

Minutes

RTA Audit, Safety Compliance & Real Estate Committee Meeting

11:41 a.m. December 7, 2021

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

Other Board Members: Byrne, Lucas, Serrano **Not present:** Duarte, Pellot (virtual)

Staff: Becker, Birdsong, Burney, Caver, Dangelo, Davidson, Dietrich, Fesler, Fields, Garofoli, Gautam, Gettings, Harris, Kirkland, Krecic, Lincoln, Mothes, Orlando, Petit, Schipper, Scott, Shurik, Sutula, Talley, Walker-Minor

Public: Gibbons, Loh, Pinkney

The meeting was called to order at 11:41 a.m. There were five (5) committee members present.

This meeting was live-streamed on RTA's Facebook page (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.

Property Insurance Renewal Program

Judy Lincoln, Director of Risk Management gave the presentation. GCRTA Carries an All-Risk Property Insurance Policy; covered perils include Fire, Wind, Flood and collapse, to name a few.

- Replacement Cost Coverage
- Protects Real and Personal Property for which GCRTA is responsible
- Bus Garages, Rail Complex, Rail Stations, Rail and Bus fleet (non-collision only)

Incumbent Carriers are Liberty Mutual and Evanston; Two Programs; Total Insured Value \$1.85 billion

- The first program is written by Liberty Mutual and is for the coverage of all GCRTA real and personal property including rolling stock when garaged.
 - Blanket Limit: \$500 million, Deductible \$250,000
- The second program is a stand-alone Rolling Stock policy written by Evanston Insurance Company and specifically provides coverage for GCRTA Rolling Stock when rolling (both rail and bus).
 - Blanket Limit: \$25,000,000, Deductible \$500,000

President Lucas said there are 50-60 trains at the E. 55th Street station. He asked if they are insured at that time. She said yes they fall under the Liberty program when they are parked. They are covered as rolling stock when they are moving. He asked why the lights were on and if it is to deter people from sleeping on the train. Dr. Caver said the lights are on for cleaning and ready for service and the area is under surveillance and secure so the public doesn't have access to them.

In 2020 we were facing extreme market conditions:

- Given the combination of no incumbent carrier, the very difficult property insurance market, and some recent loss experience in our record
- Result of last year's renewal was a 31% increase which was 12% under budget
- This year, told to budget 15 to 20%

FM Global is no longer our property carrier. They no longer wanted to write rail or rolling stock exposure. We were out there with no incumbent carrier in a tough market that was seeing 30-50% rate increases. We also experienced a rail collision. Ray Battle with Aon, the property insurance broker was on the line. The property marketplace has been hard. Rates have been increasing since the end of 2019. The peak of that was renewals occurring in the property market from 2020-2021 with increases of 30% or higher. This year they are seeing probability of many insurance carriers so they can push back the rate increases. The rate increases this year are substantially lower. They expected a 15-20% rate for renewal.

The expiring premium for 1-1-21/22 policy period is \$1,102,542. Since we conducted a full-scale marketing effort in 2020, our brokers are conducting only a very limited marketing exercise this year and negotiating with incumbent markets.

As of 12-5-21, we have received renewal pricing via our broker, Aon, from Liberty Mutual and Evanston as follows:

- Liberty quoted a 7% rate increase, Markel quoted a 2.5% rate increase
- After applying these rates against updated total insured values (TIV), the resulting premium is \$1,182,664.
- New premium represents an increase of approximately \$80,000 or a 7% increase over expiring.
- This is approximately 7% below the budgeted amount of \$1,268,000.

Final results will be summarized in a resolution containing our recommendations to be brought to the Board at December 21, 2021 meeting for approval. Ms. Moss thanked Ms. Lincoln for her hard work and that it came in below budget. We have hard numbers and usually we do not have these numbers until the Board meeting. President Lucas and Mayor Weiss thanked her for her work. It was moved by Mayor Weiss seconded by Mayor Koomar and approved to move this to the full Board.

