Minutes

RTA Audit, Safety Compliance & Real Estate Committee Meeting

9:04 a.m. August 15, 2023

Committee Members: Koomar (Chair), Sleasman (fill in), Weiss

Not present: Joyce, Mersmann, Moss

Staff/Other: Birdsong Terry, Bowles, Burney, Caver, Crawshaw, Dangelo, Fields, Fleig, Garlock, Garofoli, Gautam, Goodwin, Harwood, Jupina, Lincoln, Miller, O'Donnell, Schipper, Scott, Togher, Zimmerman

Public: None

The meeting was called to order at 9:04 a.m. There were two (2) committee members present. Mr. Sleasman attended as a fill in, to establish a quorum of three (3).

Minutes

The minutes for the May 9, 2023 Quarterly Internal Audit meeting was approved.

Casualty Insurance Program

Judy Lincoln, Director of Risk Management, gave the presentation. The Casualty Insurance Program renews September 1, 2023. Barb Goodwin, Senior Vice President and Team Leader for USI Insurance Services National, Inc. attended the meeting virtually. She is the insurance broker for GCRTA.

GCRTA maintains a Casualty Insurance Program for protection of assets against catastrophic loss:
- Excess Liability (General, Rail, Auto) $95 million limits, $5 million Self-Insured Retention ("SIR")
  - Responds to bodily injury and property damage to third parties that may arise out of loses during the course of our operations. (Example: bus collision, derailment, bridge collapse, etc.)
- Excess Workers' Compensation - $10 m limit, $750,000 SIR
- Public Officials Liability / Employee Practice Liability - $5 m limit, $250k SIR/ $500k SIR
  - Includes employment practices liability coverage.

How GCRTA Procures this Insurance?
- Excess Liability Markets must be accessed via a broker; no direct writers of these coverages
- GCRTA conducts an RFP process to select and retain a casualty insurance broker
  - Broker is selected based on their expertise in the commercial insurance market, including the industry sector being rail, transit and transportation
  - Together GCRTA and broker approach insurance markets with a submission describing GCRTA's operations and exposures, loss experience, safety culture to negotiate the best partnerships with markets and best program for GCRTA in terms of coverage and pricing

Public Officials / Employment Practices Liability (EPL) Renewal:
- Provides liability protection to Board Members directors and officers as well as GCRTA for alleged wrongful acts by D&Os, committee members or employees

- The policy also provides insurance coverage for employment practices claims. (Example: wrongful termination, discrimination, sexual harassment, etc).

Excess Liability – Largest Program:
- Expiring Premium $1,750,768
    - Renewal premium $1,785,783, a 2% increase
    - Very favorable result. Market has stabilized some but we expected an increase of up to 7.5% based on strategy meeting in July. Still priced below peers. Budgeted for a 10% increase.
    - Quota share program - domestic, London and Bermuda markets

Excess WC Policy renewal:
- Due to marketing effort, generated competition among markets and achieved a 12.5% rate reduction.
- Existing carrier, Safety National offering a lower premium despite payroll increase of 7.5% (from projected 2022 to projected 2023) so renewal premium quoted is $275,355 vs $292,842, a $17,487 savings.
- Better than expected result given most recent guidance of between 5% - 7.5% rate increase.

Public Officials / EPL renewal
- Incumbent carrier: AIG (National Union)
- Expiring Premium is $99,900
- Renewal Premium is $100,900, a 1% increase
- Budgeted for 5% increase in accordance with broker's experience with other public entity accounts.

The combined result for all three insurance policies is a renewal premium of $2,162,038 vs. expiring premiums of $2,143,510, an increase of less than 1% and $199,343 or 8.4% under the budgeted amount of $2,361,651. Staff requests that the Audit, Safety Compliance, and Real Estate Committee recommend to the Board of Trustees the purchase of casualty insurance from various insurance underwriters through USI Insurance Services National, Inc., GCRTA's casualty insurance broker, in a total amount not to exceed $2,162,038 for a period of twelve months.

