



APPROVED
INTERNAL AUDIT SERVICES PLAN
FISCAL YEARS 2017 & 2018

To: Terry Mitchell, Chair, Finance, Audit & Administrative (FAA) Committee
Wade Cooper, Member, FAA Committee
Juli Word, Member, FAA Committee
Sabino Renteria, Member, FAA Committee

CC: Linda Watson, President/CEO

From: Caroline Beyer, CPA, CISA, CRMA
VP, Internal Audit

Date: October 14, 2016

Subject: **FY2017 - FY2018 Internal Audit Services Plan**

Purpose

The Capital Metro Internal Audit Services Plan (the Plan) summarizes the planning methodology and the audits and projects that Internal Audit recommends performing during the next two fiscal years, FY2017 and FY2018.

Internal Audit Services Plan Development & Updates

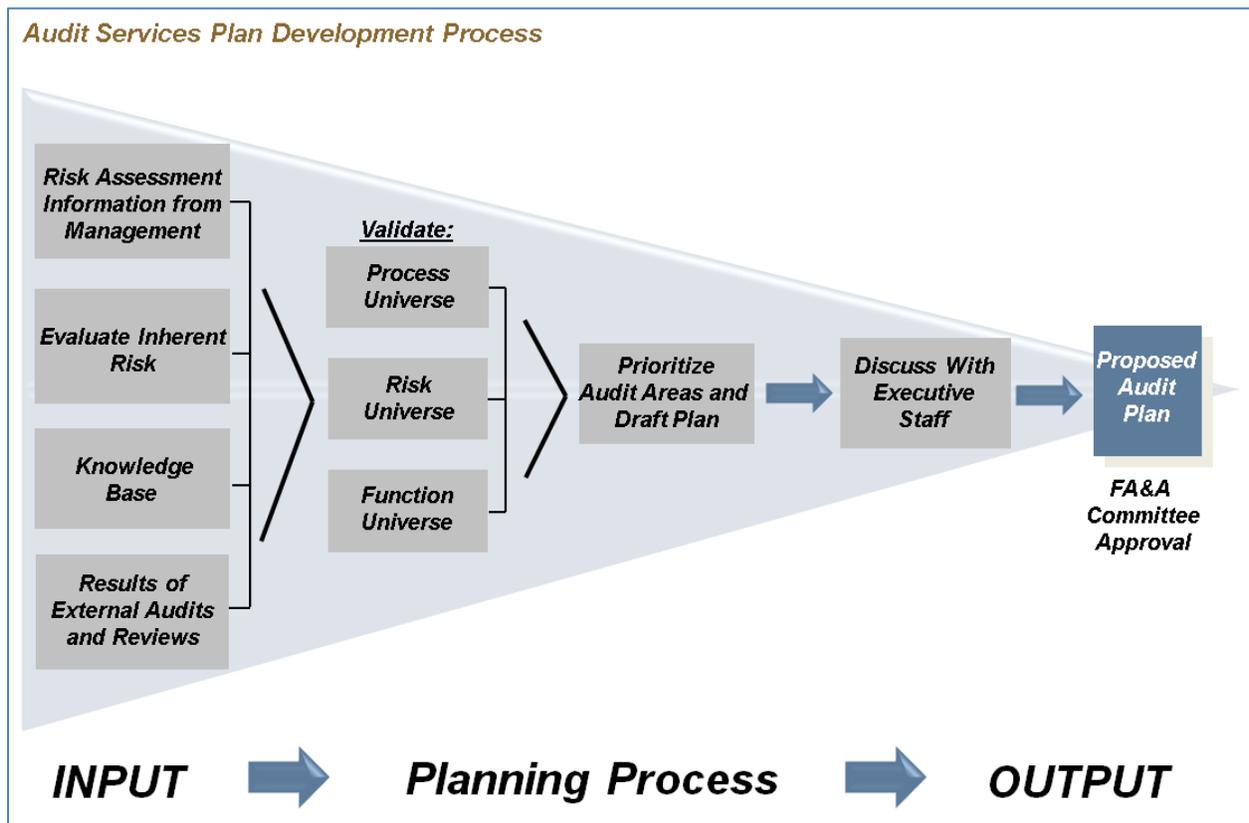
The Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing* require that risk-based plans be developed to determine the priorities of the internal audit activity, consistent with the organization's goals.

