Audit Committee Meeting

August 15, 2023

GCRTA Internal Audit Department

"Conforms with the International Standards for the Professional Practice of Internal Auditing"

Agenda

- Revision to the Professional Standards for Internal Auditors

- Railcar Replacement Program - Change Order Authority

- Internal Audit Quarterly Report - 2nd Quarter Activities

IIA Professional Standards

- The Institute of Internal Auditors is revising the International Standards for the Professional Practice of Internal Auditing.

- Regrouping the existing standards into five domains under the new named Global Internal Audit Standards.

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IIA Global Standards Timetable
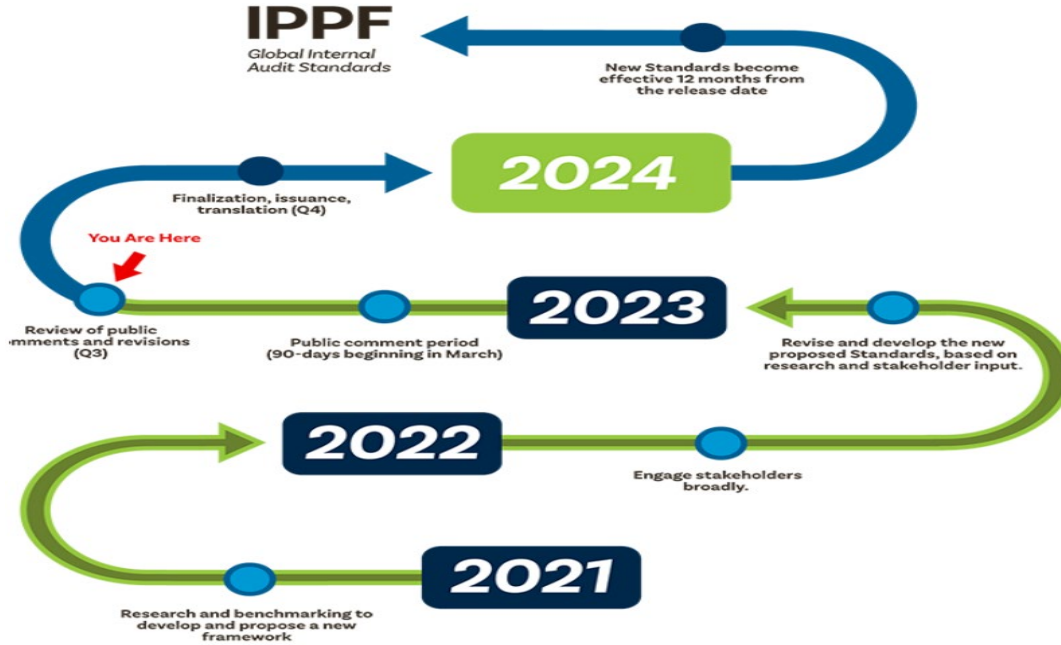
Grouping Standards - Five Domains

Domain I - Purpose of Internal Auditing

Domain II - Ethics and Professionalism

Domain III - Governing the Internal Audit Function

Domain IV - Managing the Internal Audit Function

Domain V - Performing Internal Audit Services

D3 - Governing the IA Function

Outlines Board responsibilities in support of an effective internal audit function and addresses how the CAE can support the Board in carrying out its responsibilities.

- 3 Principles and 9 Standards
    - Authorized by the Board
    - Positioned Independently
    - Overseen by the Board

Considerations for Fourth Quarter 2023

Effective date is 12 months from the release date (2024)

Train staff and implement the revised Standards

Update the….

- GCRTA Internal Audit Charter

- Internal Audit Department Policies and Procedures Manual

- The Quality Assurance Improvement Program

- Embed the revised standards within the Audit Management System

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Contract No. 2021-125 Change Order Authority

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Railcar Replacement Program

- Contract No. 2021-125 with Siemens Mobility, Inc.

- Contract Scope: Engineering, Manufacturing, Testing, Delivery and Commissioning of 24 S200 Light Rail Vehicles (LRVs), Manuals and Training, Spare Parts and Special Tools

- Contract Amount: $163,920,115

- Notice to Proceed - issued June 26, 2023

- Contract Options - 36 Option LRVs

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Board Policy - Change Order Authority

GCRTA Board Policy 410.01 (8): Delegation of Authority:

The Board hereby delegates to the General Manager, Chief Executive Officer of the Authority the following responsibilities:

"...approve change orders on contracts in a net amount not to exceed five hundred thousand ($500,000) for contracts over five million dollars ($5,000,000). The Board may, by resolution, vary these limits for particular contracts or projects..."

Should the Board consider varying these limits for the railcar replacement contract?

