Minutes

RTA Audit, Safety Compliance & Real Estate Committee Meeting

9:09 a.m. August 16, 2022

Committee Members: Koomar (Chair), Moss (Vice-Chair), Joyce, McCall, Weiss   **Not present:** None

Staff: Birdsong, Bowles, Burney, Caver, Crawshaw, Dangelo, Fields, Fleig, Garlock, Garofoli, Gautam, Ghanem, Miller, Mothes, O'Donnell, Rusnov, Schipper, Scott, Sutula, Togher, Zimmerman

Public: Gibbons, Loh

The meeting was called to order at 9:09 a.m. There were four (4) committee members present. Mr. Joyce arrived after the roll call.

Internal Audit Quarterly Report and Quality Assurance Review

Tony Garofoli, Executive Director, Interna Audit gave the presentation. Staff Auditor Molly O'Donnell successfully completed and passed the exam for a Certified Internal Auditor.

Quality Assurance Review

Their professional standards require them to do a quality assurance review.

Professional Standards – Quality Assurance and Improvement Program:
- 1300 - The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.
- 1310 - The quality assurance and improvement program must include both internal and external assessments.
- 1311 - Internal assessments must include:
    - Ongoing monitoring of the performance of the internal audit activity; and
    - Periodic self-assessments
- 1312 - External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.
    - External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards.
- 1320 - The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

A Quality Assurance Review (QAR) allows the audit committee and chief audit executive to evaluate the activities of their internal audit (IA) function and determine whether policies, procedures and practices of the function adhere to The Institute of Internal Auditors' (The IIA) Core Principles, International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics.

For the QAR, they will utilize the International Professional Practices Framework (IPPF) or the Red Book and the Quality Assessment Manual or the Blue Book. They decided to do a self-assessment with external validation because it provides a baseline, an opportunity to learn and they can assemble information that's required to comply with performing the self-assessment.

International Professional Practices Framework (IPPF):
- Attribute *Standards* address the characteristics of organizations and parties performing internal audit activities. (19)
- Performance *Standards* describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated. (33)

The Self-Assessment Team included:
- Anthony Garofoli – Executive Director of Internal Audit

- Anthony Ghanem – Audit Manager
- Steven Zimmerman – Lead Auditor
- Andrew Scott – Information Technology Auditor

QA Review Tools:
- Planning Guides and Programs - each contain four tools specifically developed to gather and evaluate evidence related to an individual segment of the process flow.
- Two other sets of tools—Surveys and Interview Guides—request observations from key stakeholders: executive leadership, operating management, and internal audit staff regarding the internal audit activity.
- Checklists to facilitate flow of information and completion of tools.

A document was published and presented to the committee with the results of the self-assessment. Appendix A has a snapshot of their conformance scores against the various attributes and performance standards. The standards are meant to evaluate Internal Audit governance, staff, management and processes.

Six titled sections, including 25 sub-titled sections
- Internal Audit Governance (Standards series 1000, 1100, 1300, Code of Ethics, and the Definition of Internal Auditing)
- Internal Audit Staff (Standards series 1200)
- Internal Audit Management (Standards series 2000, 2100, and 2600)
- Internal Audit Process (Standards series 2200, 2300, 2400, and 2500)

The core principles of the IPPF code of ethics and code of conduct is integrity, confidentiality, competency and independence.

Self-Assessment Results:
- Conformance to the Code of Ethics and Code of Conduct
- Conformance to Governance Standards except for the 1300 series (1300, 1310, 1311,1312, and 1320).
- Conformance to the Internal Audit Staff Standards.
- Conformance to the Internal Audit Management Standards
- Conformance to the Internal Audit Process Standards

Overall Opinion – Partial Conformance to the Professional Standards

Successful Internal Audit Practices:
- Internal Audit Charter
  - Rewritten and adopted by the Board in 2020. Modeled after the IPPF model. Describes the IA activities.
- Reporting Structure
  - Functionally to the Board and administratively to the GM/CEO
- Use of an Audit Management System
  - Designed according to the standards

Mayor Koomar explained that Attachment A, page 12 presents a guide to the acronyms. GC = generally conforms, PC = partially conforms and DNC = Does Not Conform. They gave themselves a PC for conforming with the standards.