Projects in the proposed Internal Audit Services Plan are selected by performing an organizational risk assessment. (See Figure 1.) As part of this assessment, Internal Audit conducted management interviews to understand their views of the risk environment as well as obtained input from the Authority's external financial auditor. In addition, internal audit reviewed prior external consulting and audit reports, operating and capital budgets, organizational charts, and the Strategic Plan to help ensure other potential risk and opportunity areas were identified and proposed projects are aligned to address strategic risks of the Authority.

National Institute of Standards and Technology (NIST) Guidance and the *Control Objectives for Information and related Technology* (COBIT®) Framework were also used to identify potential technology risks and audits.¹ The factors used to evaluate risks and opportunities for the Capital Metro audit universe are consistent with those used to develop previous plans. They are listed in Appendix A.

¹ The COBIT control model, organizes IT activities into a generally accepted process model. For further information see: <http://www.isaca.org/Knowledge-Center/cobit/Pages/Overview.aspx>

Figure 1 – Development of the Original Internal Audit Services Plan



The Plan reflects identified risks at a point in time. Future changes in environmental factors and actions by personnel may significantly impact these risks in ways that the Plan cannot anticipate. Given this, professional standards require that the Chief Audit Executive (CAE) review and adjust the Plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

The Plan is reviewed at least annually, and updated if needed. In accordance with the approved *Capital Metro Internal Audit Charter*², “Proposed plan revisions will be presented to the FAA Committee. The Committee has the authority to approve plan modifications. The intent is to provide flexibility to ensure that the most significant risks/opportunities can be addressed in a timely fashion.”

² See Appendix C.

Internal Audit Resources / Acceptable Level of Risk

It is the governing board's responsibility to conclude whether internal audit resources are adequate to address the most significant identified risks. Ultimately, Internal Audit is limited in scope by finite audit resources and cannot address every known risk area each year. However, we believe that the proposed Plan allocates available resources to the most important priorities and risks of the agency while allowing flexibility to address other risk areas that may become known during the year.

Internal Audit's FY2017 operating budget (\$414,469) is .15% of the Authority's total proposed FY2017 operating budget.³ This budget continues to fund the same staffing level as in previous years - three full time professional positions. It also includes funding for external consulting resources to supplement staff on more specialized reviews.

The proposed FY2017-FY2018 Internal Audit Services Plan is shown on pages 4-10. The Plan proposes an efficient and effective allocation of limited audit resources and strategic outsourcing for external expertise. The estimated number of required hours for the FY2017 and FY2018 projects are summarized in the table on page 10. Please note the estimated resources needed to complete all listed project exceeds the available resources (by approximately 1,980 hours or 3-4 audit projects.) This is intentional. As risks change, additional projects provide flexibility to substitute projects and allow for various contingencies including deferral, cancellation, and carryover projects into the subsequent year.

Internal Audit welcomes the FAA Committee's comments and input.

Professional Requirements & Auditor Independence

The Internal Audit Department conducts our audits in conformance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States and the IIA's International Standards for the Professional Practice of Internal Auditing and Code of Ethics. These standards require that we be independent from any entity or person that we audit or may audit and be objective when conducting such audits. Furthermore, IIA Standard 1110 requires that the CAE confirm to the board, at least annually, the organizational independence of the internal audit activity. Capital Metro Internal Audit is organizationally independent of management and, as such, remains objective when conducting audits.

³ In FY2016, the Internal Audit Department budget was .14% of the Authority's total operating budget, an immaterial difference.

