North County Transit District

Internal Audit Program
Audit Plan

CY2023 – 2025

Final Version
Approved by the PAF Committee
on March 2, 2023

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1. BACKGROUND

North County Transit District (NCTD or District) developed the Internal Audit Program (IAP) in 2017. The IAP is a component of NCTD's Compliance function under the direction of the General Counsel. NCTD's Board of Directors adopted Resolution No. 17-07 in 2017 to approve an Internal Audit Program Charter. The IAP Charter states the mission, reporting structure, authority, responsibilities, scope, and standards of operation for the IAP. In accordance with the IAP Charter, the purpose of the IAP is:

- Provide guidance to continuously improve NCTD's fiscal management and operations

- Provide reasonable assurance that internal control systems are well-designed and operating effectively

- Provide an opportunity to proactively identify areas for improvement and recommend solutions

- Assist in identifying key measures to incorporate efficient and effective systems of operation

The NCTD's Performance, Administration, and Finance Committee (PAF) provides guidance and oversight to the internal audit program. A PAF Committee Charter was adopted in 2017 pursuant to Resolution No. 17-07, and outlines the committee's responsibilities related to the internal audit as follows:

- Approval of a three-year internal audit work plan

- Review the coordination of the internal audit effort

- Review the status of the IAP and resources allotted

- Review the risk assessment results, budget allocated to IAP, and the organization of the IAP

- Review the effectiveness of the IAP

Upon adoption of the Charters, and after the execution of an enterprise-wide risk assessment, NCTD's Compliance staff prepared a risk-based internal audit plan. The PAF Committee approved the internal audit plan and eight internal audit projects were completed during calendar years 2018 through 2021. (See Appendix B) At its May 2022 meeting, the PAF Committee directed Compliance staff to conduct an enterprise-wide risk assessment in order to assist in developing a three-year Internal Audit Plan for Calendar Years 2023 through 2025.

The following sections provide a description of the performance of the enterprise-wide risk assessment and the compilation of the CY2023-2025 Internal Audit Plan.

2. APPROACH AND METHODOLOGY

The NCTD Compliance Officer is responsible for the IAP and prepares the three-year internal audit plan through consideration of multiple factors, the bulk of which center on the results of the enterprise-wide risk assessment. Criteria considered in the development of the internal audit plans are:

1. Include the highest risk-rated areas identified through the risk assessment process based on the likelihood and impact to the accomplishment of NCTD's goals

2. Exclude audit areas previously audited as a part of the IAP

3. Exclude areas examined under the Comprehensive Compliance and Oversight Program (CCOP) FTA Triennial Review

4. Exclude financial audits performed by external auditors such as examination of annual financial statements and the Single Audit

The approach to performing individual internal audit projects is a forward-looking mindset to assist NCTD governing body and management in addressing emerging risk areas. Many audit efforts, such as the audit of financial statements, concentrate on the examination of historical data. One advantage to NCTD regarding the outcome of an internal audit is management's ability to proactively address emerging risks.

3. ENTERPRISE-WIDE RISK ASSESSMENT

The NCTD Compliance Officer, under the direction of General Counsel, retained a consulting firm, Crowe LLP (Crowe), to facilitate the performance of the risk assessment and develop a preliminary Internal Audit Plan using industry-proven methodology.

The risk assessment was conducted to inform the development of a risk-based internal audit plan. The risk assessment process focused on strategic, compliance, financial reporting, and operational activities to gain a comprehensive view of the NCTD's risk profile. A risk is defined as any event that may occur and prevent NCTD from achieving its organizational goals and objectives.

The risk assessment quantified risks based on the likelihood (probability) of occurrence and their impact on NCTD goals and objectives for the next three years of operation.

Crowe conducted their risk assessment by reviewing relevant policies and procedures along with NCTD's strategic plan and by interviewing NCTD management staff as well as the PAF Committee Chair.