Non-Conformance with 1300 Series:
- 1300 - Quality Assurance and Improvement Program
- 1310 - Requirements of the Quality Assurance and Improvement Program
- 1311 - Internal Assessments
- 1312 - External Assessments
- 1320 - Reporting on the Quality Assurance and Improvement Program

Action Plan:
- Develop a written quality assurance improvement program to conform with the Institute of Internal Auditors Standards – *Standard 1300 – Quality Assurance and Improvement Program*. Goal is to have the plan in place prior to the self-assessment with validation later this year.
- Procure the services of a qualified assessor or assessment team to validate the Internal Audit Department's Self-Assessment and report the results to senior management and the Board of Trustees. Procurement received a draft scope of services and criteria.

Ms. Moss asked where we are in the process to procure an outside assessment, and will we accomplish this by the end of the year. Ms. Dangelo added that funding and a scope of service is in draft form. They are still discussing the weighting and the committee structure with Ms. Birdsong to ensure the evaluation criteria is appropriate. Based on the research from last year, most agencies gave her a 2-8 week turn around. That will be confirmed once the RFP is posted. The self-assessment report will be shared with the outside agency when they are selected.

Lessons Learned and Implemented:
- Developed an *Internal Audit Department Manual* - to achieve the following objectives: to establish policies and standards for the planning, performance, and reporting of audit work to meet the IIA standards; establish procedures and guidelines to assist staff members in adhering to these standards; help achieve consistency in internal auditing activities and internal audit project execution; and, support the on-boarding and training of new internal audit staff.

Lessons Learned and Implemented:
Two statements for internal audit staff to complete on an annual basis:
- Disclosure of any circumstances that might impair their ability to be independent on any audit.
- Confirm their understanding and agree to comply with the Code of Ethics as issued by the Institute of Internal Auditors.

The QAR self-assessment work took 80% of the IA staff's time this quarter.

Next Steps:
Procure the services of an independent assessor to validate the self-assessment for conformance with the Institute of Internal Auditors Standards and Code of Ethics.

Mayor Weiss asked if the QA improvement program will be in place prior to the external assessment.
Mr. Garofoli confirmed. Ms. Moss commended the staff on all their hard work and the honest self-assessment.

Internal Audit Management Software Upgrade

The IA department uses a computerized audit management system for risk assessment and documentation, assignment of resources, development of plan, electronic working papers, reporting and follow-up with management on open issues and audit recommendations.
- Replacement of our Audit Management System.
- Existing system will be out of support as of 2023.
- This system will enhance our compliance with professional auditing standards, modernize our reporting and communication capabilities, and provide increased efficiencies in our work.
- Contract Notice to Proceed was issued.
- Kick-off meeting occurred in July 2022.
- Planned implementation: 4th quarter 2022.

Quarterly Audit Activities

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

Vehicle Purchase – (20) Compressed Natural Gas Coaches – (Gillig. LLC)

- **Objective:** The Board of Trustees authorized the exercise of an option under Contract 2021-100 with Gillig, LLC, for the purchase and delivery of up to 20, 40-ft., low floor CNG coaches including training, special tooling and spare parts.
- **Scope:** Audit Staff completed the applicable Buy America Review, required by Federal Transit Administration.
- **Results:** Satisfactory, with findings and recommendations for management.
- **Issues for Board Consideration:** None

Special Event – Revenue Collection (St. Patrick's Day Parade and Guardian's Home Opener)

- **Objective:** GCRTA management deploys additional equipment and procedures to collect fares during special events.
- **Scope:** Internal Audit documented and tested the controls in place to evaluate revenue collection and trace the collections to the bank and accounting records.
- **Results:** Satisfactory, with findings and recommendations for management.
- **Issues for Board Consideration:** None

