UTA Audit Committee Meeting

September 23, 2024

Call to Order
and Opening Remarks

Safety First Minute

Consent

a. Approval of July 11, 2024 Audit Committee Meeting Minutes

Recommended Action (by acclamation)

Motion to approve consent agenda

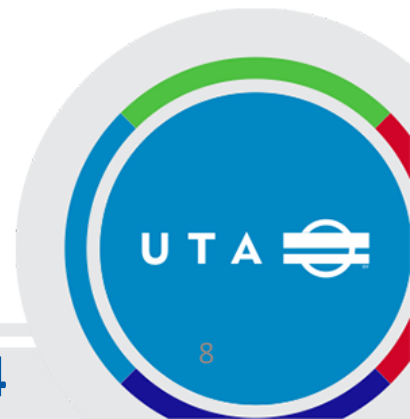# Audit Committee Actions

a. Internal Audit Charter Approval

Audit Charter Updates

- Reference updated audit standards

- Clarify audit and reporting procedures

- Removed responsibility for discrimination and retaliation investigations

Recommended Action (by acclamation)

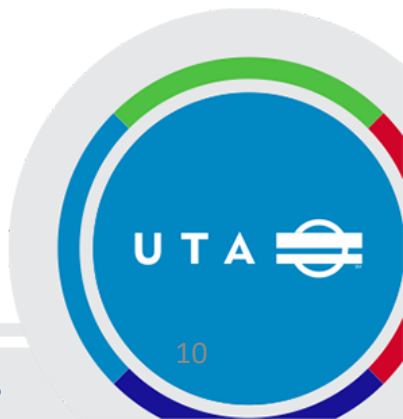Motion to approve Internal Audit Charter

Internal Audit Update

a. Internal Audit Update

    - 2024 Audit Plan Status

    - Other Internal Audit Activities

b. Open Issues Follow Up Report

Internal Audit Update

2024 Audit Plan – Continued Projects

Engagement #	Audit Phase Project	Current Status	Report Status
23-05	Vendor Master File Follow-up	Phase complete	Pending issue closures
22-06	Support Fleet Follow-up	Not started	
23-11	Recruitment Follow-up	Not started	

2024 Audit Plan – New Projects

Engagement #	Project Name	Current Status	Report Status
24-01	Procurement Process Performance Audit	In progress	
24-02	Construction Contract Audit	In progress	
24-03	Real Estate and Transit Oriented Development Audit	In progress	
24-04	Memorandum of Understanding Discovery	Cancelled	
24-05	Police Department Ethics and Code of Conduct Preliminary Assessment	Complete	Audit Committee Agenda 3/11/2023
24-06	Payroll Process Audit	Completed	Audit Committee Agenda 9/23/2024
24-07	Light Rail Safety Audit	In Progress	
24-08	Commuter Rail Safety Audit	In progress	

2024 Audit Plan – Special Projects

| Engagement #	Project Name	Expected Timeline	Report Status
24-9	Outstanding Action Plan Follow-up	Ongoing	
24-10	Legislative Auditor Follow-up	Not started	

Other Internal Audit Activities

- 2024 financial disclosures for employees complete

- May 2023 sales tax refund report received from Utah State Tax Commission

- Gathering sales tax refund data for periods since May 2023

Open Issues Follow Up Report
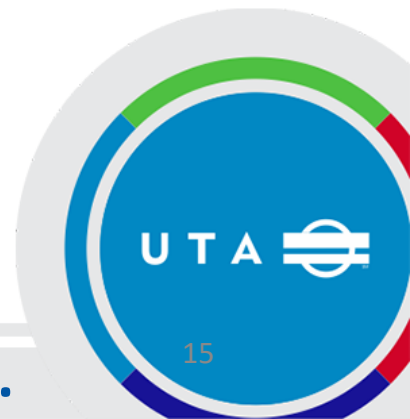
Current Status of the Open Issues Follow-up Report

- Report format determined
  - Listing of open issues

  - Brief description of the current status of issues

  - Brief response from management on the current status of issues

  - Once all open issues are completed, they move off this report and a final report for the engagement is presented to the Audit Committee

- First edition of the report will be in next Audit Committee meeting

Current Status of the Open Issues Follow-up Report

- Follow-up activity since June Audit Committee meeting
  - 22-04 Fleet Engineering – all issues closed

  - 21-06 Fuel Cost – issues open

  - 22-05 Benefits Calculation – issues open

  - 21-02 Utility Cost - issues open

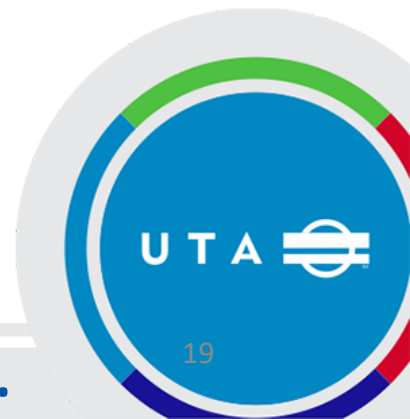 - 23-05 Vendor Master File – issues open