3.1 Data Collection Phase

Crowe's approach was to first understand NCTD's operating environment and identify any potential risks, then analyze and rank them The following activities were performed as part of their review:

Review of Background Information

A key element in assuring a comprehensive understanding of the NCTD's Division operational environment included the review of available information, data, and performance metrics. This allowed Crowe to identify contributing factors that could increase or decrease the likelihood and/or impact of a negative event occurring. Examples of documents reviewed included:

- Strategic plans
- Annual Comprehensive Financial report
- Single Audit Report
- NCTD's Operating and Capital Budget
- Board and Committee meeting agendas and the meeting minutes
- Listing of all NCTD facilities and locations
- Board and Administrative policies and procedures
- List of all core functions and all supporting functions
- List of all recently completed final audit reports
- Organizational Chart

Interviews with NCTD Executives

Crowe conducted a series of interviews with NCTD senior management team members and the PAF Committee Chair to obtain their perspectives on functions/topics within NCTD that represent high-risk areas. Interviews with the following individuals were conducted from September 19, 2022 to October 12, 2022:

- PAF Committee Chair
- Executive Director
- General Counsel
- Compliance Officer

- Risk Manager

- Chief Financial Officer

- Chief Administrative Officer

- Chief Procurement Officer

- Chief Development Officer

- Chief Operations Officer – Bus

- Chief Operations Officer – Rail

- Chief Operations Officer – Support Services

- Chief of Planning and Communications

- Chief Technology Officer

Review of Previously Issued Internal Audit Reports

Crowe reviewed audit reports issued under the previous CY 2018 – CY2021 Internal Audit Plan. This provided insight into potential risk areas for NCTD as it showed the relevance and timeliness of the observations and recommendations included in each report. Moreover, it helped Crowe to consider risk areas that have not been recently covered during the CY2018-2021.

Review of Topics Examined Under the Comprehensive Compliance and Oversight Program (CCOP) FTA Triennial Review and the actual FTA Triennial Review

Crowe was made aware of the 23 FTA Triennial Review Areas reviewed under the CCOP program. This informed the assessment process by excluding any potential risks associated with the CCOP FTA Triennial Review process.

Comprehensive Management Survey

Crowe conducted a series of interviews with NCTD management and the PAF Committee Chair by posing open-ended questions designed to solicit feedback on potential risks and threats to various departments throughout NCTD.

Additional Information Gathering

Periodic discussions were conducted between Crowe and the Compliance Officer to get clarification on the information examined and to gain further insight into NCTD operations and potential risks.

3.2 Analysis and Risk Assessment Phase

Based on the information gathered during the data collection phase, Crowe identified the major programs, functions, and business processes that would represent the risk areas to be evaluated. Collectively, these risk areas make up NCTD's "*audit universe*."

