



# Performance & Audit FY26 Status Update

PERFORMANCE & BUDGET – June 2026



# Agenda

1. Performance & Innovation (P&I)
2. P&I - Budget and Resources
3. P&I Spotlights
4. P&I - Lean 101: The Class
5. P&I - Lean 101: By The Numbers
6. P&I - Eliminating Printed Off-cycle Checks
7. P&I - Strengthening Cost Recovery Mechanisms
8. P&I - Streamlining TOD Grant Passthroughs
9. P&I - Financial Value of P&I's Work Thus Far
10. Internal Audit (IA) FY26 Year in Review
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16. IA - Performance/Operational
17. IA - Advisory Services

# Performance & Innovation



# Performance & Innovation (P&I)



**Why we exist:**  
to eliminate **pain points** and drive  
**continuous improvement** across the  
District.

**What we do:**  
break down silos and coach employees  
to create **impactful solutions that last.**

# P&I - Budget and Resources

## **P&I Budget & Resources:**

- FY26 budget \$700k labor and \$500 non-labor.
- No consultants, internal BART staff only.
- **BART's Performance & Innovation division:**
  - 1 Senior Manager of Performance & Innovation,
  - 1 Principal Performance Analyst,
  - 1 Senior Performance Analyst.

# P&I Spotlights

The following slides highlight specific examples of **how Performance & Innovation's work has helped BART:**

- Save time and money
- Generate revenue
- Avoid costs

# P&I - Lean 101: The Class

A hands-on training delivered in-house by BART's Performance & Innovation team that equips staff with practical tools to identify inefficiencies and implement improvements in their day-to-day work.

“

*Loved it all — appreciated the interactivity and engagement.*

LEAN 101 PARTICIPANT

“

*Relevant, easy to connect examples used during class to illustrate points.*

LEAN 101 PARTICIPANT

“

*I really liked the pace of the training — nothing was dragged out to just fill time. Clear, concise, and the scenarios made concepts click.*

LEAN 101 PARTICIPANT



# P&I - Lean 101: By the Numbers

**305**

trained in Lean 101  
thus far

**89**

small improvements  
completed

**75**

with reoccurring  
time savings

**\$1,000,000**

annual time savings

**8**

FTEs of freed capacity

# P&I - Eliminating Printed Off-cycle Checks

**PROBLEM:** Imagine a BART field employee on the graveyard shift who receives a short paycheck. To get what they're owed between pay cycles, they have to travel all the way to BART Headquarters — during the hours they should be sleeping — just to pick up a printed check.

**SOLUTION:** For employees already enrolled in direct deposit, off-cycle paychecks now go straight to their bank — no printing, no pickup, no delay.



TOTAL ANNUAL SAVINGS

**\$81,706**

Combined direct expenses + staff time saved each year

# P&I - Strengthening Cost Recovery Mechanisms

**PROJECT GOAL:** Align BART and SFMTA cost-share process for 12 active capital projects for four shared Downtown San Francisco stations.



ESTIMATED TOTAL ROI OVER 5 YEARS

**\$22.6M**

Additional amount to be recovered by BART due to process improvements

# P&I - Streamlining TOD Grant Passthroughs

**PROJECT GOAL:** Align cross-functional teams on a clear, documented process for passing non-federal grants to developers — reducing risk and delays.

