



FY25 Internal Audit Activities Report

YEAR ENDING JUNE 30, 2025

PERFORMANCE & BUDGET – JULY 2025



INTERNAL AUDIT
DIVISION



FY25 Internal Audit Activities Report

Year Ending June 30, 2025



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Approved to Issue:

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



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1. Introduction

1.1. 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.

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). 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.

Internal Audit, in the discharge of its duties, shall be accountable to the reporting structure as governed by the most recent and approved BART Organization Chart. The reporting structure will have the Internal Audit division led by the Manager of Internal Audit (Manager). Additionally, the Manager will report to a Director-level or higher, senior BART executive, who will be deemed the chief audit executive for additional reporting. The senior BART executive will be a direct report to the General Manager or a designee of the General Manager.

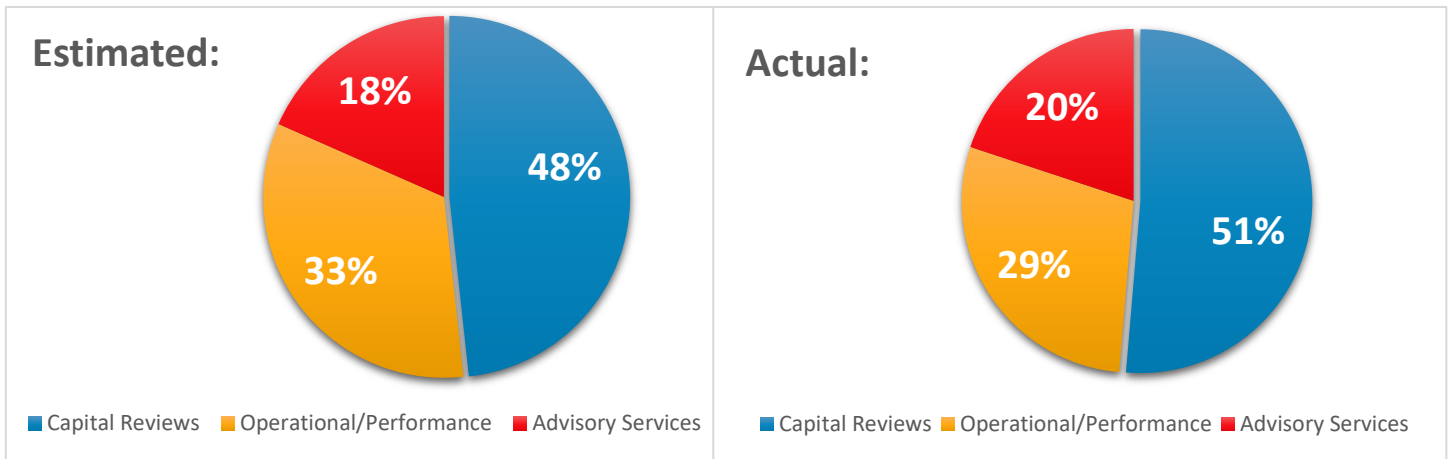
The scope of internal audit services covers the entire breadth of the organization, including all BART's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory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

2. Internal Audit Activities

Internal Audit is responsible for conducting capital reviews of the District's contractors and operational/performance audits of the District, including performing compliance reviews. The third project stream is our advisory services include coordinating audits performed by external government agencies (e.g., Federal Transit Administration (FTA), Metropolitan Transportation Commission (MTC)), managing BART's sales tax recovery services agreement, monitoring and tracking Conflict-of-Interest Notifications (COIN), and coordinating and tracking staff responses to Office on Inspector General (OIG) recommendations. Lastly, upon request, Internal Audit provides analytical non-audit support services to other BART departments and activities.

The Performance & Audit Department submitted our annual risk-based Audit Plan to the Board's Audit Committee in July 2024. Each year, the Internal Audit plan estimates the number of hours required for various activities. Our allocation of hours is based on the project priorities presented in our BART risk assessment process. The estimated and actual allocation of audit time is presented in the charts below.

