Minutes

RTA Audit, Safety Compliance & Real Estate Committee Meeting

9:02 a.m., Wednesday, February 21, 2024

Committee Members: Koomar (Chair), Mersmann, Sleasman

Not present: Weiss (virtual)

Staff: Birdsong Terry, Burney, Crawshaw, Dangelo, Fields, Fleig, Garlock, Garofoli, Gautam, Hudson, Jupina, Miller, O'Donnell, Schipper, Scott, Talley, Togher, Walker Minor, Zimmerman

Public: None

The meeting was called to order at 9:02 a.m. There were three (3) committee members present. Mayor Weiss was virtual.

*The live stream audio was not activated through a portion of the Railcar Replacement Program contract update. Minutes are summarized from the slides.

<u>IIA Global Audit Standards Update</u>

Tony Garofoli, Executive Director, Internal Audit and his staff auditors gave the presentation.

Staff attended training this January to go over the standards. The new IIA standards will be effective January 9, 2025. Recommendations from last year's external assessment of the IA Department will be incorporated once the standards go into effect.

<u>Railcar Replacement & Infrastructure Audit Activities</u>

Contract No. 2021-125 with Siemens Mobility, Inc.
- Design, manufacture and delivery of up to twenty-four (24) high floor light rail vehicles, spare parts, tooling and training

Option under Contract No. 2021-125 with Siemens Mobility, Inc.
- Purchase and delivery of up to six (6) High Floor Light Rail Vehicles
- Pre-Award Contract Compliance
  - Procurement audit
  - Federal Transit Administration – Buy America Review
- Post-Award Contract Compliance
  - Project management & deliverables audits
  - Contract administration audits (including change orders)
  - Invoice reviews

Management and railcar manufacturer are completing design/review for the railcar. Management is engaging design consultants for infrastructure modification.

Railcar Replacement Program Contracts

Contract No. 2019-115 with LTK Consulting Services, Inc. (11/2020 Merger with Hatch, Hatch LTK)
- Developed railcar Request For Proposal
- Design review and manufacturing oversight
- (Not currently under internal audit)

Contract No. 2021-156 with K&J Safety and Security Consulting Services, Inc.
- Safety and Security Consulting Services

- (Not currently under internal audit)

Contract No. 2023-166 with Parsons Transportation Group Inc.
- Architect/Engineer Services for Brookpark Rail Shop Modifications
- Port of Cleveland Track Connection
- (Not currently under internal audit)

FTA – Project Management Oversight

U.S. DOT Federal Transit Administration Project Management Oversight monitors the management of FTA-supported major capital projects to determine whether the projects:
- are on time,
- within budget,
- in conformance with design and quality criteria,
- in compliance with all applicable Federal requirements, and
- constructed to approved plans and specifications, delivering the identified benefits, and safely, efficiently, and effectively.
- Pre-Award Buy America Review
  - Buy America Audit & Purchaser's Audit
- Intermediate Audit (after supplier contracts are in place)
- Post-Delivery Buy America Review
  - Buy America Audit & Purchaser's Audit
- Post-Delivery – Domestic Content Monitoring

LS Gallegos, Inc. (Steve Policar, LLC) - consultant
- Oversight Procedure 36
  - GCRTA's compliance with FTA Buy America requirements
  - Waiting on FTA final report

Project Management Review - LS Gallegos, Inc.
- Monthly Check-in Meetings
- FTA Project Management Oversight Procedures

2024 Proposed Risk-Based Internal Audit Plan

The annual plan is required by Board Policy and IIA Global Audit Standards. They conduct an entity-wide Risk Assessment to prioritize risks and establish a list of auditable entities. They perform interviews and surveys with management and the Board to understand objectives and create a list of potential projects. They also look at various internal documents and create a strategy with these in mind. The list is ranked, and hours are assigned to staff. Projects are aligned with the organizational strategy plan and success outcomes.

The proposed plan includes the following sections. The budgeted hours and connection to Success Outcomes are included in the plan.

