

RESOLUTION NO. 1988-207

APPROVING POLICIES AND PROCEDURES COVERING THE
INTERNAL AUDIT FUNCTION FOR THE AUTHORITY

WHEREAS, the Greater Cleveland Regional Transit Authority is required to maintain an effective internal audit program as a condition of receiving Federal financial assistance; and

WHEREAS, the Bylaws of the Greater Cleveland Regional Transit Authority require that the Authority maintain an Internal Audit Department led by a Director of Internal Audit reporting to the Board of Trustees; and

WHEREAS, having a clear definition of the duties and responsibilities of the Department of Internal Audit will serve to insure that the best interests of the Authority and the general public are adequately protected.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Greater Cleveland Regional Transit Authority, Cuyahoga County, Ohio:

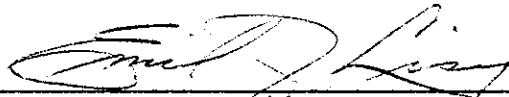
Section 1. That the Internal Audit Policies and Procedures shown in Attachment A hereto are hereby adopted as official policy of the Authority.

Section 2. That the Director of Internal Audit is hereby authorized to undertake the necessary actions to implement these Internal Audit Policies and Procedures.

Section 3. That the General Manager/Secretary-Treasurer of the Authority is hereby authorized to undertake the necessary actions to implement these Internal Audit Policies and Procedures.

Section 4. That this resolution shall become effective immediately upon its adoption.

Adopted: November 15, 1988


President

Attest: Ronald J. Adair
General Manager/Secretary-Treasurer

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
INTERNAL AUDIT POLICIES AND PROCEDURES

1.0 PURPOSE/SCOPE

- 1.1 The Internal Audit Policies and Procedures described herein delineate the duties and responsibilities of the Department of Internal Audit for the Authority. They are designed to clearly define the role which the Department plays in carrying out the Authority's mission to provide public transportation services and in protecting the public interest.
- 1.2 The policies and procedures established herein cover the following areas:
- a. Mission Statement and Objectives
 - b. Scope of Activities
 - c. Reporting and Follow-Up
 - d. Contract Audits
 - e. Internal Audits

2.0 LEGAL AUTHORITY

From the ORC Chapter 306 Regional Transit Authority as follows:

- 306.31 Creation of Authority
- 306.34 Board of Trustees to manage and conduct affairs
- 306.35 Powers and duties

Additionally, from the Authority's Bylaws the following sections are germane:

Article VIII - Administration and Employment, Sections 5 and 6

Finally, Federal laws and regulations which are germane include:

- OMB Circulars: A-128 Single Audit Act of 1984
A-87 Cost Principles for State and Local Governments
A-102 Uniform Administrative Requirements for Grants in Aid

Various UMTA Circulars and orders notably:

- C2710.5 Section 15 Accounting and Reporting Releases 1 and 2
- C4220.1B Third Party Contracting Guidelines
- C5010.1A UMTA Project Management Guidelines for Grantees
- 09010.1 Section 9 Triennial Reviews

3.0 MISSION STATEMENT AND OBJECTIVES

3.1 Mission

The Department of Internal Audit is an independent unit within the Greater Cleveland Regional Transit Authority (GCRTA) for the review of all activities as a service to the Board of Directors and Authority Management. This office functions as an independent appraiser and internal monitor for reviewing and evaluating each unit within the Authority as to the adequacy of controls and records, adherence to established policies, plans, procedures, regulations, and for reporting on the effectiveness of Authority activities. The Department of Internal Audit functions as the inspector general for the Authority and serves as a managerial control which functions by measuring and evaluating the effectiveness of all other internal controls and operations.

3.2 Objectives

The goal of the Department of Internal Audit is to assist the Board of Trustees, Authority Management, and related governmental entities in the effective discharge of their responsibilities by furnishing them with independent analyses, appraisals, recommendations, and pertinent comments concerning the activities under audit. The Department of Internal Audit is concerned with, and may review, any phase of GCRTA or GCRTA-related activity.

