

Office of the Inspector General

FY 2022-2024 Audit Plan

August 13, 2021



STATUTORY MANDATE

Public Utilities Code §28841 requires the independent Office of the Inspector General (OIG) to:

- conduct, supervise, and coordinate audits relating to the District's programs and operations, including, but not limited to, toll-funded programs.
- identify opportunities for efficiencies in the administration of programs and operations.
- identify opportunities to improve data used to determine project resource allocations.
- identify best practices in the delivery of capital projects and recommend policies to enable the District to adopt these practices when practicable.
- recommend policies promoting efficiency in the administration of programs and operations.

REQUIREMENT TO FOLLOW PROFESSIONAL AUDITING STANDARDS

Government Code §1236 requires that we conduct our audits in compliance with the standards prescribed by The Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller of the United States, as appropriate. Because the OIG is an external audit function, the Government Auditing Standards are the appropriate professional standards for us to follow when conducting audits.¹

PERFORMANCE AUDITS

The audits we are required to conduct under our statutory mandate are defined in the Government Auditing Standards as performance audits, which are audits that:

“Provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.”

Performance audit objectives vary widely, but typically consider concepts that are referred to as the “five E’s” for how management carries out its programs, functions, and activities and provides services to the public:

- Effectively – Does the organization achieve its intended objectives?
- Efficiently – Does the organization get the most value from available resources?
- Economically – Does the organization minimize the costs of resources used in performing its functions while meeting timeliness and quality considerations for those resources?
- Ethically – Does the organization administer its programs, functions, or activities in a manner that advances the collective interest of the public rather than private gain and is conducted with honesty, integrity, and impartiality?
- Equitably – Does the organization consistently serve members of the public, distribute public services, and implement public policy in a manner that promotes fairness, justice, and equality?

¹ The Government Auditing Standards defines internal auditors as those who work for an entity's senior management and are subject to administrative direction from persons involved in the entity's management process. The Standards define external auditors as those that report to third parties externally or to a legislative body. The reporting structure of the BART OIG meets the definition of an external audit function.

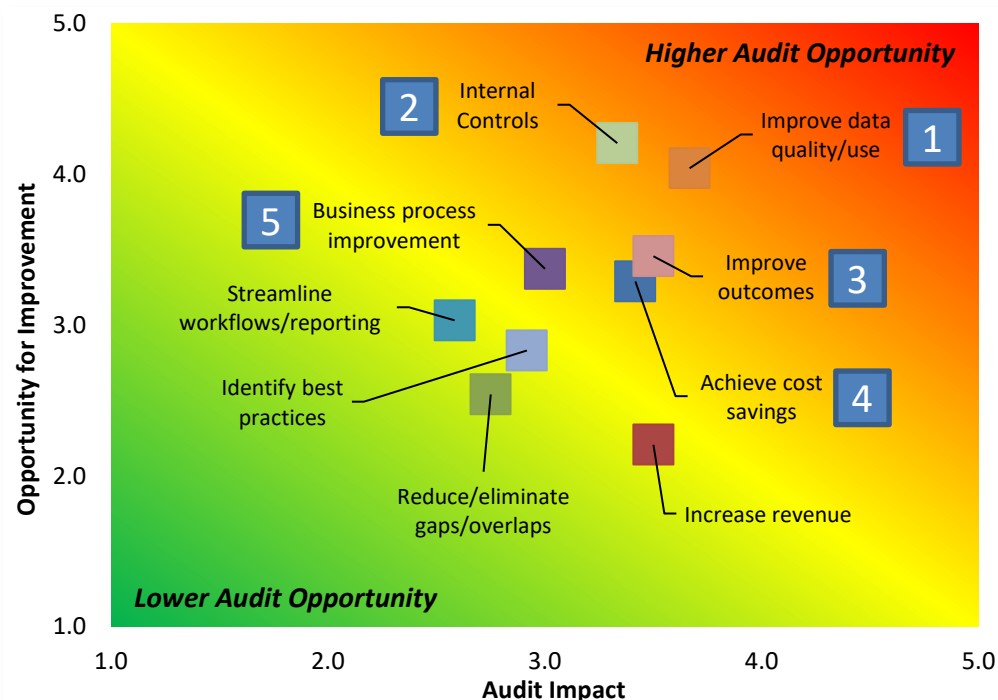
RISK ASSESSMENT AND AUDIT PLAN

Risk assessments are a common method used to determine the priorities of a performance audit work plan. They help identify and assess areas that may prevent an organization from achieving its strategic goals and objectives, and as a result, areas where a performance audit is likely to result in the greatest opportunities to improve the efficiency and effectiveness of programs and operations.

