

Date: May 15, 2025
To: UTA Audit Committee
From: Mike Hurst, Director Internal Audit
Subject: 2024 UTA Internal Audit External Assessment – Remediation Action Plans

A. Background

The Internal Audit department for Utah Transit Authority (“UTA”) follows standards published by the Institute of Internal Auditors (“IIA”). Prior to January 2025, the IIA standards were the *International Standards for the Professional Practice of Internal Auditing*. Effective January 9, 2025, the IIA adopted the *Global Internal Audit Standards*, which the Internal Audit department now follows.

Both standards require an external assessment of compliance with the standards every five years. This assessment was subject to the International Standards for the Professional Practice of Internal Auditing. The next assessment in 2029 will have one year subject to the old standards and four years subject to the new.

This external assessment was completed as a self-assessment with independent validation, with the independent validation provided by the Internal Audit department of the Utah Department of Workforce Services (“DWS”). They completed the validation on February 28, 2025.

B. Self-Assessment with External Validation Results

DWS reported six conformance gaps with standards and four opportunities for continuous improvement. The details are shown in Attachment A.

Section C documents action plans for Gaps to Conformance and Section D documents action plans for opportunities for continuous improvement.

C. Gaps to Conformance with the Standards and Action Plans

- 1. The annual risk assessment is completed by the Enterprise Risk Management function at UTA, and the timing of the audit plan has not allowed for consideration of the annual risk assessment.**

Internal Audit Response and Action Plan:

Internal Audit agrees with this conformance gap. We identified this issue in the quality assurance evaluation dated December 7, 2023. The adoption of the 2025 Audit Plan was moved from the previous time of December to March to accommodate the timing of Enterprise Risk Management completing the agency risk assessment.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of March 10, 2025.

2. **The Internal Audit Function's policies and procedures have needed updated for a couple of years.**

Internal Audit Response and Action Plan:

Internal Audit agrees with this conformance gap. We identified this issue in the quality assurance evaluation dated December 7, 2023 but intentionally did not address it because the Institute of Internal Auditors was adopting new standards that would impact our procedures. Those standards were adopted in January 2025. Internal Audit subsequently issued a desk reference guide on February 19, 2025 documenting our procedures related to the new standards.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of February 19, 2025

3. **Internal Audit has not audited the Enterprise Risk Management function**

Internal Audit Response and Action Plan:

Internal Audit partially agrees with this conformance gap. We did not perform any assurance activities over the Enterprise Risk Management ("ERM") department during the period of 2019 - 2023. ERM was not started until 2021 and was not fully implemented until 2023. That leaves a very small window when Internal Audit could have audited ERM. We note, however, that the Office of the Legislative Auditor did include ERM as a topic of their audit, report dated April 2024.

The 2025 Standards have changed the requirement. The 2017 Standards stated, "*The internal audit activity **must evaluate** the effectiveness and contribute to the improvement of risk management processes.*" (Emphasis added). The 2025 Standards state, "...*The chief audit executive **must consider** how the organization identifies and assesses significant risks and selects appropriate control processes.*"

Internal Audit will consider ERM as an audit topic, but the new Standards no longer require it. We will document strategy meetings with ERM, attending risk workshops held by ERM, etc. to show compliance with the new Standard.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Ongoing action

4. Documentation retention for the Internal Audit function had not been formalized.

Internal Audit Response and Action Plan:

Internal Audit agrees with this conformance gap. We identified this issue in the quality assurance evaluation dated December 7, 2023. A procedure manual has since been adopted which lists retention requirements. The Internal Audit team received training on UTA's retention requirements from the Records department on March 6, 2025.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of March 6, 2025

5. The documentation for engagement supervision was not readily available.

Internal Audit Response and Action Plan:

Internal Audit agrees with this conformance gap. We identified this issue in the quality assurance evaluation dated December 7, 2023 and practices have improved since then. Review requirements are noted in our procedure manual. We also implemented a new required template that will document workpaper review. We will be in compliance for the full five years of the next reporting period.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of February 19, 2025