FY2017-FY2018 Proposed Capital Metro Internal Audit Services Plan

ASSURANCE SERVICES

Risk Area	Proposed Project	Potential Objectives / Focus	Background / Rationale	Est. Hours	
				FY2017	FY2018
Financial	Accounts Payable / Disbursements Cycle	Review the internal controls over the "procure to pay" business cycle.	<p>* Supports Strategic Objective 4.1: Strengthen the financial systems of the agency: Strengthen the current financial conditions and put the appropriate systems and controls in place that improve the financial health of the organization.</p> <p>* Financial controls and processes have been modified since the implementation of the Dynamics AX financial system.</p>	600	
Financial	Billing / Accounts Receivable	Assess the design and effectiveness of internal controls in place over the Accounts Receivable function and to assess compliance with relevant laws, rules and Capital Metro policies and procedures.	<p>* Supports Strategic Objective 4.1: Strengthen the financial systems of the agency: Strengthen the current financial conditions and put the appropriate systems and controls in place that improve the financial health of the organization.</p> <p>* Financial controls and processes have been modified since the implementation of the Dynamics AX financial system.</p> <p>* New Finance staff have been assigned receivable processing duties.</p>		500
Financial	Employee Expense Reimbursements	Evaluate whether employee reimbursed expenses are appropriately controlled and consistent with approved policies, laws and regulations. Determine if internal controls to prevent or detect material errors and irregularities are working effectively.	<p>* Supports Strategic Objective 4.1: Strengthen the financial systems of the agency: Strengthen the current financial conditions and put the appropriate systems and controls in place that improve the financial health of the organization</p> <p>* New travel expense module of AX system expected to be implemented in February 2017.</p> <p>* Employee expense reimbursement is an area susceptible to fraud and/or abuse (travel, training, tuition, cell phone, etc.)</p>		400
Financial	Capital Project Planning & Management	Review the procedures and controls to prioritize and select capital projects. Review adequacy of capital project monitoring and close-out. Is timely, actionable information provided to management?	<p>* The FY2017 proposed capital budget is \$158,541,000; FY2018's is \$87,380,000. The selection of capital projects impacts service delivery and future operational costs.</p> <p>* The last (March 2010) internal audit of capital budgeting recommended that a Board approved policy capital budgeting be developed. As a result, the Board approved Capital Improvement Program Policy (FIN-220-15) in March 2011 which provides the governance framework for the CIP program.</p>	700	

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Operations	Utilities Management - CARRY FORWARD FY2016	Determine whether adequate controls were in place for the Authority to process its utility payments and to monitor its utility expenses.	* Supports Strategic Objective 4.1: Strengthen the current financial conditions and put the appropriate systems and controls in place that improve financial oversight and monitoring. * Estimated utilities operating expense for FY17, per the proposed budget, is \$3,071,216. Last reviewed in FY2009 audit (prior to implementation of current utilities management & tracking system.)		450
Operations	Commuter Rail Operations Contract Management & Oversight	Assess program for monitoring and overseeing commuter rail contractor operations and performance.	* Supports Strategic Objective 4.3: Strengthen agency/business partnerships: Ensure clear contractual agreements that are fair, measurable, and mutually enforceable. Provide opportunities for effective communication between agency and partners. * \$18,246,796 budgeted for contracted commuter rail services in FY2017. * A new contract management plan and contract project manager are in place.		500
Operations	Commuter Rail - DMU vehicle maintenance program - CARRYFORWARD FY2016 <i>PLACEHOLDER - DMU maintenance audit has been "on hold." Maintenance practices are currently being reviewed as part of the statutorily required Quadrennial Review.</i>	Evaluate whether contractors are performing required maintenance of Authority owned vehicles timely and in accordance with contractual requirements. Assess the Authority's oversight of contractor maintenance activities.	* Supports Strategic Objective 4.3: Strengthen agency-business partnerships. Ensure clear contractual agreements that are fair, measurable, and mutually enforceable. Provide opportunities for effective communication between agency and partners. * Maintenance is the only area where contractors can "cut corners" and not have it become immediately obvious. Audits serve as "preventative control" to promote contract compliance.	450	
Operations	Customer Service - Call Center Operations & Complaints	Evaluate Call Center customer support function to determine if it is operating efficiently and effectively.	* Supports Strategic Goal 1.4: Deliver a customer-friendly experience through our people and systems: Ensure that each customer interaction is helpful and courteous and provide tools and information that allow all customers to easily access our services. * In FY2016, a new automated phone system, customer comments system were implemented. In addition, customers can now interact in multiple ways with Capital Metro, increasing the level of knowledge and complexity associated with providing good customer service.	600	

