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**NOTICE OF MEETING AND AGENDA  
BI-STATE DEVELOPMENT AGENCY / METRO  
AUDIT COMMITTEE  
FRIDAY, MAY 22, 2015, 8:00 A.M.  
Headquarters  
Board Room, 6<sup>th</sup> Floor  
707 North First Street  
St. Louis, Missouri 63102**

**This location is accessible to persons with disabilities. Individuals with disabilities needing information or communication accommodations should call Metro at (314) 982-1400; for TTY access, call Relay 711. Sign language interpreter services or other accommodations for persons with hearing or speech disabilities will be arranged if a request for such service is made at least two days in advance of the meeting. Large print material, Braille material or other formats will also be provided upon request.**

Agenda	Disposition	Presentation
1. Call to Order	Approval	Chair Gully
2. Roll Call	Quorum	S. Bryant
3. Public Comment	Information	Chair Gully
4. Minutes from January 23, 2015, Audit Committee Meeting - Open Session	Approval	Chair Gully
5. Internal Audit Department - Quality Assessment Review (QAR)	Information	J. Cali/ Crowe Horwath
6. Draft Audit Charter and Policies & Procedures Manual	Approval	J. Cali
7. Treasury – Safekeeping Quarterly Accounts Audit, Ending December 31, 2014	Information	J. Cali
8. Internal Audit Status Report – 3rd Quarter-FY2015	Information	J. Cali
9. Internal Audit Follow-Up Summary – 3rd Quarter-FY2015	Information	J. Cali
10. FY2016 Annual Audit Work Plan & Risk Assessment	Information	J. Cali
11. Unscheduled Business	Approval	Chair Gully
12. Executive Session	Approval	Chair Gully
<i>If such action is approved by a majority vote of The Bi-State Development Agency's Board of Commissioners who constitute a quorum, the Board may go into closed session to discuss legal, confidential, or privileged matters under §610.021(1), RSMo; leasing, purchase or sale of real estate under §610.021(2); personnel actions under §610.021(3); discussions regarding negotiations with employee groups under §610.021(9); sealed bids, proposals and documents related to negotiated contracts under §610.021(12); personnel records or applications under §610.021(13); records which are otherwise protected from disclosure by law under §610.021(14); records relating to hotlines established for reporting abuse and wrongdoing under §610.021(16); or confidential or privileged communications with the District's auditor, including auditor work products under §610.021(17).</i>		

<b>Agenda</b>	<b>Disposition</b>	<b>Presentation</b>
13. Call of Dates for Future Committee Meetings	Information	S. Bryant
14. Adjournment	Approval	Chair Gully

**Note: Public comment may be made at the written request of a member of the public specifying the topic(s) to be addressed and provided to the Agency's information officer at least 48 hours prior to the meeting.**



**BI-STATE DEVELOPMENT AGENCY / METRO  
AUDIT COMMITTEE MEETING  
OPEN SESSION MINUTES  
JANUARY 23, 2015**

**Committee Members in Attendance**

**Missouri**

Constance Gully, Chair  
Vincent C. Schoemehl, (absent)  
Hugh Scott, (via phone)

**Illinois**

David Dietzel, (absent)  
Jeffrey Watson, (absent)

**Other Commissioners in Attendance**

Vernal Brown  
Michael Buehlhorn, (via phone)  
Aliah Holman, (via phone)

**Staff in Attendance**

John Nations, President & CEO  
Barbara Enneking, General Counsel and Deputy Secretary  
Shirley Bryant, Certified Paralegal/Assistant Secretary  
Jim Cali, Director Internal Audit  
Rita Marion, Sr. Administrative Assistant  
Kathy Klevorn, Sr. Vice-President, Chief Financial Officer  
Patti Beck, Director of Communications  
Kent Swagler, Director of Corporate Compliance and Ethics  
Mark Vago, Controller  
Kathy Brittin, Director Risk Management, Safety & Claims  
Angie Staicoff, Internal Auditor  
Kelli Fitzpatrick, Internal Auditor, Part-Time  
Tammy Fulbright, Director Treasury Services  
Antwuan Donley, Internal Audit Department Intern  
Andrew Ghiassi, Safety Engineer II, Rail Safety Engineer  
Reggie Cavitt, ATU Local 788  
Karl Tyminski, Internal Auditor PT  
Sheila Hockel, Manager Emergency Preparedness  
David Toben, Director Benefits  
Jerry Vallely, External Communications Manager

**Others in Attendance**

Bill Grogan, St. Clair County Transit District  
James Smith, MoDot

**1. Call to Order**

**8:05 a.m.** Commissioner Gully called the Open Session Audit Committee Meeting to order at 8:05 a.m.

**8:04 a.m.** John Nations, President & CEO, introduced Commissioner Vernal Brown, the newest Missouri member of the Agency's Board of Commissioners representing St. Louis County. She was appointed by Governor Jay Nixon to replace Commissioner Kevin Cahill. Commissioner Brown has a very distinguished and impressive background and is now in charge of benefits for the United Auto Workers, Region 5, an area that encompasses 17 states from Seattle to St. Louis. On behalf of Agency staff, Mr. Nations welcomed Commissioner Brown to the Board of Commissioners.

Commissioners Gully and Holman also welcomed Commissioner Brown to the Board.

**2. Roll Call**

**8:05 a.m.** Roll call was taken.

**3. Public Comment**

**8:06 a.m.** There was no public comment.

**4. Minutes of Prior Open Session Audit Committee Meeting**

**8:06 a.m.** The October 24, 2014, Audit Committee Open Session Meeting Minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Buehlhorn and seconded by Commissioner Scott. **Motion passed unanimously.**

**5. September Financials**

**8:07 a.m.** The Agency's Quarterly Financial Statements for FY15, 1st Quarter - Ending September 30, 2014 were provided in the Committee packet. Kathy Klevorn, Sr. Vice President Chief Financial Officer, introduced Mark Vago, Controller, to provide a brief overview. Mr. Vago discussed the operating results, analysis and financial position for Metro Transit and each Business Enterprise entity. The combined net income before depreciation for the Agency was \$11.7 million, and the net income from the other entities offset the loss from the St. Louis Downtown Airport.

**Transit:** For the 1st Quarter of FY15, ending September 30, 2014, Transit had a net income before depreciation of \$10.4 million. Ridership increased 1.1% over the prior year and passenger revenue increased 2.5% over the same period. The July 1, 2014 fare increase that raised the average fare from \$1.09 to \$1.11 helped revenues outpace ridership. The funds received, in exchange for services, from St. Louis County, St. Louis City and St. Clair County were favorable to budget.

**Business Enterprises:** The Gateway Arch Trams, Gateway Parking, the Riverfront Attractions, and the St. Louis Downtown Airport combined net operating income before depreciation was \$934,000. The Arch Trams, Parking and Riverfront Attractions were impacted by the CityArchRiver construction. Tram ridership was down 5.9%, Parking was down 35.3% and bike rental has been suspended. The Arch Tram net income before depreciation was \$816,000; the Arch Parking net income before depreciation was \$95,000, and the Riverfront Attractions generated net income before depreciation of \$43,000, which is \$37,000 unfavorable to budget. The St. Louis Downtown Airport had a net loss before depreciation of \$21,000.



**Executive Services:** Executive Services had a net income before depreciation of \$416, 000 and operating expenses and revenue were favorable to budget.

Commissioner Buehlhorn asked if the completion and opening of the southern half of Leonor K. Sullivan Boulevard (LKS) would boost the Riverboat revenues. In response, Mr. Nations stated that the opening of the southern portion of LKS would not have a significant impact on the Riverboat revenue in the short term. The Riverboat attractions would still be impacted because the northern portion of LKS would be closed from the grand staircase to Biddle Street.

This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

**6. September Performance Indicators**

**8:15 a.m.** The Agency's Performance Indicators for FY15, 1st Quarter - ending September 30, 2014 were provided in the Committee packet. Mark Vago, Controller, provided a brief overview discussing the Annual Transit Performance, System Profile, Business Services and Executive Services Profiles. The Transit System expenses were greater than the prior year due to higher wage and benefit costs as a result of the new contract with the ATU and outside service spending on non-capital projects. The Arch Parking Garage operating income was \$130,452 less than prior year actual. Road construction and limited access related to the CityArchRiver development project contributed to lower use of the garage. The garage is currently closed as a result of the construction and plans to tear down the garage. Passenger boarding on the riverboats was down approximately 50%, and operating revenue was 25.4% unfavorable to budget. Operating loss for the St. Louis Downtown Airport was \$102,129 below budget as a result of decreased operating revenue. Operating income for Executive Services exceed the budget by \$269,502 as a result of expenses being lower than budget and a favorable variance of Arch administrative fee revenue.

Some discussion followed regarding the decrease in transit ridership, which could be attributed to lower fuel prices resulting in more people driving their own vehicles. Mr. Friem also reported that the civil unrest during the quarter also had a negative effect on ridership. This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

**7. Treasury - Safekeeping Quarterly Accounts Audit, Ending September 30, 2014**

**8:15 a.m.** The Treasury Safekeeping Quarterly Accounts Audit - Ending September 30, 2014, was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In accordance with the FY15 Internal Audit Plan and Board Policy requirements, the Internal Audit Department (IAD) performed a quarterly audit of the Treasury Safekeeping Accounts. Based on that analysis, it was determined that the Safekeeping Accounts exist, and the respective balances have been fairly presented in the Treasurer's Report dated September 30, 2014. IAD worked with the Treasury Department to add a more detailed explanation in the briefing paper as to the nature of the funds that represent the \$65 million in Safekeeping. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

**8. Internal Audit Status Report - FY15, 2nd Quarter**

**8:15 a.m.** The Internal Audit Status Report - FY15, 2nd Quarter was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. The Internal Audit Status Report provides a summary of IAD's quarterly activity pertaining to the Annual Audit Plan. In addition to tracking the status of current audits, it also highlights the follow-up activity related to



the implementation of recommendations from prior audits. IAD has added an analysis of areas where the IAD has questioned certain costs and advised management that such costs may be subject to being recouped. To date, the suggestions of the IAD have led to approximately \$148,258 being recovered from Lamar Advertising, a former contractor. IAD is currently working with Benefits Director Dave Toben and Cigna to recover approximately \$45,000 in payments made to Cigna due to billing errors by Cigna. IAD has also advised management that IAD believes approximately \$46,943 was overpaid to Sachs Electric, which has denied the allegation. Sachs maintains that, although the contract between Bi-State and Sachs called for a specific billing rate regarding overhead and Sachs admits it billed at a higher rate than the contract provided, the higher rates were nonetheless appropriate because the higher rate was the rate in effect for work performed in Illinois. Further, Sachs maintains that since Bi-State paid the invoices as presented, nothing is owed by Sachs to Bi-State. Efforts are ongoing by the IAD and others to resolve the dispute with Sachs Electric. Since the matter is essentially a contract interpretation issue, it has been referred to Vice-President of Procurement & Inventory Management, Larry Jackson.

IAD is required to have a Quality Assurance Review (QAR) conducted once every five (5) years. To be in compliance, Crowe Horwath, the Agency's independent External Auditors, is scheduled to conduct the QAR in February 2015. The QAR will assess the efficiency and effectiveness of the Internal Audit activity and identify opportunities for improvement. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

**9. Internal Audit Follow Up Summary - FY15, 2nd Quarter**

**8:19 a.m.** The Internal Audit Follow Up Summary - FY15, 2nd Quarter report was provided in the Committee packet. Jim Cali, Director Internal Audit, provided a brief overview. The Internal Audit Department follow-up findings regarding the status of the prior recommendations during the 2nd quarter of FY15 were presented to the Committee. During the second quarter, IAD was tracking 47 recommendations. Management working with IAD completed or closed out 38 of those outstanding recommendations. Remaining are nine outstanding recommendations, none of which is overdue. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

**10. Corporate Compliance and Ethics**

**8:20 a.m.** The Corporate Compliance and Ethics report was provided in the Committee packet. Kent Swagler, Director of Corporate Compliance and Ethics, provided a brief overview. This report provided the current state of the Agency with respect to meeting its documented compliance requirements for FY15, as well as the current status of compliance, initiatives, ethics and training programs. Mr. Swagler also presented the status of the Missouri and Illinois Bus Facility underground storage tanks (UST) and the three year organizational development and training plan implementation, as well as the Payment Card Industry (PCI) compliance update.

Some discussion followed regarding the closure reports required by the Missouri Department of Natural Resources (DNR). This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

**11. Report to the Nations on Fraud**

**8:27 a.m.** The *Report to the Nations on Fraud* was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In the June 30, 2009, External Auditors Annual Audit Report, it was recommended that the Board of Commissioners participate in fraud



awareness training. In an effort to satisfy that recommendation, the Internal Audit Department provided the Board with a copy of the *Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study* that was produced by the Association of Certified Fraud Examiners. This document represented their analysis of 1,483 fraud cases which provided the following information: 1) typical organization loss is estimated at 5% of revenue each year due to fraud; 2) the median fraud loss was \$145,000; 3) the median duration, the amount of time from when the fraud commenced until it was detected, was 18 months; 4) occupational frauds can be classified into three (3) primary categories: Asset Misappropriations, Corruption, and Financial Statement Fraud; 5) The most common form of occupational fraud is Asset Misappropriation, resulting in a median loss of \$130,000; 6) Tips are consistently the most common detection method. Over 40% of all fraud cases were detected by a tip; 7) Employees accounted for nearly half of all tips that led to the discovery of a fraud; 8) Organizations with hotlines were much more likely to catch a fraud by a tip; 9) Organizations with a hotline also experienced frauds that were 41% less costly, and were caught 50% more quickly than organizations without a hotline. The Agency has taken the initiative to have a Helpline and the next step would be to expand it to the vendors.

Mr. Cali informed the Committee that this report and presentation satisfies the Board's requirement for the annual fraud awareness training as recommended by the External Auditor. This report was presented in compliance with the External Auditor's recommendation and is information only and no Committee action is required. A copy of the report will be kept at the office of the Deputy Secretary.

**12.     Unscheduled Business**

**8:31 a.m.** There was no unscheduled business.

**13.     Executive Session - Executive Session - If such action is approved by a majority vote of the Bi-State Development Agency's Board of Commissioners who constitute a quorum, the Board may go into closed session to discuss legal, confidential, or privileged matters under §610.021(1); RSMo; leasing, purchase or sale of real estate under §610.021(2); personnel actions under §610.021(3); discussions regarding negotiations with employee groups under §610.021(9); sealed bids, proposals and documents related to negotiated contracts under §610.021(12); personnel records or applications under §610.021(13); records which are otherwise protected from disclosure by law under §610.021(14); records relating to hotlines established for report abuse and wrongdoing under §610.021(16); or confidential or privileged communications with the District's auditor, including auditor work products under §610.021(17).**

**8:31 a.m.** Pursuant to the requirements of Section 610.021(17) of the Revised Statutes of Missouri, Commissioner Gully requested a motion to allow the Committee to go into closed session. A motion was made by Commissioner Scott and seconded by Commissioner Buehlhorn. A roll call vote was taken and the Commissioners present, Gully, Scott, Brown, Holman and Buehlhorn voted to approve this agenda item. **Motion passed unanimously.**

**14.     Call of Dates for Future Committee Meetings**

**9:35 a.m.** Future meetings are as follows: an Operations Committee meeting is scheduled for Tuesday, January 27, 2015, at 8:00 a.m.; a Board meeting is scheduled for Friday, February 27, 2015, at 8:00 a.m.; an Operations Committee meeting is scheduled for Tuesday, March 17, 2015, at 8:00 a.m.; a Business Services and Economic Development Committee meeting is scheduled for Friday, March 20, 2015, at 8:00 a.m.; a Finance & Administration Committee meeting on Friday, March 27, 2015, at 8:00 a.m.; a Board meeting on Friday, April 24, 2015 at 8:00 a.m.; and an Audit Committee meeting on Friday, May 22, 2015, at 8:00 a.m.

15. **Adjournment**

**9:35 a.m.** A motion to adjourn the Open Session Audit Committee Meeting was made by Commissioner Buehlhorn and seconded by Commissioner Brown. **Motion passed unanimously.**

  
Deputy Secretary to the Board of Commissioners  
Bi-State Development Agency / Metro



**Bi-State Development Agency / Metro  
Agenda Item  
Audit Committee  
May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **Internal Audit Department's Quality Assessment Review (QAR)**  
Briefing Paper No. 15-31  
**Disposition:** Information  
**Presentation:** James J. Cali, Director of Internal Audit, Matthew R. Bowser, Crowe Horwath Representative

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**Objective**

To assess the efficiency and effectiveness of the Internal Audit Department's (**IAD**) charter and mission as well as the expectations of the Audit Committee, Board of Commissioners, Senior Management, and Internal Audit Clients.

**Board Policy**

Board Policy, Chapter 30 Audit, Finance and Budget Section 30.005 Audit Committee Charter, B. AUTHORITY. The Audit Committee ("committee") has the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to perform the following functions which include:

- (3) Internal Audit Process
  - F. The Internal Audit Department's compliance with applicable standards (for example, Government Auditing Standards, or the Institute of Internal Auditors' (**IIA's**) Standards for the Professional Practice of Internal Auditing).

**Funding Source**

Internal Audit Department Budget.

**Background**

IIA's Practice Guide, Quality Assurance and Improvement Program, states that "Quality should be built in to, and not on to, the way the activity conducts its business – through its internal audit methodology, policies, procedures, and human resource practices." Imbedded in this process of building quality is the concept of value as defined by stakeholders. The practice guide further states, "Delivering quality requires a systematic and disciplined approach as professionals – quality does not just happen; it is the combination of the right people, the right systems, and a commitment to excellence."

Building an effective Quality Assurance and Improvement Program (QAIP) is similar to establishing a total quality management program where products and services are analyzed to verify they meet stakeholder expectations, operations are evaluated to determine their efficiency and effectiveness; these practices are assessed to confirm their conformance to standards. Maintaining an effective QAIP also requires leaders who are responsible for setting the proper tone in support of quality.

The Internal Auditor Charter approved by the Board of Commissioners requires the Internal Audit Department to maintain auditing standards consistent with those established by the Institute of Internal Auditors, and Generally Accepted Governmental Auditing Standards issued by the Comptroller General of the United States. An external assessment is required to be performed at least once every three (3) years by a qualified independent reviewer or review team outside the organization. This report represents the results of a self-assessment with independent external validation.