- Advisory Projects - consulting projects
- Internal Audits – largest number of audits
- NEW - Rail Car Replacement
- Information Technology. Cyber Security
- Continuous Audits – real time data using audit scripts
- External Audits – partnerships with external agencies
- Contract Audits
- Special Request & Emerging Issues

Ms. Terry asked how the Advisory Projects are determined. Mr. Zimmerman said they take request from staff. Special Request and Emerging Issues are more general. Mr. Garofoli said they included all the feedback from staff in their plan. Ms. Mersmann asked for the report document. The fourth quarter report

will be distributed next month. This meeting is a precursor to that final report. Mr. Sleasman asked how the probability of risk is determined. Staff said it could be frequency of risk, a new contract risk, new staff, new technology, new process, federal regulations, etc.

Staff requests the Audit Committee recommend to the Board of Trustees the proposed 2024 Audit Plan for approval. It was moved by Ms. Mersmann, seconded by Mr. Sleasman and approved to move this to the full Board Meeting.

Internal Audit Quarterly Report – 4th Quarter Activities

Staff were not able to present 3rd quarter activity last Fall so some of the completed projects for the quarter may have been completed in the 3rd quarter.

COMPLETED PROJECTS

Before an audit is completed, IA meets with management and includes their responses in the report. They track the recommendations in the Audit Management system until implemented or no longer applicable.

Healthcare – Employee and Dependent Eligibility

Objective: Evaluate compliance with GCRTA Personnel Policies and Procedures regarding eligibility for healthcare benefits for employees and their dependents.
Scope: Enrollment records and supporting information from January 2021 – March 2023. Includes employee and dependent enrollment, dependent supporting documentation, file transfers to Third-Party Administrators, and Oracle Reporting.
Results: Marginally Satisfactory, with findings and recommendations for management.
Issues for Board Consideration: None

Management is following up with employees to recover missing records and supporting information. IA will complete a follow-up review and consider outstanding risks for the Healthcare Claims Consultant audit.

Petty Cash

Objective: Reconcile 100% of active GCRTA petty cash accounts in accordance with GCRTA Administrative Procedure 003.
Scope: All active GCRTA Petty Cash Accounts. (14)
Results: Satisfactory, with findings and recommendations for management.
Issues for Board Consideration: None

This audit is performed annually.

Engineering Project Controls and Project Support

Objective: Identify the management controls in place to support project management for Engineering division projects. Develop a template of test procedures that can be used for evaluating construction project controls in future audits.
Scope: Engineering Project Management control environment. Sample Project: E 79th Street Red Line Reconstruction.
Results: Revised audit procedure template for conducting construction audits.
Issues for Board Consideration: See following slides

- Previous construction audit template was written in different control environment
- New template is risk-based and aligned with Engineering's manuals and project file structure

- Successfully applied template to previously completed construction project using Engineering's archived project file: E. 79th Street Red Line Station Reconstruction
- Hosted internal training for Internal Audit on new construction template, will use E. 79th Street Red Line Station Reconstruction as an example to train future auditors

Template tests the following controls:
- Schedule Approval Prior to First Payment
- Payment Application Process
- Schedule
- Change Order Log
- Request for Information (RFI) Log
- Submittal Log
- Change Order Documentation
- Allowance Log and Documentation
- Substantial Completion Process (punch list, certificate)
- Project Closeout Controls (forms, checklist, release of retainage)

Employee Hiring Practices

Objective: Recruitment audit to document and understand the current process, evaluate any bottlenecks, evaluate compliance with applicable laws and regulations, and learn how the candidates perceive the GCRTA during the process.
Scope: Consulting engagement to review efficacy of hiring process.
Results: Flowcharts of bargaining and non-bargaining hiring process, and analysis of time-to-hire based on process milestones.
Issues for Board Consideration: None

This audit will expand in 2024. The new application tracking system will automate and streamline the hiring practice steps. IA will update their analysis and give HR some further analysis in terms of bottlenecks.