FY2017-FY2018 Proposed Capital Metro Internal Audit Services Plan

Strategic	<p>Talent Management / Hiring & Training</p> <p><i>* If performed would be late FY2018 to early 2019 to occur after HR consultants work is completed. Would re-assess as part of FY2018 IA Plan refresh.</i></p>	<p>Evaluate programs and structure for talent management, i.e., is the process of acquiring, developing, engaging and retaining a skilled workforce needed to achieve Capital Metro's strategic objectives in place and working.</p>	<p>* Supports Strategic Goal 4.2: Enhance organizational development: Promote board and staff empowerment by providing relevant training and tools to encourage initiative, career development and support success of organizational goals.</p> <p>* Succession challenges and the ability to attract and retain top talent can constrain efforts to achieve operational targets. Capital Metro has an aging employee base. Human Resources is beginning the design and implementation of a succession planning program. Their FY2017 budget includes \$71,500 in Consultation Fees for continued succession planning and expanded Leaders in Motion program.</p>		700
Strategic	<p>Strategic Plan Management & Performance Measurement and Reporting</p>	<p>Determine whether the Authority is tracking and accurately reporting key performance measures supporting the Strategic Plan and whether adequate controls are in place over the collection, calculation, and reporting of Authority performance measures.</p>	<p>* Audit Standard 2110: Internal Audit must evaluate governance including "Ensuring effective organizational performance management and accountability." This includes risk management over strategic direction & flow of information to the Board.</p> <p>* Supports COSO Risk Assessment Principal #7: Organization identifies risks to the achievement of its objectives and analyzes them to determine how to best manage risk.</p>	150	150
Strategic / Financial	<p>Professional Services Contracting</p>	<p>Evaluate how the need for professional services is determined and review contractor deliverables against requirements and determine how the results were used to improve or further organizational objectives.</p>	<p>* Supports Strategic Goal 4.3: Ensure clear contractual agreements that are fair, measurable, and mutually enforceable.</p> <p>* FY2017 Operating Budget includes \$21.6 million for professional services.</p>	700	
Technology/ Financial	<p>IT Mobile Ticketing</p>	<p>Assess if the mobile ticketing program has appropriate internal controls and is compliant with all contractual, regulatory, and other pertinent rules and policies. Determine if contractual provisions and other controls provide sufficient security.</p>	<p>* Elimination of TVM debit/credit sales will increase mobile ticketing usage.</p> <p>* Audit to be coordinate with the new Fare Collections System implementation since the systems will likely interact/interface with each other.</p>		500
Technology	<p>IT Change Management</p>	<p>Assess the effectiveness of the current change management process and procedures as it relates to IT Systems.</p>	<p>* Change management, top level IT security control, is important both during and after a system implementation. Uncontrolled changes to software requirements introduce the risk of cost and schedule overruns.</p>	400	

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Compliance	Saltillo Development Project <i>PLACEHOLDER - Agreement is not executed. Internal Audit to re-evaluate during annual audit plan refresh.</i>			0	0
Compliance	Semiannual Implementation Status Updates	Monitor and report on implementation status of previously agreed-upon corrective action plans (CAPs). Status updates are performed twice each year (Spring and Fall.)	* General Accountability Office standards specify that management is responsible for “addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations.” Internal auditors are required to follow-up to determine whether appropriate corrective actions have been taken.	500	500
Assurance Hours / % of Available Hours				7,800	103%