Cyber Liability Insurance Program

Judy Lincoln, Director of Risk Management gave the presentation.

GCRTA purchased a Cyber Liability Insurance policy for the first time in December of 2020. The market has suffered severely since we purchased it. Many markets have stopped writing cyber. They are being very meticulous in what they want. They want more premium and they are not putting up as much limit.

- Current Policy Limit: \$5 million, Self-Insured Retention \$100,000
- Policy provides both Third Party Liability and First Party coverages
- Cyber Liability insurance market is extremely unfavorable due to frequency and severity of losses; ransomware attacks, etc.
- Expect reduction in limits, premium increases. Current:\$64,000

She does not know where we will be by the next Board meeting since they are still waiting results.

Key Coverages include:

- Security & Privacy Liability: provides legal liability coverage to cover lawsuits that might arise from an unauthorized release of personal identifiable, protected health or third-party corporate confidential information. Coverage includes damages assessed and legal defense expenses incurred.
- Breach Response Fund: provides coverage for first party costs incurred to provide notification mailings to affected persons, call center support, credit monitoring services, identity theft protection services, identity restoration services, etc.
- Cyber Extortion: covers costs associated with responding to an extortion attempt involving the Insured's network or data.
- Network Interruption: provides coverage for loss of income and extra expenses incurred due to a covered Network Security Event

- Data Asset Protection: provides coverage to cover the cost of replacing, recreating or restoring data that is lost or damaged due to a covered Network Security Event

Jill Boehler at USI, the broker for cyber liability coverage was on the line. She said the market turned last year due to ransomware and claims for cyber extortion. The limit from carriers have diminished. Retention has increase dramatically. She has seen premiums increase four times the original premiums over last year.

Staff will provide final renewal results for the Cyber Insurance Program in a memo to BOT accompanied by a resolution containing final recommendations to be brought to the Board at December 21, 2021 meeting. Ms. Moss said this is the reason we upgraded the security systems with the MFA authentication on email. A recommendation is not needed at this time since there are no numbers. Mayor Koomar asked when the cyber insurance expires. She said it expires December 24, 2021 due to an extension. It used to expire December 14, 2021. Ms. Birdsong said she and Mark Petit is available to answer any questions about this program

Internal Audit Charter

Tony Garofoli, Executive Director of Internal Audit, gave the update. This presentation is an extension of the Audit Committee. They have met with the full Board and on their own getting the new board members up to speed and updating other members on the review process for Mr. Garofoli. There is a list of questions in the packet for Mr. Garofoli to address.

On October 27, 2021, the Audit Committee met to discuss the development and/or revisions that make up today's Internal Audit Charter, which is a blueprint for Internal Audit (IA). The Board passed it in 2020. At the meeting, they discussed how the charter was modeled after the IPPS for Internal Audit. Within the charter, there are standards and guidelines and practice guides that make up every sentence in the charter. Handouts include the practice guide on evaluating a Chief Audit Director, the approved charter and today's presentation.

Question A: What is the required review and approval process for adoption of the Internal Audit (IA) annual plan (full board vs. audit committee review and approval)?

Answer A: He pointed to the standard. It includes Standard 2010 – Planning and Standard 2020 - Communication and Approval for the plan. It is specific in terms of how they interact with Board and senior management.

- The GM/CEO & senior management review and provide feedback – he meets one on one with them to understand what the business objectives are for the year and how they align with the strategic plan and the risk associated with obtaining the business objectives and how IA can support that.
- The Audit Committee reviews and provides feedback; refers to the plan to the full Board. – The Board is asked for feedback on the plan. They have a retreat to formulate the plan. IA risk score every department and division. They look at lessons learned from previous audits, fraud risk and special request. They look at hours and staff requirements.
- The Board of Trustees approves the plan after the Audit Committee moves it to the full Board.