Mobile Ticketing Application

- **Objective:** Evaluate the implementation of the fare collection application.
- **Scope:** Tested access controls, configuration, input processing and output controls. Fare media configurations were validated.
- **Results:** Satisfactory, with findings and recommendations for management.
- **Issues for Board Consideration:** None

American Rescue Plan Act of 2021 (ARP)

- **Objective:** Management drew down available funds for operating expenses. Internal Audit developed an audit to evaluate compliance with the ARP Act.
- **Scope:** In April 2022, Internal Audit staff reviewed supporting documentation for GCRTA Accounting Department's American Rescue Plan draw-downs for the months September 2021, October 2021, November 2021, December 2021, and January 2022, totaling ($81,293,421.60).
- **Results:** Satisfactory, $0 dollars remain available for draw down from this grant.
- **Issues for Board Consideration:** None

Consolidated Train Dispatch System

- **Objective:** Internal Audit reviewed the access controls, data processing, and output controls. We evaluated the support agreement, condition of the back-end computer hardware, and other system components. We interviewed operations and maintenance employees.
- **Scope:** Existing system used to control and monitor the rapid transit signal system from a single facility.
- **Results:** Unsatisfactory, with recommendations shared with management. Management is in the process of replacing the system.
- **Issues for Board Consideration:** None

Continuous Auditing

An automatic method used to perform auditing activities, such as control and risk assessments, on a more frequent basis. Technology plays a key role in continuous audit activities by helping to automate the identification of exceptions or anomalies, analyze patterns within the digits of key numeric fields, review trends, and test controls, among other activities. Scripts for Accounts Payable, Accounts Receivable and Fuel Expense are in development.

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
- **Update:** The script was run for the period of April 1, 2022, through June 30, 2022. Results were analyzed and shared with management.
- Moving forward, we will provide the P-Card manager with monthly audit reports to target risk areas

Amazon is one of our top vendors. Descriptions show up as book purchases. They are analyzing this.

Nepotism

- **Objective:** The GCRTA Code of Ethics provides policy to ensure the hiring and supervision by the Authority is compliant with Ohio law, and avoids personal conflicts of interest
- **Scope:** Internal Audit evaluated the relationships and employment placement for all active employees. GCRTA Personnel Policy 300.03 Employment of Relatives
- **Update:** Internal Audit Continues to update our script, and will work with management to account for employee movement, new hires, and promotion

Ms. Moss asked if we are in compliance. Mr. Bowles said they report questionable relationships to management. Mr. Garofoli said this has been substantially corrected. Since union employees can pick where they want to work, they execute the script after the "pick". HR has been diligently working with directors to ensure nepotism is not an issue.

Revenue collection

- **Objective:** To evaluate and provide assurance the customer fares, collected from fare collection systems are reconcile, posted to accounting records, and deposited to the bank
- **Scope:** Internal Audit developed a script to analyze data from fare collection systems and compare to cash in transit, accounting, and bank records
- **Update:** Script was executed for the period of April 1, 2022 through June 30, 2022
    - Cash collections include some immaterial difference between machine totals and amounts deposited, due to known system errors.

Paratransit Customer Database

- **Objective:** GCRTA certifies eligible applicants for Paratransit services. Management utilizes a computerized system to store inactive and active customer information.
- **Scope:** Internal Audit developed a script to evaluate client information with the death records posted to the State of Ohio – Department of Health - Vital Statistics Database.
- **Update:** Field work is complete. We will issue a report after discussion with management.

Additionally, they look at duplicate names and date since last fare.

Projects in Progress

Railcar Vehicle Replacement

Internal Audit is a non-voting member on the Procurement panel. Management is in negotiations with the preferred vendor.

- **Objective:** Provide pre-award audit assurance on procurement activities and to complete necessary Buy America reviews.
- **Scope:** Internal Audit will evaluate contract compliance and management controls.
- **Current Status:** Pre-award

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.

