



Introduction to BART Internal Audit

PERFORMANCE & AUDIT – March 2025



Purpose of BART Internal Audit

The mission of internal audit is to enhance and protect organizational value by providing independent risk-based and objective assurance, advice, and insight to management.

The Internal Audit (IA) Division assists BART in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Internal Audit completes its objectives through conducting, coordinating, and managing compliance, regulatory, legislative, and special audits and assessments with priority given to identifying and addressing internal controls and areas of fraud, waste, and abuse.

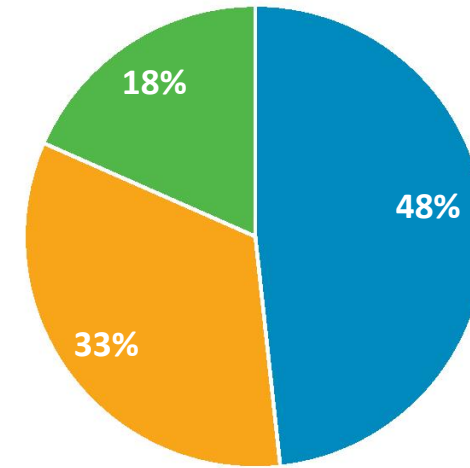
BART's IA Division is currently composed of 3 Principal Auditors and 1 Manager of Internal Audit.



Functions of BART Internal Audit

Internal Audit (IA) conducts:

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



■ Capital Reviews and Support ■ Performance & Operations Audits
■ Advisory Services

- Audits and reviews are performed based on actual or perceived risks as determined by annual 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 workflow has continuously increased in recent years.

1. Capital Reviews and Support



1. 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

1.1. Overhead Rates and Provisional Labor Rates

Standard Criteria/Requirements for IA Reviews of OH and Provisional Labor rates:

- Prime or subconsultant Overhead (OH) Rates of 150% and above.
- Value of work is greater than \$1 million over the life of the agreement or covering multiple agreements, if applicable.
- Additional OH rate reviews at the project/agreement team's discretion.
- Review provisional labor rates for compliance to contract provisions.

Value-added Work:

- Developed ***Federal Cost Review Manual for Capital Overhead Rate Reviews*** as an internal guide available to Project and Agreement teams.
- **Expanded Capital Compliance Reviews** to include subconsultant's OH Rates, in addition to Prime contractors, to better ensure compliance and lower financial risk to the District.
- **Sharing preliminary results** of rate adjustments with auditees so they can ask questions and/or provide additional documentation prior to contract close-out.
- **Periodic Training Sessions** with Project and Agreements teams to expand understanding of contract provisions, BART policies, and Internal Audit reviews.

1.2. Delay and Termination Claims

BART General Conditions for Construction Contracts language allows **compensation to contractors** for actual losses **for delay costs** known as Time-Related Overhead (TRO) and **for losses for contracts terminated** for default or convenience by BART:

- Internal Audit **reviews cost components** to determine if claimed costs are supported, reasonable, and compliant with regulations and contract provisions. IA **identifies** costs that are unsupported, unreasonable, and not compliant, and recalculates rates accordingly.
- Project teams use Internal Audit's **advice** to negotiate a fair TRO or termination settlement.
- Results are **advisory only** as FAR allows BART project teams discretion to negotiate fair pricing.
- Currently **2 active TRO claims** (and no termination claims) under review that include:
 - Removal of markups that are not allowed under contract provisions.
 - Removal of costs that are not time related.
 - Adjustment of costs that are unsupported, unreasonable, and duplicative in nature.
- **Reduced FY24 Delay Claim Time-Related Overhead (TRO) Average Daily Rate** by \$2,875, with estimated overall savings of \$500K - \$1M determined by the number of delay days.

1.3. Change Order Support

BART's Resident Engineer's (RE) Manual states the **criteria for Internal Audit's participation in the Change Order (CO) process**:

- **Thresholds:** IA “must be notified” of change orders >\$100k, IA support “must be requested” if >\$500k.
- **Review** criteria is:
 - Authorization – determine that appropriate authorization, i.e., signatures, is present as required.
 - Completeness – determine that the CO package provided has all the required indexed components.
 - Existence – determine that all required supporting documentation is included in the final CO package.

Recent Value-added Work:

- **Developed** CO review monitoring procedure with key attributes for tracking and future data analytics.
- **Identified** and communicated areas for improvement to the RE Manual.
- **Issued** memo to REs and management to clarify IA roles and responsibilities in CO review process.
- **Set** an internal goal to respond to all CO review requests within **one week**.
- **Developing** an updated *CO Review Memorandum* to be distributed to Project teams that updates Internal Audit's CO review procedures, that will include more cost analysis earlier in the CO process.

1.4. Capital Review and Support Results Summary

Capital Audits and Reviews	FY25 YTD	FY24	FY23
Final OH Rates and Provisional Labor Rates	88	207	130
Delay Claims	2	2	3
Termination Claims	–	–	–
Change Order Support	31	56	87
Capital Advisory Requests	96	195	152
TOTAL	217	460	372

2. Performance & Operational Audits



2. Performance & Operational Audits

Operational audits provide an objective analysis of business operating processes, procedures, programs, and related controls. Operational audits focus on improving program performance, reducing costs, facilitating decision-making for implementing corrective action and contributing to public accountability.

