

Monitoring Report for Policy 2.7 Asset Protection

Monitoring period: FY 20 and FY 21

Finance Committee Review Date: July 12th, 2022

Board Meeting Review Date: July 21st, 2022










INFORMATION TYPE:
Decision
RECOMMENDED ACTION(S):
<p>Board reviews this monitoring report and completes the survey provided in this link by July 1st, 2022.</p> <p>Board considers accepting this monitoring report in June and accepts it as level B: In compliance, except for item(s) noted.</p>
ISSUE SUMMARY:
<p>In accordance with the Board’s Policy Manual, I present the Monitoring report on Executive Limitation Policy 2.7 Asset Protection. This report consists of internal report information from staff collected within the period identified in the policies. It covers the period of FY 20 to FY 21.</p> <p>I certify that the information is true and complete, and I request that the Board accept it as indicating an acceptable level of compliance.</p> <p style="display: flex; justify-content: space-between;">CEO’s Signature Date 6/23/2022</p> 
BACKGROUND:
<p>TheRide’s Board of Directors establishes policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.</p>
ATTACHMENTS:
<ol style="list-style-type: none"> 1. Policy Monitoring Report for Policy 2.7 Asset Protection

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2.7.2 Operate without ensuring appropriate risk management. A. Subject property, plant, and equipment to improper wear and tear or insufficient maintenance. B. Fail to proactively anticipate the financial requirements needed to maintain assets. C. Operate without internal processes, procedures and systems that encourage informed decisions and would deter and prevent theft, fraud, or malfeasance.	7	
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 Fully Compliant
  Partially Compliant
  Incomplete

Preliminary CEO Interpretations and Evidence

POLICY 2.7: The CEO will not cause, allow, or fail to address circumstances in which corporate assets are to be unprotected, inadequately maintained, or unnecessarily risked. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Degree of Compliance: Partial Compliance

Interpretations

Compliance will be demonstrated when compliance for policies 2.7.1 to 2.7.4 are achieved.

Evidence

This policy is partially compliant because policies 2.7.2 and 2.7.4 are partially compliant. Compliance timelines are provided in respective policies.

POLICY 2.7.1: Allow Board members, staff, and the organization itself to be inadequately insured against theft, embezzlement, casualty, and liability losses.

Degree of Compliance: Compliant

Interpretations

I interpret adequate coverage to mean that losses will not jeopardize the financial integrity of the agency, and that services can be restored in a reasonable period of time without undue financial hardship for the agency. The level of adequate coverage is based on advice from our broker and our professional experience. AAATA's Risk Management Team meets with the broker annually during the budget preparation period to review claims and the adequacy of coverage.

Compliance with this policy will be demonstrated when

- A. the AAATA carries property and liability insurance (private or self-insured). This is reasonable because it is necessary to provide full replacement costs for vehicles, buildings, liquid assets, etc., and provide cost-effective coverage for liability, including casualty, theft/embezzlement.
- B. Paid out claims don't show an unexplainable pattern year over year. This is reasonable because monitoring claims patterns by paid recipient and type ensures integrity of the claims process.
- C. For board members and staff, adequate insurance means that they will be indemnified and free of personal liability for decisions made when pursuing their duties in good faith. This is reasonable because harm or loss is not always preventable, and if it happens when the board member or staff is acting in good faith they should be freed from such liability.