6. The monitoring of audit recommendations did not have a formal process.

Internal Audit Response and Action Plan:

Internal Audit agrees with this conformance gap. Starting in the December 2024 Audit Committee meeting, Internal Audit has implemented a new report that demonstrates a formal process has been established. We are working with ERM on a robust issue follow-up process that will be documented in an Agency Standard Operating Procedure. We will be in compliance for the full five years of the next reporting period.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

December 31, 2025

D. Opportunities for Continuous Improvement and Action Plans

1. A third party provided assurance services over ethics controls.

Internal Audit Response and Action Plan:

Internal Audit disagrees with this recommendation. The incident referred to occurred in 2023. We were completing an audit of Transit Oriented Development and learned that controls they relied on was the responsibility of the Ethics Officer, which is held by the Director Internal Audit. This brought those controls into the scope of the audit. We cannot audit ourselves and so, with the consent of the Chair of the Board (the Director's supervisor at the time), the Internal Audit department of Utah Department of Transportation was enlisted to audit the controls that are the responsibility of the Ethics Officer.

This was the correct way to handle the impairment of independence and we will do it similarly if future circumstances require.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Not applicable

2. The Enterprise Risk Management Function completes the risk assessment, and internal audit must consider risk management as part of their due professional care.

Internal Audit Response and Action Plan:

See response for Item 3 of the Conformance Gap section. Additionally, we have incorporated risk management as standard topic for audits.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Not applicable

3. The lack of formally adopted policies and procedures leaves a gap in control for achieving the purpose and responsibilities outlined in the audit charter.

Internal Audit Response and Action Plan:

See response for Item 2 of the Conformance Gap section.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of February 19, 2025

4. The Chief Audit Executive has limited interaction with the external auditors.

Internal Audit Response and Action Plan:

Internal Audit agrees with this recommendation. We have collaboration and touchpoints with the financial auditors but are limited to little to no interaction with other external auditors, such as those that perform the Triennial audit for the Federal Transit Administration.

We want increased interaction with external auditors for the following reasons. First, improved visibility to what external auditors are auditing can reduce duplication of effort by Internal Audit. There are many instances where we can cancel specific audit procedures in deference to similar work already performed. This saves Internal Audit's and management's time. Second, improved collaboration with external auditors puts Internal Audit in a position to provide helpful assistance in the audit. We can help management with document requests, interpreting auditor's requests and findings, etc. We filled this role when the Office of the Legislative Auditors performed an audit of UTA in 2023 and it removed a great deal of administrative burden on management.

We developed an Assurance Map cataloging audit activities across key risks of the organization, to be presented to the Audit Committee on June 16, 2025. This will give Internal Audit the visibility to what audit activities are happening across the organization and what opportunities are present for us to rely on their work and assist management.

Responsible for Implementation:

Director Internal Audit

Target Completion Date:

Completed as of May 14, 2025

Attachment A

DETAIL – GAPS TO CONFORMANCE WITH THE *STANDARDS* OR THE CODE OF ETHICS

1. Standard 2010 – Planning – The annual risk assessment is completed by the Enterprise Risk Management function at UTA, and the timing of the audit plan has not allowed for consideration of the annual risk assessment. Internal audit must base their annual plan on an annual risk assessment. Due to the timing of the Enterprise Risk Management risk assessment, Internal Audit was not able to consider the results of the risk assessment in the creation of their annual audit plan. Internal Audit had identified this timing difference in the 2023 QAIP and has worked with Enterprise Risk Management and the board to delay issuance of the annual audit plan until after they have considered the annual risk assessment.
2. Standard 2040 – Policies and Procedures – The Internal Audit Function's policies and procedures have been needed update for a couple of years. UTA had a few changes to the Chief Audit Executive role at the start of the four-year review period. The current Chief Audit Executive started the process of updating the policies, but due to the announcement of the new Global Internal Auditing Standards, paused the updates to avoid unnecessary updates.
3. Standard 2120 – Risk Management – The coordination between Enterprise Risk Management and Internal Audit was limited due to the Enterprise Risk Management function being in its infancy. Internal Audit is required to assess risk management activities and risk management on the macro level. UTA has an enterprise risk management function that handles most of the requirements from Internal Audit Standards. Internal Audit and Enterprise Risk Management was limited in their communication as the Enterprise Risk Management function was developed. Internal Audit noted this limitation in their 2023 QAIP. Internal Audit performs a risk analysis for assurance engagements. However, these risks should also be considered on a macro level and we were unable to determine if this analysis was happening on a macro level.