We have received 24 motors from the contractor. Twenty of the 24 motors were installed. The State Safety Oversight is satisfied with the progress RTA is making on the quality assurance programs they have put in place. The root cause analysis is still underway including a line voltage analysis done by a third-party engineering firm. Ms. McCall said Senator Brown introduced the Buy America program. Some transit agencies did not buy into the program initially. She congratulated the staff on their work with this provision. Non-compliance impacts our funding.

GCRTA – 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:** To be determined.
- **Current Status:** Planning/Risk Assessment

Public Transportation Agency Safety Plan – Drug & Alcohol

This is a collaboration with Safety as a part of their 3-year review of our PTASP.
- **Objective:** Evaluate GCRTA Drug & Alcohol program adherence to federal regulations and FTA guidance.
- **Scope:** Evaluate PTASP compliance with ODOT and FTA checklists for content as it relates to Drug and Alcohol Programs.
- **Current Status:** Testing/Fieldwork

Employee Separation Process

- **Objective:** Define current employee separation process, evaluate process controls, and identify process improvement areas.
- **Scope:** Employee release form asset tracking, IT access termination, payout/arrears calculation, pre-termination hearings, and timeliness of processing.
- **Current Status:** Reporting – will meet with management to share results.

Facilities Access – (Keys)
This audit was requested by the GM/CEO.

Objective: Evaluate compliance with AP 053 Key Control.
Scope: Key issuance and return, lost or stolen keys, KeyWatcher controls, high-authority and restricted-area keys, and track switch key inventory.
Current Status: Reporting – currently negotiating with management on recommendations and responses. They will report out by the end of the 3rd quarter.

Cycle Counting – Inventory Parts

The audit is in coordination with the State Auditors office to minimize duplication of efforts in their annual review.

- **Objective:** Evaluate the processes and controls supporting the 2021 cycle count program.
- **Scope:** Asset value classification, cycle count sheet review, IT input controls, physical security controls, year-end reporting accuracy, and inventory valuation.
- **Current Status**: Reporting – waiting responses from management.

Collective Bargaining Agreement – Contract Implementation (ATU 268) Hazard Pay

As part of the updated CBA it was determined that all employees would receive hazard pay based on their tenure at RTA.

- **Objective**: Conduct a review after the final payment installment.
- **Scope**: Internal Audit will review the implementation of terms and conditions for compliance with the agreement.
- **Current Status:** Testing/Fieldwork

The initial payout was found to be 99.99% good. There was one under payment which HR corrected. There are a few changes to be made to account for temporary employees.

Collective Bargaining Agreement – Contract Implementation (ATU 268) Tool and Shoe Allowance

- **Objective:** Review compliance with the ATU Collective Bargaining Agreement rules on tool allowances and shoe reimbursements.
- **Scope:** Tool allowance validation, shoe reimbursement validation.
- **Current Status:** Reporting – scheduling an exit conference with management to review findings.

Tower City Common Area Maintenance Agreement

Agreement between RTA and Tower City (TC) which allows our customers to use the common areas of Tower City to access the rapid station and the Gateway access way.

- **Objective:** Identify agreement requirements, validate compliance with terms and conditions, and evaluate risks and controls.
- **Scope:** Internal Audit will develop an agreement abstract to identify pass-through expenses. We will conduct an audit of supporting information for costs and payments. Invoice accuracy, utility billing, reimbursable expenses, maintenance/ management system assets, Tower City maintenance obligations.
- **Current Status:** Testing/Fieldwork – scheduling a meeting with TC to discuss findings and to obtain additional answers to outstanding questions.

Cash Collection Sites

The handling of cash is a high-risk item per their annual risk assessment. RTA has several cash collection sites where employees are required to receive, record and remit to accounting for cash handling. They have identified four sites and performed testing to follow the collection and deposit of each.