### **Analysis**

An External Review of the IAD was conducted in accordance with the IIA's Standards in March 2015. Based on the procedures performed, Crowe Horwath assessed the internal audit activity as "Generally Conforms" with the Standards and Code of Ethics, which is the **highest achievable rating**. The Standards are divided into two major categories: Attribute Standards and Performance Standards. Crowe Horwath assessed Bi-State Development Agency / Metro's (BSDA/Metro's) IAD as "Generally Conforms" to both the Attribute and Performance Standards. Additionally, BSDA/Metro's IAD is rated as "General Conforms" to the IIA Code of Ethics.

### **Committee Action Requested**

This material is presented for information only: therefore, no action is required of the Audit Committee.

**Attachment:** Quality Assessment Review Report



# Quality Assessment Review (QAR)

March 2015



**Metro**



# Bi-State Development Agency / Metro Quality Assessment Review (QAR)

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## **I. Executive Summary**

At the request of the Bi-State Development Agency/Metro (BSDA) Internal Audit Department, a Quality Assessment Review (QAR) of the department was performed by Crowe Horwath LLP (Crowe) from March 16 through March 20. The purpose of this review was:

- To give BSDA's Internal Audit (IA) Department an understanding of their conformity to the *Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics*.
- Evaluate the IA activity's effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of BSDA's management.
- Identify opportunities and innovative practice suggestions we have derived from our experiences, for improving performance and increasing value added by the IA Department to the enterprise.

### ***Scope & Methodology***

The review included, but was not limited to the following:

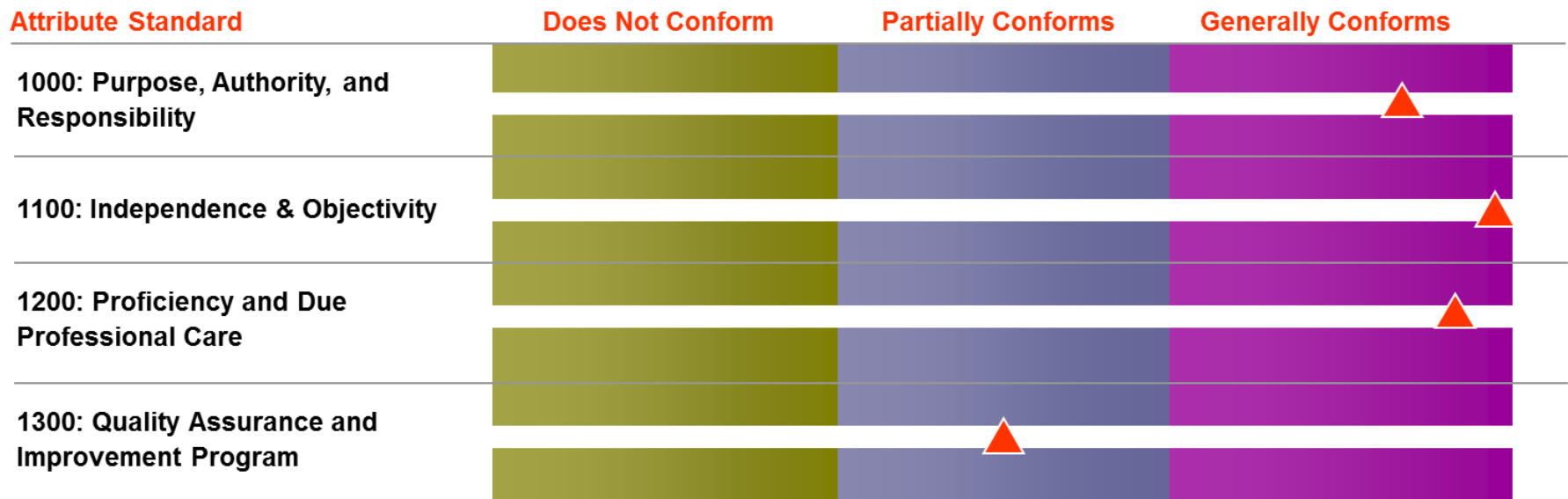
- Reviewed Self Study and Questionnaire responses prepared by IA.
- Conducted interviews with members of the BSDA's Senior Leadership Team, the external audit partner (Crowe), and IA personnel-see Appendix B for complete list of interviewees.
- Completed Review Tools (Programs) to assess:
  - Organization of the Internal Audit Activity
  - Risk Assessment and Engagement Planning Process
  - Staff Professional Proficiency
  - Information Technology Audit Coverage
  - Production and Value Added

In addition to the above, we also sampled the work programs and reports for three audits completed during 2014 (Transit Security Grant Review, Lamar Advertising Contracts Audit and SSO Employee Safety Audit).

## ***Results of Procedures***

Based on the procedures performed, Crowe assessed the internal audit activity as “**Generally Conforms**” with the *Standards* and Code of Ethics, which is the highest achievable rating. The *Standards* are divided into two major categories: Attribute *Standards* and Performance *Standards*. Crowe assessed BSDA’s Internal Audit Department as “Generally Conforms” to both the Attribute and Performance *Standards*. Additionally, BSDA’s Internal Audit Department is rated as “Generally Conforms” to the IIA Code of Ethics. See [Appendix A](#) for detailed definitions of the conformity ratings.

In addition, each of the subcategories within the Attribute & Performance *Standards* was also individually rated. *Standard 1300* (Quality Assurance and Improvement Program) was the only subcategory rated as “Partially Conforms”, due to improvement opportunities noted in this area. All other areas were rated as “Generally Conforms” and reflected in the maturity scales below.





Performance Standard	Does Not Conform	Partially Conforms	Generally Conforms
2000: Managing the Internal Audit Activity			
2100: Nature of Work			
2200: Engagement Planning			
2300: Performing the Engagement			
2400: Communicating Results			
2500: Monitoring Progress			
2600: Communicating Acceptance of Risks			

## II. Innovative Practices and Comments

Crowe noted several areas that are highlighted below as innovative practices that the IA Department of BSDA has incorporated or are in the process of incorporating. Some of the more notable positive aspects include the following:

- BSDA Senior Management views the IA Department as a valued part of the organization. IA director and staff are seen as professional, objective, and knowledgeable.
- The IA Department has a qualified director and staff that are CPAs, have significant experience in internal audit, with Metro, and in the public sector.
- There is strong CEO, senior management, and AC Chair support of the IA Department (including IA Department independence and authority).
- The IA Department (and AC) charters clearly define the purpose, authority, and responsibility of the IA Department (and Audit Committee).
- Monitoring and Quarterly Reporting of IA, external audit, & regulatory agency findings & observations, and completion status of associated management action plans
- The IA department uses creative employment arrangements such as part time, student interns, and faculty intern and maintains a strong relationship with a local university (SE Missouri State).
- Use of co-sourcing for IT and other specialty internal audit work where internal skills are not available
- Significant contribution to Safety and the State Safety Oversight requirements
- The IA Department has established a survey process to gather audit client feedback after an audit has been completed and presents the results of these surveys with the Audit Committee.

### **III. Opportunities to Improve Conformity with the *Standards***

Observations and recommendations which we believe will elevate the degree of conformity with the *Standards* and improve the effectiveness of the IA Department are highlighted below.

Observations	Recommendations	Internal Audit Department Responses
1. <b><i>Revise and Update the Internal Audit Department Charter (Standard 1000).</i></b> Although this <i>Standard</i> was rated as GC, we noted a few opportunities to further improve the charter.	The Chief Audit Executive (CAE) should consider revising the IA Department Charter to : <ul style="list-style-type: none"><li>• Clarify the administrative reporting relationship of the Chief Audit Executive (CAE).</li></ul>	Internal Audit concurs.  A revised Internal Audit Department Charter will be presented to the Audit Committee for approval at the May 22, 2015 Audit Committee Meeting.

Observations	Recommendations	Internal Audit Department Responses
	<ul style="list-style-type: none"> <li>Add responsibility for the establishment and reporting on a Quality Assurance &amp; Improvement Program that includes both internal and external assessments to the IA Department Charter</li> </ul> <p>Additionally, the charter should be reviewed and approved by the Audit Committee on an annual basis.</p>	
<p><b>2. Strengthen the Quality Assurance &amp; Improvement Program (QA&amp;IP) (Standard 1300).</b> Strengthen internal ongoing monitoring of the performance of the IA activity, including external providers, and performance and reporting of internal periodic reviews by the CAE.</p>	<p>The CAE should establish a process to report on a QA&amp;IP to the Audit Committee and Senior Management on a periodic basis. In addition, the CAE should consider developing specific metrics to track and monitor the performance of the IA activity, including external service providers. Additional consideration may include:</p> <ul style="list-style-type: none"> <li>Performance of periodic self-assessments (<i>Standard 1310</i>).</li> <li>Performance of external assessments every 3 years (GAGAS) which would also conform to the IIA 5 year interval (<i>Standard 1312</i>)</li> </ul>	<p>Internal Audit concurs.</p> <p>The Internal Audit Department Policy and Procedures Manual was revised to incorporate the provisions of a Quality Assurance &amp; Improvement Program in accordance with the IIA's Standard 1300.</p> <p>The revised Internal Audit Department Policy and Procedures Manual will be presented to the Audit Committee for approval at the May 22, 2015 Audit Committee Meeting.</p>



Observations	Recommendations	Internal Audit Department Responses
<p><b>3. Annual Risk-Based Audit Planning (Standard 2010).</b> The CAE presents an annual audit plan to the Audit Committee. This presentation shows only those entities that are going to be audited during the current year.</p>	<p>The CAE should consider enhancing the annual plan presentation to show the entire audit universe to senior management and the Audit Committee. This presentation should highlight entities included in the schedule for audit in the current year and communicate those that have been deferred. (<i>Standard 2010</i>). In addition, the CAE should expand the Risk Assessment and Audit Universe to include IT auditable areas. Additional consideration may include:</p> <ul style="list-style-type: none"> <li>• Increase Input from Management on Risk Assessment through face to face interviews and surveys.</li> <li>• Clarify and educate senior management and the Audit Committee on the connection of the Risk Assessment to Risk Appetite to Annual Audit Plan to Professional Resource needs (including continuing professional education).</li> <li>• Add additional information on risk such as risk direction, velocity, emerging risks, and enterprise level risks.</li> </ul>	<p>Internal Audit concurs.</p> <p>In the future, the Annual Risk Assessment and Internal Audit Department Work Plan will be modified to show the entire audit universe of auditable areas to the Audit Committee and Senior Management.</p> <p>In developing the Annual Risk Assessment and Internal Audit Department Work Plan, additional steps will be employed to obtain greater input from Management for areas to be audited.</p>

Observations	Recommendations	Internal Audit Department Responses
<p>4. <b>Revise the IA Department Policies &amp; Procedures Manual (Standard 2040).</b> We noted the current IA Department Policies and Procedures manual is outdated and inaccurate (e.g. Not current with the October 2012 IIA Standard Revisions).</p>	<p>The CAE should update the IA Department Policies and Procedures Manual to be consistent with revised <i>IIA Standards</i> and should be reviewed and approved by the Audit Committee annually.</p>	<p>Internal Audit concurs.</p> <p>The Internal Audit Department Policy and Procedures Manual has been revised to incorporate 26 changes to be consistent with the revised IIA Standards.</p> <p>The revised Internal Audit Department Policy and Procedures Manual will be presented to the Audit Committee for approval at the May 22, 2015 Audit Committee Meeting.</p>
<p>5. <b>Planning and Performing the Engagement (Standards 2200 &amp; 2300)</b> We noted missing documentation required by the IA Department's current Policies and Procedures and CAE sign-off completed subsequent to presentation of the related audit report to the Audit Committee.</p>	<p>CAE should ensure all required documentation is included in working paper files. In addition, CAE should document the completion of working paper review prior to presentation of the related draft audit report to the Audit Committee. Additional consideration may include:</p> <ul style="list-style-type: none"> <li>• Institute the use of a working paper checklist similar to the one included in the current IA Department Policies and Procedures Manual to ensure all required documentation is included.</li> </ul>	<p>Internal Audit concurs.</p> <p>The Internal Audit Department Policy and Procedures Manual has been revised to address the documentation of work paper reviews and has implemented the use of the work paper checklist.</p> <p>The revised Internal Audit Department Policy and Procedures Manual will be presented to the Audit Committee for approval at the May 22, 2015 Audit Committee Meeting.</p>

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Observations	Recommendations	Internal Audit Department Responses
	<ul style="list-style-type: none"><li>Document performance and timing of Peer reviews on individual audits currently performed prior to CAE review.</li></ul>	

#### IV. Additional Practice Suggestions for the IA Department and Management

- Participation in the GAIN Annual benchmarking study.** While not required, we suggest that the CAE consider participating in the IIA (Institute of Internal Auditors) GAIN Annual Benchmarking Study. The Benchmarking Study provides metrics to compare the Internal Audit Department against other audit departments within peer groups based on similar industry and size. Examples of metrics include: Organizational statistics, professional development, department costs and oversight, audit committee information, audit lifecycles, performance measures, and planning information. These results can then be shared with the Audit Committee.

## V. Appendices:

### Appendix A: Conformity Rating Definition

The Institute of Internal Auditors Quality Assessment framework provides a system of rating the *International Standards for the Professional Practice of Internal Auditing (Standards)*, which consists of three categories: Generally Conforms, Partially Conforms, and Does not Conform.

The framework describes these categories as follows:

Categories	Description
Generally Conforms (GC)	Means the evaluator has concluded that the Activity's charter, structure, policies, and procedures, as well as the processes by which they are applied, are judged to be in accordance with the <i>Standards</i> with some opportunities for improvement being possible.
Partially Conforms (PC)	Means the evaluator has concluded that a deviation from the <i>Standards</i> exists and action is needed to improve conformity. These deviations are not however significant enough to preclude the Activity from carrying out its responsibilities in an acceptable manner.
Does Not Conform (DNC)	Means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve conformity with many/all of the <i>Standards</i> thus impacting its ability to carry out its mission.



## Appendix B- List of Interviewees

BSDA / Metro	<ul style="list-style-type: none"><li>▪ Commissioner Candace Gully, Audit Committee Chair</li><li>▪ John Nations, President/Chief Executive Officer</li><li>▪ Ray Friem, Sr. SVP/COO, Transit Operations</li><li>▪ Kathy Klevorn, SVP/CFO</li><li>▪ Debra Erickson, VP/CIO</li><li>▪ Larry Jackson, VP Procurement and Inventory Management</li><li>▪ Melva Pete, VP Human Resources</li><li>▪ Kathy Brittin, Director Risk Management, Safety, and Claims</li><li>▪ Tammy Fulbright, Director Treasury Services</li><li>▪ Mark Vago, Controller</li><li>▪ Charles Priscu, Director Labor Relations</li><li>▪ Kent Swagler, Director Corporate Compliance</li><li>▪ Jason Davis, Assistant Chief of Public Safety</li><li>▪ David Toben, Director of Benefits</li><li>▪ Shiela Hockel, Manager Emergency Preparedness</li><li>▪ Andrew Guiassi, Manager of Safety and Loss Control</li><li>▪ James Cali, Chief Audit Executive</li></ul>
External Audit Firm (Crowe)	<ul style="list-style-type: none"><li>▪ Scott Nickerson, Partner</li><li>▪ Brad Schelle, Sr. Manager</li></ul>

## VI. Addendum: Government Auditing Standards External Peer Review

As part of our Quality Assessment Review (QAR) of the internal audit activity performed at BSDA / Metro, Crowe Horwath LLP (Crowe) gained an understanding of the activity's conformity to the Governmental Auditing Standards 2011 Revision issued by the Comptroller General of the United States (often referred to as GAGAS or simply GAS).

Based on the procedures performed, Crowe assessed the internal audit activity as **"Generally Conforms"** with the Government Auditing Standards which is the highest achievable rating. The GAGAS General Standards relationship to the *IIA Standards* and *Code of Ethics* and our assessment of BSDA's conformance to those standards can be summarized as follows:

GAGAS General Standard	IIA Standard/Code of Ethics	BSDA Conformance
Independence	1100: Independence and Objectivity	Generally Conforms
Professional Judgment	Code of Ethics	Generally Conforms
Competence	1200: Proficiency and Due Professional Care	Generally Conforms
Quality Control & Assurance	1300: Quality Assurance & Improvement Pgm	Partially Conforms

**Bi-State Development Agency / Metro  
Agenda Item  
Audit Committee Meeting  
May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **Internal Audit Charter, and “Draft” Policies and Procedures Manual**  
Briefing Paper No. 15-30  
**Disposition:** Approval  
**Presentation:** James J. Cali, Director of Internal Audit

---

**Objective**

To present to the Audit Committee the revised Internal Audit Charter and “Draft” Internal Audit Department Policies and Procedures Manual for your consideration and approval.

**Background**

The Institute of Internal Auditors’ (IIA) International Standards for the Professional Practice of Internal Auditing made 26 changes which include 3 new Standards, 15 changes to existing Standards, 2 deletions of existing standards, and 6 changes to existing glossary terms; in summary, these changes include the following:

- Define Functional Reporting of Internal Audit to Board, and clarify in the Charter (1000, 1110);
- Clarify when Newer Internal Audit Activities can state they conform with Standards (1321);
- Provide requirements if entity level and individual engagement opinions are issued (2010.A2, 2410.A1, and 2450);
- Clarify Risk Management Coverage by Internal Audit (2120);
- Revise definition of “Add Value” (2000 and Glossary);
- Revise definition of “Chief Audit Executive” (Glossary);
- Clarify responsibilities with External Service Providers (2070); and
- Enhance and clarify other Standards and Glossary terms (throughout).

We are in compliance with these standards with the development of the revised Internal Audit Charter and the “Draft” Internal Audit Department Policies and Procedures Manual (see Attachment).

The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility. The Internal Audit Charter established the internal audit activity’s position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

**Funding Source**

Internal Audit Department Budget.

**Committee Action Requested**

It is recommended that the Audit Committee approve the proposed Internal Audit Charter and Internal Audit Department Policies and Procedures Manual.