Audit Universe

The audit universe is a population of key NCTD departments/functions identified for potential audit. It recognizes each of the departments within NCTD's divisions, along with their main operational functions, and a listing of the key activities that were identified through the gathering of information. The audit universe maps to the risk universe and allows for quantifying risks. The audit universe represents a comprehensive view of audit areas that shows what can be evaluated and what has/has not yet been evaluated in prior years (Refer to Appendix A – Audit Universe).
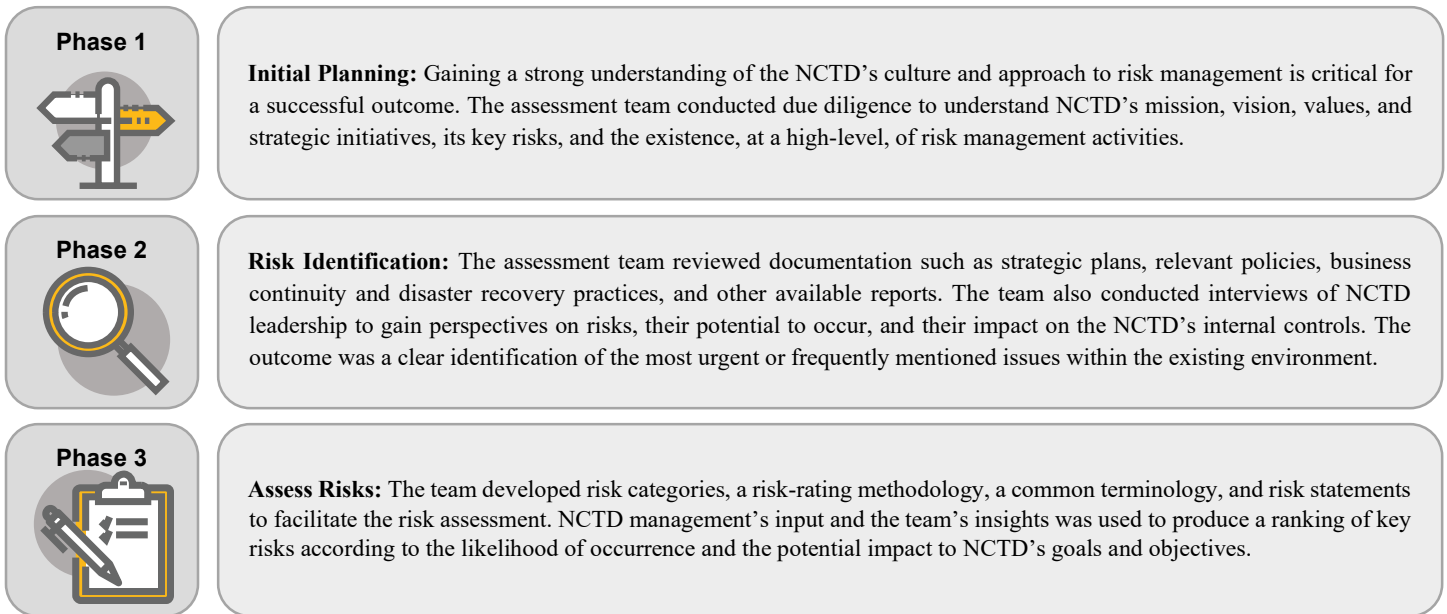
Risk Universe

The risk universe comprises enterprise-wide risks including risks identified within each of the departments and their underlying functions. The purpose of a risk universe is to provide a consistent way to measure, compare, and quantify NCTD risks. The risk universe will help identify the highest risks from a departmental/functional perspective.

As part of the risk assessment process, Crowe documented emerging risks relevant to NCTD and its operations. Emerging risks were ranked based on the likelihood/probability of a negative event occurring and its potential impact to NCTD.

Based on the risk analysis, Crowe developed a risk listing which included a total of 65 risks to NCTD's operations. These risks were assessed as part of Phase 3 of the risk assessment and compiled according to the probability of occurrence and potential impact to NCTD. The risk rating definitions are included in the table below.

The risk assessment process is depicted as follows:

Phase 1	**Initial Planning:** Gaining a strong understanding of the NCTD's culture and approach to risk management is critical for a successful outcome. The assessment team conducted due diligence to understand NCTD's mission, vision, values, and strategic initiatives, its key risks, and the existence, at a high-level, of risk management activities.
Phase 2	**Risk Identification:** The assessment team reviewed documentation such as strategic plans, relevant policies, business continuity and disaster recovery practices, and other available reports. The team also conducted interviews of NCTD leadership to gain perspectives on risks, their potential to occur, and their impact on the NCTD's internal controls. The outcome was a clear identification of the most urgent or frequently mentioned issues within the existing environment.
Phase 3	**Assess Risks:** The team developed risk categories, a risk-rating methodology, a common terminology, and risk statements to facilitate the risk assessment. NCTD management's input and the team's insights was used to produce a ranking of key risks according to the likelihood of occurrence and the potential impact to NCTD's goals and objectives.

3.3 Risk Rating System and Definitions

Likelihood, Impact, and Rating Definitions

The definition of each risk level for determining the likelihood and impact of occurrence is included in the table below. An example is a potential cybersecurity/ransomware risk that could potentially disrupt business operations and hinder NCTD's achievement of its mission to deliver a safe, convenient, reliable, and user-friendly public transportation services.

