

## Minutes

### RTA Audit, Safety Compliance & Real Estate Committee Meeting

2:46 p.m. October 27, 2021

**Committee Members:** Moss (Chair), Joyce, Koomar, Weiss

**Not present:** McCall (virtual)

**Staff:** Benford, Birdsong, Caver, Dangelo, Garofoli, Gautam, Ghanem, Krecic, Tarka

**Public:** None

The meeting was called to order at 2:46 p.m. There were four (4) committee members present.

This meeting was live-streamed on RTA's Facebook page ([www.facebook.com/rideRTA](http://www.facebook.com/rideRTA)) for staff and members of the public. Members of the public were allowed to attend in-person.

Based on Centers for Disease Control (CDC) guidance to continue to avoid large events and gatherings and Ohio Department of Public Health advice that businesses and other entities may continue to require mitigation measures, as well as RTA's interest in protecting community and employee health and safety, several measures were put in place for in-person attendance, which are spelled out in the meeting notice.

#### Internal Audit Charter

Tony Garofoli, Executive Director of Internal Audit, gave the update. Today's presentation will go over the role of the Internal Audit (IA) role and overview of the Internal Audit Charter. He passed out a package of six handouts. He also passed around a copy of the IPPF Standards (Red Book and Blue Book). The Red Book is the International Professional Practices Framework. The Blue Book is the Quality Assessment Manual that is used by an internal or external review team to evaluate those standards. The Red Book includes:

1. Code of Ethics - Speaks to objectivity, integrity, confidentiality and competency.
2. Attribute Standards - Speaks to the characteristics of the organization and characteristics of the auditor performing the work
3. Performance Standards - Speak to how the work to be conducted and provides some criteria to evaluate or measure the IA function
4. Quality Assurance Assessment - The Blue Book is the assessment manual that has been developed by the IIA to assess the IA department in compliance with the standards

Handout #1 is the 1997 Internal Audit Charter. Mr. Garofoli was hired in 1996. When he reviewed the charter, he noticed some references to some federal regulations and some policies that were outdated. There were no substantial changes to the charter other than updating those references. The 1997 Charter was adopted through a Board resolution. The changes from 1996 and earlier were just the references and updates.

Seven years prior, RTA was under federal sanctions where the Procurement department had issues with contracts and there were some Board issues. RTA had to have permission from the feds to make any purchases. This charter provided some language to where there was an emphasis on procurement audits and third party audits. The bidding and RFP process and award process and contract compliance phase of the audit was under review. At that time, we did not have personal computers. We had a mainframe with a word processing system. We had a very basic maintenance management system that tracked work orders. This charter provides that the IA department would do its first electronic data processing audit. The Red Book was revised in 2017. The Authority has since broadened its controls and systems.

The 1997 Charter included the following:

- Outdated references to federal regulations and internal audit standards
- Outdated references to GCRTA officials
- Antiquated manual audit processes
- Antiquated scope of audit services

The Board of Trustees formed a task force and directed a review and update of GCRTA Bylaws and Board Policies in 2018. Internal Audit participated in the task force and updated the Internal Audit Charter. Former Board members Mayor Clough and Mayor Welo, Ms. Moss, other Board members, Internal Audit, Legal and other members of management were on the taskforce. Ms. Moss added that there were several working sessions to review the Bylaws line by line and the IA Charter. The IA Charter is adopted as a Board policy. There are some Bylaws that set up the IA Department so this was the opportunity for him to update the Charter and Bylaws. He used the Red Book Standards to update the charter. Two standards in the Red Book establish an IA Charter. Implementation Guide 1000 requires you provide the Purpose, Authority and Responsibility. Implementation Guide 1010 recognizes the mandatory guidance in the IA charter. The IA Charter provided the organization a blue print for how IA operates. The IPPF has minimum standards for a charter.