PTASP – Internal Safety Audit Plan

Objective: To evaluate Public Transportation Agency Safety Plan (PTASP) section compliance with Federal Transit Administration (FTA) and State Safety Oversight (SSO) guidance. To evaluate Internal Safety Audit Program adherence to the PTASP requirements. To assess Safety Department audit processes against Internal Audit best practices.
Scope: 2021 - 2023 PTASP review period.
Results: Marginally Satisfactory, with findings and recommendations for management.
Issues for Board Consideration: None

PTASP – Configuration Management

Objective: Evaluate GCRTA compliance with Federal Transit Administration (FTA) and State Safety Oversight (SSO) requirements for Configuration Management. Provide assurance on Configuration Management plan, governance, and execution.
Scope: Public Transportation Agency Safety Plan (PTASP) compliance with FTA standards, Maintenance Requirements, State of Good Repair (SOGR) Assessments, Asset Inventory Completeness, and Technical Capacity.
Results: Unsatisfactory, with findings and recommendations for management.
Issues for Board Consideration: Yes

Configuration Management program is unsatisfactory including:
- Vacant Asset and Configuration Manager and defunct Configuration Management Committee
- Unapproved Configuration Management Plan

- Missing state of good repair (SOGR) assessment records, no records retention schedule
- Insufficient technical capacity for facilities configuration management

Recommendations:
- Hire a Manager of Asset and Configuration Management and reestablish the Configuration Management Committee
- Draft and approve a new Configuration Management Plan
- Establish a records retention schedule, revise the procedures for performing facilities state of good repair (SOGR) assessments, and reperform assessments for assets with missing records
- Internal Audit identified training opportunities for existing staff and recommends the division of equipment and facilities assets and configuration responsibilities based on subject matter expertise

Mayor Koomar asked if the Configuration Management Committee approves the plan. Mr. Garofoli confirmed. A committee of stakeholders from facilities and equipment makes up that committee. Ms. Mersmann asked where the new manager will be placed in the organization. Staff said that is still to be determined. Mr. Sleasman asked for a definition for Configuration Management. Ms. Crawshaw said it is processes to guide procurement, maintenance, modification and disposal of assets such as buses, rolling stock and facilities.

Physical Inventory - Parts

Objective: Provide assurance for management's physical inventory of parts, accounting until 12/31/22.
Scope: Audit observed management counts, reconciled records, evaluated controls, and conducted sample counts at the Central Bus Maintenance Facility. Management did not complete planned physical inventories at other locations due to manpower issues.
Results: Marginally Satisfactory, with findings and recommendations for management.
Issues for Board Consideration: None

The inventory at CBM was 80% by volume. A physical inventory for the 12/31/24 end date will be performed this year.

FTA – Post-Delivery Buy America Review – CNG Coaches

Objective: The federal grant application requires the GCRTA to conduct the pre-award and post-delivery audits for the purchase of rolling stock (49 CFR part 663 Pre-Award and Post-Delivery Audits of Rolling Stock Purchases and 49 CFR part 661 Buy America Requirements).
Scope: Buy America, Purchaser's Review, and Federal Motor Vehicle Safety Standard Review
Results: Satisfactory.
Issues for Board Consideration: None

GCRTA Travel and Expense Reimbursement

Objective: Review all trip reports and travel expense reimbursements for compliance with policy and procedures.
Scope: 100% of trips and expenses.
Results: Satisfactory, with findings and recommendations for management.
Issues for Board Consideration: None

PROJECTS IN PROGRESS

Transit Police Overtime and Compensatory Time

Objective: To provide assurance on the completeness, cutoff, and accuracy of Transit Police overtime and compensatory time. To evaluate management controls for authorizing, recording, processing, and paying overtime and compensatory time.
Scope: Overtime and Compensatory time earned from May 2021 – May 2023.
Current Status: Reporting