We retained TAP International to conduct a risk assessment of BART functions to assist us in developing an audit plan to meet our statutory requirement to conduct audits. TAP conducted the risk assessment with BART's Strategic Plan Framework in mind and assessed risk on two dimensions – the likelihood that an adverse event would occur and affect the ability of the program, function, or activity to achieve its strategic goals and objectives, and the potential impact if the event does occur. TAP reviewed numerous internal documents and conducted meetings with more than 100 BART managers and staff to identify areas where a performance audit would provide the most opportunity for improvement.

The risk assessment resulted in TAP recommending 38 potential audits based on the risk scores. It is important to recognize that a high-risk score does not mean that a department is ineffectively or inefficiently managed, or that a program, function, or activity is not achieving its goals and objectives. BART management has implemented many activities that are designed to control risk and reduce the likelihood that a negative event will occur or the potential impact if the event does occur. The risk assessment showed that the areas where a performance audit could produce the highest results are those that address the ability to improve data quality/use, internal controls, outcomes, and business processes or can achieve cost savings. As shown in the risk assessment heat map below, those areas all scored above 3, on a scale of 1 to 5, for the likelihood that an audit would identify opportunities for improvement, the likelihood that such an audit would produce meaningful impacts, or both.

High risk scores do not mean a department is not well managed; rather, they represent areas where a performance audit will likely identify opportunities for improvement.



To prioritize audits based on the risk assessment results, we also considered:

- Relevance – Does the audit have the potential to affect Board or management decision making or BART’s ridership?
- Best Practices – Does the audit provide an opportunity to compare current performance to best practices? Our statutory mandate requires that we identify opportunities for BART management to implement best practices, and it is also common to use best practices as the criteria in an audit against which to compare performance.
- Improvement – To what extent does the audit provide opportunities to enhance accountability and transparency of District operations and provide meaningful and permanent improvement of operating practices in the context of the “five E’s”?
- Actionable – Will the audit result in actionable recommendations that are practical and feasible?
- Input – Does the audit have the opportunity to incorporate concerns identified by Board Directors?
- Strategic Plan Framework – Will the audit enhance the District’s ability to achieve the goals in its Strategic Plan Framework?

In several instances, we reframed or combined TAP’s suggested audit objectives so we could address them in a single audit. In other instances, we will address some of the suggested audit objectives based on requirements in the Government Auditing Standards, rather than as stand-alone audits. For example, because the Government Auditing Standards require that we assess the effectiveness of internal controls that are significant to our audit objectives and the reliability of data used to support our audit conclusions, we will address those, as appropriate, in each of our audits.

We have identified seven audits that we plan to conduct or oversee over the next three years. We recommend that two of these audits be contracted out and, because the recommendation for those audits are the result of our risk assessment, that we be responsible for oversight of those contracts. We consider these two audits to be the highest-priority audits; but due to our limited funding and staffing, contracting for them would be based on BART’s ability to provide funding for consultants to conduct the audits.

Audits to Be Performed by OIG Staff

SPAN OF CONTROL

Department(s): All

Estimated Hours: 600

Preliminary Objectives:

- What is the number of organizational layers in BART and how does that compare with best practices and other transit agencies?
- What is the average number of staff reporting to managers, supervisors, and lead staff in BART (i.e., average supervisor to employee ratio) and how does that compare with best practices and other transit agencies?
- What factors affect BART's span of control and are they consistently applied throughout BART?

Anticipated Value:

- Implementation of best practices
- Enhanced operating efficiency
- Cost savings or cost avoidance
- Improved internal controls

EMPLOYEE COMPENSATION AND REPORTING

Department(s): Human Resources

Estimated Hours: 750

Office of the Controller-Treasurer (Payroll)

Preliminary Objectives:

- Are time and labor coding accurate to ensure employees are paid what they are entitled to and only what they are entitled to?
- Are time and labor costs charged to the correct cost center and, when applicable, appropriate capital project or grant?
- Do PeopleSoft controls prevent incorrect entry of time and labor information?
- Has BART fully implemented the recommendations from the 2014 CalPERS review and did the recommendations appropriately address the underlying issues?
- Are payroll data accurately reported to CalPERS, the Internal Review Service, and other outside agencies?