**Attachment:** Internal Audit Charter and Draft IAD Policies & Procedures Manual

# **INTERNAL AUDIT DEPARTMENT**

**BI-STATE DEVELOPMENT AGENCY / METRO**

**POLICIES AND PROCEDURES**

*Date to be Approved: June 26, 2015*



**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT  
POLICIES AND PROCEDURES MANUAL**

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### **MISSION STATEMENT**

To perform audits in accordance with the appropriate professional standards, ensure proper accountability of public funds, and to add value by promoting a control environment through open communication, professionalism, expertise and trust.

### **SCOPE OF WORK**

The scope of work of the Internal Audit Department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving management control, profitability, and the organization's image may be identified during audits. They will be communicated to the Audit Committee and the appropriate level of management.

### **ACCOUNTABILITY**

The Internal Audit Department shall be accountable to the Audit Committee and the Board of Commissioners to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's process for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

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## **INDEPENDENCE**

To provide for the independence of the Internal Audit Department, its personnel report to the Internal Audit Director, who reports functionally to the Audit Committee and administratively to the Board of Commissioners as well as coordinates with management in an appropriate manner.

## **RESPONSIBILITY**

The Internal Audit Director and staff of the Internal Audit Department have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant functions and new or changing services, processes, operations, and control processes during development, implementation, and/or expansion phases.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Include any assignments given by the Audit Committee or the Board as a whole.

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### **AUTHORITY**

The Internal Audit Director and staff of the Internal Audit Department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel, which are reasonably necessary to accomplish its responsibilities.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The Internal Audit Director and Staff of the Internal Audit Department:

- Administratively reports to the Audit Committee and Board of Commissioners; and
- Functionally report to the President and CEO.

The Internal Audit Director and staff of the Internal Audit Department are not authorized to:

- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

### **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The Internal Audit Department is responsible for establishing and reporting to senior management and the Audit Committee and Board of Commissioners on a Quality Assurance and Improvement Program which contains the following major elements:

- Internal Assessments including ongoing monitoring of performance and periodic self-assessments, and
- External Assessments.

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## STANDARDS OF AUDIT PRACTICE

The Internal Audit Department will be governed by the *Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors and *Government Auditing Standards*. The Internal Audit Department is committed to implement the Institute of Internal Auditors' quality assurance and improvement program. A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal activity and identifies opportunities for improvement.

The Internal Auditor Charter approved by the Board of Commissioners requires the Internal Audit Department to maintain auditing standards consistent with those established by the Institute of Internal Auditors, and Generally Accepted Governmental Auditing Standards issued by the Comptroller General of the United States. An external assessment is required to be performed at least once every three years by a qualified, independent reviewer or review team from outside the organization. This report represents the results of a self-assessment with independent external validation.

The Quality Assurance Review rating system, to express an opinion of conformance, includes three levels which contains the following:

### **Generally Conforms (GC)**

GC – means the evaluator has concluded that the Internal Audit Department's charter, structure, policies, and procedures, as well as the processes by which they are applied, are judged to be in accordance with the Standards with some opportunities for improvement being possible.

### **Partially Conforms (PC)**

PC – means the evaluator has concluded that a deviation from the Standards exist and action is needed to improve conformity. These deviations are not however significant enough to preclude the Internal Audit Department from carrying out its responsibilities in an acceptable manner.

### **Does Not Conforms (DNC)**

DNC – means the evaluator has concluded the Internal Audit Department's is not aware of, is not making a good-faith efforts to comply with, or is failing to achieve conformity with many/all of the Standards thus impacting its ability to carry out its mission.

\_\_\_\_\_  
Director of Internal Audit

\_\_\_\_\_  
President/CEO

\_\_\_\_\_  
Chair, Board of Commissioners

\_\_\_\_\_  
Audit Committee Chair

Dated: \_\_\_\_\_



## **INTERPRETATION OF PRINCIPLES**

The provisions of this Code of Ethics cover basic principles in the various disciplines of internal auditing practice. Auditors shall realize that individual judgment is required in the application of these principles. Auditors have a responsibility to conduct themselves so that their good faith and integrity should not be open to question. While having due regard for the limit of their technical skills, auditors will promote the highest possible internal auditing standards to the end of advancing the interest of Bi-State Development Agency / Metro.

### **Principles**

Internal auditors are expected to apply and uphold the following principles:

#### **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

#### **Objectivity**

Internal auditors shall exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors shall make a balanced assessment of all the relevant circumstances and shall not be unduly influenced by their own interests or by others in forming judgments.

#### **Confidentiality**

Internal auditors shall respect the value and ownership of information they receive and shall not disclose information without appropriate authority unless there is a legal professional obligation to do so.

#### **Competency**

Internal auditors shall apply the knowledge, skills and experience needed in the performance of internal auditing services.

### **Rules of Conduct**

#### **1. Integrity**

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4 Shall respect and contribute to the legitimate and ethical objects of the organization.

## **2 Objectivity**

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interest of the organization.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## **3 Confidentiality**

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

## **4 Competency**

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes analyses, appraisals, recommendations, counsel and information concerning the activities reviewed. The standards to which Bi-State Development Agency / Metro's Internal Audit will comply are standards established by the Institute of Internal Auditors and the U.S. Government Auditing Standards.

## **STANDARDS ESTABLISHED BY THE INSTITUTE OF INTERNAL AUDITORS**

### **ATTRIBUTE STANDARDS**

#### **1000 – Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

##### **Interpretation:**

*The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.*

**1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

#### **1010–Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter**

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

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### **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### **Interpretation:**

*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

### **1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

#### **Interpretation:**

*Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:*

- *Approving the internal audit charter;*
- *Approving the risk-based internal audit plan;*
- *Approving the internal audit budget and resource plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive;*
- *Approving the remuneration of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

### **1111 – Direct Interaction With the Board**

The chief audit executive must communicate and interact directly with the board.

### **1120 – Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

**Interpretation:**

*Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

**1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

**Interpretation:**

*Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations, such as funding. The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.*

**1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

**1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

**1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

**1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

**1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.



**Interpretation:**

*Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.*

**1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1210.A2** – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

**1210.A3** – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

**1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**1220.A1** – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

**1220.A2** – In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3** – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

**1220.C1** – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.

**1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

**1300 – Quality Assurance and Improvement Program**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

**Interpretation:**

*A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*

**1310 – Requirements of the Quality Assurance and Improvement Program**

The quality assurance and improvement program must include both internal and external assessments.

**1311 – Internal Assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

**Interpretation:**

*Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.*

### **1312 – External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

#### **Interpretation:**

*External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.*

*A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.*

*An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.*

### **1320 – Reporting on the Quality Assurance and Improvement Program**

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

#### **Interpretation:**

*The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.*

### **1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”**

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

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**Interpretation:**

*The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.*

**1322 – Disclosure of Nonconformance**

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

## **PERFORMANCE STANDARDS**

### **2000 – Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

#### **Interpretation:**

*The internal audit activity is effectively managed when:*

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and*
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

*The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.*

### **2010 – Planning**

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

#### **Interpretation:**

*The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.*

**2010.A1** – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2010.A2** – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

**2010.C1** – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

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#### **2020 – Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

#### **2030 – Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

##### **Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.*

#### **2040 – Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

##### **Interpretation:**

*The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.*

#### **2050 – Coordination**

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

#### **2060 – Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

##### **Interpretation:**

*The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.*

#### **2070 – External Service Provider and Organizational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

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**Interpretation:**

*This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

**2100 – Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

**2110 – Governance**

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

**2110.A1** – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

**2110.A2** – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

**2120 – Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.



**Interpretation:**

*Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:*

- *Organizational objectives support and align with the organization's mission;*
- *Significant risks are identified and assessed;*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite; and*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

*The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.*

*Risk management processes are monitored through ongoing management activities, separate evaluations, or both.*

**2120.A1** – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

**2120.A2** – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

**2120.C1** – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

**2120.C2** – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

**2120.C3** – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

**2130 – Control**

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

**2130.A1** – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

**2130.C1** – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

**2200 – Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

**2201 – Planning Considerations**

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

**2201.A1** – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

**2201.C1** – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

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## **2210 – Engagement Objectives**

Objectives must be established for each engagement.

**2210.A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210.A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210.A3** – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

**2210.C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

**2210.C2** – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

## **2220 – Engagement Scope**

The established scope must be sufficient to satisfy the objectives of the engagement.

**2220.A1** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

**2220.A2** – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**2220.C1** – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

**2220.C2** – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 – Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

**2240 – Engagement Work Program**

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240.A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240.C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

**2300 – Performing the Engagement**

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

**2310 – Identifying Information**

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

**Interpretation:**

*Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.*

**2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

**2330 – Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

**2330.A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330.C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

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#### **2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

##### **Interpretation:**

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.*

#### **2400 – Communicating Results**

Internal auditors must communicate the results of engagements.

#### **2410 – Criteria for Communicating**

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

**2410.A1** – Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

##### **Interpretation:**

*Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.*

**2410.A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410.A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410.C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

#### **2420 – Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

**Interpretation:**

*Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.*

**2421 – Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

**2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”**

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” only if the results of the quality assurance and improvement program support the statement.

**2431 – Engagement Disclosure of Nonconformance**

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

**2440 – Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

**Interpretation:**

*The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.*

**2440.A1** – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**2440.A2** – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

**2440.C1** – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.C2** – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

#### **2450 – Overall Opinions**

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

##### **Interpretation:**

*The communication will identify:*

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion;*
- *and*
- *The overall opinion, judgment, or conclusion reached and the reasons for an unfavorable overall opinion must be stated.*

#### **2500 – Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500.A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**2500.C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

#### **2600 – Resolution of Senior Management's Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.



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**Interpretation:**

*The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.*

**Glossary of Terms**

**Board** – Shall mean Bi-State Development Agency / Metro's Board of Commissioners

**Chief Audit Executive** – Shall mean the Director of Internal Audit

## **AUDIT METHODOLOGY**

The Internal Audit Department's goal is to assist members of the Board and management in the effective discharge of their responsibilities. To this end, the Internal Audit Department will furnish them with analysis, recommendations, advice and information concerning the activities reviewed.

In order to achieve this mission the Internal Audit Department has developed an audit methodology that will allow Internal Audit Department to focus on the key issues facing the Agency's operations, assets, compliance with governmental regulation and public image. By focusing on the auditee's risk environment, the Internal Audit Department is making better use of its resources and utilizing its consulting skills and knowledge of the business.

### **Steps in the Methodology**

#### **1. Understand the Client**

The first step in the performance of an audit is to Understand the Nature of the Internal Clients Function within the Agency. Understanding the Client Function is the first critical step in performing an audit, which is centered on the needs of the Agency and the Business Unit being audited.

A. Document how the department or engagement client operates.

- (1) Take into account the documented mission of the department.
- (2) Review the departmental Standard Operating Procedures.
- (3) Interview auditee to gain an understanding of the business unit.

#### **2. Perform a Risk Assessment of the Operating Unit**

After a clear understanding of the mission, documented operating procedures, operating practices and performance had been gained, a risk assessment of the auditee should be performed. The risk assessment allows the Internal Audit Department to focus on the issues, which clearly impact the Agency's business and the operating unit's effectiveness.

- A. Identify risks, which are inherent to the nature of the work being performed by the client.
- B. Identify risk, which are specific to the operating unit being audited.

Note: The following issues should be considered when assessing risk:

- (1) Possible impact on operations
- (2) Source of the risk
- (3) Develop a hierarchy of risk factors

C. Document identified client risks in a Business Unit Risk Assessment

### **3. Assess Client Controls**

After the risks facing the business unit have been identified, it is necessary to assess whether there are client controls in place to mitigate the risks identified during the risk assessment and whether or not those controls are operating properly.

A. The client controls environment should be assessed by the risk factors identified. List each risk factor identified in step 2 as significant and identify the control factor that is/should be in place to mitigate risk.

B. Document work performed.

### **4. Determine unmitigated Client Risk**

When controls are assessed to be either not in place, designed ineffectively or not operating properly, the risk that the control is supposed to mitigate becomes an unmitigated risk. Unmitigated risk should consist of the bulk of our substantive testing efforts. Document unmitigated risk.

### **5. Design Work Program**

The work program should be designed so that it tests the high priority unmitigated risks which have been assessed in step 4.

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### **Office Work Guidelines**

Work Guidelines are internal organization rules that enable us to have an efficient and professional operation. They are not meant to be inclusive of all rules and regulations regarding Bi-State Development Agency / Metro.

If an employee does not understand the following work guidelines, or if the employee needs clarification, it is the employee's responsibility to discuss this with management or his/her immediate supervisor.

#### **Guideline No. 1**

##### **Payroll Sheets**

In accordance with Agency regulation, each department is responsible for tracking daily attendance. The method chosen to meet this standard is KRONOS/TIME & ATTENDANCE computer system using project view timecards for salaried employees of the Internal Audit Department. Procedures for completing KRONOS timesheets are as follows:

1. It is each employee's responsibility to ensure that their KRONOS payroll is properly and truthfully completed and approved.
2. It is the Director's responsibility to review and approve each staff's KRONOS timesheet.
3. No employee is permitted to receive compensatory time without prior approval by the Director of Internal Audit. The employee's first obligation is to complete the assignment(s) that have been assigned to them. If an assignment requires that the employee work beyond 40 hours, it is the responsibility of the staff member to do what it takes to complete their assignment. There is absolutely no overtime pay for Internal Audit staff.

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## **Guideline No. 2**

### **Attendance**

1. The official work schedule is Monday through Friday from 8:00 a.m. to 5:00 p.m. each day with a one-hour lunch. Some employees have been approved to arrive at work by 9:00 a.m. If you are not at your workstation ten (10) minutes after your agreed upon start time, a call must be placed to the Internal Audit Director indicating your status on attending work for the day. Accordingly, your departure time for that day should coincide with your arrival time (i.e.: arrive at 8:30 a.m., depart at 5:30 p.m.). Flextime is available for employees with prior approval given by the Director of Internal Audit. Special consideration will be given to employees if advance notice is received regarding a late arrival as long as it doesn't become a habit. Staff may work a flexed/compressed work schedule with the Internal Audit Director's approval.
2. Employees are required to work during scheduled business work hours and will not be allowed to conduct personal business (i.e. paying bills, excessive phone conversation regarding non-agency business).
3. Each employee is to take lunch daily and will not be compensated for taking shorter or no lunch break unless prior approval is given by the Director of Internal Audit.
4. Each employee should let the Director of Internal Audit know their whereabouts and provide a telephone number when out working in the field within 15 minutes of arriving each day. If the Director of Internal Audit is not available, leave a voice mail on the telephone.
5. Employees requesting vacation must submit a Vacation Leave Request Form to the Director of Internal Audit; at least 48 hours in advance, for approval prior to taking vacation leave, unless an emergency occurs.
6. Employees requesting Paid Time Off (i.e. Doctor's Appointments) must submit an e-mail to the Director of Internal Audit; at least 48 hours in advance for approval prior to taking sick leave. If an employee is sick and has to leave work, the employee should notify the Director of Internal Audit. If the Director is not available, leave a voice mail message on the telephone or e-mail. If an employee is not able to come to work due to illness, the Director of Internal Audit should be notified. If the Director of Internal Audit is unavailable, leave a voice mail message on the telephone. Paid Time Off may be used for personal/dependent illness, injury and medical/dental appointments.
7. Any employee who requires emergency leave prior to coming to work must call the Director of Internal Audit prior to 9:00 a.m. If the Director isn't available, the person should leave a voice mail message on the Director's telephone.
8. Any employee who requires emergency leave after arriving at work should get approval from the Director of Internal Audit. If the Director isn't available, the person should leave a voice mail message on the Director's telephone. Paid Time Off will be charged accordingly.

**Guideline No. 3****Laptop/Notebook Computers**

All employees who sign out the laptop computers are responsible for the computer and will agree to:

- Use the computer only for those purposes related to the business of the Agency.
- Take reasonable care of the computer in order to protect it from theft or unnecessary damage.
- Inform the Director of Internal Audit immediately when a problem with the computer is encountered.

Employees utilizing the pool of laptop computers and printers should sign-out the equipment and sign-in the equipment once it is returned. Employees are responsible for the equipment until returned and signed in. Any conditions preventing the equipment from working as effectively as possible should be reported to management.

When computers are taken from the office to work in the field, they should be stored in a locked drawer, cabinet or safeguarded appropriately. If this is not possible, the computer should remain in the employee's possession. However, under no circumstance will employees be allowed to keep the computers at home indefinitely. Laptops are allowed to be taken home, but must be brought back to the office the next business day that the employee returns.

Do not add any software to Internal Audit Department's Laptop's or computers without written approval from the Director of Internal Audit.

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#### **Guideline No. 4**

##### **Work Performance**

In order for the Internal Audit Department to provide the best quality service to our clients/auditees, all audit staff members should perform their duties in a spirit of cooperation and helpfulness.

It is the duty of the Director of Internal Audit to efficiently and effectively direct the activities of the audit staff by an assignment of duties in a manner understood by the employee. It is the Director's further duty to initiate corrective action whenever an employee does not obey the established rules and regulations or does not comply with reasonable work assignments.

It is the responsibility of each staff member to display appropriate/respectful behavior and follow the direction established by management. Failure to do so will be considered insubordination. Insubordination is a serious act and will not be tolerated. If the employee feels the assignment given by management is inappropriate, he/she should first discuss the matter with the Director, following the appropriate chain of command, and note any differences in opinion and then attempt to complete the assignment as instructed.

Employees should refrain from extended periods of socializing during working hours.

Employees are not to bring to work or carry on their person while at work, any alcoholic beverages, weapons, illicit drugs, or drug paraphernalia.

If an employee is incapable of performing his/her duties in a safe and regular manner due to drinking of alcoholic beverages or drug use, he/she will be relieved of duty and disciplinary action will be initiated. If an employee must take medication that will affect his/her ability to perform their duties in a safe manner, it is the employee's duty to inform management immediately.

Except for emergencies, personal use of telephones should be limited. Short inquiry calls to family or similar matters are acceptable. Employees should refrain from holding extended personal calls.

Employees are not to accept gifts or gratuities from persons, clients, businesses, vendors, or others in the performance of their duties, including luncheons, various tickets, or samples.



The evaluation of the system of internal controls should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to accomplish the intended purpose. The study and evaluation should be adequately documented and properly supported by results of tests, observations, and inquiries.