Mr. Joyce asked if the standards speaks of the engagement with the Board and Audit Committee. Tony said it includes attributes standards on how they need to act, code of ethics and performance and practice standards. It speaks of communication and approval of the plan. Mayor Weiss suggest the Audit Committee in advance of taking it to the Board for them to hear about the management conversations concerning the audits. Ms. Moss said the committee is planning to meet prior to the plan going to the Board maybe in February. Tony said his agenda for that meeting is his risk scoring process, audible entities, how they prioritize the work and how it aligns with Strategic Plan.

ACTION ITEM 1: Mayor Koomar asked if the IA plan could be approved a little earlier than February.

Question B: Who administers the performance appraisal for the Executive Director of IA?

- How are annualized goals set for the Executive Director of IA, when are these approved, and by whom? If set by the Board/Audit committee, are these goals set in consultation with the General Manager (GM)?
- Is there a mid-year review process for the Executive Director of IA, and how is this formalized/documented?
- Does the annual review process occur in concurrence with the remainder of GCRTA staff and/or GM review periods?

Answer B

Hi cited the Organizational Independent Standard 1110, which speaks that the IA reports functionally to the Board, which includes evaluating and approving the compensation of the IA Director.

Functional oversight requires the board to create the right working conditions to permit the operation of an independent and effective internal audit activity. As noted, the board assumes responsibility for approving the internal audit charter, the internal audit plan, the budget and resource plan, the evaluation and compensation of the CAE, and the appointment and removal of the CAE.

Internal Audit Charter - 262.03 Authority:

"(6) Consult with the General Manager, CEO regarding the evaluation of the Executive Director of Internal Audit." This is not in the IA standards but it was added to the charter at the request of the CEO/GM. The practice guide shows how to evaluate the Chief Audit Director. This evaluation could include criteria pertaining to the CAE's required attributes and skills. The IIA provides illustrated examples; incorporated into performance plan/appraisal.

Example:

- Internal audit plans are developed and documented using a risk-based methodology to ensure they are focused on the right areas, performed on the right cycle, and with the right scope.
- Mid-Year Review - Discussion is needed. He believes he should be reviewed if the other managers are being reviewed, but Ms. Moss believes it is good but the Board is having challenges doing the annual.
- Annual Review – should occur within the same period as GCRTA staff and GM/CEO. Mr. Garofoli agreed that it should occur at this time.
- New Audit Committee format will support a revised format and process.

ACTION ITEM 2: The Audit Committee wants to discuss if they want to do a mid-year review for the IA Director.

Mayor Weiss asked if they are bound by the standards. Mr. Garofoli said in order to conform to the standards they need to comply. IA will be measured against the standards so they are more than recommended. Ms. Moss said they could adopt additional criteria. The IA department is under a lot of scrutiny, but she suggested other areas be scrutinized. She does not believe they can eliminate the standards completely.

ACTION ITEM 3: Ms. Moss asked do they want to add this to the general appraisal.

Question C: What is the required review and approval process for proposed changes to the IA annual plan (additions/removals or reprioritization of planned audits)?

Answer C: Standard 2020 – Communication and Approval. The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the

organization's business, risks, operations, programs, systems, and controls. However, the CAE must review significant changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval.

Ms. Moss asked Mr. Garofoli to add the status to each project in the IA report. Nothing will drop off the report. An example of a substantial change would be where a risk score was high, but now is low or the risk is no longer applicable. The new Audit Committee quarterly meetings will provide a format and opportunity to discuss changes to the audit plan.

Question D: Who is responsible for oversight and approval of IA annual budget and expenditures? Is this an administrative function, and if so, is this information provided to the Audit committee separate and apart from the overall budget process?