Evidence

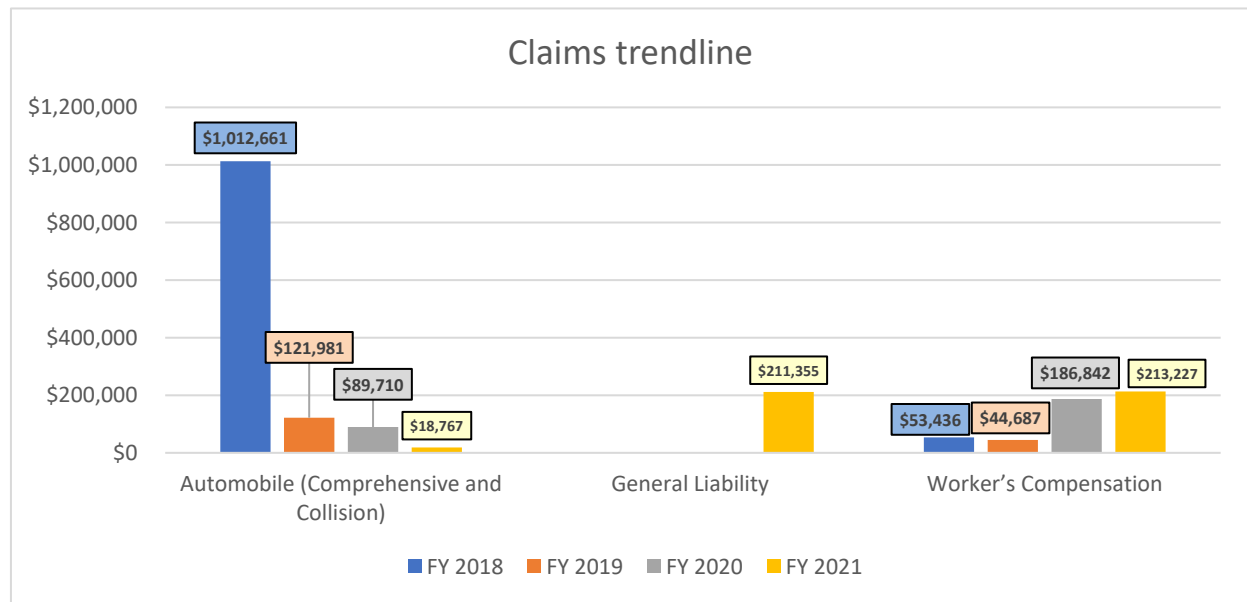
- A. A review of internal documents during the monitoring period by the DCEO Finance and Administration (Reed, 6/7/22) indicate that the insurance parameters, below, were in place.

Financial Risks	Coverage Limits	FY2020 Total Incurred Claims	FY2021 Total Incurred Claims
1. Replacement of Vehicles and Buildings			
a. Automobile (Vehicles): full replacement for losses within 2700 facility (terminal fire and catastrophic loss)	\$50,000,000 (Adequate to replace all buses and support vehicles.)	\$0	\$0
b. Property: full replacement for building, business personal property, disasters (e.g., earthquake, flood, data systems, tools)	\$26,310,300 Building \$4,576,000 Business Personal Property \$360,000 Extra Expense \$25,000,000 Earthquake \$2,500,000 Flood \$2,139,000 Data Systems \$660,000 Tools	\$0	\$0
2. Liabilities			
a. General Liability (Each Occurrence, General Aggregate)	\$2,000,000	\$0	\$211,355
b. General Liability (Personal & Advertising Injury, Products/Completed Operations Aggregate, Damage to Premises Rented)	\$1,000,000	\$0	\$0
c. Umbrella Lead Liability (General Aggregate, Products/Completed Operations Aggregate, Personal & Advertising Injury)	\$4,000,000	\$0	\$0
d. Employee Benefits Liability	\$300,000	\$0	\$0
e. Public Officials Liability	\$2,000,000	\$0	\$0
f. Each Employee Liability Limit	\$1,000,000	\$0	\$0
g. Umbrella Excess Liability	\$10,000,000	\$0	\$0
h. Automobile (Comprehensive and Collision)	\$1,000,000	\$89,710	\$18,767
i. Crime	\$500,000	\$0	\$0
j. Fiduciary (Each Loss, Each Policy Period)	\$4,000,000	\$0	\$0

k. Premises Pollution Legal Liability (Per Pollution Condition Limit, Per Pollution Aggregate)	\$2,000,000	\$0	\$0
3. Worker's Compensation			
a. Worker's Compensation	Self-Insured (\$450,000 Retention)	\$234,329	\$66,954
b. Worker's Compensation Excess (Aggregate Limit)	\$5,000,000	\$0	\$0

Detailed records supporting all of the above evidence are available for Board inspection upon request.

B. Based on the trendline below automobile comprehensive and collision claims have been decreasing over the past four years. Workers compensation slightly increased in FY 2020 and FY 2021. The Manager of Human Resources (Newsome, 6/20/22) confirms that there was no unsubstantiated pay out patterns in terms of pay recipients or type of claim. A job analysis conducted by TheRide's Safety Officer reviewed the increase in FY 2020 and FY2021, and though no pattern was found, additional safety training was recommended and provided to staff to mitigate similar incidents from happening.



C. During the monitoring period there was no incident leading to personal liability or need for indemnity of a staff or board member.

POLICY 2.7.2: Operate without ensuring appropriate risk management.

