



# FY26 Internal Audit Plan

PERFORMANCE & BUDGET – JULY 2025



# BART Internal Audit Division

## FY26 Internal Audit Plan

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**Assembled by:**

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**Approved to Issue:**

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Dennis Markham, Director of Performance and Audit  
Performance and Audit Department

# Overview

## 1.1 Purpose of Internal Audit

The purpose of the internal audit function is to strengthen Bay Area Rapid Transit District's (BART) 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.

## 1.2 Internal Audit Authority and Scope

Internal Audit provides an independent assessment function and has no direct authority over the activities it audits, nor does it relieve management of any assigned responsibility. Internal Audit administratively reports directly to the Director of Performance and Audit (who is an indirect report to the General Manager). The internal audit function will report functionally to the Audit Committee and administratively (for example, day-to-day operations) to the General Manager or designee, as noted above. Internal Audit is authorized to conduct a broad program of internal auditing within BART and has full and unlimited access to all BART business units, records, systems, property, and personnel.

The scope of internal audit services covers the entire breadth of the organization, including all BART's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for BART.

## 1.3 Fiscal Year 2026 Objectives

Internal Audit has integrated specific objectives into its current annual work plan:

1. Complete the FY26 Audit Plan, as detailed below, limited by constraining resources.
2. 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).
3. Increase emphasis and frequency of follow-up of past audit recommendations.

## 1.4 Internal Audit Activities Planned and Prior

### *Audit activities include:*

1. Capital Reviews and Support: Contractor overhead rate and provisional labor rate reviews determine if agreed-upon billing rates applied to planning, architectural, engineering, construction, and other agreements meet the specifications of BART contracts. Contractor contract reviews determine if a contractor's proposed pricing is fair and reasonable, based on the contractor's actual costs and other criteria.

Contractor "true-ups" ensure proper payment to contractors over the life of a contract using Federal Acquisition Regulations (FAR). BART is required by the Federal Transit Administration (FTA) to apply FAR to all federally funded agreements and projects, which include almost all planning, architectural, engineering, and construction management agreements. Related activities include reviewing change order documentation, assessing contractor time-related delay claims, and reviewing project termination claims.

All capital reviews are guided by FAR, state and local laws and regulations, and BART contract provisions and policies, and come in a variety of project streams, including:

- a. Overhead Rates (OH) and Provisional Labor Rates: Prime/subconsultants provide OH rates on their invoices. Rates are evaluated by Internal Audit for reasonableness and compliance with FAR Part 31 and BART contract provisions and are recommended for adjustment by Internal Audit, as necessary.
- b. Delay or Termination Claims: A construction general contractor files a claim when its work is delayed by BART (the claim is denied if it is determined that BART did not cause the delay). Internal Audit advises the Project Teams by reviewing the Time-Related Overhead (TRO) portion of the claim for compliance, reasonableness, and completeness. Termination claims occur when a construction contract is either terminated for default or convenience. Internal Audit reviews claimed termination costs for compliance, reasonableness, and completeness.
- c. Change Order (CO) support: Internal Audit, per BART's Procurement Manual, provides support for CO amounts over \$500,000. Procurement rules specify that Internal Audit is informed of amounts over \$100,000 and can advise if requested. Internal Audit reviews completeness, authorization, and existence of required documents for the proposed COs.

Capital Reviews and Support Prior Years Project Count	FY25	FY24	FY23
Final OH Rates and Provisional Labor Rates	136	207	130
Delay or Termination Claims	2	2	3
Change Order Support	65	56	87
Ad-hoc Capital Consulting	216	195	152
<b>TOTAL</b>	<b>419</b>	<b>460</b>	<b>372</b>