In recent years, the number of hours required to perform contract audits and related support has increased due to the number of capital projects. Additionally, due to some long-term on-call contracts are complete and closing out, which may trigger contract close-out "true-ups" to be performed before contracts can be fully closed.



This document summarizes the status of the audit plan’s activities (Sections 3-7) and presents outstanding recommendations from past audits and follow-ups to audits from previous years, some of which were closed before the end of FY25 (Section 8).

3. FY25 Capital Reviews

Contractor and Subcontractor Overhead Cost Rate and Price Reviews: Contractor rate reviews determine if agreed-upon billing rates applied to planning, architectural, engineering, construction, and other projects meet the specifications of vendor contracts. IA determines the reasonableness of contractor delay claim amounts and compliance with FAR Part 31 and contract provisions. Contractor reviews refer to reviewing the vendor's proposed pricing to ensure it is fair and reasonable, and based upon the vendor's costs and other criteria. Related activities include assessing contractor delay and termination claims.

Please note that all Contractor financial information is confidential.

Audit Activity	Affected Department	Count	Average Adjustment	Adjustment Range (Hi/Lo)
Capital Contract Overhead Rates	Office of Infrastructure Delivery (OID)	136	(3.44)%	(118)% / (0.51)%
Contract Delay Termination Claims	OID	0	N/A	N/A
Change Order Notifications & Reviews	OID Maintenance	65	N/A	N/A
Overhead Cost Rate Collections	OID	4 invoiced	\$1,602,699 invoiced	N/A

Capital Contract Overhead Rates: Final rate reviews lowered contractor-charged overhead rates by 0.51% to 118% resulting in savings to the District. Prime Firms reviewed for 50 reports and Subcontractor firms for 86 reports.

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

Change Orders: Change Orders included 34 over \$100K (notifications), 30 over \$500K (reviews), and 1 for final Contract Closeout (review).

4. FY25 Operational/Performance Audits

Operational/Performance 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. Audits listed are those that changed status in FY25.

Audit/Activity	Affected Department	Audit Objective / Management Action Plan (MAP) Status	Audit Status	Audit Report Details
RECENT AUDITS				
Third-Party Risk Management Audit FY25	Multiple	Evaluate the effectiveness and efficiency of BART's process and controls for managing risks associated with third-party relationships.	In Progress	Draft report released to key stakeholders, pending final report and Management Action Plans (MAP).
Fuel Card Program Audit FY25	Multiple	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.	In Progress	Exit conference with key stakeholders, pending draft and final report with MAP.
Cost Proposal Review of the East Bay Paratransit Consortium (EBPC) Request for Proposal (RFP) FY25	Customer Access Department	Review to confirm that BART's cost elements in the RFP for the shared contract with AC Transit align with actual expenses and FAR.	Closed	Significant cost reductions: Rent (\$777K) and Depreciation (\$413K). Residual concerns over the proposer's unsupported costs and lack of accurate documentation. Memo communicated to both BART Customer Access and the Alameda County Transit Procurement Department.

Audit/Activity	Affected Department	Audit Objective / Management Action Plan (MAP) Status	Audit Status	Audit Report Details
Workers' Compensation Trauma/Mental Stress Program Audit	Human Resources	Determine if BART's self-insured Workers' Compensation program has appropriate controls and defined criteria for Mental Stress and Trauma claims.	Complete	IA has made recommendations to improve and enhance these internal controls, including updating Standard Operating Procedures (SOPs). The Internal Audit Division will continue to monitor implementation.
Cybersecurity Assessment Tool for Transit (CATT)	Office of the Chief Information Officer (OCIO) Operational Technology Train Control Engineering	Determine 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 the FY25 FTA Triennial.