ADVISORY AND CONSULTING SERVICES

Risk Area	Proposed Project	Description	Background / Rationale	Est. Hours	
				FY2017	FY2018
Financial	Project Max Microsoft Dynamics AX Financial System Implementation	Continue monitoring implementation of financial system implementation with a focus on reviewing (1) adequacy of automated financial controls, includes system access controls and security, and (2) use of project management best practices.	* Support Strategic Objective 4.1: Strengthen the current financial conditions and put the appropriate systems and controls in place that improve financial oversight and monitoring. ONGOING IA Consulting / Monitoring Project will wrap up in FY2017 with implementation of Travel Expense Module and third party software tool to monitor software changes and segregation of duties.	200	
Technology / Operations	Systems Implementation: Replacement of Spear Asset Management System	Monitor implementation of new asset management system. Replacing the existing outdated Spear asset management system provides opportunity to implement new features and fixes.	* Spear is classified as a Tier 1 (Mission Critical) enterprise system * High inherent risk, IA involvement during systems implementation is a recommended practice. Involvement on the front end evaluating both the IT and organizational aspects of system conversion projects and provide additional assurance and oversight for high risk projects. * Supports FTA requirements for Transit Asset Management	100	100

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Technology	<p>Fare Collection System Implementation</p>	<p>Monitor implementation of new fare collection system, a \$5.8 million capital project spanning three years.</p> <p>This project will roll out new fare collection equipment across the fleet of revenue vehicles for all services to allow for collection of fares across all media types. The new system will upgrade the backend for enhanced reporting and system monitoring of fare collection infrastructure and equipment.</p>	<p>* This project supports the following strategic goals and objectives 1. Deliver the best possible customer experience: 1.4 Deliver a customer-friendly experience through our people and systems, and 4. Continue to improve organizational practices and develop staff: 4.1 Strengthen the financial systems of the agency.</p> <p>* High inherent risk: IA involvement during systems implementation is a recommended practice. Involvement on the front end evaluating both the IT and organizational aspects of system conversion projects and provide additional assurance and oversight for high risk projects.</p>	100	100
Strategic	<p>Ethics / Governance & Compliance</p> <p>Annual Ethics & Fraud Prevention Training</p>	<p>Provide input regarding the design, implementation, and effectiveness of the Authority's ethics-related objectives, programs, and activities.</p> <p>Develop and present annual Ethics & Fraud Prevention training in cooperation with Legal and Human Resources. Continued coordination with the Chief Counsel regarding reviewing and responding to allegations of potential fraud and abuse including responding to calls from the Capital Metro Fraud Hotline.</p>	<p>* Supports Strategic Goal 4: Continue to improve organizational practices and develop staff.</p> <p>* Mandatory project per International Standards for the Practice of Internal Auditing Standard 2110, Governance requires that internal audit activity "evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities."</p>	100	100

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Multiple	Management Requests, Consulting & Special Projects	Internal auditing best practices include allocating an undesignated contingency for management requests and other unanticipated special projects.	<p>Examples of the types of activities in this category include:</p> <ul style="list-style-type: none"> * Participation on Policy Committee, including reviews of proposed policies impact on internal controls. * Technology Steering Committee, non-voting member * Enterprise Risk Management (ERM) * Quadrennial Review (wrap-up) * Facilities Steering Committee * Downtown Station Steering Committee * Tiger Grant Steering Committee * Social Media Best Practices (In Process) * Assist, as needed, with external audits or reviews * Respond to potential allegations of fraud and/or abuse * Petty Cash Verifications * Review and provide input into procurement scope of services development * Interview panels (non-voting only) * Review and input on FAA Committee Charter * Project Management and coordination of FY2018 Triennial Review 120 hrs. 	250	250
				Advisory & Consulting Hours / % of Available Hours	1,300

