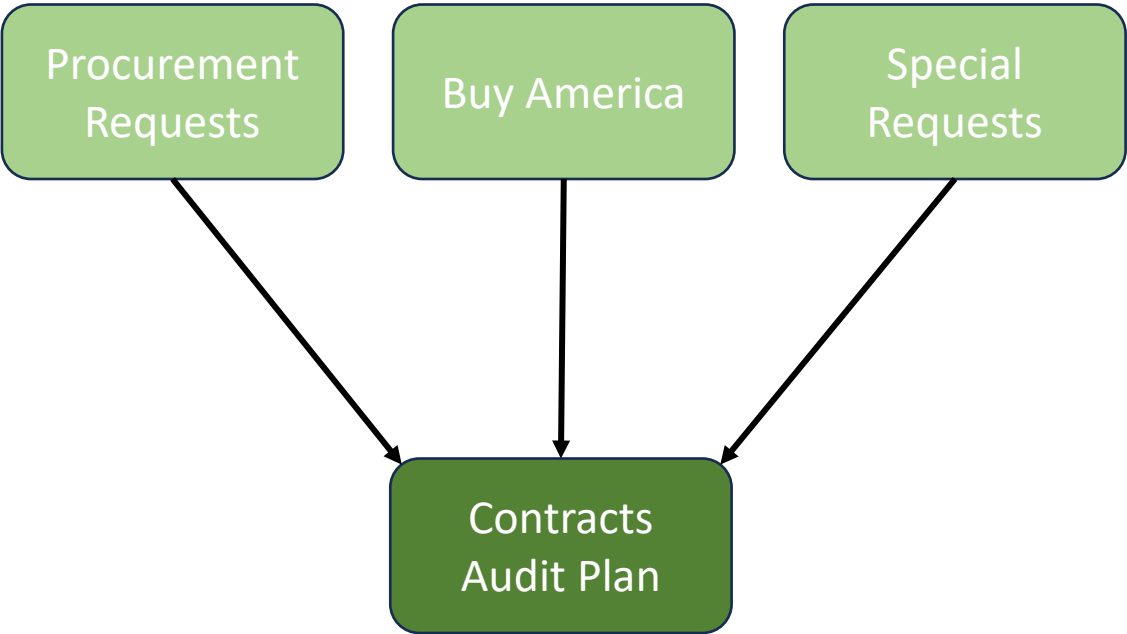
Internal Audit  
September 2024

# Inputs to Audit Plan

## Internal Functions / IT



## Contracts Group



# FY2025 Contracts Group Audit Plan

## Project Types

## Justification/Description

## Planned Projects

### **Buy America Audits**

The Federal Transit Administration (FTA), as a condition of funding, requires pre-award and post-delivery audits to ensure that the manufacturer of the rolling stock vehicle (rail and bus) is in compliance with the FTA Buy America Act regulations. The pre-award audit is conducted prior to the contract award and the notice-to-proceed. The post-delivery audit is conducted prior to acceptance of the rolling stock vehicle. At the end of the reviews, Audit provides reports stating whether the manufacturer is in compliance with FTA requirements. Twenty (20) Buy America type audits are anticipated for FY2025.

### **Cost/Price Analysis**

FTA Circular 4220.1F requires grantees to perform either a cost analysis or a price analysis for every procurement, including contract modifications. In other words, grantees such as METRO must be able to make an affirmative determination for every procurement that the price being paid is “fair and reasonable”. Audit provides reports stating whether costs or pricing data submitted by proposers meets these requirements for federal funding. One-hundred and twenty (120) cost/price analysis type audits are anticipated for FY2025.