MONITORING PRIOR AUDITS

Audit Recommendation Follow-up and Reporting	Multiple	Determine the status of prior internal audit recommendations, management action plans (MAP), and provide status reports to managers.	On-going	Follow-ups on the most recently completed audits, please refer to the details below in Sections 5 & 8 for further details.
Driver License Monitoring Program (DLMP)* FY20	Maintenance Safety Employee Relations	Total MAPs: 14 Implemented: 7 Partially Implemented: 7 Not Implemented: 1	Complete	The updated Driver policy was adopted on 2/12/25. Driver monitoring software to be linked to internal systems, revised policy includes rules for casual drivers.
BPD Inventory and Equipment FY22	BART Police Department	Total MAPs: 36 Implemented: 15 Partially Implemented: 11 Not Implemented: 10	Complete	Improved internal systems and procedures. An IT System is in place for the inventory and qualification of specialized police equipment. Other inventory items are in progress.

Audit/Activity	Affected Department	Audit Objective / Management Action Plan (MAP) Status	Audit Status	Audit Report Details
Fuel Vendor Cost Controls FY23	Maintenance	Total MAPs: 23 Implemented: 20 Partially Implemented: 3 Not Implemented: 0	Complete	The fuel pump system was updated, standard operating procedures (SOPs) were drafted, and key card access was tied to pump access; security was updated to include a license plate reader. Pending distance fuel sites and fuel trucks solutions.
Workers' Compensation Trauma and Mental Stress FY24	Human Resources	Total MAPs: 8 Implemented: 0 Partially Implemented: 3 Not Implemented: 5	Complete	Designed and implemented revised SOPs for Return-to-Work, Trauma, and Mental Stress claims. The other processes are in progress.
Capital Reimbursement Management FY21	Budget	Total MAPs: 8 Implemented: 8 Partially Implemented: 0 Not Implemented: 0	Closed	Management adapted to a data workaround, full implementation as of January 25. Closed Report in February 2025.

* - Expanded as part of the Driver Safety

Status Glossary:

Closed – Audit is complete, final report issued, and no outstanding findings and/or recommendations remain.

Complete – Audit is complete, final report issued, but outstanding findings need to be addressed and/or MAPs remain for follow-up.

In Progress – Audit work started and is continuous.

On-going – Recurring audit work with no definitive end date.

On Hold – Audit work was planned but not commenced, or audit work was started but suspended by audit staff.

5. FY25 Advisory Services

Advisory Services Support – Non-audit support services may be 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.

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.

Also includes coordinating or supporting Compliance Audits as required by regulatory and funding agencies such as the Federal Transportation Administration (FTA), Metropolitan Transportation Commission (MTC), and Caltrans. Requirements or guidelines for these audits may be specified by the regulatory agencies, and Internal Audit will act as the main point of contact and liaison between departments and regulators.

Activity	Affected Department	Objective	Status	Details
COMPLIANCE REVIEWS				
FTA Compliance - Triennial Review FY22-25	Multiple	Provide liaison between the FTA reviewers and BART staff.	On-going	FY25 FTA Triennial Report to be issued in July 2025.
MTC TDA Triennial Audit	Various	PUC Section 99246 requires that a performance audit be conducted every three years of each public transit agency that receives TDA funds. MTC, as the Regional Transportation Planning Agency for the nine-county Bay Area, contracts with an independent auditor to conduct the triennial performance audit of transit operators that receive TDA Articles 3, 4, 4.5, or 8 funds.	Closed	Complete – no findings
MTC TDA Triennial Audit of East Bay Paratransit Consortium (EBPC)	Various	PUC Section 99246 requires that a performance audit be conducted every three years of each public transit agency that receives TDA funds.	Closed	Complete – no findings
BART OIG Link21 Program Audit	OIG Link21	This activity extends to supporting other external audits.	Complete	The report has been released and incorporated into the OIG Coordination Advisory services.