Likelihood of Occurrence of Risk Events	
1. **Rare** – The risk likelihood of a significant event occurring is non-existent or remote and may only occur in extraordinary circumstances.	4. **Likely** – The risk likelihood of a significant event occurring is substantial and may exceed a 50% chance of occurring.
2. **Unlikely** – The risk likelihood of a significant event occurring is only slight and not likely to happen.	5. **Almost Certain** – Reasonable assumption that this risk will occur based on the environment and historical trends.
3. **Possibly** – The risk likelihood of a significant event has a moderate chance of occurring during the next 12 months and controls/processes may not be designed and functioning properly.	

Potential Impact of Risk Events

1. **Negligible** – Unlikely to cause a noticeable effect on the activity continuing to operate with no material, negative financial result.

2. **Minor** – May cause a failure of the business process to meet part of its objectives, which may expose NCTD to relatively minor financial losses, less-effective or efficient operations, or non-compliance with laws and regulations.

3. **Moderate** – May cause a failure of the business process to meet a relatively significant part of its objectives, or negatively impact the objectives of other activities, which may expose NCTD to moderate financial losses, reductions to or ineffectiveness of operations, non-compliance with laws and regulations, or sizable waste of resources.

4. **Significant** – May cause a failure of the business process to meet a relatively significant part of its objectives, or negatively impact the objectives of other activities, which may expose NCTD to significant financial losses, reductions to or ineffectiveness of operations, non-compliance with laws and regulations, or sizable waste of resources.

5. **Major** – Will result in a failure of the business process to meet its objectives, or cause significant failure in other activities, which may cause or expose NCTD to substantial financial losses, interruptions in operations, failure to comply with laws and regulations, major waste of resources and may have long-standing implications.

Examples of topics considered in the development and identification of risk areas included, but were not necessarily limited to:

- Budgetary constraints/restrictions
- Customer delivery
- Documentation of key activities
- Financial loss/errors/misstatements
- Fraud
- Funding reductions
- Government regulations
- Internal communication
- Personnel skills
- Privacy/information security
- Program suspensions
- Property damage
- Reputation (short-term/long-term)
- Safety

Top Eight Emerging Risks to NCTD

The risk analysis performed by the Crowe team identified a total of 65 individual NCTD risks. Upon examination of the risks identified, it was determined that there were 8 primary risk themes. Each of the 8 areas was assessed using the 1- 5 scale noted above for both Likelihood and Impact. Then, an average score was computed. For instance, an area scored at 5 for likelihood and 4 for impact would result in an overall score of 4.5. [(5+4)/2=4.5]

The 8 topics perceived to present the greatest degree of risk to NCTD achieving its goals and objectives are described below. The top risks have been included in the order of risk rating.

#	Risk Title	Risk Rating out of 5	Risk Statement
1	Knowledge Management	4.5	If the appropriate District personnel do not have access to reliable information needed to make timely decisions, this may adversely impact their ability to achieve strategic or program

#	Risk Title	Risk Rating out of 5	Risk Statement
			initiatives, operate efficiently and safely, safeguard District staff and property, comply with regulatory and financial reporting requirements, and maintain reliable records.
2	Recruiting, Retention, Development, and Succession Planning	4.5	Ineffective recruiting and retention practices, professional development, or succession planning practices may inhibit the District's ability to employ properly qualified, experienced, and skilled personnel. This may adversely impact operational efficiency and employee morale and may reduce the ability to meet service demands.
3	Cyberattacks and Data Protection	4	In the event of a successful cybersecurity or ransomware attack, NCTD systems and services may become unavailable, personally identifiable, or sensitive information may be lost or stolen, and the District may be subject to substantial financial losses and reputational damage.
4	Natural Disasters and Climate Change	4	Environmental disasters and climate change may inhibit NCTD's ability to provide services and may lead to reduced ridership and other financial losses.
5	Unfunded Mandates	3.5	If governing bodies, funding agencies, or regulatory authorities decide to mandate the implementation of new initiatives without an accompanying funding source (i.e., unfunded mandates), the District may not have the necessary resources to achieve the objectives. This could result in harm to riders or employees, reduction in funding or penalties, and may adversely impact the District's reputation. This may also reallocate resources previously designated to support core business functions or goals.
6	Growing Labor Force	3.5	The District's administrative support functions may not be trained or equipped to manage the transition in the operating environment from managing contractors to managing represented workers. This may lead to an increase in labor disputes, hiring delays, errors and omissions in onboarding unionized employees, delays or disadvantages from collective bargaining agreements, and adverse impact to employee morale.
7	Cross-Functional Coordination	3.5	If various business functions and departments implement incompatible or duplicative information systems, business processes, capital projects, or programs it may lead to inefficient operations, a waste of District resources, fraud, theft, or loss of property or information.
8	Economic Downturn or Reduction in Funding	3.5	If the District is impacted by macroeconomic issues, including supply chain challenges and national public transit ridership decline, it may lead to a loss of other revenue sources and possible safety concerns.