- **Objective:** Review controls for cash collection sites at GCRTA.
- **Scope:** Internal Audit will review the cash collection processes, document internal controls, and develop a test of controls. We will trace cash collected to the bank deposits and accounting records.
- **Current Status: Reporting** – scheduling a exist conference with management.

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:** To be determined.
- **Current Status:** Planning/Risk Assessment

Advertising Services (Brokaw, Inc)

- **Objective:** Evaluate contract compliance with scope of services and invoice requirements.
- **Scope**: Invoicing, monitoring of contract spend, and campaign KPIs.
- **Current Status:** Testing/Fieldwork

Revenue Generating Ads Services (Lamar Transit, LLC)

- **Objective:** Obtain and review all revenue generating ad contracts, identify terms and conditions for each contract, validate revenue streams for each contract.
- **Scope:** Internal Audit conducted a contract compliance audit. Advertising revenue payments, sales report veracity, revenue share benchmarking.
- **Current Status:** Reporting

Projects in Progress

Planning Phase
- IT Change and Patch Management
- Lakeside Garage Key Fob Access
- Locomotive Purchase
- Paratransit Vehicle Purchase
- PTASP Accident Notification and Investigation

Fieldwork Phase (details are in the report)
- Triskett Garage Compressed Natural Gas Plant Construction
- Fare Collection – (Brinks, Incorporated)
- GCRTA – Cleveland State University Student Universal Access Fare Program (U-Pass Program)(Board Resolution 2004-001)
- Paratransit Supplemental Services
- Fiber Optic Line Replacement – Red Line Construction
- Tower City Track Replacement
- Viaduct Rehabilitation

Special Requests and Emerging Issues (10%-15% audit hours)
- ODOT Request – Operator Complaint (Issued)
  - All concerns satisfied
- Third-Party – Telecommunication and Data Services
  - Fieldwork completed. Working with management on action plans. A retroactive change order is planned
- IT Director Hiring Process – projects in progress
- Employee Background checks – projects in progress
- Employee Overtime – projects in progress

External Audit Coordination

State of Ohio – Office of the Auditor
- State Auditor completed the 2021 Single Audit and met with the Board and Management in June 2022.
- Final Audit report was issued July 26, 2022.

State of Ohio – Ohio Department of Transportation (ODOT)
- Coordinating with GCRTA Management on the topic of 4 special directives from FTA as a result of safety incidents at other transit properties.
- Internal Audit will support ODOT with assurance services.

Status of Outstanding Follow-up

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

Staff Training

Northeast Ohio Internal Audit Local Chapter
- "The Next Normal of Fraud Risks and Investigations" – Grant Thornton
- "Internal Audit's Role in Evaluating Cybersecurity Using Advanced Technical Testing – Grant Thornton
- Information Security – RSM

- Chief Auditor Executive Roundtable Forum – Local Audit Leaders

Northeast Ohio Certified Fraud Examiners Local Chapter
- FBI – Forensic Accounting Overview – Bureau of Criminology
- FBI – Building a Better Internal Audit Environment - Bureau of Criminology

Northeast Ohio Information System Audit and Control Association
- None during the Second Quarter 2022

Greater Cleveland Regional Transit Authority
- GCRTA Board/EMT Retreat

Federal Transit Administration
- Cyber-Security Workshop – U.S. Transportation Security Administration

Mayor Koomar thanked the IA team. Ms. Birdsong thanked the IA staff for their transparency. Mayor Weiss asked for the status of the Consolidated Train Dispatch System (CTDS) replacement. Ms. Dangelo said it is in the confidential procurement phase. The goal is to bring it to the Board in September. Dr. Caver said the system is our routing system for the trains. The current system is outdated and lacks some safety components. The new system will allow for new technology. The project comes out of Engineering. Ms. Schipper said it is a two-year project. There will be parallel testing to ensure there are no flaws. It will be presented in committee first. It is a substantial contract.

The meeting was adjourned at 10:08 a.m.

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Rajan D. Gautam
Secretary/Treasurer

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Theresa A. Burrage
Executive Assistant