



METRO

SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS - NOVEMBER 2019 (20-01)

Terry Follmer, VP of Internal Audit

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Executive Summary

As part of our annual Audit Plan approved by the Capital Metro Board, we conducted the semi-annual status review of all open audit recommendations as of November 30, 2019. The follow up included five audit reports with a total of 12 outstanding recommendations. The audit objective and conclusion on the implementation of the corrective action plans follows.

Audit Objective & Scope

The objective of the audit was to determine whether management has successfully implemented action plans in response to the recommendations provided in internal audit reports. In order to monitor the disposition of audit recommendations, the Internal Audit Department conducts two follow-up audits (semi-annual) per fiscal year (May and November). This report reflects the status as of November 30, 2019, for the outstanding corrective action plans (CAP's) resulting from internal audits projects.

Conclusion on Corrective Action Plans

We followed up on 24 recommendations from five different audit reports and have concluded that only 12 recommendations remain open and management is in the process of implementing these recommendations. Table 1 listed below provides a summary breakdown of audit reports with open recommendations as of November 30, 2019.

Table 1: Summary Status of Open Recommendations							
Project #	Report Date	Report Name	Total # of Audit Recommendations	Implemented as Recommended	In Process of Being Implemented	Rejected/ Management Has Accepted the Risk	% Implemented
19-01	12/11/2018	Commuter Rail - DMU Maintenance Program, Oversight of Herzog	7	5	2	0	71%
19-04	4/25/2019	Watco Freight Revenue & Contract Compliance	4	0	4	0	0%
19-05	4/5/2019	Genfare Cash and Ticket Controls	5	2	3	0	40%
19-07	8/14/2019	Audit Memorandum - Disadvantaged Business Enterprises (DBE)	4	3	1	0	75%
19-07	8/14/2019	Capital Project Expenditure Controls	4	2	2	0	50%
TOTAL:			24	12	12	0	50%

In our opinion, management has made reasonable progress in implementing the recommendations and open corrective action plans. Additional details related to all open recommendations can be found in Appendix A.

This audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

Sarah Daigle, Internal Auditor II (Project Lead)
Jeannette Lepe, Internal Auditor II
Terry Follmer, VP of Internal Audit

We want to thank management for their support and good progress in implementing the open corrective action plans.

APPENDIX A – DETAILS OF OPEN AUDIT RECOMMENDATIONS

Prior Recommendations and Audit Results

As required by the Institute of Internal Auditors' International Professional Practices Framework, we have reviewed all open audit recommendations. Based on our review of five audits, we identified 12 open recommendations. Listed below are the open recommendations, along with the name of the audit report, report date, original recommendation, and management's updated target completion date and comments.

19-01 COMMUTER RAIL – DMU MAINTENANCE PROGRAM, OVERSIGHT OF HERZOG (12/11/2018 Report Issued with 7 Recommendations)

RECOMMENDATION 3 – (Compliance with Contract Monitoring Plan): The Director of Rail Operations will implement the following CMP improvements:

- b) An improved Audit Inspection Report form will be developed and implemented covering contract compliance and quality assurance monitoring activities. The types of inspections and how often this form should be completed and filed will be defined and implemented.
- c) Develop Rail Operation Policies and Procedures that are specific to the Herzog contract covering: quality performance review and sampling requirements; preventive maintenance and DMU overhauls; asset management and recordkeeping including part costs in accordance with the contract; safety; invoice certification; and how to use the Audit Inspection Report.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020
Management is updating the Contract Monitoring Plan (CMP) to include additional information such as types of inspections and sampling requirements.

RECOMMENDATION 5 – (Contractor Staffing Changes & Reporting): The VP of Rail will work with Herzog to achieve the following staff reporting changes:

- b) Herzog will submit staffing changes in real time directly to the IT Service Desk, Security and Rail Operations. An IT Access Request form will be submitted for any new hires, terminations or requested access changes to systems.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020
Management has already requested that new hires and terminations be included in Herzog's monthly staffing report and are currently updating the IT access request process to help ensure that these requests are made in a timely manner.

19-04 WATCO FREIGHT REVENUE & CONTRACT COMPLIANCE (4/25/2019 Report Issued with 4 Recommendations)

RECOMMENDATION 1 – (Freight Revenue Validation): The VP of Rail and CFO will develop the following internal control enhancements:

- b) To provide additional assurance of freight revenue reporting consider either hiring an external audit firm to perform periodic audits of Watco accounting records or perform this audit using CMTA resources.
- c) Obtain each year a copy of Watco's annual audited financials which is required to be provided per the contract.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020 Management has been working with CMTA's Accounting and Legal Departments to initiate an external audit of Watco and to obtain their audited financial statements.

RECOMMENDATION 2 – (CDRL Documents Not Received): The Director of Rail Operations should consider the following actions:

- b) If required CDRL documents are not provided, review with the Legal Department for other remedies.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020 Rail will consider adding liquidated damages when the contract is opened up.

