



# Internal Audit FY25 Activities & FY26 Audit Plan

PERFORMANCE & BUDGET - July 2025



INTERNAL AUDIT  
DIVISION



# Purpose of Internal Audit

The purpose of the internal audit function is to strengthen BART's ability to create, protect, and sustain value by providing BART with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances BART's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

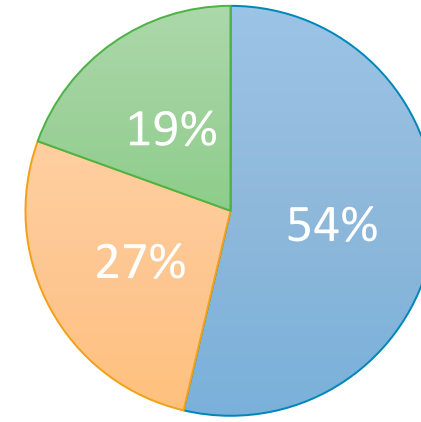


**INTERNAL AUDIT**  
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# Functions of Internal Audit

## Internal Audit (IA) conducts:

1. Capital Reviews and Support
2. Performance & Operational Audits
3. Advisory Services



## Resources of IA:

■ Capital Reviews ■ Operational/Performance ■ Support Services

- BART's IA Division is currently composed of 2 Principal Auditors and 1 Manager of Internal Audit, with one vacant auditor position to be filled in FY26.

## Constraints of IA:

- Audits and reviews are performed based on actual or perceived risks as determined by risk assessment.
- BART's internal audits recommend corrective and preventative actions to mitigate risks and are meant to be proactive and not punitive.
- Capital Reviews and Advisory Services have continuously increased in recent years.

# FY25 Internal Audit Activities



# FY25 Capital Reviews and Support

Capital Reviews are guided by Federal Acquisition Regulations (FAR), state and local laws and regulations, and BART contract provisions and policies, and come in a variety of project streams:

1. **Overhead Rates (OH) and Provisional Labor Rate** reviews
2. **Delay Claim and Termination Claim** reviews
3. **Change Order (CO)** support

# FY25 Capital Reviews and Support Results Summary

Capital Audits and Reviews	FY25	FY24	FY23
Final OH Rates and Provisional Labor Rates	136	207	130
Delay Claims	2	2	3
Termination Claims	–	–	–
Change Order Support	65	56	87
Capital Advisory Requests	216	195	152
<b>TOTAL</b>	<b>419</b>	<b>460</b>	<b>372</b>

Settlement amount on one delay claim lowered by \$1M through an Internal Audit-reduced daily rate.

Internal Audit final rate reviews lowered contractor-charged overhead rates by 0.51% to 118% resulting in savings to the District.

Change Orders included 34 over \$100K, 30 over \$500K and 1 for final Contract Closeout.

# FY25 Performance & Operational Audits

## **3<sup>rd</sup> Party Risk Management Audit – *IN PROGRESS***   **Fuel Card Program Audit – *IN PROGRESS***

- Evaluate the effectiveness and efficiency of BART's process and controls for managing risks associated with third-party relationships.
  - Ensures third-party organizations' policies, regulatory requirements, and industry standards are met, thereby mitigating potential risks.
  - Scope includes:
    - Governance and Oversight
    - Third-party Selection and Due Diligence
    - Contract Management
    - Risk Assessments and Mitigation
    - Monitoring and Reporting
    - Compliance and Regulatory Requirements
- Determine whether controls over the issuance and use of fuel cards and the payment of statements are adequately designed and effective in monitoring and controlling the application of the BART Fuel Card Program.
    - The District has participated in the State of California fuel purchase program since 1995.
    - The State of California Card Program provides universal fuel-only credit cards.
    - IA completed an audit of the bulk fuel controls in 2023.
    - The fuel card program has not been audited in 10+ years.