Activity	Affected Department	Objective	Status	Details
BART OIG Audit of the Capital Construction Change Order Process	OIG Office of Infrastructure Delivery (OID)	This activity extends to supporting other external audits	Complete	The report has been released and incorporated into the OIG Coordination Advisory services.
Review of State Sales Tax Remitted to the District FY24 & FY25	External Contractor - HdL	Review reporting of sales tax recoveries to management. These activities include monitoring activities related to sales tax recovery services. Validate the State Sales Tax underpayments recovered by the contractor on BART's behalf.	On-going	For 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. FY25 remitted an additional \$26,888.
BART Board Property	BART Board of Directors	Compliance with Board Rule 5-3.5, Use of District Property Other than Automobiles.	Closed	Annual review per the Board rules, no findings or issues noted.

EDUCATION AND SUPPORT

Advisory Services	Multiple	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.	On-going	Consultative activities plus analytical non-audit support to BART departments and programs upon request.
Periodic Training (Projects and Agreements)	Multiple	Projects and Agreements teams to assist with project cost reviews and related issues.	On-going	Education and training of BART departments and programs upon request.
Safe Harbor Rate (SHR) Program	Multiple	Helps small businesses comply with contract terms and federal regulations.	On-going	2 applicants to date, 1 approved.
Cost Recovery Rate for Real Estate Permit Applications FY25	Real Estate	Assisted Real Estate and Property Development with developing an hourly rate for staff work related to permit applications.	Complete	New FY25 rate advised and approved by the Board, increasing permit fees by 15% to cover BART's increasing costs.

Activity	Affected Department	Objective	Status	Details
MONITORING				
Audit Recommendation Follow-up and Reporting	Multiple	Determine the status of prior internal audit recommendations and provide status reports to managers.	On-going	Follow-ups on the most recently completed audits, please refer to the details above in section 4 and below in section 8.
Management Responses to Office of Inspector General (OIG) Recommendations Coordination	Multiple	To ensure that all Office of Inspector General recommendations are responded to by management in a timely manner, and that corrective action implementations are tracked, and follow-up is performed.	On-going	Maintain the master corrective action tracking list and reconcile with OIG's new tracking system. Schedule reminders provided to pertinent BART staff. Monitor all OIG recommendations: 140 recommendations, 108 closed, and 32 open.
Conflict-of-Interest Notification (COIN) Monitoring	Project Teams or external contractors	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, an additional question, and a form for the Statement of Qualifications (SOQ) disclosures. Coordinate the COIN system of tracking and reporting all contractor-related potential conflicts of interest, as defined by the BART Contractor's Code of Conduct, for submission to the Office of General Counsel for decisive action.	On-going	The COIN system has processed 6 YTD potential conflicts. No significant disclosures or accommodations.
Suspension and Debarment Policy & Process Support	Multiple	Assist in providing clear guidelines to help establish and maintain high standards of professional and personal conduct for contractors who conduct business with the District.	Complete	Policy adopted on December 5, 2024, by the Board via unanimous vote.

6. FY25 Performance Audit Reports Detailed Summaries

6.1 Cost Proposal Review of the EBPC RFP for 2025 (24CON001) – Memo Released March 5, 2025

Executive Office: Customer Access

OBJECTIVE

BART's Internal Audit (IA) division was requested by BART's Customer Access department to review and evaluate the proposed Broker's price proposal during the Request for Proposal (RFP) process.

BACKGROUND

Alameda-Contra Costa Transit District (AC Transit) and the San Francisco Bay Area Rapid Transit District (BART) established the East Bay Paratransit Consortium (EBPC) to provide ADA Paratransit Services for both agencies. The service contract was recently up for renewal and was procured by AC Transit with input from BART. The recently implemented contract has a maximum value of \$387 million for a period of performance of a 4.5-year base term (FY25-FY29), of which AC Transit is responsible for paying 69% and BART is responsible for paying 31%, or \$120 million. There is a contract option for an additional 5-year term (FY30-FY34), and an additional \$565 million, subject to approval by both agencies' Boards of Directors.