- Operational audits generally include elements of both **internal control *and* compliance reviews**.
 - Two Performance/Operational Audits in progress.
- Performance and Operational Audit **Monitoring and Follow-Up Activities track recommendations** for completed audits to determine if Management's Action Plans (MAPs) have been implemented or otherwise satisfactorily addressed.
 - 89 recommendations, 71 fully or partially implemented (80%)

2.1. Current Performance & Operational Audits

Third-Party Risk Management Audit

- Evaluate 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

Fuel Card Program Audit

- 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.

2.2. Recent Performance & Operational Audits/Reviews

- **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. *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.
- **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. *Closed.*
 - Report released, no findings but detailed information will be applied in upcoming audits and FY25 FTA Triennial.
- **Workers' Compensation Trauma/Mental Stress Program Audit** due to recent and historical data suggesting increased volume and frequency. *Final report complete but outstanding recommendations. Findings:*
 - Findings include 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 shorter and less costly over the past 3 years.

2.3. Performance & Operational Audit Monitoring

Audit Report	Management Action Plans (MAP)			Last Update from Audit Client	Next Response Date
	Total	Partially Implemented	Fully Implemented		
Driver License Monitoring Program (DLMP)*	14	6	7	Feb 2025 —The updated Driver policy adopted 2/12/25. EPN/Samba to be linked to PeopleSoft, policy includes rules for casual drivers.	Apr 2025
Capital Reimbursement Management	8	0	8	Feb 2025 – Adapted to a data workaround, full implementation as of Jan 25. Closing Report in February 2025.	~
BPD Inventory and Equipment	36	15	11	Feb 2025 – Armorerlink in place for inventory and qualification of firearms. Rangemaster has full control of all weapons and ammunition. Other inventory items in progress awaiting upload to Maximo.	Apr 2025
Fuel Vendor Cost Controls	23	3	20	Feb 2025 – The AIMS plan was annulled, the FM system was updated, SOPs were drafted, and key card access was tied to the license plate reader. Pending “distance fuel sites and fuel trucks” solutions.	Apr 2025
Workers' Compensation Trauma and Mental Stress	8	1	0	Jan 2025– Designed and implemented revised standard operating procedures (SOP) for Trauma claims. The other 3 processes are in progress.	Mar 2025

* - Expanded as part of the Driver Safety Program.

3. Advisory Services



3. Advisory Services

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

1. **Compliance Review** coordination
2. **Education and Support** activities
3. **Monitoring** and tracking of programs and services

3.1. 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 - *On-going*.
 - 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
 - BART OIG Audit of the Capital Construction Change Order Process
- **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.

3.2. Advisory Services – Education and Support

Educations and support activities include education, training, and consultative activities plus analytical non-audit support to BART departments and programs upon request.

- Provided **advisory services** on:
 - Procurement Contract Cost Structure Requirements, RFP boilerplate Structure Requirements, Contract Close-out Procedures.
 - Other topics such as Prevailing Wage Rates Limits, OH Rates, and Fringe Benefits.
- Providing **periodic training sessions** to the Projects and Agreements teams to assist with project cost reviews and related issues.
- **Implemented and facilitated** a Safe Harbor Rate (SHR) program to support small contractors.
- **Assisted** Real Estate and Property Development with developing an hourly rate for staff work related to permit applications.
- **Assisting** in clearing up contractor overtime charging issues for the Project teams.
- **Clarifying** administrative billing items that are not allowed to be charged as direct labor and miscellaneous costs (e.g., \$400/day for an "available" but not actively used vehicle).
- **Provided definitive decision-making advice** to Project teams on “Forward Pricing of Extended Overhead in Construction Contracts.”
- **Consulting** on updating the formal closeout process for agreements.

3.3. 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: 125 recommendations, 72 implemented, 33 open, 10 not accepted.
 - **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 of an additional question and form for 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.

3.4. 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)	In Progress
Conflict-of-Interest Notification (COIN) Monitoring	5 YTD FY25 On-going	OIG Audit of the Capital Construction Change Order Process (support) (New)	In Progress
Coordinate Management Responses to OIG Recommendations	On-going	Suspension & Debarment Policy and Process Support (New)	Ongoing
Board Property FY24 Report	Complete	Contract Close-out Process Updates (New)	In Progress

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

FY25 YTD Details	Planned	New	Total
No. of Advisory Activities	6	4	10

4. Future Audit Work



4. Future Internal Audit Work

- **Payroll Processes** (*Performance Audit*): Performance & Innovation mapping process prior to planned audit.
- **Information Technology General Controls** (*Performance Audit*): identifying and planning audit resources.
- **Facilities Safety and Security** (*Performance Audit*): identifying and planning audit resources.
- **Fraud Prevention and Awareness Training**: identifying key staff that would benefit from increased awareness of the potential fraud schemes that could impact BART.
- **Updating to Revised Audit Standards**: the Institute of Internal Auditors (IIA) and the Government Accountability Office (GAO) have updated their auditing standards in CY24 for application in CY25.
 - Updating BART's Internal Audit Manual to reflect new Independence, Objectivity, Conflict of Interest, and Quality Management changes.
 - Previously updated internal procedures to include project-specific conflict-of-interest declaration for **all auditors**.
- **FY25 Internal Audit Activities Report**: Summarizes status of the Internal Audit's activities and presents outstanding recommendations from past audits and follow-up to audits from previous years.
- **FY26 Risk Assessment & Internal Audit Plan**: Risk assessment uses several criteria to evaluate risk (e.g., financial, compliance, safety, etc.) via a survey of BART staff. The resulting Annual Audit Plan describes the planned audits selected based on the risk assessment and available audit resources.

Questions?



INTERNAL AUDIT
DIVISION



Morelli Designers Team