# FY25 Prior Performance & Operational Reports

- **Cost Proposal Review of the East Bay Paratransit Consortium (EBPC) RFP:** Review to confirm that BART's cost elements in the RFP for the shared contract with AC Transit align with actual expenses and FAR. *Final memo Released. Findings.*
  - Significant cost reductions: Rent (\$777K Reduction in Cost) and Depreciation (\$413K Reduction in Cost). Concerns over the proposer's unsupported costs and lack of accurate documentation.
- **Workers' Compensation Trauma/Mental Stress Program Audit** due to recent and historical data suggesting increased volume and frequency. *Final report released. Findings:*
  - Undocumented processes, lack of legal standards, leave without medical evaluation, lack of specific training (ePHI), underdeveloped KPIs, and inconsistent documentation.
  - Noted downward trend for Trauma cases, still more frequent, but individual cases are shorter and less costly over the past 3 years.
- **Cybersecurity Assessment Tool for Transit (CATT)** worked directly with OCIO, Train Control, and Operational Technology groups to document cybersecurity maturity assessment based on an FTA-provided tool. *Final memo released & closed. No Findings.*
  - Information will be applied in upcoming audits and the FY25 FTA Triennial.



# FY25 Performance & Operational Audit Monitoring

Audit Report	Management Action Plans (MAPs)			Last Update from Audit Client	Next Response Date
	Total	Partially Implemented	Fully Implemented		
Driver License Monitoring Program (DLMP) FY20*	14	7	7	May 2025 —The updated Driver policy adopted 2/12/25. EPN to be linked to PeopleSoft, policy includes rules for casual drivers. Casual driver process under development.	Aug 2025
BPD Inventory and Equipment FY22	36	15	11	May 2025 – System in place for inventory and qualification of firearms. Rangemaster has control. Other items in progress.	Aug 2025
Fuel Vendor Cost Controls FY23	23	3	20	May 2025 –System updated, SOPs drafted, key card access now tied to pump access and installed a license plate reader. Pending distance fuel sites and fuel trucks solutions.	Aug 2025
Workers' Comp. Trauma and Mental Stress Programs FY24	8	3	0	June 2025– Designed and implemented revised standard operating procedures (SOP) for Trauma, Mental Stress claims, and Return-to-Work. Other action plans are in progress.	Sep 2025
Capital Reimbursement Management FY21	8	0	8	February 2025 – Closed report, ETR report workaround in effect.	~

\* - Expanded as part of the Driver Safety Program.

# FY25 Advisory Services

**Advisory Services** are any professional services provided by the audit team during the period of an audit engagement that is often not connected to a specific audit or review.

- **Compliance Review** coordination
- **Education and Support** activities
- **Monitoring** and tracking of programs and services

# FY25 Advisory Services – Compliance Reviews

**Compliance review coordination** ensures that the terms and conditions of contracts, bond measures (e.g., Measure RR), memorandums of understanding, or other agreements are in compliance with BART Management Procedures, District policies, and applicable federal, state, local, and District regulatory requirements.

- **Coordinating External Compliance Audits**, including:
  - FTA Triennial for FY22-25 – the collection of key documentation across the 19 sections – *Ongoing*.
  - MTC TDA Triennial Audit of BART – *Released with no findings*.
  - MTC TDA Triennial Audit of the East Bay Paratransit Consortium (EBPC) – *Released with no findings*.
- **Support Other External Audits**, including:
  - BART OIG Link21 Program Audit – *added to OIG Monitoring*
  - BART OIG Audit of the Capital Construction Change Order Process – *Added to OIG Monitoring*
- **Sales Tax Recovery Services:**
  - For the last quarter of FY23 and all the quarters of FY24, the State remitted an additional \$100,503 in sales tax to the District based on deficiencies identified by BART’s sales tax recovery consultant.
- **BART Board Property:**
  - Compliance with Board Rule 5-3.5, Use of District Property Other than Automobiles.

# FY25 Advisory Services – Monitoring

**Monitoring** includes facilitating conflict-of-interest notifications (COIN), tracking implementation of Office of the Inspector General (OIG) recommendations, and sales tax recovery services.

- **Office of Inspector General (OIG) Recommendations:**
  - **Monitor** all OIG recommendations: 140 recommendations, 108 closed, and 32 open.
  - **Reconcile** with OIG's new tracking system.
- **Conflict of Interest Notification (COIN):**
  - **Established** the Conflict-of-Interest Notification (COIN) process, including a COI Declaration form available to all staff and contractors via the Contractor's Portal. Updates to the Request for Proposal (RFP) process and the Statement of Qualifications (SOQ)
  - **Coordinate** Conflict-of-Interest Notification (COIN) system of tracking and reporting all contractor-related potential conflicts of interest, as defined by BART Contractor's Code of Conduct, for submission to the Office of General Counsel for decisive action.
- **Suspension and Debarment Policy & Process Support:**
  - **Provides** clear guidelines to help establish and maintain high standards of professional and personal conduct for contractors who conduct business with the District.
  - **Policy adopted** on December 5, 2024, by the Board via unanimous vote.