Anticipated Value:

- Compliance
- Cost savings or cost avoidance
- Implementation of best practices
- Improved internal controls
- Enhanced operating efficiency
- Improved contracting effectiveness
- Improved accountability and transparency

Audits to Be Performed by OIG Staff (continued)

CONSTRUCTION CONTRACT CHANGE ORDERS

Department(s): Procurement
Operations
Design and Construction

Estimated Hours: 750

Preliminary Objectives:

- Do change orders for capital construction projects comply with applicable state and federal contracting regulations and BART's policies and procedures?
- Do change order practices ensure that work remains within the original scope of the contract and that work outside that scope is put out for bid?
- Do change order development, review, and approval processes align with contracting best practices?

Anticipated Value:

- Compliance
- Cost savings or cost avoidance
- Implementation of best practices
- Improved internal controls
- Enhanced operating efficiency
- Improved contracting effectiveness
- Improved accountability and transparency

CONTRACT SOLICITATION PRACTICES

Department(s): Procurement

Estimated Hours: 500

Preliminary Objectives:

- Do BART's contract award practices comply with applicable federal and state regulations and BART's policies and procedures?
- Are appropriate contract types used based on the scope and value of the work?
- Do BART's contract strategies achieve their intended goals and objectives?

Anticipated Value:

- Compliance
- Cost savings or cost avoidance
- Implementation of best practices
- Improved internal controls
- Enhanced operating efficiency
- Improved contracting effectiveness
- Improved accountability and transparency, including equity goals

Audits to Be Performed by OIG Staff (continued)

INVENTORY MANAGEMENT

Department(s): Procurement
Operations

Estimated Hours: 500

Preliminary Objectives:

- Do BART's internal controls over inventory:
 - ensure that only authorized and necessary purchases are made?
 - ensure the accuracy of its inventory?
 - ensure that only authorized staff are allowed access to inventory?
 - minimize the risk of loss and theft?
- Does BART formally analyze its purchases to determine the appropriate reorder points and optimal order quantities?
- Does BART actively and effectively manage scrap, leftover, and obsolete inventory?
- What are the advantages and disadvantages of increased use of Maximo and centralization of inventory management?

*Inventory includes supplies, parts, materials, equipment, and expendable tools. This scope of the objectives may necessitate more than one audit.

Anticipated Value:

- Improved internal controls
- Implementation of best practices
- Enhanced operating efficiency
- Cost savings or cost avoidance
- Revenue recovery
- Improved data reliability
- Improved accountability and transparency

Audits to Be Performed by a Consultant

ORGANIZATIONAL ASSESSMENT OF BART'S FINANCIAL STRUCTURE

Department(s): Office of the Controller-Treasurer
Performance & Budget

Estimated Cost: \$95,000

Preliminary Objectives:

- To what extent does the current organizational structure of the Office of the Controller-Treasurer assure its independence?
- What are the advantages and disadvantages of consolidating finance functions and modifying reporting structures into a single department?
- Are the responsibilities of the Risk Management function appropriate for its continued placement within the Office of the Controller-Treasurer?
- How does BART's current financial structure compare with best practices and other large transit agencies?

Anticipated Value:

- Implementation of best practices
- Improved operating efficiency
- Improved program results (effectiveness)
- Improved accountability and transparency
- Improved internal controls

ASSET MANAGEMENT

Department(s): Procurement
Office of the Chief Information Officer
Maintenance & Engineering
Rolling Stock & Shops

Estimated Cost: \$250,000

Preliminary Objectives:

- Are BART's capital assets appropriately recorded in information systems and accounted for in the District's financial statements?
- Are BART's capital assets adequately protected from loss?
- Are BART's micro-purchased equipment, materials, and supplies recorded in information systems, when appropriate.?
- If assets are not tracked or are missing, what is the extent and value of them?
- What are the advantages and disadvantages of increased centralization of asset management?

Anticipated Value:

- Compliance
- Cost savings or cost avoidance
- Implementation of best practices
- Improved internal controls
- Enhanced operating efficiency
- Improved accountability and transparency