The use of electronic data processing methods that can affect the reliability, accuracy, or usefulness of financial or statistical data and reports should be included as part of the study and evaluation.

The internal controls are evaluated throughout the audit examination. Generally, the guidelines are incorporated into an audit program in the form of desirable internal control characteristics, internal control questionnaires, checklist, and specific audit tests and procedures. Although the written audit guidelines (programs) are invaluable aids, the audit director must ensure that each assigned staff member is familiar with the scope and objectives of the internal control review.

The review of the system of internal controls is performed by discussing the adopted control procedures, methods and plan of organization with auditee officials. The auditor may use internal control questionnaires or checklists as well as written narrative memoranda, transaction walk-throughs and other applicable techniques in determining the adopted control procedures and the method and plan of organization. These techniques are preferred because they provide adequate documentation.

In addition to discussions with auditee officials, auditors make inquiries and perform observations relating to the system of internal controls. These inquiries, observations, resulting findings, and conclusions are also documented in the work papers. This documentation includes identifying control strengths and weaknesses and cross-referencing them to the audit tests and procedures concerned with substantive testing.

To assist in evaluating the system of internal control the auditor should consider the following:

- Types of errors and irregularities that could occur.
- Control procedures to prevent or detect such errors and irregularities.
- Whether the procedures have been adopted and are being followed satisfactorily.
- Weaknesses, which would enable errors and irregularities to pass through existing, control procedures.
- The effect these weaknesses have on the nature, timing, and extent of auditing procedures to be applied.

Tests of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding the auditor obtained from the review. These are performed for those control procedures or methods upon which the auditor has chosen to rely. Conversely, when the auditor determines that certain controls cannot be relied upon, tests of compliance are not ordinarily performed.

The nature, timing and extent of tests of compliance are closely related to the control procedures and methods studied by the auditor. Additionally, the auditor must consider the availability of evidence and the audit effort required to test compliance. In considering the required audit effort the auditor assesses whether precluding certain tests of compliance will reduce the reliance on the controls and procedures and whether such reduced reliance significantly affects subsequent audit tests and procedures.

The Director of Internal Audit needs to approve the nature, extent, and timing (Audit Program) of audit tests of compliance. In addition, the audit tests and procedures are to be adequately cross-referenced to the review and preliminary evaluation of auditee internal control strengths and weaknesses.

### **INTERNAL CONTROL PROCEDURES**

The purpose of this procedure is to identify the process for evaluating auditee internal controls. The objective is to determine to what extent the internal controls are present and operational.

Audit methods used to study and evaluate existing internal controls include:

- Internal control survey questionnaires guide the auditor to query responsible managers regarding specific or general internal controls. The questionnaires are designed so that a negative response indicates a potential internal control weakness.
- A negative response will cause the auditor to determine whether compensating controls are in existence, which would offset the negative response.
- Narratives may be used to describe the system of internal control.

Documentation to support the auditor's understanding of the internal controls:

- Audit workpapers provide the support for the conclusions reached by the auditor regarding the study and evaluation of internal controls.
- Only those internal control functions, which are deemed critical or important to the strength within a particular transaction cycle, should be tested and evaluated.
- Workpapers should be prepared to highlight the internal control attributes within the processes to be evaluated.

Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor:

- Attribute sampling wherein the auditor identifies the expected frequency of occurrence of an event.
- Variables sampling wherein the auditor samples for values in a population, which vary from item to item.
- Other techniques the auditor may wish to use include Random and Judgment sampling.

Internal control is defined as, a plan or organization, procedures and records concerned with the safeguarding of assets, which check the accuracy and reliability of accounting data and promote operational efficiency and adherence to prescribed management policies.

Internal control can be classified as internal accounting control and administrative control.

- (1) Administrative internal control is a plan of organization, procedures and records concerned with the decision processes leading to management's authorization of transactions to promote operational efficiency and encourage adherence to prescribed policies.
- (2) Internal accounting control is the plan of organization, procedures and records concerned with the safeguarding of assets and the reliability of financial records and designed to provide reasonable assurance that:
  - Transactions are authorized
  - Transactions are properly recorded
  - Access to assets is limited and permitted only in accordance with management authorization
  - Records are compared with physical assets and variances are investigated
  - Recorded amounts are reviewed for impairment in asset value

The procedures for the study and evaluation of internal control include:

Preliminary survey - To obtain internal familiarization with auditee's overall organization, operation, and control systems.

Determine facts - Ascertain by analysis and inquiry what controls have been established.

Walk through - Trace selected transactions through the system to confirm whether it is functioning as described.

Document – This can be accomplished by written procedural memoranda.

Evaluate - Make a tentative evaluation of the effectiveness of internal control.

- Test and re-evaluate, confirm, modify or reject the tentative evaluation of internal control through the use of test samples. Document the results of the tests and the *conclusions* as to the effectiveness of internal control.

<b>Approved By:</b> JC	<b>INTERNAL AUDIT</b> Policies & Procedures Manual	<b>Section 2.2</b>
<b>Section Title:</b>	<b>AUDIT PLANNING MEMO</b>	<b>Page 1 of 1</b> <b>Effective Date: 06/26/15</b>

A major function of the audit-planning memo is to serve as a means of communication. Existence of a plan will ensure that the Audit Director and the assigned personnel have a mutual understanding of the audit objectives and how and when they are to be achieved. Elements of a good plan include:

1. Problem Definition - Why the audit is to be performed.
2. Work Definition - Identify the major tasks to be performed.
3. Skill/Time Definition - What audit skills, personnel requirements, and how much time will be needed.

No matter how well conceived, nearly every plan will be changed from time to time. The impact of these changes as they effect the tasks, work assignments, completion dates, etc., must be reflected in the appropriate planning documents. Failure to do so will mean that the plan will eventually become so outmoded as to become valueless.

Care must be exercised in the formulation of the plan. It must be complete as to the statement of work to be accomplished and realistic as to the estimates of time and manpower required to do the job. At the same time, caution must be used to ensure that the plan does not become too detailed. Such a plan is cumbersome to maintain and, as such, will use up too much of the "in-charge" time or not be maintained at all. Either circumstance could imperil the successful completion of the audit.

Additionally, the planning memo should include the name of the lead auditor and the team members. The audit objectives should also be included.

<b>Approved By:</b> JC	<b>INTERNAL AUDIT</b> Policies & Procedures Manual	<b>Section 2.3</b>
<b>Section Title:</b>	<b>ENTRANCE CONFERENCE</b>	<b>Page 1 of 2</b> <b>Effective Date: 06/26/15</b>

## **ENTRANCE CONFERENCE**

Prior to the entrance conference an engagement letter should be sent to the department to be audited. A copy of the letter should be sent to the person that directly supervises the auditee, President & CEO and Audit Committee Chairperson. This process is performed to communicate to the auditee the beginning date of our audit and to request from the auditee any information that will help during the preliminary section of our audit. It is also used as a mechanism to inform senior management as to the activities of the Internal Audit Department.

After completing the preliminary planning stages of the assignment, and prior to commencing the fieldwork, audit management and the in-charge auditor should meet with the auditee's management and key supervisory personnel. The entrance conference provides the opportunity to begin building good relationships, explain the purpose of the audit; to establish the necessary working arrangements; and to gain an overall understanding of the function/department to be audited. The auditor should assure that all appropriate items are discussed in sufficient detail, that the meeting is kept brief and that a cooperative atmosphere is established. Points that should be discussed during the conference include:

**Introductions** – The opening remarks should include an introduction of the attendees.

**Scope and objectives** – Review basic scope and objectives planned for the audit. Outline the general audit work plan. Emphasize that the purpose of the audit is to add value and improve an organization's operations by helping an organization accomplish its objectives by making recommendations to improve the effectiveness of risk management, control and governance processes. Emphasize that the initial scope of audit coverage may be modified during the audit. The anticipated audit start date and audit completion date should be indicated during the entrance conference.

**Audit observations** – Explain how audit observations will be handled, e.g., resolution of minor observations, the discussion of all observations on a current basis to permit auditee to take timely corrective action, the exit conference at the completion of the fieldwork, the review of the report draft, and the distribution of the audit report. Discuss status of prior audit observations if applicable.

**Audit progress** – Establish a clear understanding with client management about keeping their personnel advised of the audit progress and observations. Determine frequency of progress updates and management levels to be apprised of audit progress and observations.

**Auditee input** – Solicit the auditee's comments regarding aspects of the entity's organization, operations and procedures. Extend an invitation to discuss areas in which audit attention is scheduled to be directed and any other matters or views that the auditee believes should be considered during the audit. Care must be exercised not to undertake work in an area of interest to management but not essential to the audit objectives.

**Cooperative administration** – Inquire about working hours, access to records, staff available to work with audit staff/furnish records, available work area for auditors, the auditee's various work deadlines and any other information which can be used to help schedule the audit activities to fit into the office routine with minimal disruption to the auditee's personnel.

<b>Approved By:</b> JC	INTERNAL AUDIT Policies & Procedures Manual	Section <u>2.3</u>
Section Title:	ENTRANCE CONFERENCE	Page 2 of 2 Effective Date: 06/26/15

**Introduction and tour** – Arrange to meet other personnel the auditor will be working with during the audit. Also, arrange for a familiarization tour of the physical facilities.

A summary should be written for the workpapers showing the date, attendees, items discussed, resolutions, promises, disagreements and other items to be considered during the review.

DRAFT

**BI-STATE DEVELOPMENT AGENCY / METRO  
GATEWAY ARCH OPERATIONS AUDIT  
ENTRANCE CONFERENCE AGENDA  
August 7, 2007**

- I INTRODUCTION- Objectives, scope, audit duration
- II METHODOLOGIES – Audit procedures to be used, and the reporting process.
- III AUDIT WORK REQUIREMENT – Immediate Response.
- IV MANAGEMENT CONCERNS/OTHER COMMENTS
- V SCHEDULE APPOINTMENT OF PRELIMINARY WORKS – List of Documents, Internal Control Questionnaire (ICQ), Walk Through, Observation
- VI CONCLUSION



BI-STATE DEVELOPMENT AGENCY / METRO  
GATEWAY ARCH OPERATIONS AUDIT  
ENTRANCE CONFERENCE AGENDA  
August 7, 2007

I. INTRODUCTION

1. Explain Meeting Format
2. Emphasis will be given on the spirit of cooperation, working together, open door policy and helping the management to improve weaknesses, if there is any.
3. Objectives: 1) To gain an understanding of the Gateway Arch Operations process 2) To determine whether that process is working effectively and efficiently 3) To determine whether internal controls are in place 4) To determine if compliance has been met as determined by the Board, Government and Management.
4. Who is the Auditor in-charge, and audit scope
5. Duration of the audit if everything goes as expected from entrance conference to exit conference– at least 12 weeks, tentatively on October 29, 2007. As we get closer to our tentative date and more time is required we will inform you of the change.

II. METHODOLOGIES/PROCESS:

1. Traditional Operational Audit Objectives - ICQ, walk through of the process and the forms/reports being used, observation, extent of test and sampling based on preliminary assessments and findings in progress, various interviews as needed, and request copies of certain reports or documents.
2. While the audit is in progress, supervisor/management will be notified of possible findings prior to exit conference.
3. Usual Process: A draft report is usually issued prior to the exit conference so that management could respond to the findings and be prepared for exit discussion. It is preferable that management draft or official response and timetable of the course of actions are given for inclusion in the draft report to be discussed in the exit conference. (Provide copy of MAP). Exit conference will be scheduled and after that, the final report will be issued and submitted to the Board.
4. Provide management with a copy of the Satisfaction Survey. Mention to management at the end of the audit, we'll request completion of the Satisfaction Survey of the recently concluded audit as part of Internal Audit's ongoing process improvement.

**BI-STATE DEVELOPMENT AGENCY / METRO  
GATEWAY ARCH OPERATIONS AUDIT  
ENTRANCE CONFERENCE AGENDA  
August 7, 2007**

**III. WORK REQUIREMENT:**

**A. AUDITOR'S**

1. Don't forget to notify the staff that there is an ongoing audit to avoid any misunderstanding.
2. We need cooperation for immediate response on questions and requests so we could finish the audit timely and be out of your way.
3. Work Area: Need a place to work when work requires the auditor to be at the Arch area.

**B. AUDITEE'S REQUIREMENT**

1. Please let us know in advance if there are less desirable times, situations, and dates to perform what I need to do. I will be Flexible, and will be glad to work around situations.

**IV. MANAGEMENT CONCERN:**

Obtain any concern that management has with regards to this unit:

1. Any areas within your control that need most attention or improvement?
2. Is there any experienced, consistent systems-related problem that impacts the effective and efficient processing of transactions?
3. Any corporate policies or procedures that you believe require change to improve the efficiency and effectiveness of the process?

**V. APPOINTMENT:**

Obtain earliest schedule for ICQ, walk through and observation.

**VI INQUIRE ANY OTHER QUESTION/MATTER/COMMENT FROM THE  
DEPARTMENT OR AUDIT DIRECTOR. Appropriately discuss, thank everybody for  
attendance, and end the conference.**

<b>Approved By:</b> JC	<b>INTERNAL AUDIT</b> Policies & Procedures Manual	<b>Section <u>2.4</u></b>
<b>Section Title:</b>	<b>AUDIT PROGRAM</b>	<b>Page 1 of 1</b> <b>Effective Date: 06/26/15</b>

An audit program is a detailed plan for work to be performed during an audit. Well-constructed audit programs are essential to conducting audits in an efficient manner. Some of the benefits provide:

- (1) A systematic plan for each phase of the work, which can be communicated to all officials and staff members concerned.
  - Systematic basis for assigning work.
  - Means by which the audit director can review and compare performance with approved plans.
- (2) Assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
- (3) The basis for a summary record of work actually performed.
- (4) An aid to the Director of Internal Audit by making possible a reduction in the amount of direct supervisory effort needed.
- (5) Assistance in familiarizing successive audit groups with the nature of work previously carried out.

The program consists of specific directions for carrying out the assignment. It should be subdivided into sections covering audit objective elements and may be amended as work on the assignment progresses.

Most audit programs will be prepared from the preliminary audit approach. All audit programs should be approved by the Director of Internal Audit prior to the commencement of engagement work.

Adjustments to audit work plans should be approved in a timely manner. Initially, approval may be obtained orally, if factors preclude obtaining written approval prior to commencing audit work.

**Bi-State Development Agency / Metro  
Pass Unit  
Audit Program**

Program approved prior to use: \_\_\_\_\_ Date: \_\_\_\_\_  
Director/Internal Audit

**Audit Objectives:**

1. To determine if the lockbox operations, mailed in payments, and tickets inventory handled by the Pass Unit are operating in accordance with management's directives.
2. To determine if the internal controls are adequate in the Pass Unit for lockbox operations, mailed in payments, and tickets inventory.
3. To determine if assets related to lockbox operations, mailed in payments and tickets inventory that are handled in the Pass Unit are properly safeguarded.

	<b>W/P Ref</b>	<b>Done By</b>
1. Preliminary		
A. Obtain or prepare a copy of the current organization chart of the Pass Unit function and gain an understanding of the reporting relationship.	_____	_____
Note any recent changes in the staff and management, if it impacts current audit.	_____	_____
B. Obtain a copy of the written department and external regulatory entities' policy and procedures and gain an understanding.	_____	_____
C. Obtain copies of reports and records generated and received by the Pass Unit and gain an understanding of its use and determine its reasonableness.	_____	_____
D. Obtain copies of previous audits related to the Pass Unit operations and determine the audit work that has already been performed so that it is not duplicated in this audit.	_____	_____

**Bi-State Development Agency / Metro  
Pass Unit  
Audit Program**

	<b>W/P Ref</b>	<b>Done By</b>
E. Obtain General Ledger accounts related to the Pass Unit operations and perform analytical reviews between months and years. Note seasonal fluctuations and obtain explanations for significant variances. Compare if it is consistent with its related General Ledger accounts.		
F. Walk-through all the procedures and gain an understanding.	_____	_____
2. Cash Safety	_____	_____
A. During the walk-through, note any procedures inconsistent with timely deposit and the safety of the cash before they are deposited. Note controls of receipts via the mail and safety of staff and deposits on its way to the bank. Test if vault and other safety equipments are in good condition and working properly. Note if access is limited. (Based on the walk-through & tests planned, determine if observation is still needed.)		
B. Perform an unannounced cash count.	_____	_____
C. Verify any measure to prevent the Cashier from recording small amount of sale.	_____	_____
3. Segregation of Duties	_____	_____
A. Flowchart the procedures. Note segregation problems, processes not consistent with management's directives, strengths and weaknesses.	_____	_____

**Bi-State Development Agency / Metro  
Pass Unit  
Audit Program**

	<b>W/P Ref</b>	<b>Done By</b>
4. Receivables		
A. Obtain or prepare an aged accounts receivable, scan significant, unusual, outstanding balances and determine if maintained appropriately. Agree the total against the control account.	_____	_____
a. Note if review procedures are performed on outstanding balances.	_____	_____
b. Note if follow-ups or statements sent out on a regular basis.	_____	_____
c. File containing details of all declined credit applications are maintained.	_____	_____
d. Note procedures for overdue accounts. If collection agency is used, obtain outstanding balances.	_____	_____
e. Review adequacy of allowances, ascertain collectability of accounts, reasonableness of bad debts expense.	_____	_____
f. Review unfulfilled sales commitments.	_____	_____
B. Select accounts and obtain positive confirmations. Obtain explanations for unanswered requests. Test on the selected accounts for adherence with the agreements. Limits and terms, accurate invoice calculations, accurate recording of transactions, credit approval process, if interests are implemented for unpaid accounts, accuracy of the interest calculations, refunds, returned checks penalties.	_____	_____
5. Reconciliation		
A. Review if bank reconciliations are performed for the deposits.	_____	_____
a) Agree to control totals.	_____	_____