Common Reasons for Change Orders

- Regulatory changes

- Design changes, omissions, or alterations

- Unforeseen conditions during final assembly, delivery, or commissioning, such as quality issues and scheduling that could not be planned for

- Materials shortages or late delivery to final assembly

- Changes to budgets and schedules

- Changes in technology or specifications by owner

Change Order - Management Controls

- Segregation of Duties (Project Management, Contract Administration)

- Procurement Policies and Procedures

- Procurement File – Contract Administrator's Audit Checklist

- Change Order Review Committee (Grants Management, Internal Audit, Legal Affairs, Office of Business Development, Office of Management & Budget, Procurement, and Project Office)

  - The purpose of the Change Order Committee is to ensure strict compliance with procurement policies and applicable regulations prior to negotiation with the contractor.

Change Orders – Internal Audit Procedures

- Review quotes, invoices, and change order documents
- Site visits to observe and verify
- Contract compliance review
- Consult with appropriate stakeholders & resources
- Issue audit reports to Management and Board of Trustees

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Change Orders – Internal Audit Procedures

Management Proposal

Second Quarter Report

Introduction

2023 Audit Plan

Completed Projects

Continuous Auditing

Projects in Progress

Special Requests and Emerging Issues

External Audit Coordination

Status of Outstanding Follow-up

Other Projects

Staff Training

IPPF – International Professional Practices Framework

Standard 2060 Reporting to Senior Management and the Board – The Chief Audit Executive must report periodically on Internal Audit activities.

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Example Template

Audit Title

Objective: Purpose

Scope: Audit program/fieldwork

Results: Satisfactory, Marginally Satisfactory, Marginally Unsatisfactory, Unsatisfactory

Issues for Board Consideration: Board Level vs Management Level

Completed Projects

Financial Audit Support – 2022 Single Audit

Objective: Maximize risk coverage and minimize duplication of efforts. (*Statement on Auditing Standards No. 128, Using the Work of Internal Auditors*)

Scope: Revenue Collection, Parts Inventory, Financial Disclosure Analysis, Grants Management, Contract Compliance, and Fraud Risk Assessment

Results: The State Auditor of Ohio relied on the work of GCRTA Internal Audit.

Issues for Board Consideration: None

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Completed Projects

Federal Transit Administration – Triennial Review

Objective: Support management during FTA's assessment of GCRTA's compliance with Federal requirements.

Scope: The FTA reviewed compliance for 18 different program areas.

Results: Management and the FTA relied on the work of GCRTA Internal Audit. IA is tracking three deficiencies noted. Corrective actions completed and submitted to FTA by management.

Issues for Board Consideration: None

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Completed Projects

FTA – Pre-Award Buy America Review – Replacement Railcars

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 and Purchaser's Review

Results: Satisfactory, compliance with federal regulations.

Issues for Board Consideration: None

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Completed Projects

Overtime

Objective: Prepare an analytic of overtime expense across the Authority. Explore the data to identify patterns and red flags for follow-up.

Scope: Overtime expense from 2019 – 2022, Maintenance Management System work order records. Operator Time and Attendance System records.

Results: Analytic results and internal control risks shared with management.

Issues for Board Consideration: None

Completed Projects

Fare Media Ticket Stock

Objective: Review ticket stock vendor contract, identify compliance obligations and risks to management objectives. Document controls and evaluate compliance with the contract.

Scope: Pre-printed ticket stock inventory, blank ticket stock inventory, farecard testing, fare media destruction, and contract invoicing.

Results: Satisfactory, with findings and recommendations for management.

Issues for Board Consideration: None

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Completed Projects

Public Transportation Agency Safety Plan – Accident/Incident Notification

Objective: Evaluate GCRTA compliance with FTA, NTSB, and SSO requirements for Accident and Incident Notification.

Scope: PTASP compliance with FTA standards, GCRTA SOP compliance, accident notifications, accident investigations, SQ supervisor reporting.

Results: Marginally Satisfactory, with findings and recommendations for management.

Issues for Board Consideration: None

Completed Projects

GCRTA Travel and Expense Reimbursement

Objective: Review all trip reports and travel expense reimbursements for compliance with policy and procedures.

Scope: 100% of second quarter related trips and expenses.

Results: Satisfactory, with findings and recommendations for management.

Issues for Board Consideration: None

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Projects in Progress

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:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

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.

Current Status:

Planning/Risk Assessment	→	Testing/Fieldwork	→	Reporting

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Projects in Progress

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 is scheduling a meeting with Bedrock.

Current Status:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

Projects in Progress

Public Transportation Agency Safety Plan – Configuration Management

Objective: Evaluate GCRTA compliance with FTA and SSO requirements for Configuration Management. Provide assurance on Configuration Management plan, governance, and execution.

Scope: PTASP compliance with FTA standards, Maintenance Requirements, State of Good Repair Assessments, Asset Inventory Completeness, and Technical Capacity.

Current Status:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

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:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

Physical Inventory - Parts

Objective: Provide assurance for management's physical inventory of parts, accounting until 12/31/22.