AUDIT RESULTS

This memo describes the challenges that Internal Audit had in obtaining timely and accurate data and information from the proposed Broker, which resulted in numerous repeat Requests for Information (RFI). Based on its review, IA concluded that it could not qualify the proposer's reviewed costs as reasonable or supported. As a result, IA is precluded from qualifying the reviewed costs as "reasonable" or "supported." There remains a significant risk of unsupported costs that were included in the final cost proposal for Paratransit Services to the EBPC. However, due to IA's review, the proposer made two significant cost reductions to its final cost proposal: Rent (\$777K Reduction in Cost) and Depreciation (\$413K Reduction in Cost).

FURTHER ACTION REQUIRED

IA has made recommendations to improve and enhance these internal controls. This memo was provided to AC Transit's Procurement and BART's Customer Access Department for consideration in the next contract renewal.

6.2 Worker' Compensation Trauma/Mental Stress Program Audit (23PER002) – Report Released July 24, 2024

Executive Office: Human Resources

OBJECTIVE

The objectives of the Mental Stress & Trauma Workers' Compensation Audit were to:

1. Gain an understanding of the current process(es) for Mental Stress and Trauma.
2. Ensure consistent documented processes are followed.
3. Ensure compliance with Workers' Compensation laws.
4. Validate that controls exist to identify/prevent misuse or abuse.

BACKGROUND

The Internal Audit (IA) division of the San Francisco Bay Area Rapid Transit District (District or BART) performed an audit to determine if BART's self-insured Workers' Compensation program has appropriate controls and defined criteria for Mental Stress and Trauma claims. The audit was requested by the System Safety Department due to concerns about increasing claim counts and costs. This audit was part of Internal Audit's risk-based Fiscal Year 2024 (FY24) Audit Plan.

AUDIT RESULTS

Internal Audit found that the District's Trauma and Mental Stress program internal controls are not adequate to provide robust internal control assurance. A consistent lack of established procedures and standardized processes allowed for inconsistent activities, contributing to the increasing volume and costs of these programs.

FURTHER ACTION REQUIRED

IA has made recommendations to improve and enhance these internal controls. The Internal Audit Division will continue to monitor implementation.

6.3 Cybersecurity Assessment Tool for Transit (CATT) (23PER003) – Memo Released May 23, 2024

Executive Office: Office of Chief Information Officer (OCIO), Train Control, Operation Technology System (OT)

OBJECTIVE

The Internal Audit (IA) division of the San Francisco Bay Area Rapid Transit District (District or BART) performed an Assessment of Cybersecurity Readiness in anticipation of the next Federal Transit Administration (FTA) Triennial Review that will include a Cybersecurity evaluation subsection.

BACKGROUND

The objective of the assessment is to be proactive regarding potential cybersecurity issues and to minimize findings during the next FTA Triennial Review. The result of this assessment will be used for process gap remediation planning. We used the FTA's recently released 85-question Cybersecurity Assessment Tool for Transit (CATT) to perform the agency self-assessment. The CATT offers assessment ratings from 1 to 5 for each question, with 5 being the most prepared, resilient, and robust process.

The CATT has been completed and provides a list of key areas surrounding cybersecurity for the Office of the Chief Information Officer (OCIO), Train Control, and Operational Technology (OT) to plan for the future. This was an assessment of maturity, not an audit, and will be useful in future planning and the upcoming FTA Triennial. CATT sections include the following:

- | | |
|--|-------------------------------------|
| 1. Asset Management | 6. Service Continuity Management |
| 2. Controls Management | 7. Risk Management |
| 3. Configuration and Change Management | 8. External Dependencies Management |
| 4. Vulnerability Management | 9. Training and Awareness |
| 5. Incident Management | 10. Situational Awareness |

To accomplish our objective, Internal Audit: 1) Reviewed CATT assessment questions and relevant standards; 2) Conducted planning meetings with main contacts in OCIO, Train Control, and OT Systems; 3) Discussed scenarios in operation and triggers regarding assessment risk ratings; 4) Examined assessment responses and conducted benchmarking across different groups to evaluate consistency whenever applicable; 5) Confirmed the ratings with group leaders.