**Bi-State Development Agency / Metro  
Pass Unit  
Audit Program**

	<b>W/P Ref</b>	<b>Done By</b>
b) Verify reconciling items if appropriate.	_____	_____
c) Test samples for accuracy.	_____	_____
B. Review reconciliations performed for the receivable subsidiary. Verify reconciling items if appropriate.	_____	_____
C. Determine if branch or third party deposits are reconciled. Test for accuracy.	_____	_____
D. Test for accuracy, propriety, and reasonableness of the reconciliations.	_____	_____
6. Authorization	_____	_____
A. Determine if credit approval, price and interest rates charged, discounts, write-offs, refunds, cancellations, and other adjustments are properly authorized and reasonable. Test for samples.	_____	_____
B. Board resolution authorizing the signatories to bind the companies.	_____	_____
7. Tickets Inventory Control	_____	_____
A. Determine if tickets inventory are adequate, recorded appropriately and kept appropriately.	_____	_____
a) Note proper cut-offs and unusually high returns of unsold tickets at end of periods.	_____	_____
b) Review completeness. Review controls to ensure all tickets are accounted for.	_____	_____

**Bi-State Development Agency / Metro  
Pass Unit  
Audit Program**

	<b>W/P Ref</b>	<b>Done By</b>
8. Other		
A. Obtain explanations for exceptions noted and determine their reasonableness.	_____	_____
B. Apply other procedures determined necessary.	_____	_____
C. If they rely on computer software: is it reliable, efficient, adequate, stable and secure?	_____	_____



**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
WORKING PAPER CHECKLIST**

**Project Number:**

**Project Title:**

	<b>Yes</b>	<b>No</b>	<b>Page Reference</b>
1. Are audit workpapers cross-referenced to the audit program?	_____	_____	_____
2. Are the work papers consistent in form and logical arrangement?	_____	_____	_____
3. Do working papers contain the following:			
a.) A descriptive heading?	_____	_____	_____
b.) Source of information?	_____	_____	_____
c.) Purpose of workpaper?	_____	_____	_____
d.) The date of preparation and the auditor's initials?	_____	_____	_____
4. Do working papers contain the following major sections:			
a.) Audit Report?	_____	_____	_____
b.) Audit Documentation (findings analysis, follow-up etc.)?	_____	_____	_____
c.) Planning (project assignment, opening conference, narratives, sampling documents)?	_____	_____	_____
d.) Audit Program	_____	_____	_____
e.) Field workpapers?	_____	_____	_____
5. Are the working papers concise, clear, accurate and complete?	_____	_____	_____
6. Do working Papers support audit findings with enough detail to substantiate them?	_____	_____	_____
7. Is there cross-referencing within working papers and are easy to follow?	_____	_____	_____

\_\_\_\_\_  
Auditor-in-Charge

\_\_\_\_\_  
Date

\_\_\_\_\_  
Audit Supervisor

\_\_\_\_\_  
Date

## **AUDIT WORKPAPER STANDARDS**

### **GENERAL**

Audit workpapers contain the results of internal control evaluations, analytical review, and audit tests. They serve to document the evidential matter examined, explain unusual items found, summarize deficiencies notes, and provide conclusions regarding the significant elements of each auditee's controls, financial reporting, and operating procedures. Workpapers are prepared for each assignment. They are designed to substantiate our audit concerns and reports, provide a medium for supervisory review to determine the adequacy of audit work performed, and demonstrate our compliance with the Standards for the Professional Practice of Internal Auditing.

### **OBJECTIVES**

On an overall basis, workpapers provide documentation for the scope of the work performed, the sources of audit evidence examined, and the conclusions reached from our reviews. Completed audit workpapers accomplish the following objectives:

1. Provide evidence of all audit work performed.
2. Provide documentation for conclusion reached during the audit and whether audit objectives were achieved.
3. Provide support for audit concerns and the audit report.
4. Provide documentation of the internal control system and our evaluations of that system.
5. Provide a means to conduct the audit in an orderly manner – controlling what has been done, indicating what is still to be done, and giving reasons for what will be left undone.
6. Provide a ready reference for discussions with operating management or serve as a line of defense when conclusions or recommendations are challenged.
7. Provide a basis for supervisory review of the adequacy and effectiveness of audit work performed and the soundness of conclusions reached.
8. Provide a basis for appraising auditor's performance.
9. Provide reference data for peer reviews conducted by independent parties.

## **WORKPAPERS AND THE AUDIT PROCESS**

Workpapers are prepared from the time the auditor first begins the assignment until the final report is written. The organization, design, and content of workpapers will depend upon the nature of the audit. The workpapers should, however, document the following aspects of the audit process:

**Planning** – Resulting workpapers will include an audit program and/or modifications, financial statements and the results of an initial analytical review, organizations charts, the audit scope memorandum, time budgets, prior internal and external audit reports, memorandum of issues carried forward from the prior audit, and all other documents used in the planning process.

**Internal Control Evaluation** – These workpapers document our examination and evaluation of the adequacy and effectiveness of the system of internal control. Possible inclusions are internal control questionnaires, flowcharts, and narratives.

**Audit Test** – These workpapers document the auditing procedures performed, the information obtained, and the conclusions reached. Examples include interview memorandums, schedules of detailed tests, analyses, confirmation replies, and financial statements.

**Review** – Supervisory review will be documented by the Director of Internal Audit's initials on each working paper.

**Reporting** – Workpapers in this area will consist of the audit report including management's responses.

**Follow-up** – Workpapers will include any correspondence or memorandums regarding the audit subsequent to report issuance.

## **GENERAL WORKING PAPER REQUIREMENTS**

In order to be a usable record of the audit work performed, workpapers must follow a consistent organization and format. This consistency will assist the auditor in the orderly conduct of the audit and allow for comprehensive and constructive reviews.

In preparing well-documented workpapers, the following general requirements must be observed.

### **GUIDELINES:**

**Neat** – Workpapers should be easy on the eye. In preparing neat workpapers, the auditor must write legibly and use only one side of a worksheet.

**Uniform** – All workpapers must be prepared on paper of uniform size. Our standard is legal size (8 1/2 x 14) workpaper. All attachments should be fastened to the standard sheet and folded if necessary, to be readable without moving the working paper file from its bound position. The standard font is “Times New Roman”. The font style is regular and the size of the font should be 11.

**Understandable** – All workpapers must be clear and concise and require no supplementary information to be understood. Workpapers must document the source of the information, the scope of the work, the actual work performed, and the conclusions reached without raising significant additional questions. For every concern raised in a working paper conclusion, the disposition must be stated.

**Relevant** – Only workpapers which relate to the audit objectives or, are specifically required by the audit program should be included as workpapers.

**Economical** – Avoid unnecessary listing and scheduling by using photocopies of the auditee’s records whenever practical and documenting audit work by fully explained tickmarks or other written documentation. Workpapers developed in the prior audit may be photocopied and transferred to the current workpapers. They should be updated with current information, re-numbered, referenced, and initialed and dated by the current auditor, who is now responsible for their accuracy. When samples are selected, the auditor should economize by covering as many tests as possible on the same worksheet or by using the same sample for as many analyses as feasible. Workpapers which merely list transactions reviewed cannot be considered economical. Workpaper documentation must concentrate on summarizing the results of testing, categorizing deviations noted during testing and concluding about those deviations relative to audit objectives.

**Complete** – Audit workpapers should be complete with respect to heading, indexes, cross-references, tickmarks, legends and other explanations and conclusions. Workpapers must be able to “stand alone”. This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each audit segment.

**Accurate** – All statements and audit tests documented in the workpapers must be trustworthy.

### **WORKING PAPER ORGANIZATION**

Workpapers are to be arranged by section in the order indicated on the program index. Within each section, the workpapers are to be arranged as outlined in the audit program and are to follow this general pattern:

- (1) Audit program
- (2) Internal control evaluation
- (3) Schedules of auditing procedures performed

At the conclusion of the audit, the auditor should bind the workpapers in program section sequence, using a standard two-hole punch and “ACCO type” fastener. The audit report, workpaper review notes, and memorandum of concerns for the next audit should be filed in front of the audit program section. The auditor should prepare a file cover, which lists the name of the company, the division/department being audited and the type of audit being conducted. It should also contain the audit completion date, the audit period covered, the name of the auditors who worked on the assignment and the program section contained (if more than one binder is used). A blank cover should be used on the back of each binder to prevent damage to the last workpapers bound. The specific project number for each audit project should also be noted on the file cover. The Director of Internal Audit will assign the specific project number.

### **SPECIFIC WORKING PAPER REQUIREMENTS**

Specific guidelines have been established to have workpapers prepared in a consistent format. This format will aid in the development of new staff members, make multiple-staff audits more effective, and permit an easier review of the workpapers by third parties. Once the auditor becomes accustomed to a consistent format, he or she can spend less time on workpaper arrangement and more time concentrating on the audit at hand.

Workpapers include a wide variety of documents, as detailed previously under the “Workpapers and the Audit Process” heading. Requirements for preparing specific documents such as the audit scope memorandum and the audit report are covered in other headings. Following are the specific requirements established for the audit program the internal control evaluation, and the schedules of auditing procedures performed.

### **AUDIT PROGRAM**

Audit programs, in addition to guiding the auditor to a successful completion of the audit, serve to document audit work in many areas.

**Heading and Completion** – Each page of the program heading should indicate the name of the company, the division/department being audited, the type of audit program and the audit date. A program approval section should be included for the Director of Internal Audit signature and a section for the date should also be included. All Audit Programs should be approved prior to the beginning of every audit.

**Objectives-** Each audit program should include an audit objectives section where the audit objectives are listed. Establishing clear objectives provides a structure and discipline that helps the auditor to focus on the expected results and avoid confusion. Clear objectives also help ensure that the audit work will be conducted timely and efficiently, and that the work will produce the desired results.

Objectives should be stated in such a way that a response can be given in specific positive terms. The method most frequently used in attempting to phrase objectives are: (1) as a “to determine” statements. For example: To determine if standard procedures are followed.

Completion of each audit step is documented by the auditor initialing the audit step and indicating the date (month/day/year). In the column beside each program step, the auditor should reference the location

of the applicable workpaper. When a workpaper is not prepared, the auditor should write a clear explanation giving positive assurance that the work was performed and state the results of the work and the conclusion reached. Also, if a program step does not apply, the reason why it does not apply should be explained. Marginal comments such as “done,” “no exceptions” and N/A” are not acceptable.

### **INTERNAL CONTROL EVALUATION**

The internal control review may be accomplished through the use of questionnaires and procedural flowcharts or narratives. Workpapers for the control review should test compliance with the Agency’s internal control policies and document how the auditor adjusted the scope of the audit based upon control weaknesses noted in this study. After completing the review, the auditor must reach a conclusion as to the amount of additional work, if any that must be performed. Generally, when a weakness is discovered, three types of conclusions can be reached:

**Weakness Mitigated** – In many cases the lack of control technique is mitigated by another control technique or segregation of duties. In any case, the auditor should clearly state that conclusion and that no further work is necessary.

**Normal Testing Required** – The auditor may determine that the potential exploration of the weakness noted in the control review will be adequately tested in the normal audit procedures as outlined in the audit program. In this case, the auditor should indicate the program step(s) where the audit work will be performed and a cross-reference to the actual workpaper being prepared.

**Additional Testing** - The auditor may also determine that because of the special nature of the unit’s operation or poor overall control environment, special testing will be required as a review for potential exploitation. In this case, the auditor should briefly summarize the additional testing, indicating where in the audit program the testing was added and cross-reference the weakness noted to the actual workpaper.

Under most circumstances an actual workpaper should never be prepared to address the control weakness discovered until applicable testing of the weakness has been completed. In addition, should subsequent testing indicate that the system of controls is not functioning as described in control review; the control review workpapers should be updated to reflect this change.

### **SCHEDULES**

The most common audit workpapers are those which document the auditing procedures performed, generally referred to as schedules. These require the following components:

**Heading** – The heading for audit schedules must include the name of the company, the division/department being audited, type of audit being conducted, type of audit step or test being performed and the audit period being audited. In addition, the auditor must sign or initial the workpaper and note the date (month/day/year) the workpaper was prepared. The signature/initials and date should be documented in the upper right corner of the workpaper.

**Purpose, Scope, Test Period and Method of Selection** – On every schedule, the auditor must state why a test(s) is being performed (**Purpose**). On workpapers where the auditor selects and tests specific items, the working paper must indicate what information or evidence was examined (**Scope**). The schedule must include the date(s) that describe the time period being tested (**Test Period**). How and where the information was selected for testing should be obtained (**The Method of Selection**).

**Indexing and Referencing** – Good indexing and referencing techniques assist the auditor in developing an organized approach to audit work and simplify the review process. Since schedules are required for the completion of many steps in the audit program, the index number assigned to most schedules is designated in the audit program. The index numbers should be indicated in red on the bottom right-hand corner of the workpaper. Where there are multiple pages of the same workpaper, use the same index number on each page, followed by 1 of #, 2 of #, etc. The symbol # represents the total numbers of pages. If a workpaper requires back-up schedules, they are to be indexed with the number of the primary workpaper followed by a letter suffix in alphabetical order (A, B, C, etc.). **Cross--references** must also be written in red and must appear on both schedules where the number appears.

**Tickmarks** – The primary source for documentation of audit work is fully explained tickmarks. Tickmarks may be shown in red or another distinctive color. Each tickmark must include careful description of the supporting data examined and the audit work performed. Vague explanations such as “examined supporting documentation” or “traced to invoice” are not acceptable. Because more than five tickmarks on a schedule often become indistinguishable, the auditor should use numbered explanatory notes rather than excessive tickmarks.

**Conclusion** – An important element of the audit is the conclusions, which the auditor draws, based on his or her evaluations of controls and procedures. Conclusions should be clear and concise statements of the work performed and what exceptions (if any) were noted. Conclusions are also written as to the adequacy of the amount of work done in relationship to errors (if any) noted. In all cases, conclusions should be prepared that indicate audit objectives have been achieved and give positive assurance of satisfactory conditions where no exceptions have been noted.

A conclusion is required on every working paper except schedules of simple supporting information, which are referenced to a main schedule containing a conclusion. An appropriate conclusion for a schedule of a general ledger account analysis should state whether the balance recorded in the financial records is adequately documented and is reliable. An appropriate conclusion for a schedule of a test for compliance should state whether policy has been observed. For every deficiency addressed in a working paper conclusion, the disposition must be stated.

### **WORKING PAPER REVIEW**

All audit workpapers should be reviewed to ensure that they document the completion of all required auditing procedures and that they properly support the conclusions reached and, ultimately, the audit report. The Director of Internal Audit will conduct a detailed working paper review, and prepare written review notes for each audit. Review notes serve to guide the auditor in improving workpaper documentation and to indicate any additional work that must be performed or explanations that must be provided for workpapers to be complete. Ideally, review notes should be answered prior to the exit conference date. If this is not possible, the auditor must answer, make the appropriate additions/corrections to the workpapers and submit the review notes with the workpapers and the audit report draft to the Director of Internal Audit.

### **DIRECTOR'S REVIEW**

The Director of Internal Audit will document the results of his review. After the review notes have been issued and signed off by the auditor, they will be submitted to the Director of Internal Audit. After the director's final review, the review will be given to the auditor to be filed in the general section of the workpapers. The review notes should contain any questions or comments concerning the work performed and instructions to the auditor. The auditor will take the action necessary to comply with the Director's review notes. The Director will examine each of these responses for adequacy.

### **CONTROLLING WORKPAPERS**

Workpapers are the auditor's property, and they should be kept under his or her control. While locking away workpapers overnight is not required during an audit engagement, they should be reasonably restricted from viewing by anyone who is not in the auditor's work area. **Workpapers containing confidential data should always be safeguarded.**



### **ACCESS TO WORKPAPERS**

Workpapers developed during an audit become official records upon the issuance of the final report and must be adequately safeguarded to prevent unauthorized use or premature disclosure. Under most circumstances the use of workpapers will be restricted to auditors within the office. Because some of the data could be helpful to others in the performance of their official duties, it is general policy to furnish information or permit them to review the workpapers after they have established the validity of their requests. The Director of Internal Audit will consider each request individually. Permission to release workpapers to others must be obtained from the Director of Internal Audit.

The requests for audit data or use of workpapers may arise from the disclosure of discrepancies and deficiencies, from the desire by the operating officials to conduct a further investigation into a problem, or from their intent to follow-through on the auditors' recommendations. In cases of this type, it is usually desirable to furnish the information requested. Before any file of workpapers is made available to operating officials, it should be reviewed to determine whether it contains information that was received in confidence and which should not be disclosed to them. The audit program and other papers, which contain details of confidential nature, should be withheld.

Access to workpapers must not be allowed to become routine and should be based upon a demonstrated need-to-know.

### **SUMMARY**

The quality of audit workpapers is a major factor in determining the professional competence of any auditor. The most significant findings and the soundness of conclusions can be lost unless they are carefully and clearly documented. With attention to the rules outlined in these procedures, adequate workpapers become the accepted pattern rather than an unpleasant task.

### **PREPARATION OF WORKPAPERS**

The preparation of workpapers, which clearly show the work performed, is an essential part of each audit. Workpapers are used (1) to assist the auditor in drawing proper conclusions, (2) to help the supervisor understand the work performed, (3) to support findings and recommendations with staff and the Board, (4) as a refresher when reviewing implementation of previous recommendations or beginning a related audit, and (5) as an aid to court testimony if required.

The exact make-up of workpapers will vary from one audit to another and among auditors based on professional judgment. However, all sets of workpapers will contain documentation to show the work performed and the audit planning memo, the audit program, a summary workpaper showing conclusions, notes on meetings, internal control evaluations, and a table of contents. Each audit program step will include references to the workpapers documenting performance of the step. Conclusions drawn on the summary workpapers will be cross-referenced to and from the workpapers supporting the conclusions.

### **REVIEW OF WORKPAPERS**

An important standard applicable to all audit work is that the evidence of work performed is to be reviewed by the Director of Internal Audit. The review process is important and must not be carried out in a superficial or perfunctory manner. The reviewer is responsible for obtaining compliance with prescribed standards for audit workpapers.

For those audits where more than one auditor is performing the site audit, the auditor in charge (Lead Auditor) should review the workpapers for each segment of the audit promptly after completion by the other auditors assigned to the project. In addition, the Director of Internal Audit will review all workpapers on each audit.

The review of workpapers should be made prior to the exit conference if at all possible, and the Director of Internal Audit should attend the exit conference. This procedure will enable the auditors to clarify any questions raised by the Director of Internal Audit and enable the Director to determine that the audit is complete in all respects.