Hangout #2 is a position paper provided by the Institute of Internal Auditors (IIA). It provides seven key areas that should be covered in the internal audit charter:

1. Mission and Purpose
2. IPPF (Standards) – Self Governance
3. Authority (functional and administrative reporting relationship in the organization) - IA reports functionally to the Board and administratively to the GM/CEO. Those relationships are outlined in the IA Charter
4. Independence and Objectivity - They have autonomy. Their job is to support the business objectives of the organization
5. Scope of Internal Audit Activities – They have free and unrestricted access to areas. They will develop a risk-based plan. They will follow the Red Book.
6. Responsibilities – Responsible to the Board, CEO/GM, management, to report out and to share their work
7. Quality Assurance and Improvement Program

Handout #3 is the Model Internal Audit Activity Charter. It includes highlighted words to insert and customize for your organization. It assist with conforming to IIA Standard 1000: Purpose, Authority, and Responsibility and IIA Standard 1010: Recognizing Mandatory Guidance in the Internal Audit Charter. In addition, to conform to the seven elements in the IIA Position Paper. They used the Model Chart as the basis for the 2019 IA Charter.

Handout #4 is the 2019-025 Board resolution (adopted Feb. 19, 2019). With the support of Legal and with the position paper and model, the 1997 IA Charter was repealed and enacted the new charter. This was prior to the new GM joining the Authority. Ms. Moss added that there were several public working sessions looking at the IA Charter before the recommendations were brought to the Board. Mr. Garofoli added that they provided a matrix showing what changed from the 1997 charter to the 2019 version.

Handout #5 is Resolution 2020-003 (adopted January 21, 2020) which amended the charter to emphasize the functional and administrative reporting structure. When Ms. Birdsong joined RTA in September 2019, she asked for some enhancements to the charter. She wanted to further define the reporting relationship and administrative relationship to the GM/CEO. There was emphases placed in the language to include her title, to point out that she will get copies of the report and be involved in the risk planning sessions. There will be meetings to ensure the GM/CEO has a significant role in the planning, but maintaining the

independence and objectivity. The back of the handout points out the specific changes. Under section 262.01 Purpose and Mission (b) speaks to IA's role as the Inspector General. When Mr. Garofoli was hired in 1996, he had a certification as a Certified Fraud Examiner since 1992. This is a common practice within IA to have a combination of an Internal Auditor and Inspector General. CMSD, Columbus Schools, Cincinnati Schools and NE Ohio Regional Sewer District follow this practice. They manage hotlines, conduct investigations and work with local law enforcement as necessary. They are to work with General Counsel, GM/CEO, Transit Police, or anyone that is applicable to the investigation.

On handout #5, page 5 spells out 262.08 Quality Assurance and Improvement Program. Within his department on every project, there are two layers of supervision. Reviewing work papers and concurring review. No report goes out of his office until Mr. Garofoli and a supervisor has reviewed it. They are responsible per the Red Book for the QA Program. Internal Assessments must include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices. The IA assessment was scheduled in the 2021 Audit Plan, but they were short staffed, there were health issues in the department and other priorities. It is their objective to do the internal assessment as soon as possible. In order to prepare for the assessment, he participated in the APTA Quality Assessment and Peer Review Program. This is where he and his peer perform reviews of other properties.

Handout #6 is a letter from the CEO of APTA recognizing his work with the RTD property peer review. It was a virtual review done in the evenings and weekends over a 9-week period. The preference of the external assessor (Standard 1312) is that an internal assessment is done so they can focus their efforts in the Red Book in the areas of risk. His plan is to complete the internal assessment and work with the Audit Committee, GM/CEO and management to schedule an external assessment when that is completed.

Mayor Weiss asked if the internal and external assessment is required every five years. Mr. Garofoli said the internal assessment should be periodic to ensure you succeed in the external assessment, which is every 5 years. The standards were changed in 2017. The external assessment would be done in 2022. Ms. Moss added that while Mr. Garofoli is doing the internal assessment, they would work as a committee to get the ball rolling on the external assessment. Mr. Joyce asked if an outside firm or someone else does the external assessment. Mr. Garofoli said a qualified team or firm does it. They can do a review and validate our program or completely redo the work using the manual. They report out to management, committee and the Board. They would interview the Board and management. Ms. Birdsong asked for the timeframe of the internal assessment and if it will require resources, where other audits would be put on hold. He said he has not put the timeframe together. It would take 4-6 weeks. They will balance the work with their regular projects. He will request help if he needs to. Mayor Koomar asked if the 4-6 weeks is for planning or execution. Mr. Garofoli said the manual has pre-planning efforts. It is about understanding the requirements and a great learning experience for the staff. The 4-6 weeks is for the planning and execution. Ms. Moss requested Mr. Garofoli report out in March 2022 for his quarterly report.