City of Shaker Heights Maintenance Expenses

Objective: GCRTA and Shaker Heights have an interagency agreement for landscaping along the light rail right-of-way. To reconcile the costs of Shaker Heights right-of-way maintenance expenses against the invoices paid by the GCRTA, and to evaluate compliance with the terms and conditions of the maintenance contracts.
Scope: Current contract period 2021 – 2023.
Current Status: Testing/Fieldwork

TRACTION Performance Measurement

Objective: Evaluate the design, methodology, execution, and results of the survey inputs for TRACTION Performance Measurement. Validate that survey design and methodology are reliable, and that results are accurately captured and reported.
Scope: Surveys and reports supporting performance management monitoring.
Current Status: Reporting

This audit was requested by GM/CEO Terry. The surveys were from 2022. An exit conference will be scheduled with management to review the findings.

Tower City Common Area Maintenance Agreement

Objective: Identify agreement requirements, validate compliance with terms and conditions, and evaluate risks and controls.
Scope: Invoice accuracy, utility billing, reimbursable expenses, maintenance/management system assets, Tower City maintenance obligations.
Update: Management and Internal Audit met with Bedrock. Management is evaluating next steps.
Current Status: Reporting

Waterfront Line Bridge Rehabilitation

Objective: To provide assurance of Engineering project management controls for the Waterfront Line Bridge Rehabilitation project.
Scope: Controls testing to evaluate contract compliance.
Current Status: Testing/Fieldwork

Service Quality Bus Field Supervision

Objective: To evaluate the processes and procedures in place to successfully perform field supervision of revenue service.
Scope: TBD upon completion of Risk Assessment.
Current Status: Planning/Risk Assessment

Customer Communications – Service Interruptions

Objective: To evaluate GCRTA processes for responding to and communicating planned and unplanned service interruptions to customers.
Scope: Case studies of planned and unplanned service interruptions documenting GCRTA customer communications.
Current Status: Reporting

An exit conference was held in the 1st quarter of 2024 with management. They are waiting for management response.

Recommendations:
- Develop a Customer Experience Plan and assign Customer Experience oversight
- Improvements to customer communications including:
  - Transit App messaging
  - Social Media strategies
  - Subscription-based communication – text or email
  - Enhance ADA compliance

Ms. Mersmann asked if this includes physical signage and if there are recommended metrics for success going forward. Ms. Crawshaw said the improvements in this area happened during the audit. Management also improved an existing SOP. No metrics were recommended. IA did a comprehensive review of customer communications. They contacted other transit agencies to get best practices and have shared those with management. The audit report will include the details.

Electronic Funds Transfer

Objective: To document the controls over Electronic Funds Transfer and provide assurance on the efficacy of those controls.
Scope: Electronic Funds Transfer Process for grant and non-grant funded activities.
Current Status: Planning/Risk Assessment

Hayden Roof Construction

Objective: To provide assurance of Engineering project management controls for the Hayden Roof project.
Scope: Controls testing to evaluate contract compliance.
Current Status: Testing/Fieldwork

Paratransit – Contracted Services

Objective: To provide assurance of contract compliance for our contracted paratransit services.
Scope: Current contract period. Vehicle maintenance, operator payroll, fare collection, vehicle cameras, and Drug & Alcohol program.
Current Status: Reporting

They have been in contact with the contractors with corrective actions.

Heavy Rail - Motor Overhaul (Swiger Coil Systems)

Objective: Evaluate evolving Heavy Rail Vehicle (HRV) smoking motor issue.
Scope: Contract compliance with Swiger Motor overhaul contract, review of GCRTA Quality Assurance review process, and evaluation of third-party engineering services task order.
Update: Final delivery was in December 2023.

Current Status: Testing/Fieldwork

No service interruptions have been reported due to a smoking motors.

FTA – Post-Delivery Buy America Review – Paratransit Coaches

Objective: The federal grant application requires the GCRTA to conduct the pre-award and post-delivery audits for the purchase of rolling stock (49 CFR part 663 Pre-Award and Post-Delivery Audits of Rolling Stock Purchases and 49 CFR part 661 Buy America Requirements).
Scope: Buy America, Purchaser's Review, and Federal Motor Vehicle Safety Standard Review
Current Status: Testing/Fieldwork

A quarter of the twenty (20) expected coaches have been reviewed.