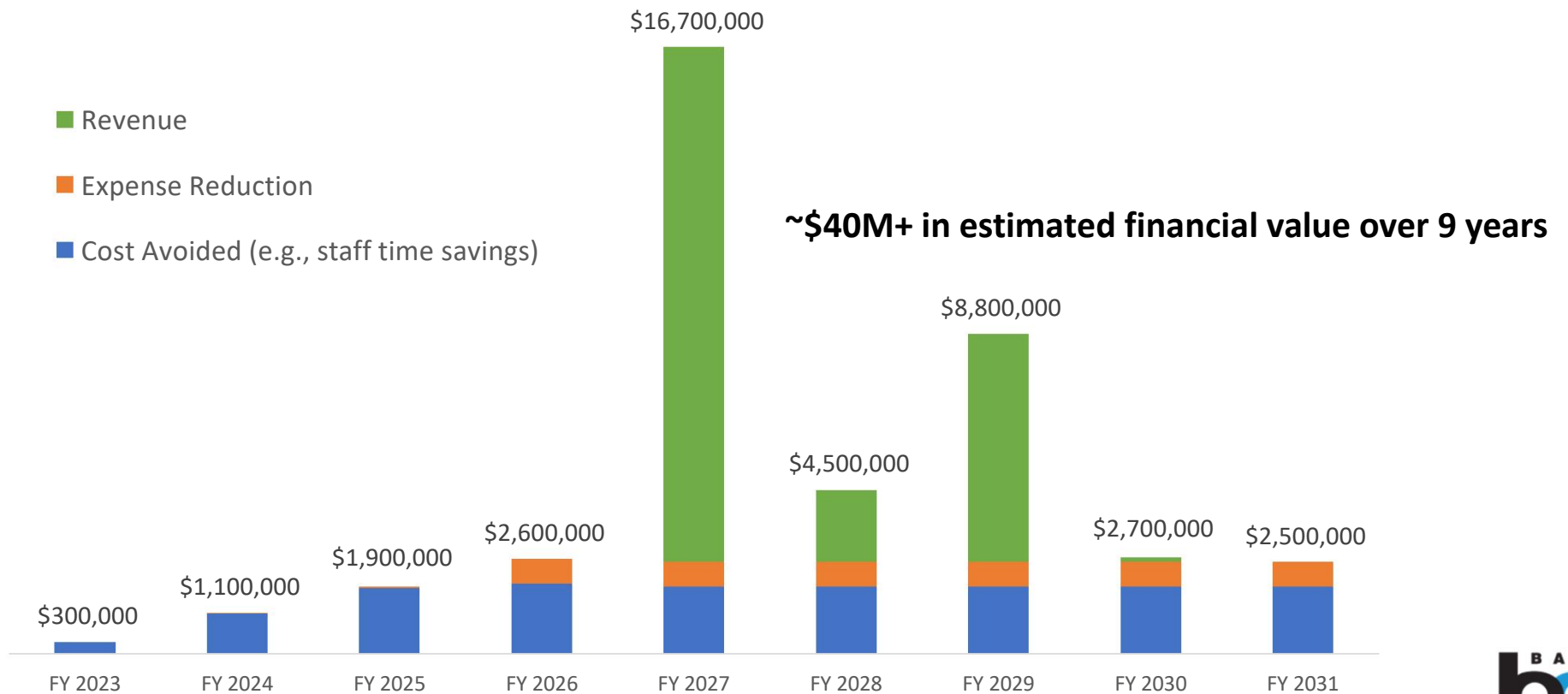


**PROJECTED REDUCTION IN TIME TO ESTABLISH A PASSTHROUGH AGREEMENT**

**-83%**

Before: 12 months → After: 2 months (projected)

# P&I - Financial Value of P&I's Work Thus Far



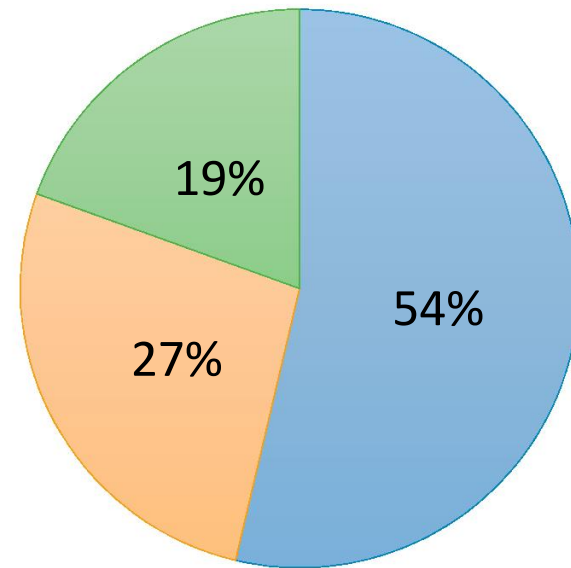
# Internal Audit



# Internal Audit (IA) FY26 Year in Review

- Identified an estimated \$8.7M in financial benefits to BART.
  - **Capital Reviews and Support:** 515 capital reviews and support requests
  - **Performance Audits:** 2 completed audits; 2 in progress; followed up on 6 previous audits.
  - **Advisory Services:** 5 compliance reviews; 6 education and support services; 3 monitoring activities
- For every \$1 invested in IA, we returned more than \$10 to the District.
- Hired a Senior Internal Auditor
- Revised our governing document (Charter and Manual)
- Conducted our FY 2027 Risk Assessment

**Audit Plan FY26: Actual Allocation of Resources**



■ Capital Reviews ■ Operational/Performance ■ Advisory Services

# IA - Budget and Resources

## IA Budget & Resources:

- FY26 budget \$735k labor and \$8k non-labor.
- No consultants, internal BART staff only.
- Includes mandatory training and maintaining certifications.
- **BART's Internal Audit division:**
  - 1 Manager of Internal Audit,
  - 2 Principal Auditors,
  - 1 Senior Internal Auditor.