- A. Subject property, plant, and equipment to improper wear and tear or insufficient maintenance.
- B. Fail to proactively anticipate the financial requirements needed to maintain assets.
- C. Operate without internal processes, procedures and systems that encourage informed decisions and would deter and prevent theft, fraud, or malfeasance.

Degree of Compliance: Partially Compliant

Interpretations

Compliance with this policy will be demonstrated when

- A. Preventative maintenance plans that address risk management of fleet, facilities and heavy equipment are available and enforced in a manner that maximizes the value of the asset over its lifespan, ensures safety; and minimizes the risks of premature failure, replacement, or excessively costly operation. This is reasonable because proper maintenance of fleet, facilities and heavy equipment reduces significant risk that would seriously impact TheRide's operations.
- B. AAATA has a rolling 10-year capital plan that addresses major purchases and anticipates comprehensive lifecycle costs. This is reasonable because it ensures assets are either in a state of good repair or there is a plan for their replacement.
- C. Operate with an internal controls system in place and have all administrative employees trained on it. This is reasonable because Internal Control System addresses loss control, fraud, fraud reporting procedures, theft, or malfeasance.

Evidence

- A. A review of internal documents by the Manager of Fleet (Lundquist, 6/7/22) indicates that AAATA has a Vehicle Maintenance Operating Plan which included preventative maintenance inspections and plans for all vehicles. Additionally, TheRide has set a useful life of 14 years for its fixed route buses. To ensure an even distribution of cash flow for bus replacements, the average age is set at a target range of 6-8 years. The table below shows that our fixed route buses were within target for the period being monitored.

Useful Bus Life	Target Fleet Average Age	Actual Average Age		Status
		FY 20	FY 21	
14 years	6-8 years old	6.57	7.57	Compliant.

A review of internal documents by the Manager of Facilities (Roose,6/8/22) indicate that all facilities have documented preventative maintenance plans which are available for Board inspection upon request

- B. A review of FY 20 and FY 21 Budgets (Njuki, 6/6/2022) indicate that Capital costs for preventative maintenance and replacement programs were set aside as follows:

	FY 2020	FY 2021
State of Good repair: bus replacements, facilities rehabilitations, IT hardware and software, bus capital repairs, A&E, and other equipment	\$11,836,777	\$ 4,826,000*

* The budget in FY21 was significantly lower than the previous year because with good asset management practices in place, additional purchases were not necessary to maintain a state of good repair.

- C. TheRide’s Internal Control System was used during the monitoring period. However, during the pandemic, there were some staff changes and not all administrative staff received training on the system. For those reasons we report partial compliance with this policy

Compliance Timeline: Discussions on revamping administrative training on the Internal Controls Systems are underway and compliance is expected within the next six months.

POLICY 2.7.3: Unreasonably expose the organization, its Board, or staff to claims of liability.
Degree of Compliance: Compliant

Interpretations
<p>Compliance with this policy will be demonstrated when</p> <p>A. AAATA has put reasonable risk-management processes in place to minimize the possibility of being found legally responsible for loss or damages.</p> <p>B. All contracts that assign legal responsibilities to AAATA are reviewed carefully to ensure that no unnecessary risk is accepted.</p> <p>This is reasonable because the nature of transportation operations means there is always exposure to certain risks of being genuinely liable. Operating without adequate liability insurance has been addressed in policy 2.7.1 and hence this policy addresses acceptable risk-management and acceptable risk only.</p>
Evidence

- A. AAATA has an internal risk management team comprised of the Deputy CEO

Operations, Deputy CEO Finance and Administration, Manager of Human Resources, Manager of Finance, Safety Officer, and the Safety and Training Coordinator. This team meets regularly with representatives from Marsh, our insurance broker, and our insurance providers to review claims and manage risks. This group participates in ongoing reviews to ensure that exposures to liabilities are mitigated and are reasonable. A review of internal documents by the Deputy CEO, Finance and Administration (Reed, 6/8/22) confirms that there were no court judgements of liability claims made against the AAATA during the monitoring period.

- B. A review of internal documents by the Deputy CEO, Finance and Administration (Reed, 6/8/22) confirms that all contracts that assigned legal responsibilities and risks to AAATA were reviewed by internal staff, corporate counsel, and when necessary, the insurance broker, to avoid voluntary acceptance of inappropriate and unnecessary risks.