RECOMMENDATION 3 – (Liquidated Damages For Missing CDRL Documents & Maintenance Deficiencies): The VP of Rail, CFO, and Director of Procurement will consider the following internal control improvements:

- a) Director of Rail will obtain and review annual inspection reports from Watco and ensure progress is made based upon contract requirements or other agreed upon terms with Watco.
- b) Maintenance Deficiencies will be assessed for inspection defects that remain uncorrected for more than 90 days as provided in the contract.
- c) Consider adding liquidated damages to the contract for CDRL documents that are not provided timely.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** N/A – This action plan is not due until 12/31/2019.

RECOMMENDATION 4 – (Implement a Contract Monitoring Plan):

- a) The Director of Rail Operations will develop and implement a Contract Monitoring Plan to ensure Watco's performance in accordance with contract terms.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020
Management has already implemented a CMP and is in process of making some final revisions to it.

19-05 GENFARE CASH AND TICKET CONTROLS AUDIT (4/5/2019 Report Issued with 5 Recommendations)

RECOMMENDATION 2 – (Compare Genfare Ticket Sales to Cash): The Controller and Manager of Revenue should consider the following:

- a) Developing written standard operating procedures (SOP) covering the reconciliation and variance analysis related to farebox tickets and cash.
- b) The SOP should state the cadence as to how often the review is performed as well as establish tolerance levels to identify outliers.
- c) Ticket to cash variances outside tolerance levels are researched with action plans to remediate as applicable.

OPEN ACTION PLANS: (*Lea Sandoz – Controller*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 4/30/2020
A fare collection consultant is in the process of establishing a process for the Genfare Ticket Sales to Cash reconciliation.

RECOMMENDATION 3 – (Cashbox Key & Inventory of Genfare Assets): The CFO and the VP of Bus Operations should consider:

- a) Develop a process to inventory cashboxes periodically to ensure missing assets are identified and investigated, and asset records (e.g. Cashboxes, keys, etc.) in the Genfare System and elsewhere are updated.
- b) During the physical inventory of the cashboxes ensure the serial number engraved on the cashbox handle matches the serial number saved to the electronic cashbox chip.
- b) If the engraved cashbox handle serial number has worn off, either re-engage with a unique number or dispose of the handle and update the Genfare system records.

OPEN ACTION PLANS: (*Dottie Watkins - Chief Customer Officer/Chief Operating Officer*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 4/30/2020
This activity was rescheduled to coincide with the upcoming contract transition to more efficiently deploy our maintenance resources.

RECOMMENDATION 5 – (Opportunities to Reduce the Number of Fare Overrides): The CFO and the VP of Bus Operations should consider:

- a) The VP of Bus Operations, VP of Marketing, and the EVP of Planning & Strategy should consider developing a public information campaign to train customers on fare selection and cash payment process using multiple media types (e.g. sticker on farebox; audio public messages on bus; website video, etc.). These actions may help in reducing the number of driver overrides on ticket fares.

OPEN ACTION PLANS: (*Brian Carter – VP of Marketing and Communications*)

Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 4/30/2020 Marketing will produce interior vehicle placards (signs) and record annunciator messages in 2020 to educate our customers on the need to inform the operator of their fare type before submitting fare payment.

19-07 AUDIT MEMORANDUM – DISADVANTAGED BUSINESS ENTERPRISES (DBE)
(8/14/2019 Report Issued with 4 Recommendations)

RECOMMENDATION 4 – (Lack of DBE Monitoring): The Diversity and Compliance Department should implement the following control enhancements:

- a) Define roles and responsibilities related to DBE's for the D&C Department, PM's, and the Procurement Department.
- b) PMs conduct prime contractor monitoring visits as part of their normal project management duties. As part of those visits, PM will document onsite observations related to usage of a subcontractor. The D&C Department will develop a form for recording and providing observations to D&C regarding the work of the DBE firm. The information gathered will be used by the D&C Department and Procurement to ensure compliance with DBE commitments.
- c) Consult with the Legal Department on how best to coordinate with PM's and meet federal requirements.

OPEN ACTION PLANS: (*Diponker Mukherjee – Program Manager, Diversity & Compliance*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** N/A – This action is not due until 1/1/2020.

19-07 CAPITAL PROJECT EXPENDITURE CONTROLS AUDIT (8/14/2019 Report Issued with 4 Recommendations)

RECOMMENDATION 1 – (Lack of Criteria and Required Approvals For Project Changes): The VP of Capital Projects should develop the following internal control enhancements:

- a) The Capital Projects Department and the Authority as such should adopt the formalized policy on when PM's need to obtain Steering Committee approval that is being developed as part of the EPPM tool. This should include the implementation of a formal EPPM Steering Committee charter.

OPEN ACTION PLANS: (*Ken Cartwright – VP of Capital Projects*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 5/1/2020 The Capital Projects Department has already adopted the new Steering Committee approval process as part of the EPPM tool, however, the charter is still being developed.

RECOMMENDATION 4 – (Lack of Current Formalized Policies & Procedures): The VP of Capital Projects should develop the following internal control enhancements:

- a) Develop formalized policies and checklists for the department's key controls, add these to the *Capital Metro Capital Projects Group Policies and Procedures* guide, and provide the guide to department staff.

OPEN ACTION PLANS: (*Ken Cartwright – VP of Capital Projects*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** N/A – This action plan is not due until 12/31/2019.