Answer D: Standard 1110 – Organizational Independence. It is a Board function to approve the budget for the IA department. The budget was presented today. OMB assigns a budget analyst to every department. They meet with the analyst at least four times a year. He takes that opportunity to consider what he needs for training, staffing and technology for that year. This year he was asked to take a reduction. He repealed it through the GM's office. He met with the Director of OMB and explained his business case and was able to retain those funds. He has never had an issue of not being afforded the budget necessary to achieve the audit plan.

The CAE reflects on the approved budget to consider the funds available for training, technology, or additional staffing in order to achieve the plan. New Audit Committee format will support a revised format and process.

Question E: What is the definition of "full, free and unrestricted access" (i.e.: IT protocol, HR processes regarding confidential info, etc.), as outlined in the Charter?

Answer E: Internal Audit Charter - 262.04: The Board of Trustees authorizes the Internal Audit Department to: (a) Have full, free, and unrestricted to all functions, records, property, and personnel pertinent to carry out an engagement subject to accountability for confidentiality and safeguarding of records and information.

Standard 1100 - Independence and Objectivity and Standard 1130 Impairments to Independence or Objectivity provides the support for that section. They have a code of ethics standard for confidentiality.

- Collect only the data required to perform the assigned engagement and use this information only for the engagement's intended purposes.
- Protect information from intentional or unintentional disclosure through the use of controls such as data encryption, email distribution restrictions, and restriction of physical access to the information.
- Eliminate copies of or access to such data when it is no longer needed
- Discuss with counsel, before the release of sensitive information, if applicable

IA has secured protocol to enter their office. They have records retention requirements. Ms. Moss asked him to speak on how log records are tracked for his department. We have Microsoft 365, which has a tool where they have access to organizational information for the purpose of limited engagement. In order to access that information, they must input a business case into the system. Ms. Moss asked who else has this type of access. He said the IT group is the system administrator for that group. They grant access based on rights, roles, etc. Ms. Birdsong said this answer might take additional conversations. Depending on what the data is depends on the access. HR would have access to employee files. IT has access to systems. It depends on the department. Is there a log for IA to access certain files? Tony said RTA has a records retention schedule for every department, which identifies the records. That is a starting point to get records for specific engagements. They can assess computer systems on a query basis. They also clone

information. Their papers describes their sources of information, what they are looking at and the test they complete. Ms. Moss asked if there is documentation electronically. Mr. Petit confirmed this.

Mayor Koomar noted that four Board members were missing and asked if the meeting should be wrapped up. Ms. Moss said she wants to continue since we may always be missing members. She suggested maybe some of these items be considered at their retreat. Ms. Birdsong suggested Mr. Garofoli complete the presentation and have questions at the end. Ms. Moss said board members can ask questions at any time and that the meeting is recorded. Mayor Weiss said to go forward as far as possible and have a hard stop at 1 p.m.

Question F: Define the role of the Inspector General as it relates to the Director of IA.

Answer F: Internal Audit Charter 262.01 Purpose and Mission: (b) The Internal Audit Department functions as the inspector general for the GCRTA....the mission of the IG is to detect and deter waste, fraud, abuse and misconduct in GCRTA programs and personnel, and to promote economy and efficiency in those programs. These responsibilities include initiating and conducting inspections and investigations or GCRTA operations and activities. Also, forwarding to the appropriate authorities evidence of criminal wrongdoing that is discovered as a result of any inspection or investigation.

Mr. Garofoli said this language was in the IA charter in 1988. This is a carryover language through that time. He works with internal and external resources (i.e.: General Counsel, Transit Police). Ms. Moss added that the IG has served the Board and the Authority well. He has looked at Customer Service, Paratransit, compound drugs, insurance claims, Board issues, etc. Since 1991, he has been a certified fraud examiner. Mayor Weiss asked if the scope of the work of the IG is the same as the Executive Director of Internal Audit in terms of approval of investigations in consultation with the GM and approved by the Board. Mr. Garofoli said an investigation that is substantial in nature is subject to him sharing information with the Audit Committee, GM, General Counsel and Board. Mayor Weiss clarified it follows the same model of reporting administratively to the GM and functionally to the Board. Mr. Garofoli said they go about it through fraud risk assessment. Every audit they conduct has a fraud, waste and abuse procedure they will include.