4. Standard 2330 – Documenting Information – The documentation retention for the Internal Audit function had not been formalized. Internal Audit was retaining files, however the retention requirements were not formalized. UTA identified this item as part of their 2023 QAIP.
5. Standard 2340 – Engagement Supervision – The documentation for engagement supervision was not readily available. There was some documentation that was provided as part of our documentation request. The internal audit function has identified this as part of their 2023 QAIP and the documentation retention standards to be added to the policy was also identified.
6. Standard 2500 – Monitoring Progress – The monitoring of audit recommendations and improvements did not have a formalized process. Internal Audit has been developing a process to track audit recommendations and improvements that is discussed with the audit committee. This process was being on reported on during our review. The interviews held with different members of UTA were complimentary of the efforts to enhance this area.

DETAIL – OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

1. 1130 – Impairment to Independence or Objectivity – The Chief Audit Executive serves as the Ethics Officer for UTA and cannot provide assurance in this area.

A third-party completed an audit at the request of UTA Internal Audit the standards mention that there should be safeguards that the board oversees. Since the request came from IA and not the board, this could be an area for improvement.

2. 1220 – Due Professional Care – The Enterprise Risk Management Function completes the risk assessment, and internal audit must consider risk management as part of their due professional care. These reviews are

happening on a micro level, but it is unclear if they are happening on the macro level or how the enterprise risk management risk assessment is being considered.

3. 2000 – Managing the Internal Audit Activity – The lack of formally adopted policies and procedures leaves a gap in control for achieving the purpose and responsibilities outlined in the audit charter.
4. 2050 – Coordination and Reliance – The Chief Audit Executive has limited interaction with the external auditors. The validation team understands that this is subject to the board and is out of the Chief Audit Executive’s control. It appears that the coordination with the external auditors happens with the CFO.

ATTACHMENT A – EVALUATION SUMMARY AND RATING DEFINITIONS

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		

1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning		X	

2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures		X	
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management		X	
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		

2330	Documenting Information		X	
2340	Engagement Supervision		X	
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress		X	
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as

the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Independent Validation Statement

Adam Serdar, CPA, CIA; Teresa Gregori, and Charity Goodfellow were engaged to conduct an independent validation of Utah Transit Authority's (UTA) IA self-assessment. The primary objective of the validation was to verify the assertions and conclusions made in the attached self-assessment report concerning adequate fulfillment of the organization's basic expectations of IA, its conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing*, and successful internal audit practices and opportunities for continuous improvement noted. Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices based on benchmark data, governance activities, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive.

In acting as the qualified, independent external assessor from outside the organization, Adam and team are fully independent of UTA and has the necessary skills to undertake this engagement. The validation, concluded on February 28, 2025, consisted primarily of a review and a test of the procedures and results of IA's self-assessment. In addition, interviews were conducted with the CEO, audit committee chair, and other members of senior management.

Adam and team concur with IA's conclusions and observations documented in the self-assessment report attached. Implementation of the recommendations contained in the self-assessment report will improve the effectiveness, enhance the value, and support IA's conformity with the *Standards* and the Code of Ethics.

Adam Serdar

Name

Independent External Assessor Performing the Validation

February 28, 2025

Date