Internal Audit Reports

a. Payroll Process Preliminary Assessment (R-24-06)

b. Follow-up of the Limited Scope Assessment of the Vendor Master File Review (R-23-05)

c. Fleet Engineering Follow-up (R-22-04)

Payroll Process Preliminary Assessment (R-24-06)

Engagement Scope

Engagement Objectives:
1) Evaluate area governance
2) Risk-Based testing
   - Overtime and graveyard shift payments
   - Vacation and sick leave payments
   - Personal time payments
   - Vacation sell-back payments
   - 457 deferred compensation matches
   - Interim checks
   - Hiring bonus and other spot bonus

Period Reviewed: January 1, 2023 – December 31, 2023

Engagement Results - Governance

- IA found Payroll has strong governance in the following areas:
  - Adequately resourced
  - Team members are well qualified and trained
  - Proactive monitoring of payroll anomalies

- Governance areas for improvement
  - Key processes need to be documented in standard operating procedure documents
  - Greater separation of duties (SOD) is needed in areas of performing and approving controls – compensating controls exist, and SOD can be fully developed with a now larger team
  - These are minor issues not formally included in the report

Engagement Results - Testing

- We tested the following areas and found no exceptions:
    - Overtime and graveyard shift payments
    - Vacation payments
    - Sick leave payments
    - Personal time payments
    - 457 deferred compensation matches
    - Interim checks
    - Hiring bonus & other spot bonuses

- Vacation sell-back payments - we noted instances of employees violating vacation sell-back policy.

Payroll Process – recommendations

- **Vacation sell-back payments**

1. Management should work with the Total Rewards department to educate supervisors on vacation sell-back policy and procedure.
2. We recommend that Management develop a form or memo required for all employees requesting vacation sell-back that verifies that all eligibility requirements are met before the sell-back is processed.
3. We recommend that Management monitors the vacation sellback entries to detect any future occurrences of the error.
4. We recommend that Management *not* attempt to claw-back past errors.

- **Recommendation to use JDE for document storage**

1. We recommend that the Payroll Department use the Attachment Manager feature of JD Edwards to directly associate exception documentation with the related paycheck.
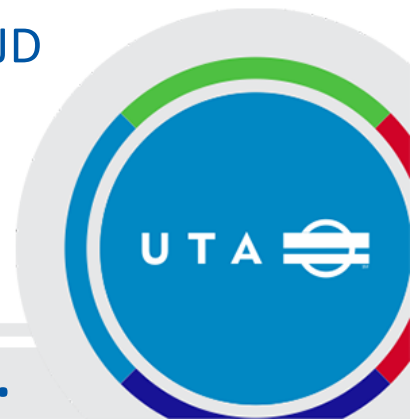
Payroll Process – Management Response

- **Vacation sell-back payments**

o The Payroll Department has taken pro-active measures to mitigate the risk of vacation sell back that is not within policy.

o Management agrees that a refresher training session in conjunction with Total Rewards for all supervisors and office specialists would be beneficial.

o Management agrees that the monies should not be clawed back.

Payroll Process – Management Response

- **Recommendation to use JDE for document storage**

  o Management agrees that certain complex, uncommon, or singular transactions should have the directly associated documentation attached to the item in JDE.

Follow-up of the Limited Scope Assessment of the Vendor Master File Review (R-23-05)

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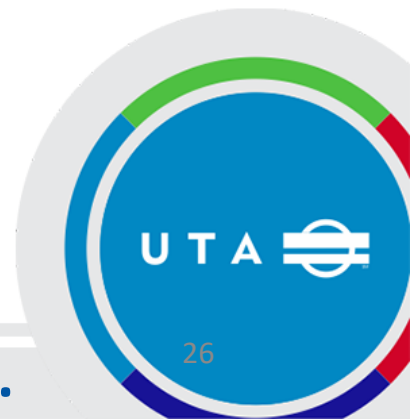
Vendor Master File Follow-up Scope

- Initial phase was completed May 2023

- The audit report was presented in closed session due to security concerns – now resolved

- Follow-up phase focused on the following areas:
  - Reviewed progress on management's action plans
  - Test key vendor master file data, such as attribute completeness
  - Tested UTA data against IRS database for accuracy of names and IDs
  - Stress test of processes

Vendor Master File Follow-up Results

- Management implemented new procedures to vet vendors and verify the accuracy of TIN.
  - Procedures are well designed
  - Testing showed opportunities to improve consistency, which will come as processes mature.