The objectives of the Department of Internal Audit include the following:

1. To determine the establishment and efficiency of internal controls and management's adherence to the controls;
2. To ascertain the extent of compliance with established GCRTA policies, guidelines, procedures, and appropriate governmental regulations;
3. To ascertain the extent to which GCRTA assets are accounted for and safeguarded from losses;
4. To appraise the economy and efficiency with which resources are employed;
5. To prevent, discover and report errors or irregularities in conducting Authority activities;
6. To develop, maintain, and implement audit procedures to cover all aspects of GCRTA's operating and capital programs;
7. To objectively report audit findings with recommendations for corrective actions;

8. To facilitate implementation of corrective actions through an effective audit recommendation follow-up system.
9. To ascertain the appropriateness of management response to audit recommendations and provide follow-up status reports to the Board and General Manager.

4.0 SCOPE OF ACTIVITIES

The Department of Internal Audit activities extend to all operations of the Authority.

The Department's independence is critical to provide assurance to the Board of Trustees, Authority Management, cognizant governmental entities and the Public at Large that Authority affairs are in order. The Department of Internal Audit has no direct responsibility for, nor authority over, any of the areas under audit review; therefore, the audit review does not in any way relieve other persons of their assigned responsibility.

5.0 REPORTING AND FOLLOW-UP

5.1 Reporting Relationships and Requirements

The Department of Internal Audit reports functionally to the Chairperson of the Board and administratively to the General Manager. All draft and final audit reports will be provided to the General Manager for his review. A summary report will be provided to the Board of Trustees on quarterly basis and discussed with the Finance Committee. Such reports will outline work performed, major recommendations made, management's response including specific steps for the implementation of all agreed upon recommendations and other pertinent data. Board requests for audit services will be addressed in a timely manner.

5.2 Follow-Up Activities

The Department of Internal Audit is required by the Standards for the Professional Practice of Internal Auditing to maintain an audit recommendation follow-up procedure to ensure the timely implementation of all accepted recommendations.

Should corrective action be indicated, as evidenced by specific recommendations contained in an audit report, the management at interest shall include in their response specific steps taken or steps to be taken to effect the corrective action.

In the event that agreement between the Department of Internal Audit and the auditee cannot be reached as to acceptable corrective action, the matter at hand will be referred to the appropriate Assistant General Manager and/or the General Manager for resolution. Should an impasse occur at this level, the General Manager and the Board Committee chairman relating to the Auditee will be asked to resolve the matter.

6.0 CONTRACT AUDITS

6.1 Purpose and Scope

The purpose of contract auditing is to assist in achieving prudent contracting by providing those responsible for procurement with financial information and advice relating to contractual matters and contractors. Audit activities include providing professional advice on accounting and financial matters to assist in the negotiations, award, administration, repricing, settlement of contracts, and assistance to the Assistant General Manager - Legal (AGML) in disputes. Areas of interest to the auditor include contractor's policies and procedures affecting costs, the accuracy, timeliness, completeness and reasonableness of cost representations, the financial capabilities of the contractor, the appropriateness of contractual provisions having accounting or financial significance and the validation of all financial and factual elements in the contractor's cost and pricing data, proposal or claim.

The scope of the contract audit program includes, but is not limited to, the following activities:

- a. Audit review of contractor proposals for engineering and architectural design, technical inspection and construction management services.
- b. Audit review of fixed price contract proposals to be negotiated and negotiated contracts for professional services.
- c. Audit review of consultant contract proposals.
- d. Annual audit review of cost-plus-fixed-fee contracts as to allocability and allowability of costs.
- e. Review of the financial capability of contractor prior to award of contract.
- f. Audit review of all contractor cost proposals pertaining to pending change orders, contract modifications and claims, in excess of Board-specified amounts prior to negotiation with contractor, or when specifically requested by the Contracting Officer (C.O.), General Manager, or Board of Trustees or their authorized representatives.
- g. Audit review of negotiated contract modifications not previously audited, in accordance with the contract clauses for defective cost or pricing data, when requested by the C.O., General Manager, or Board of Trustees or their authorized representatives.
- h. Audit review of contractor claims in quantum litigation when requested by AGM - Legal or the General Manager.

- i. Audit review of indirect rates of contractors who have a continuing contractual relationship with GCRTA to aid in the negotiation and settlement of contract modifications.
- j. Audit review of contract terminations.
- k. Selected audit review of contract monthly estimates for payment to contractor.
- l. Audit review of contract close-outs.
- m. Audit review of costs of construction work, relocations, and other activities by utilities or governmental agencies pursuant to Master Agreements.
- n. Other audit reviews as may be required by GCRTA, DOT, the State Auditor, ODOT, or UMTA rules and regulations.