Ms. Goodwin thanked RTA for their thorough specifications. RTA's attention to safety, risk control and risk management helped them create this program. Mayor Weiss asked if all terms and conditions from the expired policy are carried over and who has primary coverage for bridges. Ms. Lincoln confirmed all conditions being carried over. Mr. Schipper said 81 of over 100 bridges on the system is RTA's primary responsibility. Most are railroad bridges, but some are roadway bridges that we inherited from the Shaker System and Terminal Tower. There is a combination of ownership, maintenance and replacement responsibilities. Our bridges are covered under the liability coverage. Ms. Terry added that this is one of the most favorable rates she's seen nationally. Mayor Koomar thanked the team. Ms. Lincoln thanked Dr. Caver for leading the presentation to the underwriters.

Ms. Terry asked about how we compare with other industries. Ms. Goodwin said she hasn't seen a client with this good of a renewal this year. It was moved by Mayor Weiss, seconded by Mr. Sleasman and approved to move this to the full Board.

Internal Audit Department

Anthony Garofoli, Executive Director of Internal Audit, and Mike Schipper, Deputy General Manager of Engineering and Project Development, gave the presentation.

Revision to the Professional Standards for Internal Auditors

- 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.
- The new standards will be put out on Jan. 1, 2024 and go into effect 12 months later.

Grouping Standards

- Domain I - Purpose of Internal Auditing – to provide consulting and assurance services to support management and the Board to meet business objectives.
- 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

Fourth Quarter Considerations

Train staff and implement the revised Standards. Update the following:
- 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

Mayor Koomar added that IA is required to have an external assessment every few years. Since the International Standards are changing, they will incorporate the assessment recommendations with all the International changes.

Contract No. 2021-125 Change Order Authority

Internal Audit is a part of the Rail Car Steering Committee. They are moving into the post award phase with auditing the Railcar Replacement Program contract. Based on experience with past major projects, change orders can impact the timing and cost of delivery.

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

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

Research was conducted with management and Calvary Transit. Calvary purchased 260 railcars over the last 20 years from the same vendor. RTA's consultant, Hatch has international experience with rail cars. The following reasons are listed 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
- Material 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 – FTA will assign a project management oversight consultant
- Consult with appropriate stakeholders & resources
- Issue audit reports to Management and Board of Trustees

Management Proposal

For a $164 million contract, the change order (c/o) authority would be $500,000. Because of experience with other major projects, they anticipate changes will be needed. Euclid Corridor (EC) was A $200 million project but the largest construction projects were in the $20 million range. We had three c/o, but still maintained the Board authority at $500,000. After three years of EC construction there was a lot of fatigue from the Board for c/o authority. As Board members turned over, it got tougher to explain the c/o process.

Management recommends a c/o authority increase from $500,000 to $6.5 million or 4% of the contract. This would decrease the number of change orders. The plan would be to come back to the Board at $5 million to get ahead of the schedule. They are not recommending any changes to the

administrative procedures and oversight they have internally. The c/o committee will remain active at the $500,000 range. The Engineering team's goal was under 5%. The high-end external discussions about the c/o authority were in the 8%-10% range. The project/design team recommended 4%.

Ms. Terry suggested an Ad Hoc Audit or Semi-Annual Updates. Mayor Koomar suggested a high-level slide during these quarterly meetings showing the net changes. He suggested updates at the regular Board Meeting also. Mr. Garofoli said the c/o log can provide a snapshot of all changes. The $500,000 c/o authority has been in place since at least 1997. There was a review of the authority a few years ago and it was determined to still be appropriate. Mr. Sleasman requested it be looked at again. Mr. Schipper suggested another committee meeting in September when other Board members are present and a resolution at the September Board meeting. Ms. Dangelo went over the change order process. Mr. Schipper added that a c/o can be cost or time associated.