AUDIT RESULTS

The assessment indicates that Cybersecurity preparedness and resilience are different among OCIO, Train Control, and OT Systems.

FURTHER ACTION REQUIRED

Internal Audit recommends **management to continue performing processes with ratings of 3 to 5, explore opportunities to remediate noted processes with a CATT maturity rating of 1 and 2, set a timeline and identify project owners, identify dependencies and work across functions to implement new processes and controls, monitor the progress and results of the implementation, perform a reassessment using the same CATT toolkit and compare the result to the initial assessment, and retain all supporting evidence for inclusion in the next Triennial Review, as necessary.**

7. FY25 Advisory Services Summaries

7.1 FY22-25 FTA Triennial of the Bay Area Rapid Transit District (BART)

Background: The Triennial Review is one of the Federal Transit Administration's (FTA) management tools for examining grantee performance and adherence to current FTA requirements and policies. Mandated by Congress in 1982, the Triennial Review occurs once every three years. It examines how recipients of Urbanized Area Formula Program funds meet statutory and administrative requirements. The review currently examines up to 21 areas. In addition to helping evaluate grantees, the review gives FTA an opportunity to provide technical assistance on FTA requirements and aids FTA in reporting to the Transportation Secretary, Congress, other oversight agencies, and the transit community on the Urbanized Area Formula Program. The Triennial Review will cover BART activities between the last triennial review in 2022 through the exit conference of the 2025 review.

The performance audit is being conducted for FTA in accordance with its established procedures for performance audits. The purpose of this review is to determine if BART is in compliance with the FTA requirements.

Follow-Up Activities: Pending the completion of the Triennial, site visit is pending July 28-30, 2025.

7.2 MTC TDA Triennial Performance Audit of the Bay Area Rapid Transit District (BART)

Background: The Transportation Development Act (TDA) Triennial Performance Audit of BART covering fiscal years 2019-20, 2020-21, and 2021-23. PUC Section 99246 requires that a performance audit be conducted every three years of each public transit agency that receives TDA funds. MTC, as the Regional Transportation Planning Agency for the nine-county Bay Area, contracts with an independent auditor to conduct the triennial performance audit of transit operators that receive TDA Articles 3, 4, 4.5, or 8 funds. As TDA audits were paused during the COVID-19 pandemic, all operators will be audited in this cycle to return operators to a normal audit interval.

The performance audit is being conducted for MTC in accordance with its established procedures for performance audits. The purpose of this review is to determine if BART is in compliance with the TDA requirements for data collection and reporting. BART's performance trends for the five TDA-mandated indicators were analyzed by mode. A six-year analysis period was used for all the indicators.

Follow-Up Activities: No findings in the final report. No recommendations are suggested for BART at this time based on the results of this triennial performance audit.

7.3 MTC TDA Triennial Performance Audit of The East Bay Paratransit Consortium (EBPC)

Background: The Transportation Development Act (TDA) Triennial Performance Audit of EBPC covering fiscal years 2019-20, 2020-21, and 2021-23. PUC Section 99246 requires that a performance audit be conducted every three years of each public transit agency that receives TDA funds. MTC, as the Regional Transportation Planning Agency for the nine-county Bay Area, contracts with an independent auditor to conduct the triennial performance audit of transit operators that receive TDA Articles 3, 4, 4.5, or 8 funds. As TDA audits were paused during the COVID-19 pandemic, all operators will be audited in this cycle to return operators to a normal audit interval.

The East Bay Paratransit Consortium (EBPC) was formed by AC Transit and BART to meet the requirements for providing ADA-mandated complementary paratransit in their overlapping service areas. In California, a performance audit must be conducted

every three years of any transit operator receiving Transportation Development Act (TDA) Article 4 funds to determine whether the operator is in compliance with certain statutory and regulatory requirements, and to assess the efficiency and effectiveness of the operator's services.