6.2 Responsibility

The Director of Internal Audit is responsible for the enforcement, application and timeliness of this policy as authorized and directed by the Board of Trustees and the General Manager.

The Director of Internal Audit acts for the General Manager and the Board of Trustees in formulating, planning, and implementing contract audits relating to proposals/claims for contracts, modifications, and master agreements. Because the Director of Internal Audit also serves management by independently conducting audits to determine if contracting is being done in accordance with Authority policy, federal, state and local regulations and laws and is being accomplished in a cost efficient manner, the audit function is separate and independent of procurement and contract administration.

The Director of Internal Audit assists management and staff by providing accounting and financial advisory services--in connection with the negotiation and modifications to existing contracts, administration and settlement of negotiated contracts and subcontracts--to the Authority's Contracting Officer and their authorized representatives. Accordingly audit reports and other services provided are for the most part advisory and are intended to be responsive to the needs of the party requesting the audit.

6.3 Procedures

- a. The auditors shall have access to all work areas and all papers, records, procedures, minutes, reports, and work files needed for their examination in order to insure that the whole record will be considered.

- b. Depending upon the specific contractual terms, external contracting and financial activities of the Authority are subject to appropriate contract audit. Such audits will be planned and scheduled on the basis of available manpower, priority needed for the audit, and probable benefits to be realized.
- c. The cognizant contracting officer (C.O.) or authorized representative and others affected, will be contacted by the Director of Internal Audit prior to the start of a scheduled audit, be briefed on the reasons and general objectives of the audit, and be afforded an opportunity to suggest specific input believed applicable to the audit to be undertaken. An exception is made where the work is a continuation of an on-going audit effort previously coordinated with the cognizant department.
- d. Prior to the start of field audit work on the contractor's records, the auditor will review the contract/modification file and may meet with cognizant Authority officials to obtain a full understanding of the scope of the planned audit.
- e. During the course of an audit, the C.O. will be kept informed of any major discrepancies noted and will be immediately notified should the contractor refuse cooperation with the auditor.
- f. At the conclusion of each field audit, the auditor will meet with the contractor's representatives to review the results of audit and afford them an opportunity to correct any error in fact, to explain discrepancies in the claim and to present any material, fact or record not previously disclosed. The auditor will also meet with cognizant Authority officials and/or negotiators to discuss the results of audit as well as correct any error in fact. The Director of Internal Audit will then complete the audit examination and issue the audit report including, as deemed appropriate, relevant comments of affected parties.
- g. When requested, the Director of Internal Audit will provide necessary representation to the C.O.'s negotiation team when audit reports are being discussed with a contractor. Such representation is for the sole purpose of explaining and supporting the findings of the audit.
- h. At the conclusion of negotiations or other completed actions, the cognizant C.O. or Director will include in the contract modification documentation a reconciliation of the negotiated settlement to the audit report, which fully explains the differences.
- i. Sixty days after the issuance of an audit report--or as otherwise agreed by the parties--the Director of Internal Audit will follow-up with the cognizant C.O. or his authorized representative to ascertain the status of the audit report recommendations and will continue to follow-up, until the negotiations or other contract action has been finalized, to ascertain the extent to which the audit recommendations were followed in the negotiations.

- j. The Director of Internal Audit is authorized to report independently to all Department Directors, Officers, GMGR, the Board of Trustees, the independent auditors, or any other Authority level appropriate for a given audit, with a copy of the report to the cognizant Officer. With respect to any outside agencies and organizations, copies of audit reports shall be transmitted in the following manner:
 1. Contractors or related third parties, over the signatures of the applicable Contracting Officer.
 2. Government agencies and organizations, over the signature of the General Manager; and
 3. Matters involving litigation, over the signature of the AGM-Legal and the General Manager.

7.0 INTERNAL AUDITS

7.1 Purpose and Scope

The purpose of this section is to set forth Authority policy concerning the internal audit and inspection activities conducted by the Department of Internal Audit. It will apply to all Authority organizations and activities without limitation.

