



**EXTERNAL QUALITY ASSURANCE
REVIEW REPORT
DEPARTMENT OF INTERNAL AUDIT**

September 2017

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Executive Summary

Overview

The Internal Audit Charter at the Capital Metropolitan Transportation Authority (Authority) requires the Internal Audit Department (IAD) to be in conformance with the Institute of Internal Auditor's (IIA) International Professional Practices Framework (The Core Principals for the Professional Practice of Internal Auditing, the Code of Ethics, the Definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing) and with the Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS), collectively referred to in this report as the *Standards*. These *Standards* require IAD to develop and maintain a Quality Assurance and Improvement Program (QAIP). The QAIP requires both internal and external assessments of the IAD. The *Standards* require the results of these assessments to be communicated to those charged with agency governance at least annually for internal assessments and every three years for external assessments. This report presents the results of the external assessment that was conducted in July 2017.

The primary intent of the review was to provide reasonable and objective assurance that the internal audit work being performed meets the requirements of the *Standards*. A secondary objective was to identify whether or not there are opportunities that would enhance the economy and efficiency of the audit process and improve the value of what the internal auditing activity contributes to the Authority.

The scope of the review included an evaluation of:

- IAD's reporting relationship and communication with Authority's Board of Directors (BOD);

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- IAD's independence and the objectivity of the audit work performed;
 - Existing internal audit policies and procedures;
 - IAD's risk assessment and annual audit planning process;
 - The planning process for individual audit projects;
 - The audit methodologies used in performing the work;
 - A representative sample of audit workpaper files and reports;
 - The workpaper documentation that supported the work performed;
 - The support for the conclusions and recommendations in the audit reports;
 - How the results of audit are communicated;
 - The procedures for following up on the status of audit recommendations;
and
 - The knowledge, skills, discipline, and training of the staff.

Interviews were conducted with, among others: the Chair of the Finance, Audit and Administration (FAA) Committee of the BOD; the President/CEO; the Deputy CEO/COO; the Acting Chief Audit Executive; and the audit staff.

Opinion

Based on the work outlined above and on the information received and evaluated during this external review, it is my opinion that the IAD at the Authority **generally conforms** to the *Standards*.

This opinion, which is the highest of three possible ratings, means that there are relevant structures, policies, procedures, and processes in place that comply with the requirements of both the IIA International Professional Practices Framework and the GAO's Generally Accepted Government Auditing Standards in all material respects. Any deviations found between the *Standards* and the IAD policies, procedures, and practices, or the work performed, were judged to be insignificant.

The IAD is independent, objective, and renders impartial and unbiased judgements on the audit work performed. The interim CAE and the audit staff are qualified, proficient and knowledgeable in the areas audited. Audit engagements are planned using risk assessment techniques; audit conclusions are supported in the workpapers; and issues and recommendations are communicated clearly, and concisely, and are followed-up on as required by the *Standards*.

It is important to note that the *Standards* are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of professional judgement. The extent of internal audit policies and procedures and the manner in which they are implemented will depend upon a number of factors such as an audit activity's size and organizational structure, the nature of its audit responsibilities, its philosophy with respect to the degree of operating autonomy appropriate for its staff, and the expectations of its governing body. Variances in individual performance and professional interpretation affect the degree of compliance with internal audit policies and procedures; therefore, adherence to all policies and procedures in every case may not be possible. However, compliance does require adherence to prescribed policies and procedures in the majority of situations.

Observations

The IAD at the Authority consists of the Vice President Internal Audit, also referred to as the Chief Audit Executive (CAE), and two Internal Auditor II staff positions. Recently the CAE position became vacant and one of the Internal Auditor II positions is acting as the interim CAE. The CAE position reports functionally to the Authority BODs through the FAA Committee which establishes it as an independent activity that is in line with the fundamental requirements of the

Standards. The interim CAE is well respected and has a good working relationship with senior executives and the FAA Committee.

As required by *Standards*, the CAE conducts an organizational wide risk assessment that goes beyond what is usually found or expected of a small audit shop that includes conducting management interviews to understand their views about risks as well as obtaining input from the Authority's external financial auditor. The assessment identifies risks in five different areas by applying seven risk/opportunity factors. This analysis is then used to develop a biennial audit plan that is presented to the FAA Committee for their review.

The audit staff is well qualified and experienced. During management interviews the staff received high grades and strong support for the work that they conduct. Both have certifications in internal auditing, the interim CAE is a CIA, (Certified Internal Auditor), both are CGAPs, (Certified Government Auditing Professional) and CFEs (Certified Fraud Examiners).