Accrued Time Reconciliation

Objective: Document processes involved in employee accrued balances, and development of a process for regular auditing.
Scope: All employee time accruals by pay group. Secondary engagement to follow for reconciliation of hours.
Current Status: Planning/Risk Assessment

This audit started last year, but it was rescoped due to efforts by the HRIS department to correct employee balances. The new scope is to document the rules and processes for any accrued time banked for each pay group. Once this work is completed there will be a secondary engagement for reconciliation of hours.

Identity and Access Management

Objective: Evaluate controls in place for accessing critical Authority systems
Scope: Governance, Identity Management, Authentication, Authorization, Access Control, and Monitoring
Current Status: Review and testing of controls for Authority Bid Dispatch System

They are working on a template that can be applied to all the systems and eventually will get a regular testing schedule for any application.

ADDITIONAL MIS/IT PROJECTS

- CTDS
- Transit Master
- EZFare
- Applicant Tracking
- Learning Management
- Data Center Co-location
- Point of Sale
- Infrastructure Updates

IT is currently moving critical infrastructure to the Data Center Co-location.

CONTINOUS AUDITING

A method utilizing a series of scripts to perform auditing activities on a more frequent basis to identify risks and exceptions for investigation by appropriate staff and management.

Purchasing Card

Objective: GCRTA P-Card program provides a means for streamlining payment processes, allowing cardholders to procure certain goods and services in a timely manner.

Scope: Internal Audit developed a script to evaluate P-Card transactions for compliance with the GCRTA Procurement Card Policy.
Results: The script was executed monthly and results were shared with Accounting Management.

Revenue Collection

Objective: To evaluate and provide assurance customer fares collected from fare collection systems are reconciled, posted to accounting records, and deposited to the bank.
Scope: Internal Audit developed a script to analyze data from fare collection systems and compared it to cash in transit, accounting, and bank records.
Results: Script was executed monthly, and exceptions were shared with Revenue Management. Each month had insignificant variance between systems and financial management records.

*Note: Cash collections include some immaterial differences between machine totals and amounts deposited, due to known system errors. With the procurement of new ticket vending machines, this note can be eliminated within the next year or two.

Payroll

Objective: To evaluate payroll data from the Authority's ERP system.
Scope: Internal Audit utilizes scripts to analyze payroll data from the Authority's ERP system.
Results: Script was executed monthly. Exceptions were shared with management for their feedback and supporting documentation.

Nepotism

Objective: To evaluate relationships of GCRTA employees for conflicts in the reporting structure
Scope: Utilize scripts to evaluate information in ERP system and self-reported relationships
Results: Script is run monthly. Results to be shared with management for follow-up on employee relationships.

CONTINOUS AUDITING
2024 Objectives

- Create Accounts Payable script
- Create Fuel Expense script
- Enhanced Reporting
- Fare Reconciliation: EzFare reconciliation
- Payroll: Cross-reference time keeping systems
- Nepotism: Review management responses and tracking

SPECIAL REQUESTS / EMERGING ISSUES

Internal Audit – Inspector General Duties

- Incompatible Employment – GCRTA Code of Ethics (Completed)
- Transit Police – Office of Professional Standards – Internal Affairs Process Review (In progress)
- Salary Non-Bargaining Non-Exempt Compensatory Time (In progress)

EXTERNAL REVIEWS COORDINATION

- State of Ohio Department of Transportation - Rail Safety Oversight Program
- Federal Transit Administration - Project Management Oversight – Railcar Replacement Program
- Coordination with the Auditors of State for the audit of the financial statements for the year ended December 31, 2023.

STATUS OF OUTSTANDING FOLLOW-UP

All audit results and recommendations are tracked and monitored in the Internal Audit - Audit Management System. Upon verification, issues are closed.