- 7.1.1 The scope of internal audit work is divided into three major categories.
 - a. Financial and compliance - includes audits and examinations of selected financial transactions and operations. Areas covered include whether:
 - GCRTA is maintaining effective control over revenues, expenditures, assets and liabilities.
 - GCRTA is properly accounting for its resources, liabilities and operations;
 - GCRTA's financial reports contain accurate, reliable, and useful financial data and area fairly presented; and
 - GCRTA is complying with the requirements of applicable laws and regulations.
 - b. Economy and efficiency - includes reviews and audits of resource use in programs, activities, and operations. Matters of interest would include:

- Procedures, whether officially prescribed or merely followed, which are ineffective or found to be more costly than justified;
 - Duplication of effort by employees or between organizational units which, if eliminated, could increase overall efficiency;
 - Performance of work which serves little or no useful purpose;
 - Inefficient or uneconomical use of equipment;
 - Staffing levels in relation to work to be done;
 - Faulty buying practices;
 - Procurement and accumulation of unneeded or excess quantities of property, materials, or supplies; and
 - Wasteful use of property.
- c. Program results - includes surveys and reviews of programs, activities, operations to consider whether objectives are being achieved effectively. Major questions to be addressed in this category include:

Program Effectiveness - Is the program accomplishing the results intended, as spelled out in the legislative objectives or in the implementing directives of GCRTA?

Cost Effectiveness - Is the program succeeding within the costs anticipated at the time the legislation was enacted?

Adequacy of Information System - Does top management have the essential and reliable information necessary to exercise supervision and controls and to ascertain direction or trends?

Cost-Benefit Relationship - Are program costs reasonable commensurate with the benefits achieved?

Consideration of Alternatives - Have alternative programs or procedures been examined or should they be examined for potential in achieving objectives with the greatest economic efficiency?

Clarify and Consistency of Objectives - Are program objectives sufficiently clear to permit agency management to effectively accomplish the desired program results? Are the objectives of the component parts of the program consistent with overall program objectives?

- 7.1.2 This scope of audit of organizations, programs, activities, and functions is in accordance with the auditing standards prescribed by the Comptroller General (1981 Revision). Office of Management and Budget, by circular, established audit requirements for state and local governments receiving Federal assistance and required that audits of these entities are to be made in accordance with the Comptroller General's standards. Moreover, in 1978 the Institute of Internal Auditors issued standards which are compatible with these standards.
- 7.1.3 The Director of Internal Audit also supervises and directs official inquiries into allegations of employee/contractor misconduct, or allegations of mismanagement, waste or abuse in any of the Authority's programs, activities or operations. When the Director of Internal Audit's investigatory work uncovers criminal activity, such cases will be referred to the Director of Security for the Authority. The Board of Trustees and the General Manager will be kept abreast of all such cases on a timely basis. Discussion of all such items will be conducted in executive session in order to maintain confidentiality in accordance with the provisions of Ohio law regarding executive sessions.

Fraud against the the Authority may be accomplished by false claims for benefits or services, false statements to induce contracts or secure benefits, bribery of officials or claims for payment when goods or services are not delivered. Official inquiries of fraud, waste, or abuse are essentially reactive in nature and usually begin with the receipt of allegations of wrongdoing and/or requests for examination from a variety of sources, including:

- Authority Management
- Board Members
- Hotline Complaints
- Outside Audits
- News Media

Priorities are established based on the significance of the allegations and the limited availability of resources. Significance is determined by any of the following: potential impact on public integrity and safety, dollar impact, high level of interest and sensitivity, or potential embarrassment to the Authority..

- 7.1.4 Each year an annual Internal Audit Plan will be prepared by the Director of Internal Audit. The Plan will delineate those internal audit activities which are expected to be completed during the year. The Plan will be reviewed with the General Manager and the Board of Trustees in accordance with Section 7.3(b).

7.2 Responsibility

The Director of Internal Audit is responsible for the enforcement, application, and timeliness of this policy as directed by the Board of Trustees and the General Manager.

The Director of Internal Audit acts as directed by the GMGR in: (a) formulation, planning, and implementing financial compliance audits, reviews of economy and efficiency of operations, evaluations of program results, and comprehensive review of Authority organizational units; and (b) supervising and directing officials' inquiries relating to alleged improprieties in programs and activities of the Authority. All Authority activities are subject to review by the Director of Internal Audit.