2. Operational & Performance Audits: provide an objective analysis of business operating processes, procedures, programs, and related controls. Operational & Performance audits focus on improving program performance, reducing costs, facilitating decision-making for implementing corrective action, and contributing to public accountability. Operational & Performance audits generally include elements of both internal control and compliance reviews. BART's Performance & Innovation team is noted as a resource to potentially assist auditees with implementing Management Action Plans (MAPs) as outlined by the auditees in response to the audit recommendations. Prior year operational & performance audits include:
  - a. Fuel Cards Cost Controls: Internal Audit determined if BART has appropriate monitoring and preventative controls for the use and payment of its fuel purchasing card system (credit cards used in the field for fuel purchases).
  - b. Third-Party Risk Management: Internal Audit determined if BART properly analyzes and minimizes risks associated with outsourcing to third-party vendors or service providers.
  - c. Cost Proposal Review of the East Bay Paratransit Consortium (EBPC): Internal Audit assessed if the cost elements in the service-provider/broker's cost proposal for the shared contract with AC Transit align with the provider's documentation-supported expenses and FAR.
  - d. Cybersecurity Assessment Tool for Transit (CATT): Internal Audit coordinated a self-assessment and documentation of the cybersecurity maturity based on an FTA-provided tool.
  - e. Workers' Compensation Trauma & Mental Stress Program: Internal Audit determined if BART's Trauma and Mental Stress programs have appropriate controls and defined criteria for managing internal and workers' compensation claims.
3. Advisory Services: includes numerous non-audit services such as professional services provided by the audit team during the period of an audit engagement that are not connected to a specific audit or review. Support activities include education, training, and consultative activities upon request. Internal Audit also provides analytical non-audit support services to other BART departments and activities as requested. Key examples include:
  - a. Coordinating External Compliance Reviews: Compliance reviews ensure that the terms and conditions of contracts, bond measures (e.g., Measure RR), memorandums of understanding, or other agreements are being followed and that there is compliance with BART Management Procedures, District policies, and applicable regulatory requirements (e.g., Federal Transit Administration, Metropolitan Transportation Commission (MTC), State of California). Additional activities include managing the sales tax recovery services agreement.
    1. Coordinating External Compliance Audits, including:
      - i. FTA Triennial Audit
      - ii. MTC TDA Triennial Audit of BART
      - iii. MTC TDA Triennial Audit of the East Bay Paratransit Consortium (EBPC)
    2. Support Other External Audits, including:
      - i. BART Office of Inspector General (OIG) Link21 Program Audit
      - ii. BART OIG Audit of the Capital Construction Change Order Process

3. Sales Tax Recovery Services: IA has contracted with a third-party to monitor, review the sales tax collection, and identify any deficiencies in monies owed to the District. The identified deficiencies, if collected, are remitted to the District as additional sales tax revenue.
  4. BART Board Property: Compliance with Board Rule 5-3.5, Use of District Property Other than Automobiles, requires a review of the District-owned equipment issued to members of BART's Board of Directors. There were no findings for FY24.
- b. Education and Support Services: includes, but is not limited to, education and awareness programs for internal stakeholders to make them aware of the regulatory, control, or best practices for their respective portfolios. For example, to foster a preventative control environment, Internal Audit's Certified Construction Auditor informs key stakeholders about updates or new applications of specific regulations. Additionally, Internal Audit reviews and comments on District processes and procedures and assists with the development of new programs, such as the Safe Harbor Rate and the Contractor Suspension and Debarment Policy.
  - c. Monitoring & Tracking Follow-Up Activities: administering and monitoring conflict-of-interest notifications (COIN), Office of the Inspector General (OIG) audit and investigation recommendations, and the Internal Audit's prior reports' recommendations. 140 recommendations, 108 closed, and 32 open.
  - d. Monitoring and follow-up activities track recommendations for completed audits and investigations to determine if MAPs and corrective actions have been implemented or otherwise satisfactorily addressed. For operational & performance audits conducted by Internal Audit, 74 in total (83%) of the MAPs have been fully or partially implemented as shown below:

Prior Audit Report	Management Action Plans (MAPs)		
	Total	Partially Implemented	Fully Implemented
Driver License Monitoring Program (DLMP) FY20	14	7	7
BPD Inventory and Equipment FY22	36	15	11
Fuel Vendor Cost Controls FY23	23	3	20
Workers' Compensation Trauma and Mental Stress FY24	8	3	0
Capital Reimbursement Management FY21	8	0	8
<b>TOTAL</b>	<b>89</b>	<b>28</b>	<b>46</b>

- e. Investigations: activities performed in response to a complaint or allegation. In most cases, investigations will be referred to BART's Office of Inspector General. As of this date, there are no outstanding Internal Audit investigations.