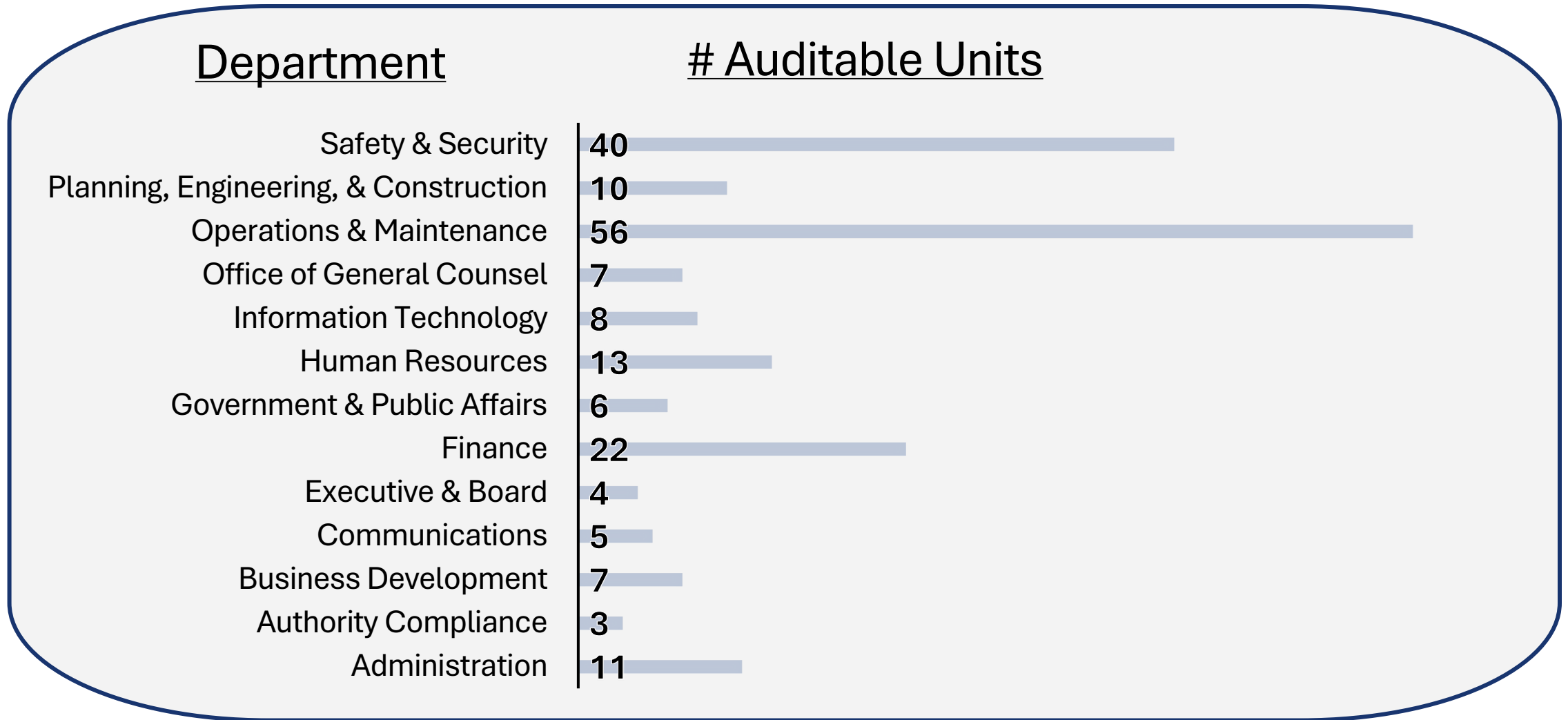
### ***Buy America***

- Pre-Award – Bus Rolling Stock
- Post-Delivery – Bus Rolling Stock

### ***Cost/Price Analysis***

- LRV Coupler Overhaul
- LRV Truck Overhaul
- Environmental, Engineering, and Assessment Consulting Contract
- Auto Fare Collection Equip Replacement
- All Fleets – Transmissions and Engines
- HOV/HOT Lanes ARGO Operation
- Electric Bus Battery Charger Station
- TMC TC Elevator & Escalator Upgrade
- Red Line Track Switch Upgrades
- Roof Replacement - POLK & West BOF
- Underground Storage Tank Upgrade
- El Dorado P&R Detention Pond
- Polk Retaining Wall Erosion
- 1900 Main Data Center Rehab
- Rail Interlocking Plants (OPS Engineering)
- Other Consulting and Services
- Electric Bus Battery Charger Stations
- Construction Materials Testing
- Construction Management