### Internal Audit Review Services

Melinda Dangelo, Director of Procurement, gave the presentation. The Board asked her and the GM/CEO to gather information on what a Quality Assurance Review (QAR) is, what the process is, who is qualified to perform it, timeframes and cost.

#### *What is a QAR?*

A QAR is an external assessment of internal auditing's conformance to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. The objective is to evaluate an internal audit activity's conformance with written standards and the Code of Ethics.

The focus is on identifying opportunities to enhance internal audit processes for continuous improvement. It should be conducted at least once every five years. It offers suggestions to improve effectiveness of the internal audit activity, promote ideas to enhance credibility and offer operational and strategic comments

and recommendations. There is a detailed review of internal audit documents and materials, detailed review of audit files and activities, interviews of all Internal Audit staff, key stakeholders and other interested parties, as appropriate and detailed assessment and mapping to standards, guidance and industry benchmarks. They will then discuss draft results and receive feedback. They draft the evaluation of conformance to IA standards. They issue final reports including recommendations and present results to key stakeholders, as appropriate.

#### *Who is Qualified to Conduct a QAR?*

It must be an independent qualified professional assessor or team from outside the organization to alleviate any appearance of conflict of interest. It must demonstrate competence in professional practice of internal auditing and the external assessment process. No matter who conducts the QAR, the same standardized process is followed. She contacted APTA and three local firms.

#### APTA Peer Review:

- Committee of Audit Professionals
- Review team to include Subject Matter Experts from within the transit industry
- Review team lead by Elizabeth Sullivan, VP, Chief Risk and Audit Officer at WMATA, Chair of APTA Committee of Audit Professionals and member of IIA's standard board
- Peer Review panel members sign Non-Disclosure Agreements
- Conducted on site or virtual via TEAMS or Zoom
- On site:
  - Team of 3 to 5 members on site for one week
  - Includes initial briefing, interviews with selected staff, possible tours, comprehensive review of internal audit assessment, report out to BOT, CEO and selected staff
  - Final draft report issued 30 to 60 days (similar to FTA and State audits)
- Virtual:
  - Team of 3 to 5 members conduct similar process as on site but for approximately 6 weeks
  - Interviews and meetings conducted 2 to 3 hrs./day, 2 to 3 days/week
- Initiated through peer request letter from CEO to APTA
- Agenda and fee to be agreed upon
- Engagement letter executed
- Ms. Moss said the cost would run \$20,000. (not including travel expenses)

#### Institute of Internal Auditors, NEO Chapter:

- Three highly qualified local firms contacted, including small, midsize and large
- Follow same QAR process
- Timeframe for completion varies from 2 to 7 weeks
- Hybrid of both on site and virtual interviews and meetings
- Agenda and fee schedule to be agreed upon
- Execution of agreement which includes confidentiality clauses

Final reporting would still be 30-60 days same as APTA

#### *Costs to Conduct a QAR*

- Total cost will depend on size of firm selected
- Lowest range is estimated at \$20,000
- Travel and expenses to be negotiated, if applicable

Mayor Koomar asked if the local firms had transit experience. Ms. Dangelo said that all of them had transit experience and they follow the same process. Ms. Birdsong asked if APTA and other firms have availability in 2022. Ms. Dangelo confirmed. Mayor Weiss asked if we did the assessment five years ago. Mr. Garofoli said in 2017, the five-year assessment became a requirement. Therefore, we do not have a track record with any firm. Mr. Garofoli said he has experience working with the IAP. He had input into the

manual and has worked with his peers in different forms. Ms. Benford asked if we have ever had an external assessment before. Mr. Garofoli said we had not. Ms. Moss said with APTA the members share the burden of the project, which is not paid. Mr. Garofoli said the APTA cost is an administrative fee. There is a benefit of having other transit agencies involved in the assessment. Ms. Birdsong asked if there is a list of past audits that APTA has done. Mr. Garofoli said there are and he can obtain it. No matter who does the work, a public document has to be defined. There is a level of confidentiality.