The department has a well-fashioned, best practice Internal Audit Charter which establishes the department's purpose, authority and responsibilities as an independent activity that is in line with the fundamental requirements of the *Standards*. The Charter supports the need for the department to be independent by authorizing it: full and free access to all records (either manual or electronic); physical properties, activities, and personnel relevant to a review; full and free access to the FAA Committee; to receive a budget for training materials to comply with professional auditing standards that ensures current audit techniques, policies, and practices.

The independence of the audit activity is further supported by the Charter that includes:

- The BOD appointing the CAE for a term of five years,

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- The CAE meeting regularly with the FAA Committee no less than once per quarter,
 - The FAA Committee annually conducting a personnel evaluation of the CAE,
 - The FAA Committee reviewing annually the staffing resources and the budget for the internal audit program and considering whether adequate resources have been committed to ensure that the risks identified in the biennial risk assessment are being adequately covered.

The FAA Committee Chair considers IAD an integral part of Authority operations and believes that the audit process and audit report recommendations add value and help improve the agency's operations.

The interviews conducted with Authority management indicated that they strongly support the internal audit function and they believe that the scope and type of work that is performed is addressing where they believe there are risks.

A confidential survey of audit customers conducted during the review indicated that over 96% of those surveyed rated the department from good to excellent on 18 different criteria. This speaks well of the professionalism and abilities of the past and interim CAEs and the audit staff.

A sample of workpapers was reviewed and showed that the staff is proficient and knowledgeable in the areas they audit. The workpapers are professionally prepared and support a level of professional care that is appropriate for the complexities of the work they undertake. Audit projects are well planned, and the work performed by the staff is appropriately documented in accordance with the *Standards*. Audit programs in the workpapers were appropriately referenced to the audit steps. While the cross referencing of the tests performed during the audits and the conclusions contained in audit reports were not always easily

reconciled, the work was documented appropriately in the workpapers. There was evidence that the workpapers are being appropriately reviewed before audit reports are issued.

I appreciate the courtesy and cooperation extended to me by the FAA Committee Chair, management, and staff members and especially those persons who completed survey questionnaires and/or participated in the interview process. The feedback from those activities provided valuable information regarding the IAD and its relationship with Authority management and the BOD. The IAD continues to provide a good example of commitment and professionalism in service to the Authority and its many stakeholders.

A handwritten signature in cursive script that reads "Richard H. Tarr".

Richard H. Tarr, CIA, CISA

Opportunities for Enhancement

While the IAD at Authority generally conforms with the Standards, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of improving the value of the audit work being performed. None of these recommendations are directed at addressing any deficiency in complying with the *Standards*. These recommendations are intended to enhance the internal audit activity at Authority and improve the efficiency and efficacy of the work that is conducted at the Authority.

1. The FAA should fill the CAE position as soon as possible.

The CAE position is critical to the governance role of the BOD. While the interim CAE is very experienced and is well respected, keeping the leadership position in limbo puts in doubt the future direction of the IAD at the Authority.

2. The President and CEO should consider allowing the CAE to attend, at least annually, a SET meeting where the focus would be Authority risks.

Holding an annual SET meeting where the senior staff, led by the CEO, can focus on identifying where they believe there are operational and financial risks would enable IAD to better focus their audit resources on areas where the department can conduct audits that can best add value to the Authority.

3. Develop a strategy for addressing the Authority's need to conduct Information Technology (IT) audits.

The prior CAE was a Certified Information Systems Auditor (CISA) and had the skills and knowledge to conduct the more technical IT audit projects, though historically very technical projects were contracted out (e.g. penetration testing). While the current staff does have the capabilities for general IT control testing, there is a need for additional capabilities. The Authority needs to either hire a staff position that has those skills or continue

budgeting to hire audit consultants that can perform this work on a project by project basis.

4. The CAE should consider developing an annual audit plan instead of a biennial plan.

An annual audit plan would enable the IAD to conduct a more dynamic plan that should more closely address more current risks, issues and initiatives. An annual audit plan along with increased interaction with the senior leadership would, again, allow the department better identify audit projects that can best add value to the Authority.

5. Consider holding, and documenting in workpapers, formal audit project entrance conferences with auditees.

Currently the IAD does not hold/document a formal entrance conference meeting with auditee management prior to starting an audit. Audit entrance conferences are good vehicles for not only communicating the objectives of audit projects, but also are good for discussing with auditees what their risk and control concerns are and where they think an audit could help them in making improvement in their efficiency and efficacy.