- The vendor database has data consistency issues:
  - 158 had a mismatch of Taxpayer ID and name
  - Six had an invalid Taxpayer ID
  - 526 vendors did not have a transaction from 1/1/2023 – 1/9/2024
  - 14 vendor names were exact or near duplicates
  - 1,321 vendors have no phone number
  - 936 have no email address

UTAH TRANSIT AUTHORITY

Vendor Master File Follow-up Results – Stress Test

- In the initial phase, Internal Audit was able to successfully defraud the vendor system
  - The stress test had a brake point built in. No funds left the organization

- The fraud was unsuccessfully re-attempted in the follow-up phase.

- This second stress test is a strong indicator that management's actions to improve the control environment have been successful.
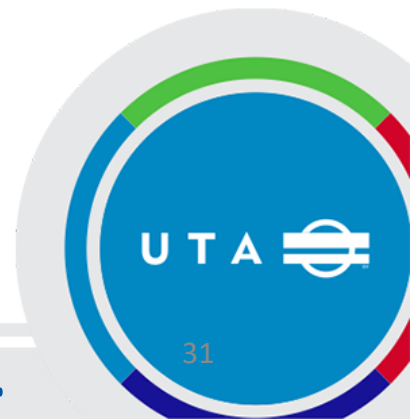
Vendor Master File Follow-up – Management Response

- Management will continue to focus on training and accuracy when inputting new vendors

- Management will work with IT staff to identify and confirm vendors with no transactions, and close vendor records where appropriate.

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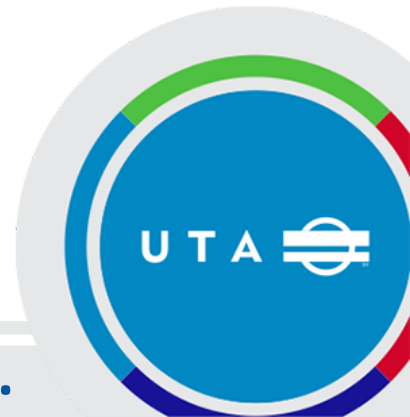
Fleet Engineering Follow-up (R-22-04)

Fleet Engineering Preliminary Assessment - Scope

Internal Audit reviewed the current status of the action plans from the initial preliminary assessment report and performed testing of new processes and procedures adopted by Fleet Engineering.

Fleet Engineering Follow-up status of Action Plans

Recommendations R-22-04-01

1. All bus preventative maintenance (PM) forms should be reviewed to ensure that key maintenance intervals match what is recommended by the manufacturer.
2. Consideration may be given to creating a one-to-one PM form for each bus kept within the UTA fleet.

Fleet Engineering developed a new process for reviewing the Original Equipment Manufacturers manuals (OEM). Resulting in a more robust control environment and ensuring that all recommended maintenance items from the manufacturer are included on the inspection forms for UTA's maintenance.

IA confirmed that Fleet Engineering (FE) has developed and completed a process of controls for organizing and creating accurate FE Inspection forms. Fleet Engineering uses the latest information from the manufacturer's OEM to develop the current inspection forms.

Fleet Engineering Follow-up status of Action Plans

Recommendation R-22-04-02

1. IA recommends that PM forms be developed and tracked for the higher mileage intervals listed with the OEM manuals.

Management explained and demonstrated that at times UTA has developed a process of "Best Practices" for some maintenance recommendations made by the manufacturers. Fleet Engineering now has an improved process of documenting a Best Practices Memo which they retain for reference.

IA is closing this finding based on the mitigating controls which management has developed. Management tracks all changes for bus models, with an emphasis on high mileage OEM recommendations.

Fleet Engineering Follow-up status of Action Plans

Recommendation R-22-04-03

1. We recommend that FE work with our attorney and an official from the FTA to determine if there is another means for meeting the post-delivery purchaser's requirement. Possible suggestions might include employing an inspector who resides near the manufacturer's facility or hiring a contractor to perform those duties.
2. We recommend that FE and the UTA Board determine if adherence to the inspection requirements from the FTA is still within the best interest and financial goals of UTA.

Management declined to accept the recommendations and implement an action plan.

Fleet Engineering Follow-up status of Action Plans

Management Response R-22-04-03

We disagree with this assessment for the reasons listed below.

1. The inconsistency of the bus build over the last 20 years, as well as the future. Moving forward this recommendation would make it too expensive to hire an employee who would live near each of the bus Original Equipment Manufacturing (OEM) facilities for the time the buses are being built.
2. As the OEMs are located in several locations across the country, we would be required to hire an inspector or pay wages for that local area. Our current contract is with Gillig who is located in Livermore, CA. This could cause a discrepancy between what we are paying our Fleet Engineers versus what we would have to pay an inspector in that location.
3. Currently we are able to share different views on the inspection which improves the final project having multiple Fleet Engineers look over the buses being built after they have been working on the buses at UTA as well as at the OEM.

Other Business

a. Next Meeting: Monday, December 16, 2024, at 3:00 p.m.

Adjourn