Mayor Weiss asked if the IIA applies to public and private companies and if there are assessments specific to industries. Mr. Garofoli confirmed that the IIA applies to both industries. These are standard audits regardless of the industry. Ms. Dangelo added that there is lots of information available and many firms that qualify to do the work. Mr. Joyce asked what Mr. Garofoli's interaction is with other IA firms. Mr. Garofoli said you have to be proactive and get the resources. He meets quarterly with his committee of audit professionals, training, topical discussions, and shared work forums. There are about 100 active members. Ms. Sullivan is the Chair of his committee and she is on the Standards Board of the IIA. Ms. Dangelo said that APTA provides audits of other departments such as safety, etc. Ms. Moss said APTA is a resource for education, professional development, board member training, etc. Ms. Benford added that we participate in the APTA Bus Safety Program. They audit our program every three years. There is a charge that is built into the safety budget. Ms. Birdsong added that we pay a substantial annual fee to be a part of APTA. They are specific to public transit. Anyone who does the audit will have to follow the same standards. Mayor Koomar likes the in-person audit model and the timeframe.

Mayor Weiss asked if the model charter is the most current version and if the highlighted parts are optional. Mr. Garofoli confirmed that the charter is current and said the highlights are optional. The seven elements in the position papers are required and the two standards 1000 and 1010 are the foundation for the model. Mayor Weiss asked if some organizations use the model charter, but make other changes. Mr. Garofoli said if you want to have standards, you would confirm. Some do not. RTA has always adopted the standards provided by the IIA. Ms. Moss added that RTA was able to do all of its investigations because of the Inspector General hat that Mr. Garofoli wears, which was incorporated into the charter. Mr. Garofoli said his staff does extensive training in fraud examination and Internal Auditing, some training with the FBI.

Mr. Gautam compared the IIA standards with the peer review process of accounting firms. His process concluded at the completion of the fieldwork, and went to an Ohio Society Committee for review before a final report was released. Is there a similar process for audit? Mr. Garofoli said it is not. His experience with APTA is that they have a unit devoted to review and there is a quality assurance process, which will include people with that experience of using the public assessment manual before APTA would release the report. Mayor Weiss asked if they could compare the current IA Charter to the Model Charter. Mr. Garofoli said it mirrors it with the exception of 262.01(b) related to the Inspector General. Cuyahoga County has a separate office for their Inspector General.

### Next Steps

Ms. Birdsong requested Ms. Dangelo be removed from the process now that she has done the research. Ms. Birdsong would pen a letter to say they are moving forward with the external audit on behalf of the request of the committee. Ms. Dangelo would be engaged once the Board and staff decide how to proceed. The recommendation would come to her with the justification, what you want to do, what you want to spend and her department would determine the best way to solicit. Ms. Moss does not know how much to spend. Mr. Garofoli suggested the committee wait until the internal assessment is complete first. Ms. Dangelo cannot get more information because her staff will have to determine what is fair and reasonable. The scope of work would be part of the external piece of the audit. APTA provided some sample letters to engage the firm with what you are looking to do, similar to an RFP. We would have to discuss with the firm what we would want for the agenda and some pricing. That is when Procurement would be engaged. Ms. Moss is concerned with the timing. Mr. Garofoli will move on his assessment. She hoped we could move forward on the external assessment. She asked if they need to go back to the

Board and present a resolution to give Ms. Birdsong authority to move forward and to receive bids. Ms. Dangelo said they would not need a Board action. Her department can procure the service. The committee should decide if they want to go with APTA or a local firm. It does not have to be a RFP. They can use ORC 306.43 (H)(6) to identify a firm that has special skills in the area of performance. You would select the firm and negotiate with them. She thinks the cost wouldn't be close to the \$100K threshold, which requires Board action. Ms. Moss is concerned that the committee is making this decision without the rest of the Board.