# FY25 Advisory Services Summary

Advisory Service Activity				Status	Advisory Service Activity				Status
Audit Recommendation Follow-up and Reporting				On-going	FY25 FTA Triennial (coordinating)				In Progress
Sales Tax Recovery Monitoring				On-going	BART OIG Link21 Program Audit (support) (New)				Complete
Conflict-of-Interest Notification (COIN) Monitoring				6 YTD FY25 On-going	OIG Audit of the Capital Construction Change Order Process (support) (New)				Complete
Coordinate Management Responses to OIG Recommendations				On-going	Suspension & Debarment Policy and Process Support (New)				Complete
Board Property FY24 Report				Complete	Contract Close-out Process Updates (New)				In Progress
FY25 YTD Details		Planned	New	Total	Real Estate Permit Rate Review (New)				Complete
No. of Projects with ID Codes		6	5	11					

(New) – Unplanned work not identified in FY25 Audit Plan.

# FY26 Internal Audit Plan



# Audit Plan Development

Internal Audit applies various factors in determining audits to conduct. Operational & performance audits are primarily chosen based on an internal risk assessment. Information gathered throughout the year helps inform the audit plan.

Internal Audit maintains a dynamic master list of potential audits from which it develops an annual audit plan that identifies the content and the timing of audits. The annual audit plan is developed based on various factors, including:

- Impact and likelihood of potential financial and other risks (e.g., compliance, reputational) to the District.
- Recent changes in management, information technology systems, or business processes.
- Sensitivity or criticality of data processed.
- Previously identified control issues.
- Prior survey data from the leadership and management of the District.
- Requests and comments made by the District's Audit Committee.
- Analysis or observations made by Internal Audit staff.
- Requirements and mandates of outside entities (funding, regulatory, legislative).
- Input from BART management and staff.

# Audit Plan

## FY26 Audit Plan Objectives:

- Complete the FY26 Audit Plan, as detailed below, limited by constraining resources.
- Revise the core Internal Audit documents, including the Audit Charter and the Audit Manual, to include updates to the Global Audit Standards of the Institute of Internal Auditors (IIA) and the Government Accounting Office (GAO) Generally Accepted Government Auditing Standards (GAGAS).
- Increase emphasis and frequency of follow-up of past audit recommendations.

## FY26 Audit Plan Resources (exclusive of training and administration):

- 2 Principal Auditors and 1 Manager (1 Senior Auditor in recruitment): 4,285 hrs. available
- Project Allocation:   Capital Auditor (Eugene Planta): 1,710 hrs.  
                                  Performance Auditor (Mehiya Thomas): 1,350 hrs.  
                                  Manager (Michael Wilkison): 1,225 hrs.  

TOTAL 4,285 hrs. applied



# Risk Assessment

## FY26 Results – Prioritization of Existing Risks from Prior FY25 Assessment

#	Activity	Department(s)	Risk Description
1	Facilities Safety and Security	Maintenance Real Estate	BART has numerous facilities, other than stations, that support passengers and operations, such as parking structures, maintenance shops, and storage facilities. These facilities contain safety and security-related systems (e.g., fire alarms, access controls, etc.). Risk areas include systems that may not be fully functional or properly maintained to better protect District property and operations. The audit may also look at fire life safety systems within the stations.
2	Fraud Prevention and Awareness	Multiple	BART, like any public agency, is exposed to numerous potential fraud schemes. Fraud can encompass waste and abuse, improper payments, money laundering, public security, and cybersecurity. Public entities, such as BART, often take a fragmented approach to fraud prevention, using business rules and analytics to look for anomalies. Risk areas include the effectiveness of internal controls, policies, and procedures, and identifying areas where fraud vulnerabilities exist.