4. THREE-YEAR INTERNAL AUDIT PLAN (CY2023-2025)

The following factors were considered to develop the Internal Audit Plan:

- Incorporating the top eight emerging risks
- Timing of an audit of a potential risk area per Calendar Year based on available resources and past audits
- Excluding audits performed within the past three years or audits conducted by external auditors
- Excluding audit areas addressed by the CCOP
- Incorporating future substantial organizational change within a Division

Refer to Appendix B for a complete list of areas previously audited under the IAP.

As new potential risks are identified throughout the three-year cycle (CY2023-2025), the Compliance Officer will proactively adjust the IAP with concurrence and adoption by the PAF Committee. Both the Board and NCTD management team will collaborate to provide insight and objective assurance related to the NCTD's internal controls, processes, organizational goals, and strategic objectives.

The six audits planned for the next three years are based on the risk assessment process. Each audit area includes preliminary audit objectives, scope, and risk alignment. See the tables below for CY2023 audit plan, CY2024 audit plan, and CY2025 audit plan. Appendix C outlines the audit process for the six audits planned.

2023 Audit Plan:

Audit Name	Description	Estimated Time/Weeks
Human Resource Benefits Administration Audit	**Objective**: Review for compliance with NCTD policy, compliance with contractual arrangements, accuracy and timeliness of processing, and efficiency of operations. **Scope and Key Activities**: Examination of benefit-related activity for FY2023 pertaining to Human Resources and Payroll. *Key activities to be performed*: Review all relevant HR benefit policies; document the process for enrolling new employees and how annual updates are processed; test payment to outside providers for accuracy and timeliness; test benefits funding placed into various plans for accuracy; ; and test for proper safeguarding of records and data. **Enterprise Risk Alignment:** Cross-functional Coordination, Growing Labor Force, Knowledge Management, Unfunded Mandates, and Economic Downturn or Reduction in Funding.	6 - 8
Project Management Audit	**Objective**: Review for compliance with NCTD policy, compliance with contractual arrangements, and completion of primary activity on time and within budget constraints. **Scope and Key Activities**: Review of project management activity from FY2022 and FY2023 to test for compliance with NCTD policy and effective management of capital projects. *Key activities to be performed*: Review the NCTD Project Delivery Manual and note primary issues and areas that may need improvement; select a sample of projects completed and/or underway, examine the records to identify the original plan, assess whether project activity was being completed to achieve the stated goals and whether the project was/is being completed on-time and within the established budget; examine status reports and management oversight; and determine whether project goals were effectively accomplished. **Enterprise Risk Alignment:** Cross-Functional Coordination, Knowledge Management, Unfunded Mandates, and Economic Conditions or Reduction in Funding.	7 - 9
Total Weeks		**13 - 17**