Audit workpapers will be reviewed to determine whether:

- (1) The audit program was adequate for the assignment and was carried out.
- (2) Deviations from the audit program were properly explained.
- (3) Established auditing standards were observed in the performance of the work.
- (4) The workpapers meet professional standards.
- (5) The observations identified were fully developed and adequately supported.
- (6) The conclusions and recommendations are valid and reasonable.
- (7) The operating officials were apprised of the observations, and their comments reflected in the workpapers.

## **EXIT CONFERENCE**

A major part of completing each audit is the Exit Conference. This will include the preparation and presentation of the written draft audit report.

### **OBJECTIVES**

1. To ensure that the auditee is fully aware of all findings prior to issuance of the audit report.
2. To provide a record of the discussion of audit findings at the Exit Conference.
3. To determine concurrence/non-concurrence with recommendations and obtain auditee's comments regarding same.
4. To discuss with the auditee the course of action to be taken on each recommendation including target dates.
5. To obtain information that might clarify or explain the audit findings.

A memo will be sent to the auditee and the auditee's direct supervisor and/or the appropriate members of management informing them of the meeting and indicating that they are welcomed to attend if they desire. A draft audit report will be submitted to the auditee at least five business days prior to the Exit Conference.

During the Exit Conference it should be stated and understood that responses from the auditee are due within 10 business days after the Exit Conference.

### **TYPES OF REPORTS**

There are three types of audit reports: routine, special and interim.

1. Routine reports are the most common.
2. Special reports are used to report on significant matters and could be expected to receive limited distribution and be confidential in nature. Special reports will be issued only after consultation with the General Counsel.
3. Interim reports are issued while audits are in process for the purpose of bringing findings of an urgent nature to the attention of management or to keep management informed of conditions found in audits performed over a long period of time.

### **TIMELINESS**

When a routine report is used, the President and CEO will be provided a draft report with the briefing paper before the audit committee meeting, after which time the draft audit report, which shall incorporate any response received, will be issued. The draft audit report will be issued to the members of the Audit Committee for approval at the audit committee meeting. The approved draft audit report will be issued to the full board of commissioners for approval at the next Board of Commissioner's meeting.

### **RESOLUTION OF NON-CONCURRENCE CONCERNING THE AUDIT REPORT**

1. If the response to the audit report included a non-concurrence that is considered to be significant by the auditor, then a meeting shall be arranged between:
  - (a) Auditor
  - (b) Auditee
  - (c) President & CEO
  - (d) Director of Internal Audit
2. If the issue cannot be resolved, then additional audit comments regarding reasons for the difference of opinion will be incorporated into the report. The matter may be referred to the Audit Committee for resolution. The decision of the Audit Committee shall be final.

### **Background**

The Agency's Internal Audit Department is governed by and follows the Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors. The Internal Audit Department has developed this document to provide auditees information on the audit process and to provide guidelines for responding to audit findings to ensure adherence to the Standards.

### **Process**

Once the Internal Audit Department concludes the fieldwork phase of an audit, a draft Management Advisory Report is composed and issued to the auditee. In accordance with Standard 430.04.6, the report contains "findings, [which] are pertinent statements of fact which are necessary to support or prevent misunderstanding of the internal auditor conclusions and recommendations." The Management Advisory Report also contains recommendations that "call for action to correct existing conditions or improve operations. Recommendations may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results." The auditee is required to respond to the findings and recommendations noted in the Management Advisory Report. Once management's responses are received, an exit conference is scheduled and the report is discussed during that conference. Below are guidelines for developing the auditee's response. The response consists of three components: Concurrence, Action Plan, and Implementation Date.

#### **1. Concurrence**

A definite statement of management's acknowledgement of the validity of the finding is necessary. This statement should be "management concurs" or "management does not concur". If management does not concur, the acknowledgement should be followed by a statement of what part of the finding management does not concur with and the reason.

#### **2. Management's Action Plan**

The plan should be brief, clear and concise. It should not necessarily provide a reason for the deficiency, but the steps management will take to correct the deficiency or improve the inefficient or ineffective process. Many findings cite several points. Management's action plan should address each point and consider the recommendations provided by the Internal Audit Department. In the event management chooses to implement corrective actions other than those recommended, they should ensure all components of the finding have been addressed and that the risk mitigated by the Internal Audit Department's recommendations has been fully mitigated by the corrective actions chosen by management.

#### **3. Target Implementation Date**

The Target Implementation Date should be a reasonable date in which the action plan will be implemented. Reasonableness is based on the timeliness in which management will correct the deficiency noted by the Internal Audit Department. Secondly, it is based on the ability of the auditee to meet that date.

**Approved By:**  
JC

**INTERNAL AUDIT**  
**Policies & Procedures Manual**

**Section 2.8**

**Section Title:** MANAGEMENT ACTION PLAN GUIDELINES

**Page 2 of 2**

**Effective Date: 06/26/15**

**PLEASE NOTE:**

The Management Advisory Report is a product of the Internal Audit Department. Therefore, the Internal Audit Department reserves the right to wordsmith management's responses to meet the above guidelines, without changing their meaning. The Internal Audit Department also reserves the right to respond to all action plans. An auditor's response is generally included in two instances. First is in the event management chooses an alternative method of improvement or correction than the Internal Audit Department's recommendation. Second is in the event management does not concur with the Internal Audit Department's finding. The auditor's response contains two components: concurrence and response. The concurrence is a definite statement of auditor's acknowledgement that the action plan presented appears to be reasonable to mitigate the risk identified in the finding in a timely manner. In cases of concurrence, the response is a statement supporting management's action plans and possibly advising management of cautions to consider when implementing its action plan. In cases of non-concurrence the response will attempt to clarify the Internal Audit Department's position and reiterate the need for improvement. If concurrence cannot be reached between the Internal Audit Department and the auditee, the matter will be referred to the President and CEO for resolution. If resolution cannot be obtained, the matter will then be referred to the Board of Commissioners.

### **Audit Follow-up Procedures**

#### **Responsible Party**

Document the Metro employee who is responsible for ensuring that the recommendation(s) are implemented.

#### **Implementation Status**

Document whether the implementation status is complete or incomplete. If it is complete, provide us documentation or advise us of the process to observe as proof of implementation.

Review the audit report or matrix to ensure that every part of the recommendation has been fully implemented. If all parts of the recommendation have been completely implemented then you should respond by stating that the implementation status is complete. If any part of the recommendation has not been implemented you should note the implementation status as incomplete.

#### **Implementation Date**

If you know when the recommendation was implemented please provide that information (Month, Day, and Year). If you are uncertain, please provide a reasonable estimated date (Month and Year). If the recommendation has not been implemented, please note an Anticipated Implementation Date (AID).

#### **Validation Statement**

The validation statement is one of the most critical components of this process. The level of details and specifics provided in the validation statement will determine what level of reliance can be placed on the statement(s) and what level of additional follow-up must be performed by the Internal Audit Department. The validation statement is a statement in which the responsible party attests that the recommendation has been implemented. As a part of this statement, it should note what actions have been put in place to implement the recommendation. If you have documented proof that the recommendation has been implemented, this information should be submitted with the Corrective Action Plan Follow-up form. If the recommendation has not been implemented, then you should note Not Applicable (N/A) for the validation statement.

#### **Explanation for Open Items**

Recommendations that have not been implemented will be classified as an open item. A written explanation documenting why the recommendation has not been implemented will be required. An explanation of what progress has been made to date in achieving the complete implementation of the recommendation is also required.

Corrective Action Plan Implementation

Report of Corrective Action Resulting From (Audit Name):

Tracking Number:

Recommendations:

RESPONSIBLE PARTY	IMPLEMENTATION STATUS	ACTUAL IMPLEMENTATION DATE:
	Open	

Validation Statement:

Explanation for Open Items (If Applicable)

Response Submitted By:  
Name: Title: Date:

Internal Audit Verification:  
Name: Title: Date:

Audit Comments:



## **STATUS REPORTS**

1. The head of the department, which was audited, shall be responsible for ensuring that appropriate actions are taken in accordance with the timetables contained in the audit response. Any delays in taking such actions shall be explained in a letter from the Departmental Director to the President & CEO and the Director of Internal Audit.
2. The Director of Internal Audit shall schedule follow-up reviews as necessary to determine compliance. One of our primary responsibilities as professional auditors is determining that the auditee takes corrective action on recommendations. This applies in all cases except where "management or the Board has assumed the risk of not taking corrective action on reported findings."

Being an integral part of the internal audit process, follow up should be scheduled along with the other steps necessary to perform the audit. However, specific follow up activity depends on the results of the audit and can be scheduled at the closing conference or as a separate activity.

Follow-up activities may generally be broken down into two areas:

1. Limited - Limited follow-up typically involves more auditee interaction. This may include verifying procedures or transactions and in most cases is not accomplished through memos or phone conversations with the auditee.
2. Detailed - Detailed follow-up is usually more time consuming and can include substantial auditee involvement. Verifying procedures and audit trails as well as substantiating account balances and computerized records are examples. The more critical audit findings usually require detailed follow-up.

Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit or when management/board elects to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should be scheduled to monitor the situation or confirm completion of the changes, which were planned. These same factors establish whether a simple phone call would suffice or whether further audit procedures would be required.

At the end of each quarter, a summary report is prepared. This report reflects all period findings with appropriate comments to reflect end-of-quarter status.

Additionally, this report highlights all outstanding findings from prior periods and their status. It is the intent of this summary report to track all findings so that they are appropriately resolved.

**S A M P L E**

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FINDING ANALYSIS**

**Project Title:**

**Project No.**

**STATEMENT OF CONDITION:** What is

**CRITERIA:** What should be

**CAUSE:** Why the deviation from the criteria occurred. Cause explains why standards were deviated from, why goals were not met, and why objectives were not attained.

**EFFECT:** What happened or could happen because the condition differed from the criteria.

**RECOMMENDATION:** What is needed to correct the condition and improve operations.

**SAMPLE****PROJECT TITLE  
FINDINGS ANALYSIS**

<b>No.</b>	<b>STATEMENT OF CONDITION (Finding)</b>	<b>CRITERIA</b>	<b>CAUSE</b>	<b>EFFECT</b>	<b>RECOMMENDATION</b>
<b>1.</b>					
<b>2.</b>					
<b>3.</b>					
<b>4</b>					
<b>5.</b>					
<b>6.</b>					

**Note:** This form is optional and can be used by those auditors who find its use convenient in developing findings.

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
PROJECT TIME RECORD**

**Project Title:** \_\_\_\_\_

**Project Number:** \_\_\_\_\_

	<b>BUDGET ORIGINAL</b>	<b>REVISED</b>	<b>FINAL ACTUAL TIME</b>	<b>ACTUAL OVER (UNDER) BUDGET</b>
Preliminary Phase:				
Initial Planning				
Audit Planning Memo				
Interviews/Data Gathering				
Flowcharts/Narratives				
Audit Program				
Field Work Phase:				
Compliance and/or				
Substantive Tests				
Finding Analysis				
Summary and Overall Memo				
Final Phase:				
Supervisory Review				
Report Writing				
Auditee's Review				
Project Close				
Total				

***Special Note:***

Budget changes are to be supported with an approved Budget Revision Form

Any change in excess of 10% requires a written explanation to the Director of Internal Audit



BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
BUDGET REVISION

Budget adjustments should be pursued as soon as it is determined that the audit project undertaken is not the same as the project planned in the long-range program. Generally, this would take place after the preliminary survey and completion of the audit program, although factors may surface in any phase of the project necessitating budget revisions.

A budget revision is requested for the following:

Project Title:

Project Number:

Total Budget Project Hours:

Change Requested:

Revised Project Hours:

Revision requested for the following reason:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Prepared By: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed By: \_\_\_\_\_

Date: \_\_\_\_\_

Approved/Disapproved By: \_\_\_\_\_

Date: \_\_\_\_\_

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
AUDIT EFFECTIVENESS QUESTIONNAIRE**

**AUDIT:** \_\_\_\_\_

**DATE COMPLETED:** \_\_\_\_\_

Please provide your reaction to the recently completed audit by circling the number on the indicated scale to the right of each question that best reflects the manner in which you feel the audit was conducted. We would be interested in any additional comments you might have.

1= Lowest to 5 = Highest					
1. Were the objectives and scope of the audit stated clearly?	1	2	3	4	5
2. Were the stated audit objectives consistent with your objectives?	1	2	3	4	5
3. Did the auditors clearly explain to you their audit requirements (working space, required documents, etc.)?	1	2	3	4	5
4. How difficult was it for you to meet those needs?	1	2	3	4	5
5. To what degree was the audit disruptive to your operations?	1	2	3	4	5
6. Were the requests for information reasonable?	1	2	3	4	5
7. How would you rate the professionalism and competence of the auditor(s)?	1	2	3	4	5
8. Were the auditors courteous in their dealings with your staff?	1	2	3	4	5
9. How often did the auditors discuss audit progress with you?	1	2	3	4	5
10. Were the audit findings:	1	2	3	4	5
➤ consistent with the audit objectives?	1	2	3	4	5
➤ accurate?	1	2	3	4	5
➤ clearly stated and discussed with you?	1	2	3	4	5
➤ useful or of value to you?	1	2	3	4	5
11. Was a discussion draft of the audit report delivered to you in a timely manner?	1	2	3	4	5
12. Did the draft audit report accurately and clearly reflect the objectives, observations, and recommendations?	1	2	3	4	5
13. Was the time span from the start of the audit to the issuance of the final report reasonable?	1	2	3	4	5
14. Overall, how would you rate your satisfaction with the purpose, scope, objectives, conduct, and results of the audit?	1	2	3	4	5

Please provide any other comments that you feel will help us evaluate the quality and effectiveness of future audits in this department. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Please return the completed questionnaire at your convenience to the Internal Audit Department. It will be used to ensure on-going client satisfaction and to measure our effectiveness.

### **Quality Assurance and Improvement Program**

The Internal Audit Department is committed to implement the Institute of Internal Auditors' quality assurance and improvement program. A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal activity and identifies opportunities for improvement.

The Internal Auditor Charter approved by the Board of Commissioners requires the Internal Audit Department to maintain auditing standards consistent with those established by the Institute of Internal Auditors, and Generally Accepted Governmental Auditing Standards issued by the Comptroller General of the United States. An external assessment is required to be performed at least once every three years by a qualified, independent reviewer or review team or review team from outside the organization. This report represents the results of a self-assessment with independent external validation.

The Quality Assurance Review rating system, to express an opinion of conformance, includes three levels which contains the following:

#### **Generally Conforms (GC)**

GC – means the evaluator has concluded that the Internal Audit Department's charter, structure, policies, and procedures, as well as the processes by which they are applied, are judged to be in accordance with the Standards with some opportunities for improvement being possible.

#### **Partially Conforms (PC)**

PC – means the evaluator has concluded that a deviation from the Standards exist and action is needed to improve conformity. These deviations are not however significant enough to preclude the Internal Audit Department from carrying out its responsibilities in an acceptable manner.

#### **Does Not Conforms (DNC)**

DNC – means the evaluator has concluded the Internal Audit Department's is not aware of, is not making a good-faith efforts to comply with, or is failing to achieve conformity with many/all of the Standards thus impacting its ability to carry out its mission.



**Bi-State Development Agency / Metro  
Agenda Item  
Audit Committee Meeting  
May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **Treasury-Safekeeping Quarterly Accounts Audit–Ending December 31, 2014**  
Briefing Paper No. 15-29  
**Disposition:** Information  
**Presentation:** James J. Cali, Director of Internal Audit

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**Objective**

To provide the Audit Committee with the results of the Treasury - Safekeeping Quarterly Accounts Audit, ending December 31, 2014.

**Board Policy**

Board Policy, Chapter 30 Audit, Finance and Budget Section 30.040 Banking and Investment E.1. states:

“Securities purchased are delivered against payment and held in a custodian safekeeping account. Tri-party custodian agreements maintained with third party trust companies as well as the Federal Reserve Bank are acceptable. Hold-In-Custody repurchase agreements for fourteen days or less will be processed through special transaction accounts. These accounts will be audited quarterly by Internal Audit and the results reported through the Treasurer to the Board of Commissioners.”

**Funding Source**

The Internal Audit Department Budget.

**Background**

In accordance with the FY2015 Internal Audit Plan and the requirements of the Board Policy, the Internal Audit Department (**IAD**) performed a quarterly audit of the Treasury Safekeeping Accounts.

IAD reviewed the Treasurer’s Report, as of December 31, 2014, to identify the securities classified under the Safekeeping Accounts criteria. Each bank custodian, where the Safekeeping Accounts are held, was contacted to verify the existence of the Securities and to confirm the account balances.

**Analysis**

Based upon our analysis and examination from each bank custodian's confirmations, IAD has determined that the Safekeeping Accounts exist, and the respective balances have been fairly presented in the Treasurer’s Report dated December 31, 2014. A summary of our findings is presented in the attached table.

The Safekeeping Accounts are made up of funds to be used for multiple purposes. Of the \$63 million in securities issued by Federal Home Loan Bank and Farm Credit Bank (\$40.5 million and \$22.5 million, respectively), \$44.5 million represents local sales tax funds internally restricted for capital projects, \$10 million represents funds internally restricted for self-insurance purposes, \$8 million is per Board policy to internally reserve for unexpected costs, and \$500,000 is for the Gateway Arch. In addition, there is \$2.4 million in funds at Jefferson Bank & Trust earmarked for Workman's Compensation open claims and pending reserves.

**Committee Action Requested**

This material is presented for information only; therefore, no action is required of the Audit Committee.