7.3 Procedures

- a. In deciding which areas should be audited, the following criteria will be considered:
 - (1) Vulnerability to occurrence of fraud, embezzlement, program manipulation, or other types of irregularities.
 - (2) Emphasis by the Board, the General Manager, and Officers.
 - (3) Management needs, as developed in consultation with the responsible program officials.
 - (4) Newness, changed conditions, or sensitivity of the organization, program, activity or function.
 - (5) Dollar magnitude and duration.
 - (6) Mandatory requirements of Federal agencies.
 - (7) Results of other evaluations, e.g., inspections, program reviews, etc.
 - (8) Prior audit experience, including the adequacy of the financial management system and controls.
 - (9) Availability of audit resources.
 - (10) Timeliness, reliability, and coverage of audit reports prepared by independent public accountants.
- b. The Director of Internal Audit will meet at least annually with the Board of Trustees, and at such other times with the Board, as the Board President, the Director of Internal Audit or the General Manager determine. The Board of Trustees will review the annual internal audit work program of the Director of Internal Audit after approval of the General Manager. This review will be conducted at the beginning of each fiscal year and its purpose is to ensure that the program includes work in areas of interest to the Board of Directors.

- c. The Director of Internal Audit will ensure that the President of the Board of Trustees is fully informed of major work in progress and will make available to Board members summaries of audit/inspection reports and such other documents and materials as Board members may request or require to carry out their responsibility. Matters involving contractor proprietary data, Authority personnel matters, or other matters of a private nature shall be conducted in executive session in accordance with Ohio law.
- d. The Director of Internal Audit will keep the President of the Board of Trustees informed of any audits or surveys being made or proposed by outside organizations such as DOT's Inspector General or the General Accounting Office.
- e. When such services are retained, the Director of Internal Audit will cooperate with the external auditors to maximize the benefit to the Authority.
- f. The Department of Internal Audit staff shall have unrestricted access to all work areas and all papers, records, procedures, reports and work files needed for their department examinations. It is the responsibility of each Department Director (DD) to ensure that their organization cooperates fully with audit staff and is responsive to legitimate requests. Excluded are matters involving active criminal/civil prosecutions where the access to records, etc., have been judicially restricted.
- g. Except where the nature of the audit necessitates otherwise (such as a surprise cash audit) or in the instance of a routine and informal inquiry for information, prior to the start of a scheduled review the auditee will be briefed on the general objectives of the effort and the personnel to be assigned, and be afforded an opportunity to suggest specific areas for emphasis. Arrangements for work space or other necessary facilities also will be completed at that time.
- h. Before concluding the audit, the Director of Internal Audit will schedule an exit conference with the auditee to informally apprise them of the various matters observed during the audit and secure their views on the specific issues.
- i. A draft report will be prepared following this discussion and will then be transmitted to the auditee for review and written comments. The Director of Internal Audit or a senior member of his staff will be available, if desired, to discuss the draft report prior to the submission of written comments.
- j. Within 15 days after receipt of the draft audit report the auditee will respond, in writing to the Director of Internal Audit giving his/her view on the relative significance of the matters reported, and stating what, if any, actions will be taken. If additional time is needed, the auditee should discuss the unusual circumstances with the Director of Internal Audit.

- k. The final report will be addressed to the auditee, with copies to the General Manager.
- l. Within 60 days after receipt of the final report, the auditee will provide written comments to the Director of Internal Audit stating what actions have been taken or planned with respect to matters presented in the report. Where planned actions are indicated, milestones or target dates will be included.
- m. Quarterly, the Director of Internal Audit will report to the General Manager on the status of recommendations in issued reports. The Director of Internal Audit will comment on whether action was taken and, if so, whether it was effective.
- n. With respect to the handling of formal comments on draft or final reports prepared by outside agencies or organizations, such official responses or other pertinent correspondence shall be transmitted only over the signature of the General Manager.
- o. Questions which arise during the audit concerning the interpretation of the law or compliance therewith shall be referred by the Director of Internal Audit to the AMG-Legal for resolution and disposition.

8.0 PERIODIC REVIEW AND AMENDMENT

- 8.1 The Internal Audit policies delineated herein will be subject to review and revision by the Board of Trustees at least once every three years. This does not preclude the Board of Trustees from revising specific policies included herein or adding additional policies should the Board of Trustees determine that the best interests of the public and/or the Authority would be served by making such a revision.
- 8.2 Amendments or revisions to these policies and procedures can be initiated or proposed by any member of the Board of Trustees, by the General Manager of the Authority, or by the Director of Internal Audit.
- 8.3 Proposed amendments or revisions to these policies and procedures will be subject to review and study by the Finance Committee of the Board of Trustees. The Finance Committee will make recommendations on any proposed amendment or revision to the Board of Trustees. The Board of Trustees must approve any amendment or revision by majority vote before said amendment or revision will become official policy of the Authority.

October 13, 1988