2024 Audit Plan:

Audit Name	Description	Estimated Time/Weeks
Accounts Payable Audit	**Objective**: To identify compliance with NCTD policy and test for errors or inefficiencies in processing invoices, to verify that controls are in place over vendor profile setup/edits, and to confirm that disbursements are made for valid business purposes and are recorded completely and accurately. **Scope and Key Activities**: Confirm completeness, validity, compliance, and accuracy of accounts payable records for FY2023. *Key activities to be performed*: Review the relevant Standard Operating Procedures regarding invoice approval and identify gaps in the internal controls; identify the process used to set up new vendors and who has control over access to the Vendor Master File (VMF) to make adjustments; assess the VMF to identify whether duplicate vendors exist; test a sample of payments for proper approval, proper payment amount; and examine a sample of expenditures paid for propriety and timeliness of payment. **Enterprise Risk Alignment:** Cross-Functional Coordination, Knowledge Management, and Growing Labor Force.	6 - 8
Fare Collection and Enforcement Audit	**Objective**: To assess the controls, both manual and automatic, regarding the District's fare collection processes and to assess the collection enforcement procedures being taken by the District to make certain funds are accurately recorded, recorded timely, and funds on-hand are safeguarded. **Scope and Key Activities**: Fare collection controls and activities in place during FY2024. *Key activities to be performed*: Identify the process used to collect funds from the transit sites; test for the timeliness of processing; test transactions for accuracy and approval of journal entries; test bank records to make certain the correct amount of funds are processed and recorded in NCTD's bank account; and test safeguard measures to protect funds stored. **Enterprise Risk Alignment:** Economic Downturn or Reduction in Funding, and Knowledge Management.	7 - 9
Total Weeks		**13 - 17**

2025 Audit Plan:

Audit Name	Description	Estimated Time/Weeks
Payroll Audit	**Objective**: The objectives will be twofold. First, verify that controls over the complete, accurate, and timely processing of employee payroll are functioning as expected and identify potential opportunities to improve operating efficiency. Second, review the administrative support functions for the growing labor force of NCTD for proper systems, processes, and controls to handle the growth and continue administering payroll, and provide benefits in an efficient and effective manner. **Scope and Key Activities**: Payroll processing controls and activities in place during FY2024 and FY2025. *Key activities to be performed*: Examine relevant policies and procedures for completeness; test the process for adding new employees, making adjustments to payroll records, and recording of payroll forms for proper authorizations and accuracy; compare payroll records (e.g., name and pay rates) to Personnel (HR) records for agreement.; assess the interaction between HR staff and Payroll staff; and make certain that roles and responsibilities are appropriately defined. **Enterprise Risk Alignment:** Cross-functional Coordination, Growing Labor Force, and Knowledge Management.	6 - 8
Capital Asset Inventory Audit	**Objective**: To review processes in place to manage the lifecycle of physical capital assets including the proper identification and recording, safeguarding and maintenance, inventory, and transfer or disposal of assets. **Scope and Key Activities**: Capital asset tracking systems, physical inspection of capital assets including security for sensitive assets, and inventory and recordation processes and procedures in place in FY2025. *Key activities to be performed*: Obtain the most recent asset listing from the Finance Division and determine when the last inventory count was performed; assess whether discrepancies during the count were properly and timely corrected; examine the process used to perform the count to make sure there were proper controls in place during the count; assess whether the process used is efficient and effective. **Enterprise Risk Alignment:** Cross-functional Coordination, Economic Downturn or Reduction in Funding, Knowledge Management, and Unfunded Mandates.	6 - 8
Total Weeks		**12 - 16**

APPENDIX - A
Audit Universe - 48 Potential Audit Areas

Divisions	Audit Area by Division
Procurement and Contract Administration	Procurement Process
	Contract Administration
Development Services	Facilities Management and Maintenance
	Real Estate Management
	Lease and Licensing Operations
Information Technology	Data Security (Cybersecurity)
	Help Desk
	System Implementation
	Data Management and Daily Operations
	Positive Train Control (PTC)
Safety & Risk Management	Bus Safety
	Rail Safety
	Field Operations
	Accident and Emergency Response
	Worker's Compensation
	Risk Management
Bus Operations	Maintenance Management
	Paratransit Services
	Transition Activities
	Contractor Management
Rail Operations	Maintenance Management
	Signal Operations
	Training Operations
	Operations - COASTER
	Operations – SPRINTER
Finance	Capital Improvement Program
	Grant Operations
	Revenue and Receivables