Scope: Management is counting 80% of inventory by value. Audit will observe management counts, reconcile records, evaluate controls, and conduct sample counts.

Update: Supply Chain had to pause the inventory due to staffing limitations. Counts will resume in Q3.

Current Status:

Planning/Risk Assessment	→	Testing/Fieldwork	→	Reporting

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Projects in Progress

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.

Current Status:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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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:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

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.

Current Status:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

Paratransit – Supplemental 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:

Planning/Risk Assessment	→	Testing/Fieldwork	→	Reporting

Projects in Progress

Heavy Rail - Motor Overhaul (Swiger Coil Systems)

Objective: Evaluate evolving 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: Management continues to receive delivery of overhauled motors.

Current Status:

| Incident Evaluation | → | Testing/Fieldwork | → | Reporting |

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Projects in Progress

Railcar Vehicle Replacement Program

Objective: Provide ongoing contract compliance assurance on program management and procurement activities and to complete necessary Buy America reviews.

Scope: Internal Audit will evaluate contract compliance and management controls.

Update: Notice to Proceed issued June 26, 2023

Current Status:

Pre-award → Manufacture → Post-delivery

Projects in Progress

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:

Planning/Risk Assessment	→	Testing/Fieldwork	→	Reporting

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Projects in Progress

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

Current Status:

| Planning/Risk Assessment | → | Testing/Fieldwork | → | Reporting |

Projects in Progress

Accrued Time Reconciliation

Objective: Document processes involved in employee accrued balances, and development of a process for regular auditing.

Scope: Employee accrual rates and balances accrued and used since go-live of Kronos Workforce Development system

Current Status:

Planning/Risk Assessment → Testing/Fieldwork → Reporting

Projects in Progress

System Access Management

Objective: Evaluate controls in place for accessing critical Authority systems

Scope: Governance, Identity Management, Authentication, Authorization, Access Control, and Monitoring

Current Status: In planning and initialization phase. Developing annual audit program and schedule of systems

Planning/Risk Assessment	→	Testing/Fieldwork	→	Reporting

Additional MIS/IT Projects

- **CTDS**
- **Transit Master**
- **Oracle (Q3)**
- **Ultramain (Q3)**
- **EZFare**

- **Applicant Tracking**
- **Learning Management**
- **Data Center Co-location**
- **Point of Sale**
- **Infrastructure Updates**

IT Council

- **New positions being created and filled on both teams**

- **Core governance documents in development**

- **Cyber Security training and assessments**

- **3-Year Strategic Plan**

- **Members:**
  - **DGM Finance**
  - **DGM Operations**
  - **Director of Information Technology**
  - **Director of Management Information Services**
  - **IT & MIS Management**
  - **Internal Audit**
  - **Organizational Stakeholders as required**

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Continuous Auditing

7 steps for continuous auditing

1 Establish priority areas

2 Identify audit rules

3 Determine process frequency

4 Configure parameters and execute

5 Manage results and follow up

6 Report results

7 Assess emerging risk and add to register

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

Continuous Auditing

Purchasing Card

Objective: GCRTA P-Card program provides a mean 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.

Update: The script has been executed monthly and results shared with Accounting Management. New PCard administrator hired and introduced to our process

Continuous Auditing

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.

Update: Script has been executed monthly, and exceptions have been 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.

Continuous Auditing

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.

Update: Script has been executed monthly. Exceptions have been shared with management for their feedback and supporting documentation.

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Continuous Auditing

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

Update: Process automation has been improved and frequency of execution will be increased.

Script was run at the end of the second quarter, and will be shared with management

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Special Requests/Emerging Issues

Internal Audit – Inspector General Duties

- Incompatible Employment – Hayden (Completed)
- Transit Police – Office of Professional Standards – Internal Affairs Process Review (In progress)

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External Audit Coordination

- Fiscal Year 2022 Financial Statement Audit – State of Ohio Office of the Auditor

    - Final Report Issued – 7/18/2023

- Federal Transit Administration Triennial Review

    - Final Report Issued – 8/7/2023

- State of Ohio DOT Rail Safety Oversight Program

IPPF – International Professional Practices Framework

Standard 2050 Coordination – The Chief Audit Executive should share information and coordinate activities with other internal and external providers of assurance… to minimize duplication of efforts.

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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.

IPPF – International Professional Practices Framework

Standard 2500 Monitoring Progress – The Chief Audit Executive must establish and maintain a system to monitor the disposition of results communicated to management.

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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

Other Projects

Others

- 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 Second Quarter 2023:

- Fraud Mystery Day (NEO IIA)
- Chief Audit Executive Roundtable (NEO IIA)
- New Auditor Training (NEO IIA)
- Rail Rule Book Refresher Training (GCRTA)
- IIA Revised Professional Standards Training (IIA)
- Reasonable Suspicion (GCRTA)

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Questions and Comments

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