CONTINUOUS IMPROVEMENT & QUALITY CONTROL

Risk Area	Proposed Project	Potential Objectives / Focus	Background / Rationale	Est. Hours	
				FY2017	FY2018
Governance	Quality Control & Assurance	<p>Complete FY2018 external Quality Assurance Review: GAGAS requires an external peer review at least once every 3 years. The external review is due by October 31, 2017.</p> <p>Perform required annual internal quality assurance reviews in FY2017 and FY2018.</p>	Perform required Support business process and quality improvement	120	80

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Strategic	Professional Organization Support	Internal special projects including support of local and industry professional associations (ISACA, IIA, APTA, ACFE, etc.), responding to professional exposure drafts, internal training and other internal quality improvement opportunities as needed.	Perform required Support business process, quality improvement and staff development	50	50
Governance	FY2018 Audit Plan Refresh & Development of FY2019-FY2020 Audit Services Plan	Develop a rolling two-year risk based internal audit services plan to identify audit and non-audit projects and effectively allocate resources. Update and align the plan with changing organizational risks/opportunities.	IIA Standards require risk-based plans be developed to determine the priorities of the internal audit activity, consistent with the organization's goals	40	140
Improvement Hours / % of Available Hours				480	6%

SUMMARY

TOTAL Identified Project Hours	9,580	126%
Available Hours	7600	100%
Flex Contingency / Overage Hours (3-4 Projects)	1,980	26%

Appendix A: Risk/Opportunity Factor Definitions & Weighting

RISK FACTORS:

Service Delivery Risk: 30% (Impact on customers/community, stakeholders - public, internal, legislature, etc. Alignment with / ability to impact on CapMetro strategic goals.)

<u>Score</u>	<u>Typical Condition</u>
4	Significant citizen/customer hardship such as a delay in / poor quality / inconsistent / no services or loss of significant assets, such as large amounts of cash; or significant loss potential. Has ability to impact multiple strategic objectives
3	
2	Erroneous management decision; lost opportunities for efficiency and effectiveness; not aligned with Capital Metro's strategies, goals and/or objectives
1	
0	Nominal, if any, impact on strategic objectives

Sensitivity Risk: 25% (Degree of interest exhibited by public, legislature, press, industry, and/or Executive Management, Potential for customer dissatisfaction, negative publicity, and/or damage to CapMetro reputation / public image.)

<u>Score</u>	<u>Typical Condition</u>
4	Significant issue sensitivity by the Board, Community, Industry, and/or oversight entities
3	
2	Moderate issue sensitivity by Board, Community, Industry, and/or oversight entities
1	
0	Little or no issue sensitivity exists

Change Risk: 15% (Volatility of operations; organizational, operational, and/or technical changes; e.g., a division or operation that experiences a significant change in staff size, turnover, funding, and/or responsibility is potentially vulnerable to problems)

<u>Score</u>	<u>Typical Condition</u>
4	Significant changes in staff, funding, systems, and/or responsibilities within last 18 months
3	
2	Moderate changes within past 18 months
1	
0	No significant changes in past 18 months

Coverage Risk / Quality of Known Controls: 20% (*Knowledge of existing risk mitigation controls. [For IS/data systems, controls should exist to ensure data integrity (e.g. (accuracy / completeness. Information/data systems should process information in a secure, reliable and accurate manner.) This factor also considers potential/risk of fraud & misappropriations and prior audits or reviews by Internal Audit and External Groups (KPMG, consultants, FTA, FRA, etc.).*

<u>Score</u>	<u>Typical Condition</u>
4	No review or very limited reviews performed and/or Insignificant or no assurance that existing controls for the specific operation aid in mitigating business/operational risk
3	
2	Reviewed within last two years, no significant recommendations and/or Moderate assurance that existing controls for the specific operation aid in mitigating business risk
1	
0	Reviewed within last 12 months and/or significant assurance that existing controls for the specific operation aid in mitigating business risk