# IA - Updates

As part of the Office of the Chief Financial Officer's Strategic Plan (Goal #4), IA has updated and revised:

## **Internal Audit Charter** (July 2025)

- Core document that outlines the purpose, authority, and responsibilities of the internal audit function.
- Ensures IA operates with independence, clear objectives, and the official review by the Audit Committee of the Board.

## **Internal Audit Manual** (May 2026)

- Primary reference for all performance and non-capital audits.
- Tied directly to the most recent changes to both the auditor professional standards: the Red Book (IIA) and the Yellow Book (GAO).

## **Planned next steps:**

- Actualize internal Generative AI Policy (FY26)
- Design an internal quality management program (FY27)
- Update Federal Acquisition Regulation Capital Audit manual (FY27)
- Conduct an internal testcase peer review (FY27)
- Conduct an actual peer review (FY28)

# IA - Annual Risk Assessment

A risk assessment is not an audit, but a method to identify areas that may prevent BART from protecting its assets and achieving its objectives.

Internal Audit asked 200 leaders at BART to identify areas of concern related to processes or operations that may benefit from review by the IA team.

Next Steps:

- Naturalizing data and survey information.
- Analyzing the data for patterns, trends, comments.
- Risk-rank based on the responses.
- Provide review of responses to leadership.
- Convert into Annual Audit Plan (FY27) for Audit Committee review.

# FY26 Audit Identified Savings

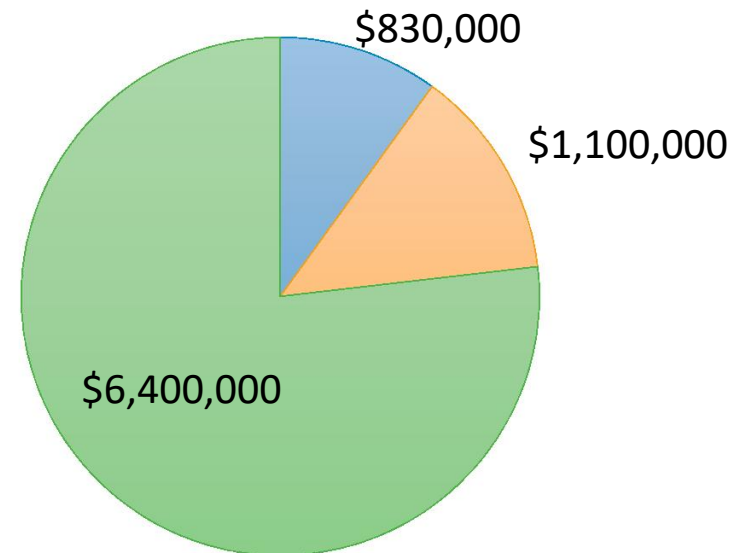


# IA - \$8.3M Identified in Contract Recoveries

Capital Overhead Rate reviews, mostly from contract close-outs, led to combined identified contract recoveries totaling \$8.3M. Calculated recovery amounts are sent to consultants for verification and confirmation; final collection payments are pending confirmation from consultants.

Amounts YTD:

- \$8.3M – Identified
- \$830K – Recovered Cash YTD
- \$1.1M – Agreed-to Payment
- \$6.4M – Pending Finalization