## 1.5 Internal Audit Plan Resources

The plan is subject to change based on the scope of audit activities, the complexity of audit work, and District priorities. The scope of individual audits varies depending on the function being audited.



Internal Audit's FY26 operating budget includes 4 staff auditors and 1 Audit Manager. One staff auditor position is currently vacant and frozen, with another position scheduled for recruitment in FY26. The current composition of the division is 2 Principal Auditors and 1 Audit Manager. The Internal Audit team currently holds the following certifications:

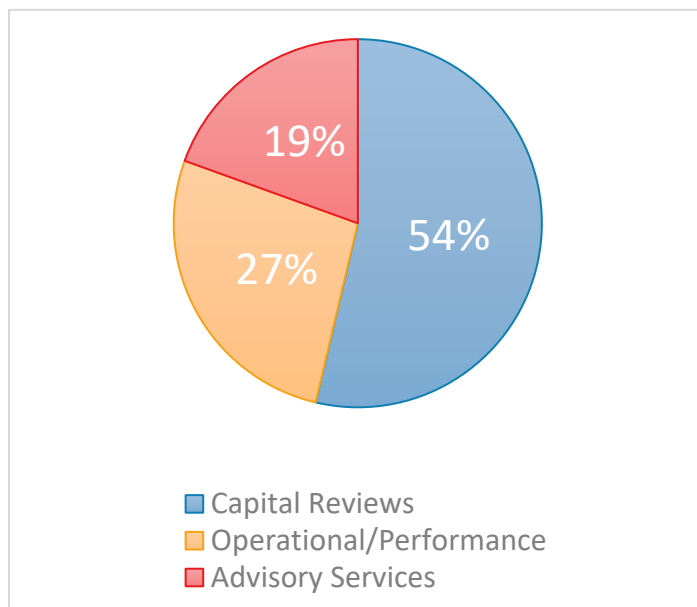
- Certified Internal Auditor (CIA)
- Certified Internal Controls Auditor (CICA)
- Certified Inspector General Auditor (CIGA)
- Certified Construction Auditor (CCA)

The FY26 Internal Audit Plan calls for approximately 4,285 hours for audit and advisory services, exclusive of continuing professional education and administrative activities, among three positions.

Of the 4,285 hours, the FY26 Audit Plan includes 2,300 hours for capital compliance, rate review, change orders, and delay/termination claim activities; 1,150 hours for operational/performance audits; 835 hours of advisory services, such as advisory services, audit monitoring, and follow-up on previous audit recommendations.

To ensure that Internal Audit resources are sufficient and effectively utilized to achieve the approved plan, an analysis was conducted to determine the amount of direct audit time available to the audit staff.

The FY26 BART holiday schedule, average staff leave time, and estimated administrative time were used to determine the resources available, as summarized in the adjacent chart and detailed in Section 2 at the end of this document.



## 1.6 Internal Audit Plan Development

The annual Audit Plan is driven by the resources available to Internal Audit for the upcoming fiscal year, compared to the activities that Internal Audit undertakes. Time (hours) allotted to each Internal Auditor is budgeted to best meet the District's needs. Internal Audit activities, described above, consist of capital reviews and support, operational & performance audits, advisory services, and required training for auditors to maintain their certifications. Time allotted to capital reviews and support, advisory services, and training is estimated based on actual amounts from previous years. The remaining hours are available for operational & performance audits.

Internal Audit applies various factors in determining which operational & performance audits to conduct. Operational & performance audits are primarily chosen based on an internal risk assessment, which informs the annual audit plan. Information gathered throughout the year by the Internal Audit division 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.