Financial Risk: 10% (*Thresholds based on FY17 budget operating expenses (\$264,140,004). However, if more significant, based on transaction volume (expenditures / revenues), liquidity, and/or capital expenditures):*

<u>Score</u>	<u>Typical Condition</u>
4	> 4% of CapMetro Operating Budget expenses (\$10,565,600)
3	
2	2% of CapMetro Operating Budget (\$5,282,800)
1	
0	< .5% of CapMetro Operating Budget (\$1,320,700)

SUCCESS FACTORS:

Opportunities to Achieve Potential Operating Benefits / Improvements: 55%

<u>Score</u>	<u>Typical Condition</u>
4	Excellent potential for recommendations and their implementation
3	
2	Moderate potential for recommendations and implementation
1	
0	Minimal or no potential for recommendations or their implementation

Audit Skill/Resources/Hours: 45% (*Level of expertise and estimated hours for project*)

<u>Score</u>	<u>Typical Condition</u>
4	Audit procedures well known / small project
3	
2	Project will require technical analysis / moderately extensive audit project
1	
0	Outside resources must be recruited / large project

Appendix B: Capital Metro Strategic Plan Overview

MISSION STATEMENT:

Capital Metro connects people, jobs and communities by providing quality transportation choices

VISION:

Capital Metro is transforming the daily lives of Central Texans by providing a robust, sustainable transportation network.

Strategic Goal 1 CUSTOMER

Deliver the best possible customer experience

Foster a culture of continuous improvement that results in satisfied customers.

Strategic Goal 2 LEADERSHIP

Demonstrate regional leadership

Be the trusted partner in regional and policy planning and the leader in public transit.

Strategic Goal 3 COMMUNITY VALUE

Demonstrate the value of public transportation in a dynamic community

Demonstrating Capital Metro's value to the community will lead to a positive public image through improved service delivery, safety, increased customer satisfaction and increased ridership. Be a leader responsible for making innovative and good decisions.

Strategic Goal 4 ORGANIZATION

Continue to improve organizational practices and develop staff

Exhibit good stewardship of public funds through the efficient use of available resources, and by instituting productive and sustainable business practices that will ensure resources are used responsibly.

Appendix C:

Capital Metro Internal Audit Charter

INTERNAL AUDIT MISSION

The mission of internal auditing is to help the Capital Metropolitan Transportation Authority (“Authority”) Board of Directors (BOD) and management achieve its goals and objectives. We provide independent and objective insights, analyses, and recommendations to assist management in making constructive change while effectively managing risk.

INTERNAL AUDIT VISION & PHILOSOPHY

Image	We will exemplify the highest degree of trust and integrity in our partnership with Authority employees and continually uphold professional standards.
Innovation	We encourage initiative, creativity, and innovation. We profit from diverse ideas. Mistakes are considered challenges from which we learn.
Proactive	We anticipate future issues and risks rather than merely report on past events. As the environment changes, we look ahead to address potential risks.
Quality	We will excel in everything we do by practicing continuous quality improvement. We enrich the Authority’s performance by delivering timely, value-added services and information to our clients.
Teamwork	We maintain a positive, consultative relationship with management and staff. By working together and capitalizing on our strengths we continually improve our services. We also coordinate with external auditors to ensure a streamlined and effective audit process.

INTERNAL AUDIT PROGRAM

Definition of Internal Auditing

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Authority. Internal Audit assists the organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit activities include:

Assurance Services

Assurance services provide an objective evaluation of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

Non-Audit Services (Advisory & Consulting)

Consulting services include advisory and related client service activities, the nature and scope of which are agreed with the client and are intended to add value and improve the Authority's governance, risk management, and control processes.

These services may range from formal engagements, defined by written agreements, to advisory activities, such as training, facilitation, and participating in standing or temporary management committees or project teams as an "ex-officio" member.