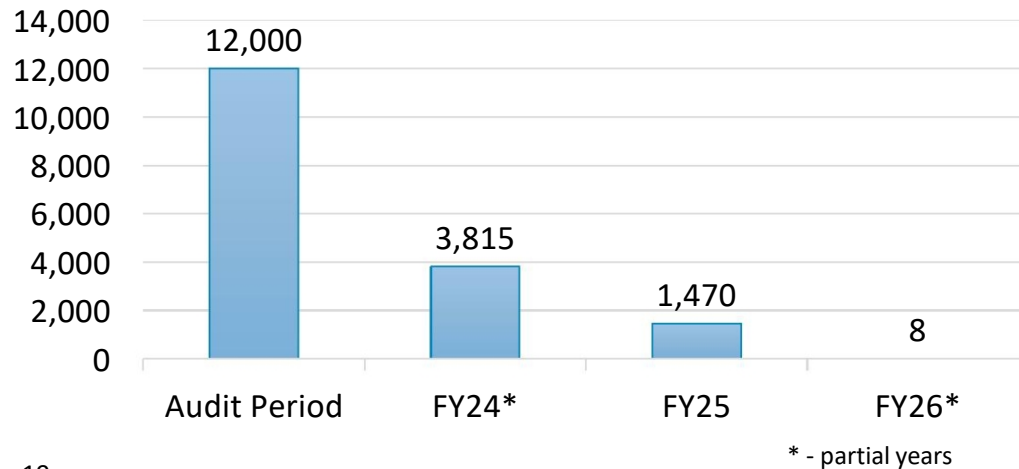


Recovered Agreed-to Pending

# IA - Bulk Fuel Cost Savings

- Fuel Vendor Cost Controls audit noted a bulk fuel variance of approximately 27% between fuel delivered versus pumped.
- Post-audit FY26 variances are averaging less than 0.53% per month.
- **Potential Savings:** based on \$3/gallon- \$30,707 per month (~\$368,484 annually)

Average Fuel Volume Variances



IA has confirmed the following in place:

- License Plate Reader Camera
- Employee Keycard Access Required
- New Fuel & Delivery Vendor
- Consistent Volume Monitoring

# IA - Sales Tax Recovery

Sales Tax Underpayments Recovered by the contractor managed by IA on BART's behalf. Activities include monitoring activities related to sales tax recovery services. IA validates amounts.

	Q1 FY26	Q2 FY26	Q3 FY26	Total*
Total Recovered Sales Tax	\$21,480	\$18,648	\$1,161	\$41,289
Less Commission (18% of Recovery)	\$3,866	\$3,357	\$209	\$7,432
<b>BART Share of Recovered Revenue</b>	<b>\$17,614</b>	<b>\$15,291</b>	<b>\$952</b>	<b>\$33,857</b>

\* - Some immaterial variances due to rounding

# FY26 Internal Audit Activities Capital Reviews & Support



# IA - FY26 Capital Reviews and Support I

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:

- **Overhead Rates (OH) and Provisional Labor Rate** reviews
  - Including Contract Close-outs and Rate True-ups
  - Final OH rate reviews on contractor-charged overhead rates results in savings to the District.
- **Delay Claim and Termination Claim** reviews
  - IA advises Project Teams by reviewing the Time-Related Overhead portion of the claim.
- **Change Order (CO)** support
  - Support provided by Internal Audit for amounts over \$500k; informed of amounts over \$100k. Internal Audit reviews for completeness, authorization, and existence.

# IA - FY26 Capital Reviews and Support

## II

Capital support services include, counseling, advising, facilitation, and training:

- **East Bay Paratransit Broker Cost Proposal Audit**
  - Review to confirm that BART's cost elements in the proposal for the shared Paratransit Broker contract with AC Transit align with actual expenses and FAR.
- **Subcontractor Labor Rate Audit**
  - Requested by Office of Infrastructure Delivery – Pending documentation
- **Periodic Training FY26**
  - Provided capital-specific training for multiple Project and Agreement teams to assist with cost reviews and related issues. Covers all IA education and training requested by BART departments.
- **Capital Advisory Services FY26**
  - Consultative activities plus analytical non-audit support to BART departments and programs upon request.
    - Procurement Contract Cost Structure Requirements, Forward Pricing of Extended Overhead in Construction Contracts, RFP boilerplate Structure Requirements, Contract Close-out Procedures, Prevailing Wage Rates Limits, OH Rates, and Fringe Benefits.

# IA - FY26 Capital Reviews and Support Summary

Capital Audits and Reviews	FY23	FY24	FY25	FY26*
Final OH Rates and Provisional Labor Rates	130	207	136	232
Delay Claims	3	2	1	–
Termination Claims	–	–	–	–
Change Order Support	85	56	65	97
Capital Advisory Requests	152	195	216	186
<b>TOTAL</b>	<b>370</b>	<b>460</b>	<b>419</b>	<b>515</b>

Change Orders: included **25** under \$100K, **39** over \$100K, and **33** over \$500K.

\* - effective May 31/2026

# FY26 Internal Audit Activities Performance/Operational



# IA - FY26 Performance & Operational Audits I

Current:

## Payroll Audit – PLANNING

- Evaluate design and operating effectiveness of controls in place over payroll processes and compliance with organization policies, procedures, laws, regulations or guidelines.
- Select a statistical sample of payroll transactions to conduct multi-purpose (substantive and internal control) testing.

