



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: Randy Clarke, President/CEO

From: Terry Follmer, CPA, MBA, CIA, CISA, CISSP
VP, Internal Audit

Date: October 10, 2018

Subject: **Approved FY2019 Internal Audit Plan**

Purpose

This proposed Capital Metro Internal Audit Plan (Audit Plan) summarizes the planning methodology and the audit projects that Internal Audit recommends performing during FY2019.

Internal Audit Plan & 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.

The proposed FY19 Internal Audit Plan (Tables 2 and 3) was developed by performing a comprehensive risk assessment. This included a risk assessment survey sent to management and Board members, management interviews, and discussion with and review of the proposed audit plans for VIA in San Antonio and METRO in Houston. 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.

Based upon the results of the risk assessment, the FY19 Plan has a stronger focus on IT security, financial controls and service providers. The proposed plan includes five potential IT projects which includes a formal assurance review of endpoint management (i.e. patching) of computers/servers as well as an advisory project covering a vulnerability assessment. On the financial side there is a project testing the SOX like controls over the revenue and expenditure cycle. Due to the planned increase in capital expenditures there will be project validating payment controls on capital projects as well as payments to service providers. Internal Audit

believes these focus areas warrant the most attention from the Plan for FY19 and these projects will appropriately address the risk.

The FY19 audit plan also includes a list of contingent projects (Table 3) that will serve as backup projects that will be performed if the original plan is running ahead of schedule or if some of the projects must be delayed or cancelled. Furthermore, the Audit Plan is meant to be a risk based flexible audit plan so as emerging risks arise or priorities change, the Internal Audit Department will bring these future project changes to management and the FAA Committee for approval.

Internal Audit Project Staffing

Staffing for FY19 Audit Plan will use a combination of internal and external resources to perform the projects. Historically the Internal Audit Department has issued approximately six audit assurance projects per year. The FY19 plan includes ten assurance projects (seven new plus three in-process) and Internal Audit believes these additional projects can be completed through better planning, scoping and coordination with management. The department is currently fully staffed with three full time auditors, and we recently began participating in the UT Internal Audit Intern program whereby four graduate Accounting students will be assisting in two project this Fall as part of their professional development. If this program is successful, we will look at continuing the Audit Intern program in the Spring. Each student in the intern program is providing up to 60 hours of project time for the semester as part of the Internal Audit class they are taking at UT. Additionally, the IT Vulnerability & Penetration Assessment will be a joint project funded by the IT Department. We believe this mix of internal and external resources is sufficient to perform the projects listed in the FY19 Audit Plan (see Tables 1 & 2).

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, and our staff have no conflicts of interest with the proposed FY19 Audit Plan.

TABLE 1 – Projects In-Process from FY18 Audit Plan

	Projects	Project Type	Status & % Complete
	AUDIT PROJECTS - IN PROCESS FROM FY18		
1	SOX Like Controls Review (RSM documenting financial controls, IA to identify gaps) In mid-April RSM will start interviews/documentation (RSM developing Draft Report)	Assurance	90% Complete
2	Fare Collection System (Genfare Cash & Ticket Controls on the Bus fare system)	Assurance	65% Complete
3	Business Continuity (COOP - Continuity of Operations Project) with CTECC (Combined Transportation, Emergency & Communication Center) - power down/up event early 2019 TBD	Advisory	60% Complete
4	Commuter Rail - DMU vehicle maintenance program (FRA and OEM Stds, with focus on PM and QC; include infrastructure and signaling) - Herzog contract	Assurance	80% Complete
5	P-Card Data Analytics - review level 3 data from JP Morgan Chase (modification of the "Employee Expense Reimbursements" project)	Advisory	30% Complete

TABLE 2 – FY19 Audit Assurance & Advisory Projects

	AUDIT PROJECTS - FY19 NEW PROJECTS	
1	Watco Freight Revenue & Contract Compliance	Assurance
2	Commuter Rail Operations Contract Management & Oversight - Herzog contract	Assurance
3	Capital Project Expenditure Controls	Assurance
4	SOX Like Testing of Financial Controls (Revenue & Expenditure focus)	Assurance
5	Semi-annual Implementation Status Report - November 2018	Assurance
6	Semi-annual Implementation Status Report - May 2019	Assurance
7	FY2020 Risk Assessment & Audit Plan Development	Advisory
8	Vulnerability Assessment or Penetration Test	Advisory
9	Endpoint Management (Patching with SCCM) Computers	Assurance

TABLE 3 – FY19 Contingency Audit Projects

	CONTINGENT AUDIT PROJECTS	
1	Enterprise Asset Mgt (Infor) Implementation (Rail focus Herzog and Watco)	Advisory
2	Statement of Work Compliance for Service Providers	Advisory
3	Duplicate Payment Testing - Outsource on Contingency Basis	Advisory
4	Identity Management System (Active Directory) - user provisioning & deprovisioning	Advisory
5	Cybersecurity Table Top Exercise	Advisory