

**ADMINISTRATIVE  
REGULATION****Category: FINANCIAL  
MATTERS****INTERNAL AUDIT DEPARTMENT FUNCTION AND PURPOSE****I. PURPOSE OF ADMINISTRATIVE REGULATION**

The purpose of this Administrative Regulation is to communicate to all departments the purpose, authorizations, responsibilities, and general guidelines for the Internal Audit Department function of the District.

**II. PURPOSE OF INTERNAL AUDIT DEPARTMENT****A. Designation of Duties**

The Internal Audit Department is an integral part of the organization. The Department functions under the policies established by the Board of Directors and directives implemented by the General Manager. The General Manager has designated the Internal Audit Department to perform internal audits of AC Transit's financial and operational programs to assist management by furnishing an independent and objective analysis of the activities reviewed.

**B. Reporting Relationships**

The Internal Audit Department will report directly to the Assistant to the General Manager, but will have direct access to the General Manager and Board of Directors to ensure the Internal Audit Department's independence in the performance of audits. Independence permits internal auditors to render the impartial and unbiased judgements essential to the proper conduct of audits.

### **III. AUTHORIZATIONS GRANTED TO THE INTERNAL AUDIT DEPARTMENT**

#### **A. Access to District Records**

The General Manager of AC Transit grants authority to the internal auditors for unrestricted access to all of AC Transit's manual and electronic records, physical properties and personnel relevant to a review. Documents and information given to internal auditors during the course of audits or reviews will be handled in the same prudent manner as by employees normally accountable the data.

### **IV. RESPONSIBILITIES OF INTERNAL AUDIT DEPARTMENT**

#### **A. Scope of Audit Duties**

The Internal Audit Department is responsible for conducting audits of AC Transit's financial and operational programs. The scope of such audit activity should encompass examining and evaluating the adequacy and effectiveness of the District's system of internal controls and the quality of performance in carrying out assigned responsibilities. This includes, but is not limited to, the following:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and determining whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

- Conducting special reviews as requested by the General Manager, Assistant General Manager, or the Board of Directors.
- In addition to performing audits, the Internal Audit Department will also serve as staff liaison to coordinate audit activities with the independent audit firm conducting the annual audit of AC Transit, federal, state, and other audit agencies.

**B. Implementation Responsibilities**

The internal auditors will have no direct responsibility or authority over any of the activities or operations reviewed. The auditors will not be involved in the development, installation, or operation of systems, the preparation of records, or the engagement in activities which they would normally audit. However, the auditors will provide advice and recommendations concerning suitable internal controls to AC Transit management and its Board of Directors.

**V. INTERNAL AUDIT DEPARTMENT GUIDELINES**

**A. Introduction**

These guidelines are intended to familiarize District management and staff with the chronology for initiating and processing reviews conducted by the Internal Audit Department (Department). The practice of the Department shall be to plan and execute audit requests promptly, efficiently, effectively, and professionally. The department shall follow the auditing standards of the Institute of Internal Auditors, and departmental standards set by the audit manager.

**B. Requests for Audit/Annual Audit Plan**

The Board of Directors, General Manager, and other Officers and Managers of the District may request that the Internal Audit Department conduct an audit at any time. All requests should be addressed, in writing, to the Internal Audit Manager. In addition, the Internal Audit Department may also identify areas for audits.

A proposed annual audit plan will be submitted to the Board of Directors annually by the General Manager and Internal Audit Manager for comment and input. The intent of the annual audit plan is to provide clarity on priorities for upcoming audits. However, the plan will remain flexible throughout any year; and the Internal Audit

Manager, in concert with the General Manager may initiate changes to the annual audit plan to meet operational needs or issues which may arise at any time. Nothing in this section shall preclude the Board of Directors from directing the General Manager regarding conducting a specific internal audit.

**C. Report Processing**

Upon completion of the audit field work, the audit staff will prepare a draft report based on the results of their work. The Internal Audit Manager will conduct an editorial review to ensure that the report is clearly presented and properly written. The manager will also conduct an independent review to certify that each statement of fact in the report is adequately documented by audit work papers. The manager must determine that data in the audit work papers are adequate to support all findings, opinions, conclusions, and recommendations present in the report.

**D. Department Review and Exit Conference**

Upon completion of the Internal Audit Manager's review, the results are reviewed and discussed with the Assistant General Manager and the manager of the audited department. The manager of the audited department is allotted ten (10) days to examine, evaluate and respond to the audit findings. Specifically, the department is requested to submit a written statement of plans for corrective action, or rebuttal to the audit findings within 10 days of presentation of the audit results.

**E. Completion of Report**

- a) When the department's written response is received, the final draft report is prepared. The department's response will be included in the final report draft.
- b) The final draft will be forwarded to the Assistant General Manager for review. The Assistant General Manager reviews the draft to ensure that all management comments are logical, specific, and have a specified timetable for resolution. The Assistant General Manager will forward any recommended edits or changes to the Internal Audit Manager within 3 days, for consideration in the final report.

- c) The final report will be transmitted to the General Manager for review. Any additional comments or edits from the General Manager must be forwarded to the Internal Audit Manager within 5 days of the transmittal date.

**F. Issuance of Audit Report**

The final audit report will be distributed to the General Manager, Assistant General Managers, and manager of the audited department. At the same time, an Executive Summary of the final report will be transmitted to all members of the Board of Directors. A copy of the complete final report will be transmitted to the Board of Directors upon specific request by any of its members.

**G. Audit Follow-up**

The Internal Audit Department requires that the department provide progress reports relative to the implementation of the Internal Audit Department's recommendations. The department should report its progress concerning corrective action at 30 days, 90 days, and 6 months from the date that the audit report has been issued. The General Manager will convene a conference to discuss the final report with participants the 30 day progress is received.

**H. Internal Audit Status Reports**

The Audit Department shall submit a quarterly status report to the Assistant General Manager/Administration, General Manager, and the Board of Directors presenting the status of the Department's audit activities, including the status of audits in progress and audits shown on the original audit plan, a list of all audit requests received by the Department, and the priorities assigned to those requests. The General Manager and Board of Directors shall review the report and determine with the Internal Audit Manager if priorities need to be adjusted. If circumstances require the Audit Manager to change priorities of projects in the interim, the Audit Manager is to inform the Assistant General Manager/Administration, and will report the change in the next quarterly status report to the General Manager and Board of Directors.