## 1.7 Risk Assessment Results

#	Activity	Description
1	Facilities Safety and Security	<p>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.).</p> <p>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.</p>
2	Fraud Prevention & Awareness	<p>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.</p> <p>Risk areas include the effectiveness of internal controls, policies, and procedures, and identifying areas where fraud vulnerabilities exist.</p>
3	District-wide Financial Reporting Internal Controls	<p>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.</p> <p>Risk areas include control environments, risk assessment processes, and monitoring activities, all of which support the integrity of financial reporting.</p>
4	Bulk Fuel Follow-Up	<p>BART's Internal Audit division 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.</p> <p>Risk areas of this follow-up will include documentation, status of Management Action Plans for prior recommendations, data accuracy, and onsite confirmations.</p>



## 2. BART FY26 Detailed Audit Plan & Resource Estimates

Audit/Activity	Department	Audit Objective	Audit Source	Est. Resources
<b>Capital Reviews</b>				<b>2,300 hrs.</b>
Capital Contract Delay and Termination Claims	Office of Infrastructure Delivery (OID)	Determine the reasonableness of the contractor delay claim or termination amounts are in compliance with Federal Acquisition Regulation (FAR) and contract provisions.	Regulatory Compliance	550 hrs.
Capital Contract Final Rates	OID Procurement	Determine the reasonableness of contractor final rates and compliance with FAR and contract provisions.	Regulatory Compliance	350 hrs.
Capital Contract Provisional Billing Rates	OID Procurement	Determine the reasonableness of contractor billing rates and compliance with FAR and draft contract provisions.	Regulatory Compliance	650 hrs.
Ad Hoc Capital Consulting	OID Maintenance Procurement	Varies by topic or request from the Agreement or Project teams. Remain flexible and available for unplanned capital-specific requests.	Regulatory Compliance	350 hrs.
Change Order Tracking and Monitoring	OID Maintenance	Review and compile submitted change notices and change orders for tracking and internal process compliance for authorization, completeness, and existence.	Internal Procedures	400 hrs.
<b>Operational/Performance Audits</b>				<b>1,150 hrs.</b>
Facilities Safety and Security	Maintenance Real Estate	Determine if BART has adequate controls in place to sufficiently monitor the various facilities.	Risk-based	500 hrs.
District-wide Financial Reporting Internal Controls	Finance	Determine the overall effectiveness of the BART's internal control system, ensuring it provides reasonable assurance that financial statements are free from material misstatement. This includes evaluating the control environment, risk assessment processes, and monitoring activities that support the integrity of financial reporting.	CFO Selection	250 hrs.
Fraud Prevention and Awareness	Multiple	Assess BART's efforts to deter and detect fraudulent activities, as well as raise preventative awareness of the fraud risks at the District.	CFO selection	250 hrs.
Bulk Fuel Follow Up	Maintenance Oakland Shop	Determine and reassess the implementation of recommendations and corrective actions related to fuel management. This involves reviewing documentation, verifying data, and confirming that identified issues are resolved. The goal is to ensure efficient and compliant fuel usage.	Risk-based	150 hrs.

## 2. BART FY26 Detailed Audit Plan & Resource Estimates (continued)

Advisory Services				835 hrs.
Annual Risk Assessment and Audit Plan	Internal Audit	Determine risks annually and analyze the risks confronting BART and define the Audit Plan to adapt to emerging risks, circumstances, and events.	Internal Procedures	125 hrs.
Management Action Plans (MAP) Follow-ups	Multiple	Determine the status of prior MAPs and provide status updates to monitor implementation or remediation.	Audit Responsibility	155 hrs.
Sales Tax Monitoring	External Contractor	Determine and verify the accuracy of the HDL noted State Sales Tax collections due to the District from their sales tax audit work.	Audit Responsibility	25 hrs.
Board Property FY25	District Secretary's Office (DSO)	Conduct the required annual audit for compliance with the Rules of the Board of Directors on the use of District property.	Board Rule Requirement	25 hrs.
Conflict-of-Interest Notification (COIN) and Monitoring	Procurement Office of the General Counsel (OGC)	Determine the status of potential conflicts of interest and review the system of notifications and declarations for completeness and sustainability.	Audit Responsibility & Internal Procedures	80 hrs.
Management Responses to Office of Inspector General (OIG) Monitoring	Multiple	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.	Audit Responsibility	250 hrs.
FY25 FTA Triennial Audit	Multiple	Liaise and facilitate the Triennial and coordinate data and information requests among FTA reviewers and departmental staff related to BART's performance and adherence to current FTA grant recipient requirements and policies.	Audit Responsibility	175 hrs.
Total				4,285 hrs.

NOTE: Audit Plan details are subject to change based on the scope of audit activities, the complexity of audit work, and District priorities.