Internal Audit may perform advisory services where the services do not create a personal impairment either in fact or appearance, detract from other obligations to the Finance, Audit & Administrative (FAA) Committee, or require the assumption of management responsibilities.

Internal Audit does not perform remediation services. Remediation services are those in which the auditor assumes a direct role designed to prevent or remediate known or suspected problems on behalf of a client. Remediation services require making management decisions and, thus, are not appropriate according to Government Auditing Standards.

Authority

Authorization is granted for full and free access to all records (either manual or electronic), physical properties, activities, and personnel relevant to a review. Documents and information given to internal auditors will be handled in the same prudent manner as by those employees normally accountable for them.

Independence and Organizational Reporting

Internal Auditors should be free both in fact and appearance from personal, external, and organizational impairments to independence.

In order to be free of all operational and management responsibilities that would impair the ability to review independently all aspects of the Authority's operations, the Chief Audit Executive (CAE) shall report functionally to the BOD through the FAA Committee. The CAE shall report to the FAA Committee at least quarterly to discuss audit issues and results.

At least annually, the CAE will confirm to the FAA Committee, the organizational independence of the internal audit activity and, as necessary, revise the Internal Audit and / or the FAA Committee Charters.

Responsibilities

Internal auditors have no direct responsibilities or any authority over any of the activities or operations that they review. They should not develop and install procedures, prepare records, or engage in activities which would normally be reviewed by internal auditors. This does not preclude internal auditors from serving in an advisory capacity in the implementation of improvements or the establishment or re-designing of activities, policies, procedures, or information systems. Additionally, this restriction shall not prevent internal auditors from performing analysis and recommending alternative courses of action to management.

Professional Standards

The internal auditing function will conform to the International Professional Practices Framework (IPPF) consisting of the International Standards for Professional Practice of Internal Auditing, the Definition of Internal Auditing, and the Code of Ethics, as promulgated and periodically revised by the Institute of Internal Auditors. Internal Audit must also follow Generally Accepted Government Auditing Standards (GAGAS) and related policies, as issued by the U.S. Government Accountability Office.

Quality Assurance and Improvement Program

The Office of Internal Audit maintains a Quality Assurance and Improvement Program (QAIP) to evaluate the operations of the internal auditing function. The QAIP includes audit supervision / review to ensure conformance with internal auditing standards, policies, and audit programs. Internal assessments will be performed at least annually to assess conformance with the Internal Audit Charter, the *International Standards*, Code of Ethics, *GAGAS*,

and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. In addition, an independent external quality assurance review will be performed at least once every three years. Reports on the results of the QAIP activities, including both internal and external assessments, will be provided to the FAA Committee.

Continuing Professional Development

Each fiscal year, the Office of Internal Audit will be allocated a budget for training and educational materials to comply with internal auditing professional standards and ensure current audit techniques, policies, and practices.

Internal Audit Reports

Written reports, which will normally include management's responses, are prepared and issued following the conclusion of each audit to the FAA Committee and President / CEO. The FAA Committee accepts audit reports and authorizes their distribution.

In certain instances, a report may be of limited interest or of a sensitive nature. In these circumstances, the report will be sent only to those persons designated by the FAA Committee. No internal audit report shall directly reference or quote confidential information that is protected under the Open Records Act.

Internal Audit Follow-up

The CAE shall monitor the disposition of corrective action plans. Audit follow-ups shall verify the resolution status of all significant recommendations resulting from past internal audits. The CAE shall report, at least annually, on implementation status to the FAA Committee.

EFFECTIVE DATE:

This charter and the policies therein became effective immediately upon adoption by the Board of Directors of the Capital Metropolitan Transportation Authority.

Board Resolutions adopting & amending Internal Audit Charter:

CMTA-2004-0628-039, dated June 28, 2004
CMTA-2007-1212-088, dated December 12, 2007
CMTA-2009-59, dated September 28, 2009
CMTA-2011-94, dated December 5, 2011.
Approved by FAA Committee June 10, 2015.