Internal Audit – 2nd Quarter Activities

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

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

Report issued July 18, 2023. There was one management deficiency. The response was tracked in their IA system.

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

Report released August 7, 2023.

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

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

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. (order blank stock to minimize duplication of efforts, which management implemented)
Issues for Board Consideration: None

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. (current process is paper heavy – management looking to digitize).
Issues for Board Consideration: None

GCRTA Travel and Expense Reimbursement

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

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: Testing/Fieldwork

This audit was requested by the CEO/GM. Audit is for 2022 surveys. Entrance conference held with executive management team for buy in on the scope of the fieldwork.

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: Testing/Fieldwork

Audit expanded to include 100% of employees enrolled in the medical plan. As of August 1, 2023, there are 1,510 dependent lives enrolled in the plan. Once complete, IA will provide a list of employees that need to supply documents to support dependent enrollment. This audit will serve as a predecessor to the healthcare claims consultant audit.

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: Testing/Fieldwork

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: Testing/Fieldwork

Configuration Management Department is transitioning from an independent department in Operations to one under Fleet Management. The manager position will be filled soon.

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

They plan to use the recent Blue/Green Line shutdown starting August 20 to evaluate management controls for customer communications.

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: Testing/Fieldwork

Inventory was completed in April for the Central Bus Maintenance Facility. Count and evaluation were reasonable compared to financial management records. A physical inventory is planned for Rail District.

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: Testing/Fieldwork

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

This is a stand alone audit because comp time is an accrual that's unique to Transit Police.

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: Reporting

IA has undertaken additional value added work like flowcharts and data analysis to support HR implementation of their new application tracking software.

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: Testing/Fieldwork

The subcontractors are Provide-a-Ride, GC Logistics and Senior Transportation Connection (STC). The contract period began June 1. They conducted secret shopper trips and site tours.

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: Testing/Fieldwork

Overhaul of heavy rail traction motors back to their OEM specifications has mitigated the smoky motors. Seventy-five percent of the heavy rail traction motors have been received.

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: Manufacture

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

Twenty coaches are planned for delivery in the 3rd quarter.

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

Twenty coaches are planned for delivery in the 3rd quarter.

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

Working on test development to share with management.

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

ADDITIONAL MIS/IT PROJECTS

- **CTDS** – kicked off with meetings with vendor. Vendor working on conceptual plan due at the end of September. Final plan due EOY
- **Transit Master** – ITS department working with vendor to move the system into the cloud for disaster recovery capabilities and system upgrade
- **Oracle (Q3)** – deadline pushed back due to integration issues
- **Ultramain (Q3)** – deadline pushed back due to integration issues
- **EZFare** – still being rolled out. Hardware to be installed on vehicles, stations and rail facilities and due for completion by EOY. Account based ticketing and fare capping soon to come
- **Applicant Tracking**
- **Learning Management** – tracking learning opportunities
- **Data Center Co-location** – disaster system recovery and backup
- **Point of Sale** – on hold until after Oracle is updated
- **Infrastructure Updates**

IT Council developed. Meets bimonthly. IT and MIS are recruiting for open positions. Core governance documents in development, Cyber Security training and assessments and three-year Strategic Plan.

CONTINUOUS AUDITING

A 7-step 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. Program started in 2017. Scripts are continually being updated and can be run quickly.

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.

They are doing documentation checks. Looking at purchases over $500 and $2,500. Checking whether sign offs are done and adding Amazon purchases to script.

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.

They will start to look at mobile app sales.

*Note: Cash collections include some immaterial differences between machine totals and amounts deposited, due to known system errors.

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.

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

SPECIAL REQUESTS/EMEGING ISSUES

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

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

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

This is an audit of previous third-party administrator Medical Mutual and current third-party administrator Anthem. They will be working with a healthcare audit consultant on this project.

OTHER PROJECTS

- 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)

The meeting was adjourned at 10:52 a.m.

Rajan D. Gautam
Secretary/Treasurer

Theresa A. Burrage
Executive Assistant