# Risk Assessment (continued)

## FY26 Results – Prioritization of Existing Risks from Prior FY25 Assessment

#	Activity	Department(s)	Risk Description
3	District-wide Financial Reporting Internal Controls	Finance	The District's external financial auditor reviews BART's internal financial reporting controls annually. This audit's objective is to assess the overall effectiveness of BART's internal control systems beyond financial reporting, ensuring that it provides reasonable assurance that financial statements are free from material misstatement. Risk areas include control environments, risk assessment processes, and monitoring activities, all of which support the integrity of financial reporting.
4	Bulk Fuel Follow-Up	Maintenance Oakland Shop	Internal Audit conducted a Fuel Vendor Cost Control Audit in 2023, which included bulk fuel facilities for non-revenue vehicles and eBART. This follow-up audit will focus on assessing the implementation of recommendations and corrective actions related to the original audit. Risk areas of this follow-up will include documentation, status of Management Action Plans for prior recommendations, data accuracy, and onsite confirmations.

# Capital Reviews – Mandated by FAR & Contracts

AUDIT ACTIVITY	AUDIT OBJECTIVE	Est. Hours
Capital Contract Delay & Termination Claims	Determine the reasonableness of contractor delay claim and termination amounts and compliance with Federal Acquisition Regulation (FAR) and contract provisions.	550 hrs.
Capital Contract Final Rates <i>(incl. Contract Closeouts &amp; Rate True-ups)</i>	Determine the reasonableness of contractor final rates and compliance with FAR and contract provisions. Coordinating with agreements and finance to collect monies owed, drafting collections letter and schedule.	350 hrs.
Capital Contract Provisional Billing Rates	Determine the reasonableness of contractor billing rates and compliance with FAR and draft contract provisions.	650 hrs.
Ad Hoc Capital Consulting	Varies by topic or request from the Agreement or Project teams. Remain flexible and available for unplanned capital-specific requests.	350 hrs.
Change Order Tracking and Monitoring	Review and compile submitted change notices and change orders for tracking and internal process compliance for authorization, completeness, and existence.	400 hrs.

# Performance & Operational Audits – Risk-based

AUDIT ACTIVITY	AUDIT OBJECTIVE	Est. Hours
Facilities Safety and Security	Determine if BART has adequate controls in place to sufficiently monitor safety and security-related systems at various facilities.	300 hrs.
District-wide Financial Reporting Internal Controls	Determine the overall effectiveness of the BART's internal control system, ensuring it provides reasonable assurance that financial statements are free from material misstatement.	250 hrs.
Fraud Prevention and Awareness	Assess BART's efforts to deter and detect fraudulent activities, as well as raise preventative awareness of the fraud risks at the District.	250 hrs.
Bulk Fuel Follow Up	Determine and reassess the implementation of recommendations and corrective actions related to fuel management.	150 hrs.
Fuel Card Program	Determine if BART has appropriate monitoring and preventative controls for the use and payment of the fuel purchasing card system.	200 hrs.

# Advisory Services – Mandated by Request or Rules

AUDIT ACTIVITY	AUDIT OBJECTIVE	Est. Hours
Annual Risk Assessment and Audit Plan	Determine risks annually and analyze the risks confronting BART and define the Audit Plan to adapt to emerging risk, circumstances, and events.	125 hrs.
Management Action Plans (MAP) Follow-ups	Determine the status of prior MAPs and provide status updates to monitor implementation or remediation.	155 hrs.
Sales Tax Monitoring	Determine and verify the accuracy of the HDL noted State Sales Tax collections due to the District from their sales tax audit work.	25 hrs.
Board Property FY25	Conduct the required annual audit for compliance with the Rules of the Board of Directors on the use of District property.	25 hrs.
Conflict-of-Interest Notification (COIN) and Monitoring	Determine the status of potential conflicts of interest and review the system of notifications and declarations for completeness and sustainability.	80 hrs.
Management Responses to Office of Inspector General (OIG) Monitoring	Determine and ensure that all Office of Inspector General recommendations are responded to by management on time and that corrective action implementations are tracked, and follow-up is performed.	250 hrs.
FY25 FTA Triennial Audit	Liaise and facilitate the Triennial and coordinate data and information requests among FTA reviewers and departmental staff.	175 hrs.



# Questions?



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Morelli Designers Team