

**Board Report**

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**FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 14, 2018****SUBJECT: MANAGEMENT AUDIT SERVICES FY 2018 YEAR-END REPORT AND AUDIT CHARTER****ACTION: RECEIVE AND FILE****RECOMMENDATION**

RECEIVE AND FILE the:

- A. Year-end report of Management Audit Services (Management Audit) for the period ending June 30, 2018; and
- B. Management Audit Services Draft Audit Charter.

ISSUE

Management Audit must provide a quarterly activity report to the Finance, Budget and Audit Committee which includes information on: completed audits, audits that are in progress, our follow-up activities and any other pertinent matters.

In addition, audit standards require that we review our Audit Charter periodically, present it to executive management and obtain board approval. The Audit Charter is a formal document that defines Management Audit's purpose, authority and responsibility.

BACKGROUND

At its January 2005 meeting, the Board designated the Executive Management and Audit Committee (EMAC) as their audit committee. The EMAC requested a quarterly report from Management Audit on its audit activities. In July 2011, the audit responsibilities were transferred to the Finance, Budget and Audit Committee. This report fulfills the requirement for the fourth quarter of FY 2018.

Additionally, Management Audit follows two audit standards: Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). These two standards were revised in 2018 and 2017 respectively. As a result, we have updated our Audit Charter to align with the new standards' language. The Audit Charter was last presented to the Board in February 2016 with administrative changes.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management team. The audits we perform are categorized as either internal or external. Internal audits evaluate the processes and controls within the agency. External audits analyze contractors, cities or non-profit organizations that we conduct business with or

that receive Metro funds.

There are four groups in Management Audit: Performance Audit, Contract Pre-Award Audit, Incurred Cost Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management and Executive Office. Contract Pre-Award and Incurred Cost Audit are responsible for external audits in Planning and Development, Program Management and Vendor/Contract Management. All of these units provide assurance to the public that internal processes are efficiently, economically, effectively, ethically, and equitably performed by conducting audits of program effectiveness and results, economy and efficiency, internal controls, and compliance. Audit Support and Research Services is responsible for administration, financial management, budget coordination, and audit follow-up and resolution tracking.

The summary of Management Audit's activities for the fourth quarter and for the fiscal year ending June 30, 2018 are as follows:

Internal Audits: three internal audits were completed during the fourth quarter; total of eight reports were completed for the year. As of June 30, 2018, 13 internal audits were in process.

External Audits: 14 incurred cost audits with a total value of \$42 million were completed during the fourth quarter; total of 49 incurred cost audits with a total value of \$430 million were completed for the year. Additionally, seven contract pre-award audits with a total value of \$31.6 million were completed for the year. Three contract pre-award audits and fifty-four incurred cost audits were in process.

Other Audits: 143 financial and compliance audits were issued during the fiscal year. Details of other audits completed by external certified public accountants (CPAs) during the year are included starting on page 6 of Attachment A.

Audit Follow-up and Resolution: six recommendations were closed during fourth quarter; total of 50 were closed for the year. In addition, 11 recommendations for the OIG were closed during fourth quarter; total of 105 were closed for the year. Details of all open, extended, and closed recommendations can be found in the Fourth Quarter Board Box titled "Status of Audit Recommendations".

Other Activities: Management Audit Services partnered with Vendor/Contract Management to put together a series of educational training programs for Small Business Enterprise (SBE) and Disadvantaged Business Enterprise (DBE). The trainings were in support of the SBEs and DBEs in their compliance efforts with the Federal Acquisition Regulations (FAR) Cost Principles and Procedures which are included in all Metro contracts. Approximately 200 attendees participated in these trainings.

Management Audit's FY 2018 year-end report is included as Attachment A.

In addition, we have updated our Audit Charter to align with the revisions for the two audit standards that Management Audit follows: Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). These two standards were revised in 2018 and 2017 respectively. The Audit Charter was last presented to the Board in February 2016 with administrative changes. The updated Audit Charter showing the changes we made can be found in Attachment B.

NEXT STEPS

Management Audit will provide the first quarter summary of FY 2019 audit activity to the Board at the January 2019 Finance, Budget and Audit Committee meeting.

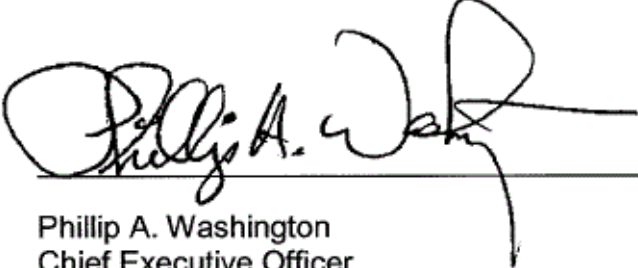
ATTACHMENTS

Attachment A - FY18 Q4 Year-End Report

Attachment B - Management Audit Services Draft Audit Charter

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