	Accounts Payable and Liabilities
	Fixed Assets and Inventory
	Cash and Investments
	Budget
	NTD Reporting
	P-Card (Credit Card)
	Payroll
Planning, Marketing and Communications	Transit Planning
	Customer Service Operations
	Government Affairs
	Marketing & Communications
Operations – Support Services	Operations Control Center
	Security
	Human Resources – Recruiting & Retention
	Human Resources – Benefits Administration
	Human Resources - Training
Rail Right of Way	Maintenance of Way
	Maintenance of Signals
General Management	Project Management

APPENDIX - B
Areas Previously Audited

Audit Plan	Audit Projects
CY2018 IAP	Capital Improvement Program
	Wire Transfer Process
CY2019 IAP	Accounts Receivable, Cash Receipts, and Revenue
	Procurement
CY2020 IAP	Cybersecurity
	Lease and Licensing Administration
CY2021 IAP	Financial Internal and External Reporting
	Positive Train Control Security

APPENDIX – C
NCTD Internal Audit Process

Audit Process

Planning
Define audit objectives and methodology
1. Send audit notification letter
2. Gather background information
3. Identify risks
4. Create audit program

Entrance Meeting
1. Discuss planned audit
2. Solicit input
3. Explain timing and resources

Fieldwork
Gather evidence to accomplish audit objectives
1. Conduct interviews
2. Review documentation and processes
3. Test transactions and documentation

Exit Meeting
1. Discuss audit results
2. Resolve questions and concerns
3. Discuss corrective action plans

Reporting
Communicate audit results
1. Provide draft report for comments
2. Obtain corrective action plans
3. Distribute final report to appropriate and required individuals

Follow-up
Review corrective actions plan and results
1. Interview staff
2. Review new processes and documentation
3. Re-audit

Internal Audit Process

The internal audit process for NCTD consists of the below four phases in order to complete an audit project. The following sections cover each phase in detail to explain the process and work effort needed to perform a quality audit project.

1. Planning
2. Fieldwork
3. Reporting
4. Follow-up

1. PLANNING

The purpose of the planning phase is to collect information about the audit area and prepare an audit program that is consistent with the results of the risk assessment process. The audit program is the blueprint for conducting the audit and accomplishing the audit objective. At this stage, the NCTD audit team (Compliance Officer and Strategic Financial and Business Management Advisor) will meet with the NCTD Chief whose division is being audited to discuss the overall purpose of the audit, gather relevant background information, and gain an understanding of the audit area's size, responsibilities, and procedures in place. This initial meeting with the NCTD Chief will help the audit team to prepare an audit program that includes an audit methodology that covers a detailed scope as well as step-by-step instructions. The NCTD audit team will also review the results of the enterprise-wide risk assessment to identify the relevant risks for the area to be audited. This review will help ensure appropriate topics are included as a part of the audit program and in alignment with the enterprise-wide risk assessment results. The audit team will prepare a Notification Letter to inform the NCTD Chief of the upcoming internal audit project. The process of preparing and sending a notification letter is described below.

A. Issuing a Notification Letter

The audit team notifies the NCTD Chief and the department head in writing when their division is selected for an audit by issuing a notification letter to them and the department head of the area(s)

being audited, with a copy to the General Counsel and Executive Director. The notification letter is a 15-day notice (calendar days). The notification letter includes the audit area under review, preliminary audit objectives, and timelines of the audit work effort including the dates of entrance meeting and exit meeting. The notification letter also includes a preliminary questionnaire and/or a list of documents as an attachment. This will help the audit team gain a further understanding of the unit or function and finalize the audit program.

B. Scheduling an Entrance Meeting

After issuing a notification letter, the audit team will schedule an entrance meeting with the applicable NCTD Chief, department head, and relevant staff that may need to be involved in the audit. While In-person meetings are preferred, the entrance meeting could be held virtually.