# Audit Universe



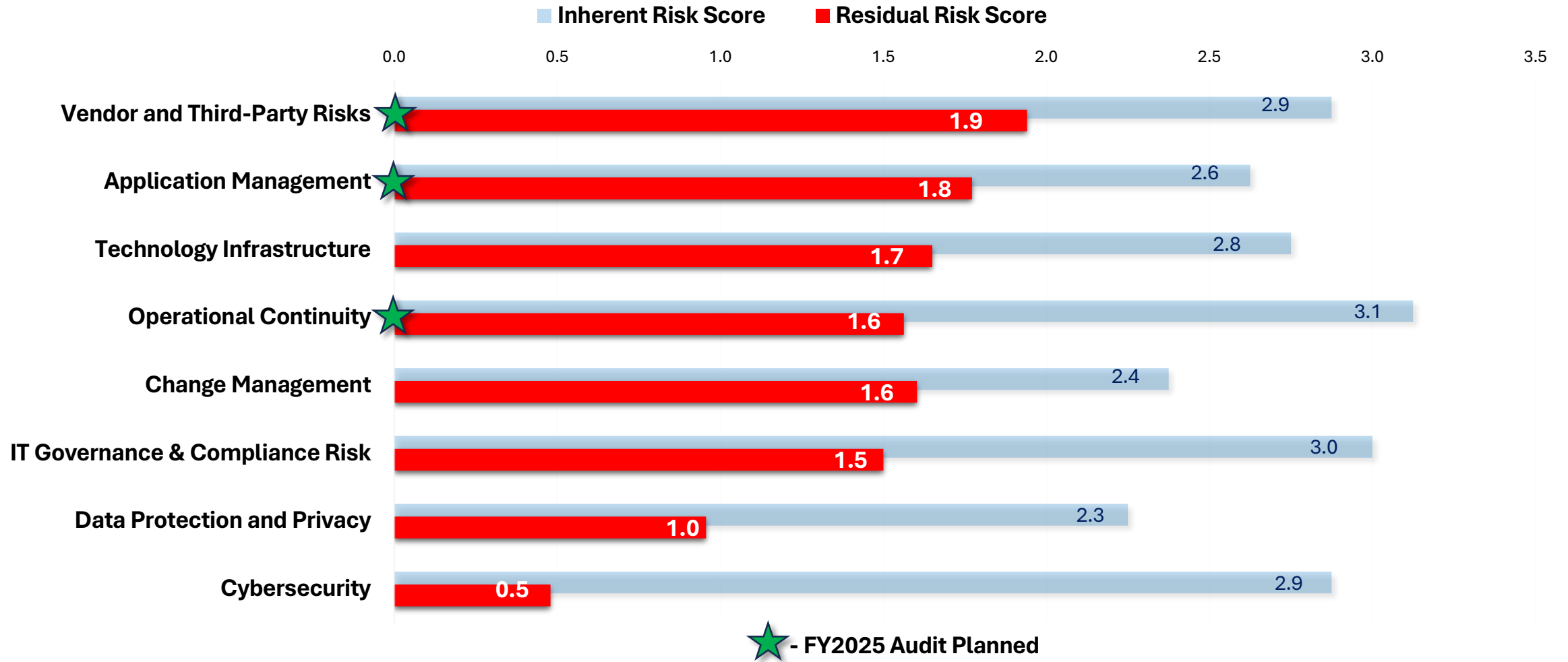
# Inherent/Residual Risks by Dept (Non-IT)



★ - FY2025 Audit Planned

★ - Under Review - State Performance Audit FY 2024

# Inherent/Residual Risks by Dept (IT)



# FY 2024 In-Progress

<u>Project</u>	<u>Justification/Description</u>	<u>Type</u>	<u>Status</u>
<b>Bus Shelter Safety, Security &amp; Customer Experience - TMC</b>	METRO currently has over 2,300 bus shelters throughout the Harris County service area. Thousands of METRO patrons who work in the Texas Medical Center utilize METRO's bus system and bus shelters during their daily commute. METRO is responsible for ensuring patrons are provided with a safe and secure experience while utilizing bus shelter locations. This audit will assess the procedures and controls which have been implemented by METRO to help ensure patrons are safe while utilizing bus shelters in the Texas Medical Center corridor.	Risk Assessment	In Progress
<b>Bus Operator Moving Violations</b>	Bus Operator moving violations are monitored to ensure compliance with various local and federal regulations. This audit will evaluate the adequacy of internal controls related to the monitoring of bus operator traffic convictions.	Risk Assessment	In Progress
<b>Check Request/ Electronic Payments Process Review</b>	METRO has various vendor payments which are authorized using a check request. These include payments such as payroll taxes, health care benefits, real estate transactions and utilities. During the first quarter of FY2023 approximately \$80 million in payments were processed electronically and of this amount, \$50 million were authorized via a check request. This audit will evaluate procedures and controls related to the processing of check requests and electronic payments in the SAP Financial System.	IT Risk Assessment	In Progress