<p>POLICY 2.7.4: Allow intellectual property, information, and files to be exposed to loss, significant damage or unauthorized access.</p>
<p>Degree of Compliance: Partially Compliant</p>

<p>Interpretations</p>
<p>Compliance with this policy will be demonstrated when AAATA’s paper records and electronic files are kept in secure environments that prohibit exposure to</p> <ul style="list-style-type: none"> A. unauthorized access to critical files and systems, and back-ups of critical files are kept. This is reasonable because we cant prevent all forms of cyber attacks but can focus on fully safeguarding critical files B. theft, fire, or water damage; This is reasonable as these safety practices ensure personal data and TheRide’s intellectual property are safe guarded from physical loss or damage.
<p>Evidence</p>

During the monitoring period, a review of records by the Deputy CEO, Finance and Administration (Reed, 6/8/2022) indicates the following:

A. Unauthorized access to critical files

- o **Data and Infrastructure Safety:** All agency computer equipment was kept up-to date, and data on laptops was encrypted. Real-time monitoring for viruses, malware and other threats were on all server and endpoint equipment, with redundant anti-virus software installed on the server infrastructure. However, in October 2021, TheRide had a cyber-attack which included unauthorized access and loss of data. This issue has since then been rectified and all data used for operational purposes

has either been recovered or regenerated. Due to the Cyber-attack incident, the CEO reports Partial Compliance on this policy.

- **Safety and Security Policies:** AAATA implemented new IT Policies in 2019 and updated them in March 2021. These Policies include acceptable use of technology systems, handling of confidential data, passwords, email, physical security, remote access, data retention, guest access, third party access, and wireless access.

B. Physical loss or damage

- **Loss/Damage Prevention:** Files on the computer network were backed up nightly to redundant servers located in separate locations. Cabinets for maintaining personnel records are fire/water proofed, and locked when not in use.
- **Applicant/Rider Information.** Documents identified as Protected Personal Information (PPI) and/or Protected Health Information (PHI) are stored with restricted access in locked file cabinets and secure network locations. Further, the Record Retention Procedure (Internal Control System) limits access only to authorized persons and assigns recordkeeping accountabilities. There have been no known breaches of this information during the monitoring period.
- **Financial:** Access to the accounting system is controlled by the Manager of Finance and the IT Manager. During the annual financial audits, auditors confirm that access controls are correctly implemented. There were no reports of any problems in this area in the FY2020 and FY 2021 audits, nor in prior years.

Compliance Timeline: As of June 2022, we are compliant with this policy. All data used for operational purposes has been recovered or regenerated and additional controls have been put in place to protect critical files and information.

Policy Trendline		
Asset Protection Policy is monitored every even year. Below is the compliance trendline for the sub-policies in FY 20 and FY 22.		
2.7: Asset Protection	FY 20	FY 22
2.7	3	2
2.7.1	3	3
2.7.2	3	2
2.7.3	3	3
2.7.4	3	2
LEGEND		
3	Compliant policies	
2	Partially compliant policies	
1	Non-compliant policies	

Monitoring Policy 2.7 Asset Protection

Guidance on Determining “Reasonableness” of CEO Interpretations

The International Policy Governance Association has developed the following guidance for Board members to use in deciding whether a CEO’s interpretation is “reasonable”:

An interpretation is deemed to be reasonable when it provides an operational definition which includes defensible measures and standards against which policy achievement can be assessed...

Defensible measures and standards are those that:

- *Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena.)*
- *Are relevant and conceptually aligned with the policy criteria and the board’s policy set.*
- *Represent an appropriate level of fulfillment within the scope of the policy.*

- “*What makes an Interpretation Reasonable and What are the Expectations for the Operational Definition: Policy Governance Consistency Framework Report Number 2*”. International Policy Governance Association. June 11, 2016. Available on the IPGA website.

Board’s conclusion on monitoring report

The Board has received and reviewed the CEO’s Monitoring Report references above. Following the Board’s review and discussion with the CEO, the Board makes the following conclusions:

Executive Limitations Report (select one)

The Board finds that the CEO:

- A. Is in compliance
- B. **Is in compliance, except for item(s) noted.**
- C. Is making reasonable progress toward compliance.
- D. Is *not* in compliance or is *not* making reasonable progress toward compliance
- E. Cannot be determined.

Board notes: (If applicable)

The board found the CEO to be (B) in compliance, except for items noted in the report.