Since EBPC is a shared responsibility of both BART and AC Transit, EBPC's performance audit is included in the performance audits of both operators, as an appendix. The audit covers the period of Fiscal Years 2020 through 2022 (from July 1, 2019, through June 30, 2022).

Follow-Up Activities: No findings in the final report. No recommendations are suggested for EBPC or BART at this time based on the results of this triennial performance audit.

7.4 BART OIG Link21 Program

Background: This audit, entitled "Performance Audit of the Link21 Program," was conducted by BCAWR LLP for the San Francisco Bay Area Rapid Transit (BART). The purpose of this audit was to evaluate BART's construction contract change order practices, ensuring compliance with laws and regulations, and identifying opportunities to improve controls related to risks of fraud, waste, and abuse.

Follow-Up Activities: None, other than incorporating this report's findings accepted by BART Management into our OIG Monitoring procedures.

7.5 BART OIG Capital Construction Change Order Process

Background: This audit, entitled "Audit of Construction Contract Change Orders," was conducted by GPP Analytics Inc. for the San Francisco Bay Area Rapid Transit (BART). The purpose of this audit was to evaluate BART's Link21 expenditures, compliance with laws and regulations, and identify opportunities to improve controls related to risks of fraud, waste, and abuse.

Follow-Up Activities: None, other than incorporating this report's findings accepted by BART Management into our OIG Monitoring procedures.

7.6 Review of Sales Tax Remitted to the District

Background: The State of California legislation authorizes the District to impose a half-percent transaction and use tax within District boundaries for use as revenue. The tax is collected and administered by the California Department of Tax and Fee Administration (CDTFA). In January 2024, the District contracted with HdL to monitor and evaluate sales tax collection data provided by the State to ensure that all the sales taxes due are collected and remitted by the State. The CDTFA evaluates the reported deficiencies, and, if verified, remits the additional amounts of taxes to the District. There may be a long delay from when a deficiency is identified and submitted to the CDTFA for evaluation and when the additional sales tax is subsequently remitted to the District.

Follow-Up Activities: These activities include monitoring activities related to sales tax recovery services. We validated Sales Tax Underpayments Recovered by the contractor on BART's behalf, resulting in an additional approximately \$27K in sales tax revenue to the District. On its invoices, HdL shows the total recovered sales tax and the amount retained for its fee (18% per contract). The net amount is remitted to the District. Internal Audit reconciled HdL invoices received to CDTFA data obtained from their secure website.

There were no exceptions noted for the periods reviewed as detailed in Table 1 below:

Table 1: Summary of Sales Tax Recover	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Total*
Total Recovered Sales Tax	\$17,169	~	~	\$15,621	\$32,790
Less: HdL Commission <i>(Contract Rate: 18% of Recovery)</i>	\$3,090	~	~	\$2,812	\$5,902
BART Share of Recovered Sales Tax Revenue	\$14,079	~	~	\$12,809	\$26,888

* - Some immaterial variances due to rounding

7.7 FY24 Board Property Review

Background: Per the Board Rules, IA is responsible for conducting the required annual review for compliance with the Other Property Rules of the Board of Directors on the use of District property.

Follow-Up Activities: No findings, no further activities required.

7.8 Safe Harbor Rate (SHR) Program

Background: SHR serves small businesses providing engineering and construction services (mostly subconsultants) that lack a Federal Acquisition Regulations (FAR) compliant indirect cost rate, such as businesses with insufficient: 1) financial resources to hire a certified public accountant (CPA) to conduct a FAR compliant audit; 2) financial sophistication to track costs and develop an indirect cost rate; 3) documented cost history.

As mentioned, BART's risk exposure is minimal. Potential risk if OIG investigates a particular project or subconsultant, but SHR will likely be lower than actual audited rate if such an audit was conducted.

Follow-Up Activities: Existing subcontractors who had previously utilized an SHR for Link21 project will be "grandfathered" and will be permitted to use the rate for a finite number of months (approximately 3 months, Project Team is still determining a reasonable grace period) and only if the firm has not completed the 3-year SHR term based on its original SHR start date. For FY24 the SHR program had 2 new applicants, one was rejected by Caltrans and the second qualified and is now using the SHR for its approved 3-year span.