# FY 2024 Carryover Audits

<u>Project</u>	<u>Justification/Description</u>	<u>Type</u>	<u>Status</u>
<b>Light Rail Vehicle Operator Training</b>	Operations Training is responsible for training all METRO Light Rail Vehicle (LRV) Operators. Critical training areas include new hire light rail operator training, orientation, post-accident training, safety training, customer relations and re-certification training. This audit will include a determination as to if the LRV Operators have attended the required training classes, completed re-certifications and will assess the adequacy of training records and whether training has been administered in compliance with state and local federal requirements and consistent with best practices.	Risk Assessment	Carryover
<b>Tuition Reimbursement Program</b>	METRO has established a tuition reimbursement guideline for educational expenses incurred by METRO employees who choose to pursue job-related course studies, certifications and degree programs. All regular full-time (both non-union and union) employees are eligible to receive reimbursement for qualified tuition. Employees may receive tuition reimbursement up to \$5,000 per calendar year. This audit will evaluate procedures and controls related to processing tuition reimbursements.	Risk Assessment	Carryover
<b>Diesel Fuel Reconciliations</b>	A reconciliation is completed monthly of the diesel fuel utilized by METRO. Diesel fuel cost METRO approximately \$20 million annually. During the past fiscal year, large variances have been identified during the reconciliation process at several bus operating facilities. This audit will evaluate procedures and controls related to the recording of purchases and usage as well as the reconciliation process.	Risk Assessment	Carryover



# FY2025 Recurring Audits

<u>Project</u>	<u>Justification/Description</u>	<u>Type</u>
<b>Police Special Funds Audit</b>	<p>This annual audit is required by state laws and regulations to attest to the proper tracking and use of funds received from the Law Enforcement Officer Standards and Education (LEOSE) Fund, and/or seized under the Texas Code of Criminal Procedure, Chapter 59. Effective oversight of these funds is essential for maintaining public trust and ensuring the funds are used to support critical policing operations.</p>	Annual Audit
<b>Maintenance Inventory Audit</b>	<p>The maintenance parts annual inventory audit for Fiscal Year 2025 will again involve observation and testing of the daily cycle counts that are performed by Materials personnel at each inventory location including the central warehouse, storerooms at bus and rail operating facilities, and the Field Service Center. The purpose of the audit is to help ensure that the inventory cycle count process is properly conducted, and inventory values are reasonably stated in the automated inventory system (SAP).</p>	Annual Audit
<b>Safety Management Oversight Audit</b>	<p>The Texas Department of Transportation (TxDOT) is the designated State Safety Oversight Agency responsible for certain transit agencies that operate in Texas that are subject to review under applicable sections of Title 49 – Transportation, Code of Federal Regulation. METRO is required to review their System Safety Program Plan every three years. TxDOT has recommended that someone other than the Safety Department complete a review of elements where a potential conflict of independence exists. This Audit will provide oversight, observations, and recommendations involving those elements where a potential conflict of independence exists. This annual audit was formerly identified as the Rail System Safety Program Plan.</p>	Annual Audit