## Third-Party Risk Management Audit - REPORTING

- Evaluate effectiveness and efficiency of BART's processes 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.

## Fuel Card Program Audit – RELEASED

- Determined that most 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.
- 24 recommendations made to improve operations and controls.

# IA - FY26 Performance & Operational Audits II

## Current:

### **Parking Facilities Fire Systems Audit - FIELDWORK**

- Determine if BART has adequate controls in place to sufficiently monitor the various parking structures.
- Limited the scope to be focused on the highest risk facilities – focusing on parking structures and fire safety.

## Complete:

### **Bulk Fuel Follow-Up – FIELDWORK – SITE VISIT**

- Site Visit and inspection completed in March.
- Determine and reassess the implementation of recommendations and corrective actions related to fuel management, including reviewing documentation, verifying data, and confirming that identified issues are resolved.

# IA - Performance & Operational Audits III

Completed **Driver License Management Program (DLMP) audit**, making BART's presence on the roads safer:

- New **Vehicle Use Policy** developed internally that revised, modernized, ratified, and issued (previous Management Procedure from 1980).
- **Cleansed list of employees** who drive BART vehicles and developed periodic monitoring reports.
- Transitioned from manual files to **electronic records**.
- **Physically secure Key Management** system installed.
- **Casual drivers must complete driving safety training** before being allowed to drive District vehicles.
- **DMV monitoring system updated and connects directly with BART's HR system** for continuous monitoring. Departing employees are automatically removed.



# IA - FY26 Performance & Operational

Audit Report	Management Action Plans (MAP)			Last Update from Audit Client	Next Response Date
	Total	Partially Implemented	Fully Implemented		
BPD Inventory and Equipment	36	17	19	Specialized software in place for inventory and qualification of firearms. Revisions to key SOP and Bulletins. Rangemaster has full operational responsibility. Other inventory items in progress, pending new BDPHQ.	July 2026
Fuel Vendor Cost Controls	23	1	22	NRVE drafted the Fuel Truck SOP that has been implemented and refined by workers, Foreworkers, and Managers. Further monitoring equipment for distance fueling sites pending testing.	July 2026
Mental Stress & Trauma Workers' Compensation	9	3	0	Designed and implemented revised standard operating procedures (SOP) for Trauma, Mental Stress claims, and Return-to-Work. The other action plans are under review and in progress.	Sept 2026
Fuel Card Program	24	20	4	Management has made robust updates to employee provided guidance and is in the process of developing more robust policy and training materials.	Sept 2026

# FY26 Internal Audit Activities Advisory Services



# IA - FY26 Advisory Services

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

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

# IA - FY26 Advisory Services – Compliance Reviews I

**Compliance review coordination** as required by regulatory and funding agencies such as the Federal Transit Administration (FTA), Metropolitan Transportation Commission (MTC), and Caltrans. Requirements or guidelines for these audits may be specified by the regulatory agencies, and Internal Audit acts as the main point of contact and liaison among departments and regulators.

- **FTA Triennial Review (FY23-25):** FTA is responsible for conducting oversight activities to ensure that grant recipients use the funds in a manner consistent with their intended purpose and in compliance with regulatory and statutory requirements. The largest of the FTA funding programs is the Urbanized Area Formula Grant program (49 U.S.C. § 5307). The FTA conducts oversight reviews of these grantees at least once every three years.
  - 23 Review areas, including Financial Management and Capacity, Transit Asset Management, Satisfactory Continuing Controls, Maintenance, Procurement and Cybersecurity.
  - Final Report Released July 2025: **0 reportable deficiencies.**
  - BART's BEST FTA REPORT TO DATE.



# IA - FY26 Advisory Services – Compliance Reviews II

**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.

- **MTC TDA Triennial Performance Audit (FY23-25):** California’s Transportation Development Act (TDA) requires the Metropolitan Transportation Commission (MTC) to conduct a triennial performance audit for all Bay Area transit operators that receive TDA funding. These audits assess operational efficiency, performance indicators, and statutory compliance, with roughly one-third of operators audited every three years.
  - Phase I complete, no findings or recommendations.
  - Phase II complete, pending final report: no findings, 2 recommendations.
- **MTC TDA Triennial Audit of East Bay Paratransit Consortium (EBPC) (FY23-25):** Same as above, BART represents 31% of EBPC.
  - Phase I complete, no findings or recommendations.
  - Phase II complete, pending final report: no findings or recommendations.