Question G: Discuss scope and range of substantive areas covered by IA.

Answer G: Internal Audit Charter 262.06 Scope of Internal Audit Activities:

- (a) The scope of internal audit activities encompasses...
- (a) through (d)...

IA conducts an enterprise-wide risk assessment to identify auditable entities in every division and department at least on an annual basis and ongoing through monitoring. They assign a risk score to that and then decide what is a priority and what needs approval from senior management and the Board. Ms. Moss added that this question is similar to Question A.

Question H: Discuss who (presumably at least two persons) has authority to initiate, delay or terminate investigations.

Answer H: Standard 2010 - Planning and Standard 2020 – Communication and Approval. This is Mr. Garofoli's responsibility. He can delegate responsibilities to the Audit Manager, Anthony Ghanem. He referred to the standard for Planning 2010 and Communication and Approval 2020. If something is substantive they will seek approval from management and Board. Ms. Moss said the Board approves the audit plan. If changes comes through the Audit committee there will be a status update in the audit report. Ms. Birdsong asked if it goes from IA directly to the Board, where is RTA executive staff inserted to weigh in on the decision. President Lucas asked if Questions I and J could be addressed in light of time. Mr. Garofoli said he would come back and answer Ms. Birdsong's question.

Mr. Garofoli said he is asking the committee to have outside counsel prepare some language to be added to the IA charter that speaks to who should be informed in cases where the Executive Management, Board, GM and Legal Department is being investigated. He added they have investigated all of the above entities except the Legal Department. Outside counsel would be sought to get permission.

ACTION ITEM 4: Ms. Moss asked President Lucas if they could proceed to seek outside counsel to formulate that language and if the committee agrees. The committee agreed. Mayor Weiss said he had some thoughts he wants to share. Ms. Moss said their outside counsel has the ability to do that. She would like to look at this at the next Audit Committee meeting.

Internal Audit Charter 262.07 Responsibility: The Executive Director of IA has the responsibility to :
(3) Review and adjust the internal audit plan, as necessary, in response to the GCRTA business...
The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. However, the CAE must review significant changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval. The New Audit Committee quarterly meetings will provide a format and opportunity to discuss changes to the audit plan.

Question I: Discuss reporting responsibility - CEO vs Board (e.g. direct, dotted line, joint?).

Answer I: Standard 1110 - Organizational Independence. The reporting line to the board provides the CAE with direct board access for sensitive matters and enables sufficient organizational status. Administrative reporting to a the GM/CEO also provides the CAE with sufficient organizational status, as well as authority to perform duties without impediment and to address difficult issues with other senior leaders. They need the CEO to help them do their job. He is responsible to comply with HR policies and procedures (i.e.: sick, vacation, positive discipline). He looks to the CEO to help support him to complete his responsibilities.

Question J: Discuss interplay of availability and access by IA vs. the need to maintain legal privilege/confidentiality.

Answer J: IIA Code of Ethics Principle 3: Confidentiality. The chief audit executive (CAE) should consult with legal counsel. The organization's policies and procedures may require that specific authorities review and approve business information before external release. says they only gather information that is needed to perform an audit and do not make copies. Destroy information that is not needed.

Internal Audit Charter 262.07 Responsibility:

(9) Ensure the Internal Audit Department collectively possesses or obtains the knowledge... This includes seeking legal advice and counsel from the GCRTA General Counsel.

Internal Audit Charter 262.03 Authority:

Define levels of reporting for investigations of executive management, legal department, and Board Members.

The meeting was adjourned at 12:50 p.m.


Rajan D. Gautam
Secretary/Treasurer


Theresa A. Burrage
Executive Assistant