**Attachment:** Safekeeping Quarterly Accounts Audit - Ending December 31, 2014

**Internal Audit Department**  
**INDEPENDENT VERIFICATION for SAFEKEEPING ACCOUNTS**  
as of December 31, 2014

**Attachment**

**The Treasurer's Report as of 12/31/14 indicates the following U. S. Treasury Securities held in Agency Safekeeping Accounts:**

<b>Issuer-Investment (Bank Safekeeping Agent)</b>	<b>Treasurer's Report balance (Cost) 12/31/14</b>	<b>Treasurer's Report balance (Market Value) 12/31/14</b>	<b>Confirmed Balance Per Bank Agent (Market Value, if provided, or Par Value) 12/31/14</b>	<b>Variance Noted</b>	<b>Description/Disposition</b>
<b>Farm Credit Bank (Bank of America)</b>	<b>\$21,478,928.00</b>	<b>\$21,469,554.00</b>	<b>\$21,469,554.00</b>	<b>\$0.00</b>	
<b>Federal Home Loan Bank (Bank of America)</b>	<b>\$49,261,291.00</b>	<b>\$49,223,036.00</b>	<b>\$49,223,032.15</b>	<b>-\$3.85</b>	
<b>U.S. Treasury Bills (Bank of America)</b>	<b>\$2,035,071.00</b>	<b>\$2,016,094.00</b>	<b>\$2,016,093.76</b>	<b>-\$0.24</b>	
<b>U.S. Treasury Bills (Jefferson Bank &amp; Trust)</b>	<b>\$2,358,608.00</b>	<b>\$2,386,907.00</b>	<b>\$2,405,000.00</b>	<b>\$18,093.00</b>	The Confirmation shows the value at Par. The Treasurer's report show value at Market value.
<b>Total</b>	<b>\$75,133,898.00</b>	<b>\$75,095,591.00</b>	<b>\$75,113,679.91</b>	<b>\$18,088.91</b>	

**Bi-State Development Agency / Metro**  
**Agenda Item**  
**Audit Committee Meeting**  
**May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **Internal Audit Status Report – 3<sup>rd</sup> Quarter-FY2015**  
Briefing Paper No. 15-28  
**Disposition:** Information  
**Presentation:** James J. Cali, Director of Internal Audit

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**Objective**

To present to the Audit Committee the Internal Audit Department's (**IAD**) Status Report for the 3<sup>rd</sup> Quarter of Fiscal Year 2015.

**Board Policy**

Board Policy, Chapter 30 Audit, Finance and Budget Section 30.005 Audit Committee Charter, A. GENERAL. The purpose of the Audit Charter is to assist the Board of Commissioners, through its Audit Committee, in fulfilling its fiduciary oversight responsibilities as follows:

The IAD Policies and Procedures Manual, Internal Audit Charter, dated March 2, 2012, and signed by the Chair of the Board of Commissioners, the Audit Committee Chair, the President and CEO, and the Director of Internal Audit states in Section 1.1-Responsibility that the IAD had the responsibility to:

- Issue periodic reports to the Audit Committee and Management summarizing results of audit activities;
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing; and
- Provide a list of significant measurement goals and results to the Audit Committee.

**Funding Source**

Internal Audit Department Budget.

**Background**

**Internal Audit Status Report**

This report provides the Board of Commissioners, Audit Committee Members and Senior Management with a summary of the IAD's quarterly activity pertaining to the Annual Audit Plan.

In addition to tracking the status of current audits, this report also highlights the follow-up activity related to the implementation of recommendations from prior audits.

In accordance with the Institute of Internal Auditors (**IIA**) Professional Standards, a Quality Assurance Review (**QAR**) of the IAD should be conducted at least once every five (5) years.

To be in compliance with the IIA Professional Standards, Crowe Horwath, the Agency's independent external auditors, conducted the QAR of the Internal Audit Department in February 2015.

The QAR will assess the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

### **Analysis**

As a result of recently completed audits, we have identified a number of Audit Findings resulting in the following questioned costs. We have recouped \$148,258.00 as of October 1, 2014.

<b><u>Audit</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Recouped Costs</u></b>
Transit Advertising Contract - (Lamar)	\$148,258.00	\$148,258.00
Self-Funded Health Insurance Plan (Cigna)	45,000.00	45,968.02
<b>Total</b>	<b><u>\$193,258.00</u></b>	<b><u>\$194,226.02</u></b>

### **Committee Action Requested**

This material is presented for information only; therefore, no action is required of the Audit Committee.

**Attachment:** Internal Audit Status Report - 3<sup>rd</sup> Quarter-FY2015

FISCAL YEAR 2015 - AUDIT PLAN	STATUS	Completion Rate (Percentage)	BUDGET HOURS	Previous FY Total Hours	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	TOTAL AUDIT HOURS	HOURS REMAINING
Kronos Time & Attendance Including FMLA	Completed	107.67%	600.00	513.00	109.00	24.00	-		646.00	(46.00)
Quarterly Safekeeping Accts Audit	In Progress	27.03%	172.00	-	15.00	14.00	17.50		46.50	125.50
Quarterly Audit Follow-Up	In Progress	21.92%	172.00	-	21.25	4.00	12.45		37.70	134.30
Quarterly IAD Status Report	In Progress	78.34%	172.00	-	49.75	27.50	57.50		134.75	37.25
Audit Plan & Risk Assessment	In Progress	1.79%	600.00	-	8.25	0.50	2.00		10.75	589.25
Health Insurance Claims Audit - Brown Smith Wallace On-Call Auditors	Completed	137.35%	2,114.00	2,729.00	140.75	33.75	-		2,903.50	(789.50)
FTA Required - SSO - Security Protective Measures	Completed	77.73%	172.00	-	15.70	99.75	18.25		133.70	38.30
FTA Required - SSO - Internal Safety Audit	Completed	89.94%	172.00	-	49.20	58.50	47.00		154.70	17.30
FTA Required - SSO - Safety Certification	Completed	36.56%	240.00	-	16.45	60.50	10.80		87.75	152.25
FTA Required - SSO - Safety Data Acquisition	Completed	15.29%	240.00	-	23.95	0.00	12.75		36.70	203.30
FTA Required - SSO - Employee Safety	Completed	82.31%	240.00	-	58.70	90.75	48.10		197.55	42.45
2013 Grants Review - TSGP - Phase 2 - Capital Expenditures Audit	Completed	59.44%	400.00	119.00	85.75	12.25	20.75		237.75	162.25
2013 Grants Review - Phase 3	In Progress	0.75%	400.00	-	2.00	0.00	1.00		3.00	397.00
St. Louis Downtown Airport	In Progress	53.22%	800.00	307.75	113.50	4.50	0.00		425.75	374.25
Smart Card Audit	In Progress	37.72%	800.00	-	40.25	65.75	195.75		301.75	498.25
Page 1 - Subtotal Audit Hours			7,294.00	3,668.75	749.50	495.75	443.85	0.00	5,357.85	1,936.15

FISCAL YEAR 2015 - AUDIT PLAN	STATUS	Completion Rate (Percentage)	BUDGET HOURS	Previous FY Total Hours	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	TOTAL AUDIT HOURS	HOURS REMAINING
Fuel Inventory, Cost, Consumption, and Management Audit	In Progress	15.94%	400.00	-	-	-	63.75		63.75	336.25
Accounts Payable Disbursement Audit	In Progress	58.59%	160.00	-	-	-	93.75		93.75	66.25
Leon Uniforms Audit	In Progress	24.64%	380.00	-	-	-	93.65		93.65	286.35
On - Call Request for Proposal Project	In Progress	19.50%	200.00	-	-	-	39.00		39.00	161.00
IMG Performance Audit	In Progress	14.38%	80.00	-	-	-	11.50		11.50	68.50
Internal Audit Quality Assessment Review	In Progress	59.45%	320.00	-	-	-	190.25		190.25	129.75
City of St. Louis, Fire Truck Maintance Audit	Completed	49.75%	400.00	179.75	15.25	3.25	0.75		199.00	201.00
Procurement Card (ProCard) Audit	In Progress	0.00%	400.00	-	-	-	0.00		0.00	400.00
Capital Expenditures / New Construction Audit	In Progress	0.00%	440.00	-	-	-	0.00		0.00	440.00
<b>Grand Total Audit Hours Per Annual Audit Plan</b>		<b>60.04%</b>	<b>10,074.00</b>	<b>3,848.50</b>	<b>764.75</b>	<b>499.00</b>	<b>936.50</b>	<b>0.00</b>	<b>6,048.75</b>	<b>4,025.25</b>

FISCAL YEAR 2015 - AUDIT PLAN	STATUS	Completion Rate (Percentage)	BUDGET HOURS	Previous FY Total Hours	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	TOTAL AUDIT HOURS	HOURS REMAINING
<i>On - Call Audit Hours</i>										
Health Care TPA Administrator Audit (Brown Smith Wallace On Call Auditors)	Completed	166.08%	1,368.00	2,172.00	100.00	-	-		2,272.00	(904.00)
<b>Total On-Call Audit Hours</b>				<b>2,172.00</b>	<b>100.00</b>	<b>-</b>	<b>-</b>		<b>2,272.00</b>	<b>(904.00)</b>
<i>Follow-Up Audits</i>										
Self-Funded Health Insurance Follow-Up - HIPPA GAP Analysis	Completed	-	-	-	-	-	0.00		0.00	
2013 Grants Review - TSGP - Phase 1 - Training Program Audit	Completed	-	-	-	-	-	2.00		2.00	
2013 Grants Review - TSGP - Phase 2 - Training Program Audit	In Progress	-	-	-	-	-	0.00		0.00	
Lamar Advertising Contracts Audit	In Progress	-	-	-	-	-	1.00		1.00	
City of St. Louis Fire Truck Maintenance Agreement	In Progress	-	-	-	-	-	1.00		1.00	
Time & Attendance Including FMLA Audit	In Progress	-	-	-	-	-	0.00		0.00	
FTA Required - SSO - Security Protective Measures	In Progress	-	-	-	3.75	-	1.00		4.75	
FTA Required - SSO - Internal Safety Audit	In Progress	-	-	-	-	-	1.00		1.00	
FTA Required - SSO - Safety Certification	In Progress	-	-	-	-	-	1.00		1.00	
FTA Required - SSO - Safety Data Acquisition	In Progress	-	-	-	-	-	1.00		1.00	
FTA Required - SSO - Employee Safety	In Progress	-	-	-	-	-	1.00		1.00	
<b>Total Follow-Up Audit Hours</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3.75</b>	<b>0.00</b>	<b>9.00</b>	<b>0.00</b>	<b>12.75</b>	<b>0.00</b>



<b>FISCAL YEAR 2015 - AUDIT PLAN SPECIAL AUDIT ASSIGNMENTS</b>	<b>STATUS</b>	<b>Completion Rate (Percentage)</b>	<b>BUDGET HOURS</b>	<b>Previous FY Total Hours</b>	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>TOTAL AUDIT HOURS</b>	<b>HOURS REMAINING</b>
Board Meeting/Audit Committee Meeting Preparation	Ongoing	-	-	-	122.75	160.50	79.50		362.75	
AP Continuous Monitoring	Ongoing	-	-	-	-	-	0.00		0.00	
IA Audit Research	Ongoing	-	-	-	40.50	16.50	13.50		70.50	
Treasury Department Assistance	Ongoing	-	-	-	-	-	0.00		0.00	
Accounting Department Assistance	Ongoing	-	-	-	22.00	7.25	4.00		33.25	
DBE Application Review	Ongoing	-	-	-	-	1.00	8.25		9.25	
Budget 2016	Completed	-	-	-	-	4.75	1.00		5.75	
Records Retention - Committee	Ongoing	-	-	-	11.75	36.25	88.25		136.25	
IAD Oracle Procard Procurement	Ongoing	-	-	-	2.50	6.50	4.00		13.00	
Ethics Point (Fraud Hotline)	Ongoing	-	-	-	6.00	-	0.00		6.00	
Freedom of Information Act	Ongoing	-	-	-	-	-	0.00		0.00	
CEO Special Projects	Ongoing	-	-	-	13.50	-	249.80		263.30	
Eads Bridge Project	Ongoing	-	-	-	12.50	-	0.00		12.50	
Auditor Recruitment/Intern Recruitment	Completed	-	-	-	-	19.00	21.00		40.00	
Training & Professional Development	Ongoing	-	-	-	44.75	84.50	22.25		151.50	
<b>Total Special Audit Assignment Hours</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>276.25</b>	<b>336.25</b>	<b>491.55</b>	<b>0.00</b>	<b>1,104.05</b>	

**Bi-State Development Agency / Metro  
Agenda Item  
Audit Committee Meeting  
May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **Internal Audit Follow Up Summary – 3<sup>rd</sup> Quarter-FY2015**  
Briefing Paper No. 15-32  
**Disposition:** Information  
**Presentation:** James J. Cali, Director of Internal Audit

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**Objective**

To present to the Audit Committee the Internal Audit Department's (**IAD**) follow-up findings regarding the status of prior recommendations during the 3rd Quarter of FY2015.

**Board Policy**

Board Policy, Chapter 30 Audit, Finance and Budget Section 30.005 Audit Committee Charter, A. GENERAL. The purpose of the Audit Charter is to assist the Board of Commissioners, through its Audit Committee, in fulfilling its fiduciary oversight responsibilities as follows:

(3) Internal Audit Process

- Review with Management and the Director of Internal Audit:
  - a. Significant findings on internal audits during the year and Management's responses thereto.
  - f. The Internal Audit Department's compliance with applicable standards (for example, *Government Auditing Standards*, or the Institute of Internal Auditors' (**IIA**'s) Standards for the Professional Practice of Internal Auditing)."

In addition, the IAD Policies and Procedures Manual, effective March 2, 2012, in Section 2.9-Report Follow-Up, Status Reports 2. states:

The Director of IAD shall schedule follow-up reviews as necessary to determine compliance. A primary responsibility as a professional auditor is determining that the auditee takes corrective action on Recommendations. This applies in all cases except where "Management or the Board has assumed the risk of not taking corrective action on reported findings."

**Funding Source**

Internal Audit Department Budget.

### **Background**

The Standards for the Professional Practice of Internal Auditing, Standard 2500 – Monitoring Process, states that, “The Chief Audit Executive should establish and maintain a system to monitor the disposition of audit results communicated to management.” To ensure compliance with this standard, Internal Audit regularly monitors the status of recommendations.

The Audit Follow-Up Summary Report is a comprehensive overview highlighting the current implementation status of recommendations issued in prior audit reports. Each recommendation has been reviewed and its status has been classified as follows:

- **Completed** – The recommendation has been implemented.
- **Outstanding** – The recommendation has not yet been implemented, and/or the implementation date has not occurred yet.
- **Overdue** – The recommendation remains outstanding past the established implementation date.

The report should be used to determine the timeliness and the completeness of the implementation of corrective action. Management should place specific focus on those recommendations that are determined to be overdue.

### **Analysis**

Not applicable.

### **Committee Action Requested**

This material is presented for information only; therefore, no action is required of the Audit Committee.

**FY2015 – Third Quarter Audit Follow-Up  
 Executive Summary**

<b>Report Name</b>	<b>Number of Recommendations</b>	<b>Completed</b>	<b>Outstanding – Not Overdue</b>	<b>Overdue</b>
2013 Grant Review - Transit Security Grant Program - Phase II-Capital Expenditures Audit	7	7	0	0
Time and Attendance Including FMLA Audit	11	10	1	0
City of St. Louis Fire Truck Maintenance Agreement Audit	8	8	0	0
2013 Grant Review - Transit Security Grant Program - Phase I Training Program Audit	3	3	0	0
SSO - Security Incident Notification & Investigation Audit	4	4	0	0
Self-Funded Health Insurance Audit	10	10	0	0
Lamar Advertising Contracts Audit	4	4	0	0
SSO-Security Protective Measures Audit	5	1	4	0
SSO-Internal Safety Audit	3	1	1	1
SSO-Safety Data Acquisition Audit	0	0	0	0
SSO-Safety Certification Audit	5	2	3	0
SSO-Employee Safety Audit	2	1	1	0

**COMPLETED FOLLOW-UP AUDIT REPORTS:**

1. SSO-Security Incident Notification & Investigation Audit - Closed 4th Quarter - FY2014
2. 2013 Grant Review-Transit Security Grant Program- Phase I - Training Program Audit - Closed 4th Quarter - FY2014
3. Self-Funded Health Insurance Audit - Closed 2nd Quarter - FY2015
4. Lamar Advertising Audit – Closed 3<sup>rd</sup> Quarter – FY2015
5. 2013 Grant Review-Transit Security Grant Program-Phase II-Capital Expenditures – Closed 3<sup>rd</sup> Quarter – FY2015
6. SSO-Safety Data Acquisition – Closed 3<sup>rd</sup> Quarter – FY2015
7. City of St. Louis Fire Truck Maintenance Agreement Audit – Closed 3<sup>rd</sup> Quarter-FY2015

**Bi-State Development Agency / Metro  
Agenda Item  
Audit Committee Meeting  
May 22, 2015**

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**From:** James J. Cali, CPA  
Director of Internal Audit  
**Subject:** **FY2016 Annual Audit Work Plan & Risk Assessment**  
Briefing Paper No. 15-34  
**Disposition:** Approval  
**Presentation:** James J. Cali, Director of Internal Audit

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**Objective**

To present to the Audit Committee the FY2016 Annual Audit Work Plan and Risk Assessment for review and approval.

**Board Policy**

Board Policy, Chapter 30 - Audit, Finance and Budget, Section 30.020 Internal Audit, B. Work Plan and C. Special Reviews states as follows:

**"B. Work Plan.** The Internal Auditor shall be responsible for preparing an annual Audit Work Plan. Additionally, Commissioners and Senior Managers shall identify potential areas for review by the Internal Audit Department. Upon completion of the Audit Work Plan, the Internal Auditor shall present the Plan to the Audit Committee for their review and approval pursuant to these Board Policies."

**"C. Special Reviews.** From time to time, the President & CEO may assign to the Internal Auditor special reviews designed to assure continuous quality improvement of Agency operations."

**Funding Source**

Internal Audit Department's Budget.

**Background**

The FY2016 Audit Work Plan will concentrate on the auditable units associated with grants, and payroll/time and attendance issues. The proposed schedule of audits for each quarter in FY2016 is presented in Exhibit A of the *Fiscal Year 2016 Annual Audit Work Plan & Risk Assessment*.

The Audit Work Plan for FY2016 confirms our compliance with the relevant professional standards for the Internal Audit Department. The Audit Work Plan incorporates a risk-based analysis of the Agency's operations as its foundation, and explains how the Internal Audit Department plans to utilize its resources to examine various auditable units. In performing these audits, it will provide assurance to the Audit Committee that risks that could prevent the Agency

from achieving its objectives have been identified. The Internal Audit Department working in conjunction with Management will use the audit reports and related recommendations, to develop corrective action plans for the assessment and management of these risks.