# FY2025 Internal Functions Audits

<u>Project</u>	<u>Justification/Description</u>	<u>Type</u>
<b>Contracted Service - Drug and Alcohol Follow-up to FTA Audit</b>	<p>Focused on Metrolift/Contracted Services, this audit will follow up on a previous FTA audit to ensure compliance with drug and alcohol testing regulations. Ensuring these standards are met is crucial for maintaining the safety and reliability of contracted services, especially in high-risk areas like Metrolift operations.</p>	Risk Assessment
<b>Accounts Receivable Audit</b>	<p>This audit will ensure that revenue received, including through credit card transactions, is accurately recorded, processed, and reconciled. Given the high volume of daily transactions across various revenue streams such as fare collections, violation fees, and other services, it is critical to ensure that all funds are accounted for accurately.</p>	Risk Assessment
<b>Review of MTA/Transport Workers Health &amp; Welfare Payments</b>	<p>This audit will review payments made to the Transport Workers' MTA Health and Welfare Trust to ensure payments are accurate and align with METRO's contractual obligations under the approved Labor Agreement. Payments total approximately \$4 million each month to cover union employees health insurance and retirement contributions. Proper management of these payments is critical for maintaining employee trust and meeting workforce retention goals.</p>	Risk Assessment
<b>Contract Management of Construction Projects</b>	<p>This audit will determine what procedures and controls are utilized to monitor and ensure compliance with approved construction contracts. This will include compliance with federal requirements articles such a Buy America requirements. Compliance with such articles is necessary for securing federal funding and avoiding potential penalties. The audit will monitor project adherence to METRO policies, procedures, and Federal regulations.</p>	Risk Assessment
<b>Advertising Expenditures</b>	<p>This audit will assess the controls and processes surrounding the company's advertising expenditures. It will focus on ensuring that payments made for advertising services are accurate, justified, and align with the agreed-upon contracts. The audit will verify that the transit company is receiving the full value of services as specified in advertising agreements and that the funds spent on advertising are being utilized effectively to meet the company's promotional objectives.</p>	Risk Assessment

# FY2025 IT Audits

Project	Justification/Description	Type
<b>Vendor and Third-Party Risk Audit</b>	<p>The objective of this audit is to identify key risks with our utilization of IT vendors and third parties and ensure controls are in place to sufficiently mitigate these risks. We will also ensure alignment with internal standards and regulatory requirements. The areas of focus may include vendor selection and due diligence practices, adherence to contractual obligations, vendor performance and SLA monitoring, third-party regulatory compliance, tracking and revoking vendor access, and incident and issue handling.</p>	Risk Assessment
<b>Application Management</b>	<p>This audit will focus on the management of internally developed, configured, or supported applications with a focus on key risks to operations and regulatory considerations. Specifically, the areas of focus may include evaluating Software Development Life Cycle (SDLC) practices, configuration management, incident management, data feeds and interface controls, performance and capacity monitoring, and incident management.</p>	Risk Assessment
<b>Observation of Disaster Recovery Testing</b>	<p>This annual audit is designed to evaluate the ability of the Information Technology Department and user departments to restore METRO's critical information processing applications in a timely manner following an unexpected service interruption. In addition, access via virtual private network (VPN) tunnels and wireless connections to METRO's disaster recovery site will be observed.</p>	Annual Audit

# FY2025 Special Projects

<u>Project</u>	<u>Justification/Description</u>	<u>Type</u>
<b>Board Special Requests</b>	Includes audits and projects requested by the Board of Directors throughout the year. These projects are often high-priority and may involve addressing specific concerns or strategic initiatives identified by the Board.	Special Projects
<b>Ethics and Safety Hotline</b>	Ongoing management and investigation of tips and complaints received through METRO's Ethics and Safety hotline. This project is crucial for maintaining organizational integrity and addressing potential fraud or misconduct.	Special Projects
<b>External Auditor Assistance</b>	Annually, during the external auditor's preliminary work, a meeting is held to discuss Audit Department projects completed and in process during the fiscal year. We provide a list of completed projects and they select reports and, sometimes, working papers for review. In some cases, a meeting is requested to discuss these, and/or current projects, with Audit management and the responsible auditor. This process helps prevent duplication of effort between the internal and external audit processes.	Special Projects
<b>Audit Follow-up and Compliance Reviews</b>	As audit reports are issued, the agreed-upon corrective actions for each comment are entered in Audit's Follow-up System and are tracked until the corrective actions are completed. Some staff time is used for this administrative effort and for on-going discussions with auditees regarding problems and concerns resulting from, or arising during, implementation of the corrective actions. Once responsible department management advises Audit that corrective actions have been completed, it is appropriate in selected instances to conduct a formal compliance review, which includes tests and analyses similar to those performed during the original audit, to determine if corrective measures have been fully implemented and whether the audit concerns have actually been resolved.	Special Projects