7.9 Cost Recovery Rate for Real Estate Permit Applications

Background: The fee program is under the supervision of the Real Estate and Property Management Department, and the fees effective as of July 1, 2024, no longer capture the actual costs to the District of staff time and non-labor costs. Pursuant to the Board resolution 5560, the Fee Schedule may be amended annually based on wage increases in collective bargaining agreements and fringe benefits, and non-labor costs that are solely incurred for the processing of third-party permits.

Consistent with the Board resolution, the Fee Schedule for FY26 will increase the hourly staff time compensation rate from \$193 to \$220. In addition, non-substantive changes were made to the Fee Schedule for clarification purposes.

Follow-Up Activities: The FY26 updates to the Fee Schedule for Real Estate Permit, Easements, and Plan Reviews were accepted by the Board on June 26, 2025. The prior Resolution 5560, adopted by the Board on June 8, 2023, authorizes District staff to annually amend the Fee Schedule, with Board notification. The new Fee Schedule became effective on July 1, 2025.

7.10 Management Responses to Office of Inspector General (OIG) Recommendations Coordination

Background: To ensure that all Office of Inspector General recommendations are responded to by management in a timely manner, and that corrective action implementations are tracked, and follow-up is performed.

Follow-Up Activities: Current key activities include the master corrective action tracking list maintenance, quality reviews of submissions, and scheduled reminders provided to pertinent BART staff. Monitor current OIG recommendations: 140 recommendations, 108 closed, and 32 open.

7.11 Conflict-of-Interest Notification (COIN) Monitoring

Background: In response to a recent Office of the Inspector General (OIG) Internal Audit (IA) strengthens BART's conflict of interest procedures have been strengthened, currently focusing on capital contracts. As part of these efforts, IA developed a process to evaluate reported potential conflicts of interest in coordination with stakeholders. A dedicated resource, an email (coi@bart.gov) for reporting potential conflicts of interest (COI) has been created and included on the BART Contractor's Portal, coordinating with updates to the boilerplate contract and the Contractor's Code of Conduct to clarify the responsibility to report potential conflicts of interest. The process has been mapped and piloted to verify that reports are taken, standardized on a form, and distributed to key stakeholders, and additional information is collected to support the determination made by the Office of General Counsel and provided to the Ethics Officer.

Follow-Up Activities: Our new COIN system process has processed 41 potential conflicts to date, with 6 in FY25. No significant findings.

7.12 Suspension and Debarment Policy and Process Support

Background: Internal Audit was a key contributor to the working group established to develop and release the updated Suspension and Debarment Policy. The District's Suspension and Debarment Policy ("Policy") outlines a process for BART management to review the quality of work and conduct of a contractor and contractor staff who is participating or has participated in a BART contract as outlined in the Policy. The Policy establishes rules and regulations for the imposition of a Suspension or Debarment to protect the public interest and the District's interests. The Policy works in conjunction with applicable provisions of the District's Contractor's Code of Conduct, Procurement Manual, and Board Rules, policies, and procedures.

Follow-Up Activities: None, pending further revisions.

8. Audit Report Follow-up Status Summary

For operational & performance audits conducted by Internal Audit, **74 in total (83%)** of the MAPs have been fully or partially implemented.

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 was adopted on 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 full control of all weapons and ammunition. Other items in progress.	Aug 2025
Fuel Vendor Cost Controls FY23	23	3	20	May 2025 – System updated, SOPs were drafted, and key card access was tied to pump access, and a license plate reader has been installed. 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. The other action plans are still in progress.	Sep 2025
Capital Reimbursement Management FY21	8	0	8	February 2025 – Closed report, ETR report workaround per Budget Department.	~
TOTAL	89	28	46		

* - Expanded as part of the Driver Safety Program.