OTHER PROJECTS

Healthcare Claims Co-sourcing

- Annual healthcare expenses exceed approximately $32 million
- We will reengage our audit software provider to update our claims auditing system to evaluate healthcare claims for compliance with plan design
- Scope will include previous two years of claims

Now that the dependent eligibility audit is complete, they can evaluate the claims expenses. The Authority changed providers from Medical Mutual to Anthem. They will be working with a consultant who has experience in medical diagnosis and procedure codes.

OTHER

- Fraud Hotline
- Information Technology Council
- Change Order Review Committee
- Railcar Replacement Steering Committee
- Maintenance Management System Upgrade (Ultramain)
- Oracle Upgrade Steering Committee
- Executive Records Management Committee

STAFF TRAINING

Internal Audit Department staff received the following training during the Fourth Quarter 2023:

- Business Chemistry (NEO IIA)
- Pillar Two Overview and Internal Audit Considerations (NEO IIA)
- IIA Update Standards Update (NEO IIA)
- Culture Audits (NEO IIA)
- AI and Large Language Models (NEO IIA)
- Interviewing Techniques (NEO IIA)
- Ethics (NEO IIA)
- Managing Automation & Supplier/Vendor Risks (NEO IIA)

CYBERSECURITY RISK ASSESSMENT

Institute of Internal Auditors Survey - Reasons for Cyberattacks

IA and IT has engaged the U.S. Cybersecurity and Infrastructure Security Agency (CISA) to do several assessments of the Authority. Their cyber hygiene assessment looks at ransomware assessment, incident response plan, third party work.

- Perpetrate financial fraud
- Information theft or misuse
- Activist causes, to render computer systems inoperable, and to disrupt critical infrastructure and vital services of a government or organization

Information Valuable to Cyberfraudsters

- Customer and employee data
- Intellectual property and supply chain data
- Safety Procedures
- Contract terms and pricing
- Strategic planning information
- Financial data

Three Lines of Cybersecurity Defense

1. Management in first line roles owns and manages data, processes, risks, and controls (Senior Management)
2. The second line comprises risk, control, and compliance oversight functions responsible for ensuring that first line processes and controls exist and are effectively operating (Information Technology Staff)
3. As a third line role, the internal audit activity provides senior management and the board with independent and objective assurance on governance, risk management, and controls (Internal Audit)

Cyber Hygiene - Portfolio of services:
- Reduce stakeholder risk by helping organizations understand their exposure
- Support resilience through the proactive identification of vulnerabilities
- Inform risk management efforts and policy decisions
- Enable data driven decisions across the government and industry alike
  Cost is free, funded by the federal government.

GCRTA Cybersecurity Risk Assessment Plan

Ransomware Readiness Assessment (completed December 2023)
- Understand your cybersecurity posture with respect to the ever-evolving threat of ransomware. Management is addressing the report results.
- Cybersecurity Tabletop Drill scheduled April 2024.

External Dependencies Management (later this year)
- Evaluate risks of third parties that provide, operate, control, have access to, own, or have other responsibilities over key IT and related assets
- A follow-up drill will be scheduled afterwards

Cyber Resilience Assessment (later this year)
- Evaluate the cybersecurity and service continuity practices of critical infrastructure owners and operators.

Risk Assessment Team

CISA: Security Advisors

GCRTA:
- Information Technology/Management Information Systems & other Subject Matter Experts
- Transit Police – Federal Transit Administration/Department of Homeland Security Liaison
- Internal Audit
- Legal

Ms. Mersmann commended the IA staff and departments for their work and taking feedback from the assessments. Mayor Koomar added that IA went through an external assessment last March. A few recommendations were for the Board. After the new IA international standards are rolled out, the Board will be advised of the recommendations from the assessment along with the new standards. Ms. Terry suggested the cybersecurity update be presented at the Ad Hoc Tech Committee meeting. Management is open to criticism because it improves the organization.

The meeting was adjourned at 10:22 a.m.

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Rajan D. Gautam
Secretary/Treasurer

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Theresa A. Burrage
Executive Assistant