The scope of the Annual Audit Work Plan is designed to address key risk areas in the following key systems:

- Corporate Systems: these include the overarching functions managed centrally to ensure effective operations, risk management and corporate governance;
- Support Systems: these include those functions and systems that contribute towards the overall objectives indirectly through providing services and resources to the Operational systems; and
- Operational Systems: these include the main functions associated with the core activities of the Bi-State Development Agency/Metro.

### **Risk Assessment**

The Risk Assessment used by the Internal Audit Department helped to focus Internal Audit's efforts on high risk instead of the low-risk areas, allowing for proper planning, ensuring that the audit resources are focused on those areas needing the greatest attention, and providing the best value to the Agency's Management. The Internal Audit Department, with the assistance of Senior Management, compiled a Risk Assessment taking into consideration the following probable risk factors and potential exposures the Agency could experience.

#### **Probable Risk Factors**

Accessibility  
Business Disruption  
Credit  
Customer Service  
Data Integrity  
Fraud  
Financial Report Misstatement  
Illegal Activity  
Natural and/or Man-Made Disaster  
Physical Harm

#### **Potential Exposures**

Financial Loss  
Legal Violations  
Negative Customer Impact  
Loss of Business Opportunity  
Public Embarrassment  
Inefficient Business Process

This comprehensive Risk Assessment analysis identified a total of 120 auditable units. An auditable unit is defined as any particular topic, subject, project, department, division, process or function that is deemed to be worthy of an audit.

The Internal Audit Department's mission is to consistently provide the highest level of professional service to meet the Agency's and Audit Committee's needs through quality assurance, audit strategy and audit follow-up; in addition, tracking Management's progress made towards implementing recommendations.

### **Analysis**

The Audit Work Plan provides a detailed list of audit projects to be performed during the fiscal year.

### **Committee Action Requested**

Based on the documentation presented to the Audit Committee, approval is recommended for the Fiscal Year 2016 Audit Work Plan.



**INTERNAL AUDIT DEPARTMENT**

**BI-STATE DEVELOPMENT AGENCY / METRO**

**FISCAL YEAR 2016  
ANNUAL AUDIT WORK PLAN  
&  
RISK ASSESSMENT**

**Date to be Presented to the Audit Committee: May 22, 2015**

**JAMES J. CALI, CPA, CFF, CGMA**  
*Director of Internal Audit*

**RITA MARION**  
*Senior Administrative Assistant*

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**Executive Summary**

This document outlines the proposed Internal Audit Department's Audit Work Plan for Fiscal Year 2016. It confirms our compliance with the relevant professional standards for the Internal Audit Department (IAD). The Audit Work Plan incorporates a risk-based analysis of Agency's operations as its foundation and summarizes the performance metrics employed.

The Audit Work Plan explains how the internal audit function responds to the Agency's risks; thereby; providing assurance to the Audit Committee. Internal Audit's best practice indicates that strategic Audit Work Planning should start from the premise of aiming to deliver an assessment to the Audit Committee on Agency's risk management and internal control.

Internal Audit will employ an audit strategy to guide its work. This audit strategy is a key step for the formulation of the Audit Work Plan. This document sets forth the internal audit strategy and the Audit Work Plan that identifies the audit priorities to be addressed during this fiscal year. The audit strategy has determined the areas where resources should be allocated. The IAD has also taken into consideration that circumstances may arise during the year; therefore, the Audit Work Plan may be subject to changes.

The audit strategy provides:

- A clear view of Internal Audit's workload;
- A base for assessing the adequacy and deployment of audit resources;
- A yardstick against which progress and performance can be measured;
- The Audit Committee's authority to execute the Audit Work Plan;
- That all reviews will be performed in accordance with the appropriate professional audit standards;
- That upon completion of a review, an audit report will be presented to management that outlines the audit objectives, scope of our work, the risks considered, an assessment of the internal controls, audit findings and recommendations for improvement;
- The Internal Audit Department resources to assist the independent External Auditors with the Agency's annual financial audit;
- Assistance to any State and/or Federal auditors;
- The Audit Committee with a quarterly performance report; and
- Flexibility to undertake special projects from the Audit Committee, CEO and/or Senior Management (this supersedes certain audit projects listed in the Audit Work Plan).

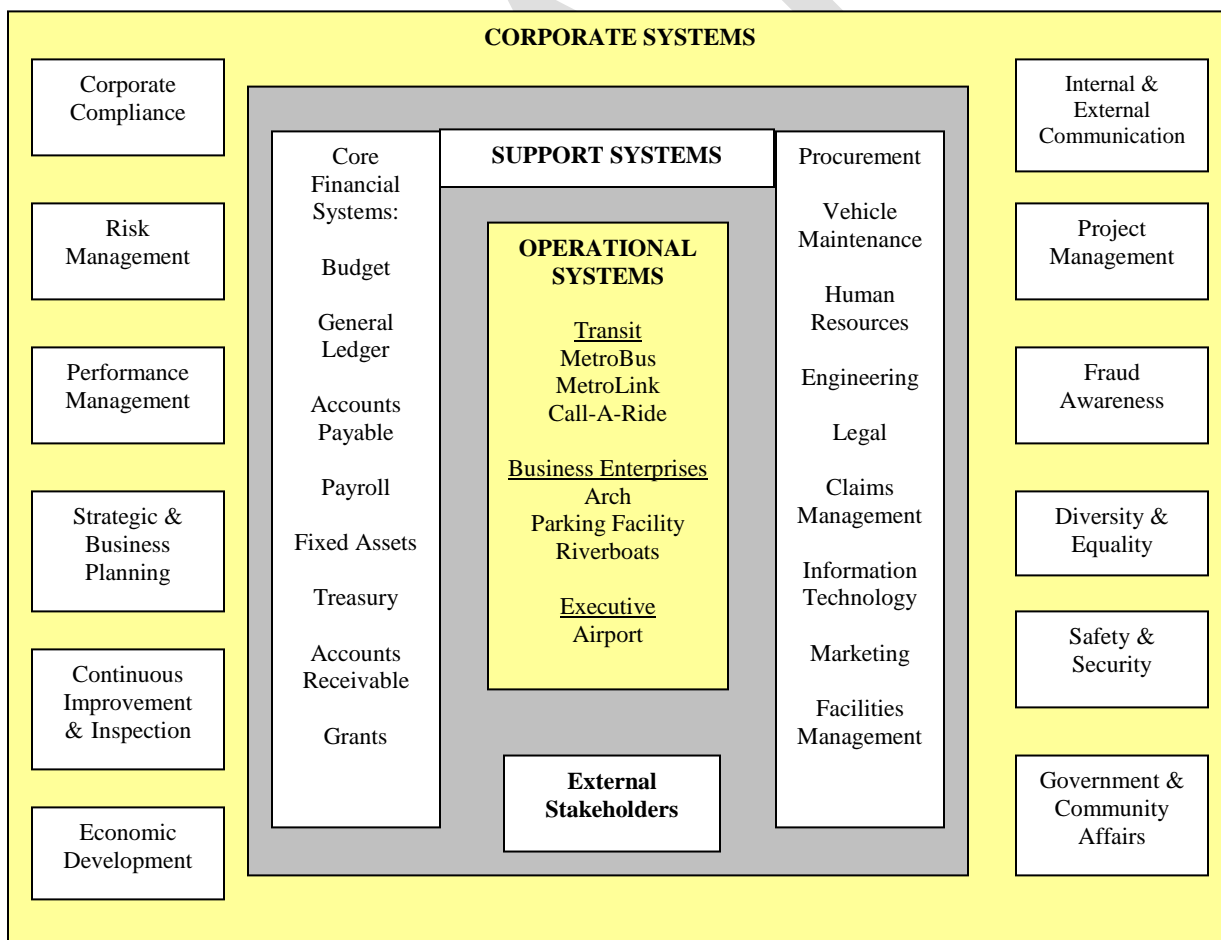
**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**Annual Audit Work Plan**

The detailed Audit Work Plan for this fiscal year is presented in Exhibit A. This plan sets out how the Internal Audit Department proposes to provide assurance over the Agency's key risks. From time to time, it may be necessary to update the Audit Work Plan to address unforeseen risks that emerge requiring the Internal Audit Department's resources.

The scope of the Audit Work Plan is designed to address the following key systems:

- Corporate Systems: these include the overarching functions managed centrally to ensure effective operations, risk management, and corporate governance;
- Support Systems: these include those functions and systems that contribute towards the overall objectives indirectly through providing services and resources to the operational systems; and
- Operational Systems: these include the main functions associated with the Agency's core activities.



**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**Quality Assurance**

The Internal Audit Department's mission is to consistently provide the highest level of professional service to meet the Agency's and Audit Committee's needs. The IAD intends to achieve that goal through the following objectives:

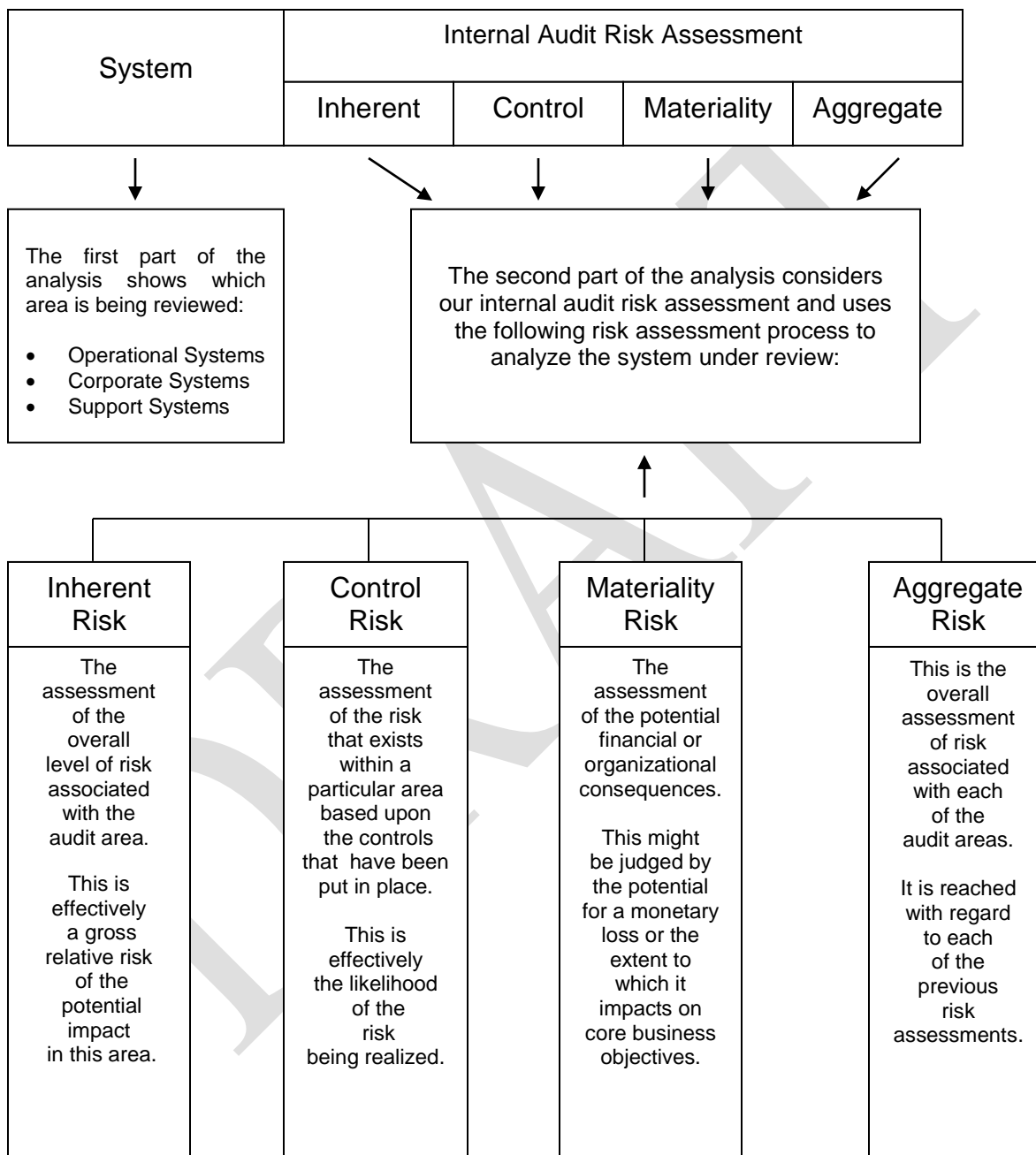
- Preparation of a detailed Audit Work Plan in conjunction with the Risk Assessment that will be presented to the Audit Committee for approval;
- Provide continuing professional education (CPE's) and training for the IAD staff;
- Utilize the expertise, resources, and technical excellence of the "On-Call" audit firms for specialized audits;
- Discuss audit findings and recommendations with Management prior to issuing the draft audit report;
- Conduct regular follow-ups and review Management's progress towards the implementation of prior audit recommendations;
- Develop a tailored approach for each audit using a defined methodology, current regulations, and professional audit standards;
- Maintain all audit files and reports in accordance with the Institute of Internal Auditors Quality Assurance Standards;
- Liaison with external audit, to ensure that there is effective communication and co-operation between internal and external audit; and
- IAD will be working with the following performance measures to achieve the corresponding target.

<b>Performance Measure</b>	<b>Target</b>
Completion of Annual Audit Work Plan	100%
Issuance of draft audit report	15-20 working days after exit conference
Receipt of Management responses to draft audit report	15-20 working days after draft audit report has been issued
Issuance of final draft audit report	15-20 working days after receipt of Management responses
Follow-Up Corrective Action Form And Issuance of Follow-Up Report	Follow-Up starts immediately following presentation of Audit Report to the Audit Committee at the Audit Committee Meeting
Staff training	40 hours of continuing professional education (CPE's) annually.

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**Audit Strategy**

The overall audit strategy detailed below explains how the elements of the Risk Assessment relate to Audit Work Planning processes:



**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**Risk Assessment**

The Internal Audit Department with the assistance of Agency's Management compiled a Risk Assessment analysis, taking into consideration the following probable risk factors and potential exposures the Agency could experience:

<b><u>Probable Risk Factors</u></b>	<b><u>Potential Exposures</u></b>
Accessibility	Financial Loss
Business Disruption	Legal Violations
Credit	Negative Customer Impact
Customer Service	Loss of Business Opportunity
Data Integrity	Public Embarrassment
Fraud	Inefficient Business Process
Financial Report Misstatement	
Illegal Activity	
Natural and/or Man-Made Disaster	
Physical Harm	

This Risk Assessment identified a total of 120 auditable units. An auditable unit is defined as any particular topic, subject, project, department, division, process, or function that is deemed to be worthy of an audit.

It is important to point out that not all 120 auditable units need to be examined by the Internal Audit Department every fiscal year. In the past, the Agency's independent External Auditors audited 33 auditable units as part of the annual financial statement audit. The Internal Audit Department will work with Crowe Horwath, the Agency's new independent External Auditors, to coordinate the scheduling of audits to avoid any duplication.

In developing the proposed Annual Audit Work Plan for this fiscal year, specific attention was given to those auditable units associated with the new Smart Card/Passenger Revenue system and other revenue producing contracts.

**Audit Follow Up**

The Internal Audit Department has included some specific reviews within the Audit Work Plan to follow up on recommendations and improvement opportunities identified by previous Internal Audit Reports and by our External Auditors. Also, IAD will track Management's progress made towards implementing respective recommendations.

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

The Director of Internal Audit will provide the Audit Committee, Board of Commissioners, President and CEO, and Senior Management with reports throughout the year to ensure that we are meeting your expectations. IAD will also ensure effective communication channels are maintained with the External Auditors to make certain that the Agency is receiving the maximum benefit from these combined audit resources.

**Internal Audit Department – Professional Staff**

For FY2016 the Internal Audit Department Staffing will be as follows:

Jim Cali, CPA, CFF, CGMA – Director of Internal Audit  
Angie Staicoff, CPA - Internal Auditor  
Kelli Fitzpatrick, CPA - Internal Auditor  
Karl Tyminski, CPA - Internal Auditor  
Rita Marion, BA – Senior Administrative Assistant

During the fiscal year, IAD plans to continue the use of college-student Interns and “On-Call” audit firms to assist in the execution of the Annual Audit Work Plan.

**BI-STATE DEVELOPMENT AGENCY / METRO  
INTERNAL AUDIT DEPARTMENT  
FY2016 ANNUAL AUDIT WORK PLAN & RISK ASSESSMENT**

**EXHIBIT A**

**Internal Audit Department  
Proposed FY2016 - Audit Work Plan**

**1<sup>st</sup> Quarter – July, August, September**

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Safekeeping Treasury Audit – Ending June 30, 2015

Audit Follow-Up

IAD – Status Report – 4th Quarter

RFP On-Call Auditor Selection

Internal Service Fund Implementation – Self Funded Health Insurance Plans

FTA Required Rail Safety Audit – Comprehensive Three-Year Audit Plan

FTA Required Rail Safety Audit – Security Training and Certification (Security)

FTA Required Rail Safety Audit – Safety Policy (Safety)

Gateway Arch Financial Audit

Riverboats Financial Audit

**2<sup>nd</sup> Quarter – October, November, December**

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Safekeeping Treasury Audit – Ending September 30, 2015

Audit Follow-Up

IAD – Status Report – 1st Quarter

RFP On-Call Cyber Security Consultant Selection

FTA Required Rail Safety Audit – Goals and Objectives (Safety)

FTA Required Rail Safety Audit – Accident and Incident Investigation (Safety)

MetroRide Store Financial Audit

Health Insurance Claims Audit – (On Call Contract Audit)

**3<sup>rd</sup> Quarter – January, February, March**

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Safekeeping Treasury Audit – Ending December 31, 2015

Audit Follow-Up

IAD – Status Report – 2nd Quarter

Smart Card/Passenger Revenue Testing of Internal Controls

Armored Car Service Contract Audit

American Express Card Audit

**4<sup>th</sup> Quarter – April, May, June**

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Safekeeping Treasury Audit – Ending March 31, 2016

Audit Follow-Up

IAD – Status Report – 3rd Quarter

Staples Procurement Card Audit

Passenger Revenue Audit

ADA Compliance Audit

FY2017 Annual Audit Work Plan & Risk Assessment