At the entrance meeting, the following topics will be discussed:

- Objectives and scope of the audit
- Audit Methodology and the reporting process
- Estimated timing and resource requirements are identified – any potential issues (vacations, deadlines, etc.) that could impact the audit will be noted and taken into consideration
- Any reports, documents, or information necessary to advance the audit process
- Any questions about the audit or process will be answered

Input regarding risks and concerns that should be included in the audit is encouraged and is an important part of this meeting and the planning phase.

2. FIELDWORK

The testing and evaluation phase of the audit is referred to as fieldwork. This phase includes: 1) assessing the adequacy of internal controls, 2) examining procedures for compliance with NCTD policy and any applicable laws and regulations, 3) testing transactions, records, and data, 4) and performing other procedures necessary to accomplish the objectives of the audit.

It is necessary for the audit team to conduct interviews with departmental personnel and to review departmental records and practices. Continuous and clear communication is important to avoid misunderstandings and confusion. Efforts will be made to maximize collaboration and cooperate with the division being audited to make the audit process as smooth as possible.

The duration of an audit varies depending on its scope and the availability of department personnel and documentation. Access to personnel, records, and the timeliness of responses to audit requests may impact the duration of the audit.

Throughout the audit, the audit team will keep the applicable NCTD Chief, department head, and relevant staff abreast of the audit process via regular status meetings and/or written correspondence. The audit team will make every effort to discuss audit observations, potential issues, and proposed recommendations as identified. In most instances, it is necessary to work closely with the applicable NCTD Chief, department head, and relevant staff to determine or validate root causes and discuss ways to eliminate problematic issues and arrive at workable solutions.

3. REPORTING

After the fieldwork phase is completed, the audit team will prepare a written report that details the audit scope and objectives, results, recommendations for improvement, the applicable NCTD Chief and department head responses, and corrective action plans.

A. Draft Audit Report

Audit reports are prepared in draft versions and initially shared with the applicable NCTD Chief and appropriate department head for feedback. If any recommendations are made, the audit team will request written responses from the NCTD Chief on the following:

- A corrective action plan to resolve the problem and its root cause
- The NCTD staff responsible for implementing the corrective action
- An implementation timetable

The responses from the applicable NCTD Chief are included in the final audit report.

B. Exit Meeting

The audit team will hold an exit meeting to summarize the results of the audit, provide an opportunity to resolve any questions or concerns the NCTD Chief may have about the audit results, and to resolve any other issues before the final audit report is released. Those attending include the audit team, management of the audited Division, as well as those relevant staff who took part in the audit process.

After the exit meeting, the audit team will analyze and incorporate any comments received during the exit meeting with the draft audit report. A second draft version of the audit report is then distributed to the applicable NCTD Chief and other levels of executive management responsible for the department or function along with a deadline for the review period. The second review will provide an additional opportunity for the applicable NCTD Chief and related staff to review the draft review and provide comments before the final report is issued.

C. Final Audit Report

The audit team will finalize the audit report by including the comments received during the review period and will distribute the final audit report to the applicable NCTD Chief, the General Counsel, and the Executive Director. Reports will include the designation "Prepared at the Direction of General Counsel, Attorney Client Work Product." All reported audit issues will be tracked using an internal Excel sheet for future reference.

4. FOLLOW-UP ON CORRECTIVE ACTIONS

The audit team will conduct follow-up procedures to ensure corrective actions identified to resolve an audit issue are properly implemented. The follow-up procedures will be performed on the open, reported audit observation and corrective action to determine whether corrective actions have been appropriately and effectively implemented to resolve the reported finding. Depending on the nature of the audit finding, follow-up procedures will include interviewing staff, reviewing updated procedures or documentation, or re-auditing the processes that originally led to the audit finding.

A summary of the status of all open findings along with the associated corrective actions will be prepared on a quarterly basis and distributed to the applicable NCTD Chief, General Counsel, and Executive Director. If corrective actions are not completed by the designated due date of implementation, the applicable NCTD Chief must provide a formal written letter explaining the reason for the delay in implementation and providing a new implementation timetable with associated due dates.