# IA - FY26 Advisory Services – Compliance Reviews III

**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.

- **State Sales Tax Remitted to the District FY26**
  - FY26 YTD (through Q3), the State remitted an additional \$34K in sales tax to the District; this amount may increase upon receipt of Q4 totals.
  - Based on deficiencies identified by BART’s sales tax recovery consultant, IA reviews and confirms the consultant findings.
  - Consultant paid via commission, 18% of the sales tax funds recovered for BART, no risk, no cost.
- **BART Board Property FY25**
  - Compliance with Board Rule 5-3.5, Use of District Property Other than Automobiles.
  - No significant findings.
  - Next cycle for Board review of FY26 to begin July 1, 2026.

# IA - FY26 Advisory Services – Education and Support I

**Education and Support** include advisory services that are agreed upon by the client and are intended to add value and improve the District’s governance, risk management, and control processes without the Internal Audit assuming management responsibility, for example, counsel, advice, facilitation, and training.

- **Facilitate Office of Inspector General (OIG) Monitoring, Responses, and Recommendations:**
  - **Monitor** all OIG recommendations:
    - YTD Totals: 193 recommendations, 124 implemented, 63 open, 6 re-opened, 12 not accepted.
  - **Facilitate** all Management Responses, communications, and OIG requests:
    - “Recommendation Implementation Assessment Project,” launched in January 2026, followed up on the oldest OIG projects – included more than 30 recommendations to re-substantiate with data.
    - Updates to the Employee Code of Conduct.
  - **Reconcile** with OIG’s tracking system for consistency and mutual understanding.

# IA - FY26 Advisory Services – Education and Support II

- **Coordinating SB 827 Fiscal and Financial Management Education Program**
  - New State Law as of January 2026 that requires 2 hours of mandatory fiscal and financial training for local agency officials on laws and principles relating to financial administration and short- and long-term fiscal management. IA coordinating development of the training.
- **Conducting 3 County Election Cost Review**
  - Reviewed invoices for election costs from the 3 counties charged to BART; compare for reasonableness and accuracy. No report.
- **Real Estate Property Rate Change Calculation**
  - Assisted Real Estate and Property Development with developing an hourly rate for staff work related to outside permit applications.

# IA - FY26 Advisory Services – Monitoring I

Monitoring, and other non-audit support services provided at the request of management to perform tasks that directly support BART operations or to provide information or data without verification, analysis, or evaluation that may or may not result in the issuance of a report.

- **Audit Recommendation Follow-up and Reporting**
  - Determine the status of prior internal audit recommendations and provide status reports to managers.
  - Follow-ups on the most recently completed audits.
- **Safe Harbor Rate (SHR) Program FY26**
  - Helps small businesses comply with contract terms and federal regulations.
  - No applicants in FY26.
- **BART Suspension and Debarment Process FY26:**
  - Suspension and debarment are available BART administrative actions to protect public interest by ensuring BART only does business with responsible contractors. This process is meant to mitigate fraud, waste, and abuse, and prevent future losses.
  - Very limited activity. None FY26.

# IA - FY26 Advisory Services – Monitoring II

- **Conflict of Interest Notifications (COIN):**

- BART’s conflict of interest disclosure is a formal process where an individual or organization reveals personal, financial, or professional relationships that could inappropriately influence their objectivity.
- Ensures transparency and accountability, and serves as the first step in managing potential COI issues at BART.
- Disclosing a relationship does not automatically mean a conflict exists; it simply ensures transparency so others can evaluate the situation.
- Very limited activity 4 YTD for FY26.

# IA - FY26 Advisory Services Summary

Advisory Services Activity – Compliance	Advisory Services Activity – Education and Support	Advisory Services Activity – Monitoring
FTA Triennial Review (FY23-25)	Facilitate Office of Inspector General (OIG) Monitoring, Responses, and Recommendations	Audit Recommendation Follow-up and Reporting
MTC TDA Triennial Performance Audit of BART FY23-25	SB 827 Fiscal and Financial Management Education Program Development (New)	Safe Harbor Rate (SHR) Program FY26
MTC TDA Triennial Audit of East Bay Paratransit Consortium (EBPC) FY23-25	3 County Election Cost Reviews (New)	BART Suspension and Debarment Process FY26
Review of State Sales Tax Remitted to the District FY26	Real Estate & Property Development Permit Rate Change Calculation (New)	Conflict-of-Interest Notification (COIN)
Board Property FY25 Report		

(New) – Unplanned work not originally identified in FY26 Audit Plan.

# Questions?



INTERNAL AUDIT  
DIVISION



Morelli Designers Team