Ms. Birdsong said we are looking at \$20-\$40K for the service. The funding is in the IA 2022 budget. Her authority as GM is \$100K and less. Therefore, it does not have to be approved by the Board, but maybe given as a Committee update to the Board for information purposes. The committee would decide how to move forward with her penning the letter. The committee can either assign her to assign her staff to start the process to get more information from APTA or other firms. And then share what her recommendations would be for next steps or potentially present the options to the committee what the outcomes of the research is through procurement, that this is our recommendation through the GM and the committee would let her know how to proceed and they can solidify the audit and pay for it.

Mr. Garofoli said he would address the Board with the results of the internal assessment in March 2022. There will be a SWOT type of presentation, implementation and then the external auditor can be brought in. Ms. Moss wants to have the EA firm on deck. Ms. Dangelo said it would only take a few weeks to put a small purchase in place. Ms. Birdsong interpreted that Ms. Moss does not want to wait until the IA is over, but set up the procurement with an effective start date, at the estimated end date of the IA, giving Mr. Garofoli time to clean up items. Then start the EA process. Mayor Koomar asked when the IA could start and if it can be done by January 2022. Mr. Garofoli said he can push for January, but his staff is still short and the holiday is approaching. A March 2022 presentation to the committee was reasonable to Mr. Garofoli.

A summary of today's discussion will be given at the November 16 Committee meeting. Mr. Garofoli sees the EA happening in the 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2022. Mayor Koomar asked how long Mr. Garofoli needs to implement his IA improvements. Ms. Dangelo added that the EA will request information from Mr. Garofoli in preparation for their review. So it is critical to have the IA completed. Ms. Birdsong said the letter can be issued at the end date of the IA, which will give Mr. Garofoli time to begin implementing his internal actions, but with the understanding that we will not go longer than 30-60 days to start of the EA. Mayor Koomar suggested an EA November report out for a December Board Meeting. Mayor Weiss requested the schedule be in writing. He thought some committee members wanted to make changes to the IA charter. Ms. Moss said that would be separate maybe working through their legal counsel if he thinks that is necessary. Ms. Birdsong agrees that the discussion was to review the IA charter to ensure it follows the intent of the committee. This would be the work of the committee, legal, IA and CEO/GM and not necessarily require an external review. Mr. Joyce is confident of what IA does and the fact that it will be looked at externally. The EA would look into the IA Charter. Mayor Weiss does not remember the discussion on the five-year audit. Ms. Moss said this meeting was supposed to review the charter. She asked if the committee wanted another working session or if Ms. Birdsong's' proposed schedule be presented to the Board.

Mr. Gautam said the scope of service should come from Mr. Garofoli's internal audit. With the assistance of the GM/CEO and audit chair, the decision would come about whether to choose APTA or another firm. Ms. Moss does not feel comfortable with her and Ms. Birdsong making the decision. Mayor Weiss said the recommendation would come back to the committee. Mr. Joyce likes the staff reporting to them on their recommendation and why. Ms. Birdsong said her recommendation would come from her team. Her team will do the research. The recommendation will come through her to the committee with the information from Mr. Garofoli's group. They will create a pros/cons list. The final direction has to be agreed on by the committee. Mr. Garofoli's' report would be complete by February 2022 and reported out to the Board in March 2022. Ms. Birdsong will work with her staff to draft a timeline and submit to the committee in writing. Mr. Gautam said to let the Board decide when the EA should report out so they can

make that a requirement in the specs. Ms. Moss wants it done in 2022, but wants to weigh the cost in the decision. Ms. Birdsong said that will be part of the analysis that she comes back to the committee with.

The question remains if a review of the charter is needed. Mr. Garofoli clarified that the last three pages of handout #5 include the redline changes. Ms. Birdsong suggested another meeting to go over the changes because a number of the committee members were not on the Board at the time of the changes. There were concerns while Mr. Garofoli was out, on the approval process, audit communication, committee review of the IA plan, etc. Mayor Weiss suggested the committee field questions about the IA charter from the full Board and have the committee make any recommended changes and explain why. Ms. Birdsong suggested this take place while Mr. Garofoli is doing his assessment so he is not starting from a deficit. The Board would submit their questions to Theresa and have those questions on the agenda at the December 7 Committee Meetings.

The meeting was adjourned at 4:36 p.m.

  
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Rajan D. Gautam  
Secretary/Treasurer

  
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Theresa A. Burrage  
Executive Assistant