



# METRO

## SOX CONTROLS AUDIT – MISCELLANEOUS REVENUE (19-09)

Terry Follmer, VP of Internal Audit

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## **EXECUTIVE SUMMARY**

As part of our Fiscal Year 2019 Internal Audit Plan approved by the Capital Metro Board, we performed an audit of the Miscellaneous Revenue process to determine the effectiveness of internal controls over financial reporting. The miscellaneous revenues tested include the following: Advertising; Bulk Ticket Sales; and Railroad Right-of-Way. The audit results including the objective, scope, and conclusion are as follows.

## **Background**

The Finance Department has been implementing SOX like controls over the last several years which helps ensure that key internal financial controls are documented and functioning as intended. They have documented their financial controls using narratives. During FY2019 the RSM accounting firm was hired to review SOX like controls narratives, perform procedural walkthroughs and interviews, and document any internal control weaknesses identified. The Finance Department actions in this area together with this RSM project have helped further strengthen the financial controls.

As part of the Finance Department commitment to continuous improvement, they asked the Internal Audit Department to perform a review of financial controls related to miscellaneous revenue. Miscellaneous revenue is comprised of three main areas: Advertising, Bulk Ticket Sales and Railroad Right-of-Way (ROW) licenses. All miscellaneous revenues are governed by contracts that are created and controlled in other departments. All the activities related to creating and managing the contracts occur upstream in other departments outside of the Finance Department. Finance's role in miscellaneous revenue is limited to creating the billing and following through on any collection and accounting related activities. The miscellaneous billings process is mainly manual using the Microsoft Dynamic AX ERP system. During FY2018, the Accounting Manager together with the A/R Specialist processed approximately 892 invoices for miscellaneous revenue totaling \$3,375,000, which included 375 Right of Way Invoices, 327 Bulk Ticket Sales Invoices, and 190 Advertising Invoices. Below we provide an overview of the systems, processes and controls that are used to manage and monitor the contracts in the three miscellaneous revenue areas.

The Marketing Department is responsible for creating and managing the advertising contracts and has developed a standard pricing table (Media Kit) to be used on contracts. The Media Kit provides pricing based on monthly rates with a minimum one-month term to a year and the installation cost is a one-time fee billed at time of install. The advertising contracts covers various advertising signage on the buses including full bus wraps, sides King (144"x30") or Queen (96"x30"), backs (Full, Upper, Super Tail), tail light (50"x22") and interior signs. The Metrorail cars wraps include Kong (321"x34"), King Kong (202"x107.75"), and full wrap. Standard boilerplate contracts terms have been developed and approved by the Legal Department. Capital Metro has a contract with Trans1graphix to install and remove wraps from the buses and railcars. The Marketing Department does not have an advertising system and must manually manage the contracts and fleet inventory. Contracts are saved on the Marketing Department's Sharepoint drive and the details are tracked on an Excel spreadsheet. Marketing has a Program Manager and Business Development Specialist who generate all advertising revenue. As the advertising gets installed the Marketing Department sends an email to the A/R Specialist in the Finance Department instructing him on the Invoices that need to be created and sent. FY2018 advertising revenue totaled \$914,747 from 190 invoices. In FY2020, The Marketing Department is looking at outsourcing the advertising sales contracting process on a revenue sharing based model.

The Finance Department manages the Transit Store which is responsible for all orders for pass media that are not processed through our Capital Metro's online/e-commerce website or the Point of Sales (POS) system. The billing process is manual and an Order Delivery Receipt (ODR) form is used create revenue billings for the following: Bulk Ticket Sales, MetroWorks, Retail Outlet (e.g. HEB, Randalls, etc.), Discount, Returns, and Complimentary inter pass request. ODR orders for these tickets are received via email/order from the Transit Store staff. The ODR document is a triplicate copy pre-numbered form, used in numerical order, and includes the vendor name, vendor type, the price and type of passes, serial number of passes given and the payment amount. The Capital Metro Representative fills out the ODR, the customer signs the ODR when receiving the tickets, and the pink copy of the ODR is given to the customer, and the white and yellow copies are returned to the Customer Service Rep at the Transit Store. After the ODR's order is fulfilled through ticket delivery, then the ODR forms is forwarded to A/R Specialist in the Finance Department for invoicing and billing, which was approximately 327 transactions totaling \$1,587,341 for FY2018.

The Real Estate Department is responsible for managing the Railroad Right-of-Way (ROW) which includes application fees, permit fees, License agreements for installations, and Roadway Worker-In-Charge (RWIC) fees. Other fees they also manage are Film, Video & Photography requests and Road Crossings. In 1986, Capital Metropolitan acquired from the City of Austin approximately 162 miles of railroad right of way, track, and track structures. The ROW revenues are all prepaid using credit/debit cards and during FY2019, the Real Estate Department implemented a new software called Contract Land Staffing (CLS) to help track and manage these contracts, assets and prepayments. CLSLink is used to track and manage all License agreements, Properties Owned or Leased, it also interfaces with Microsoft Dynamix AX for billings. Additionally, there is the Platinum portal on the Cap Metro website that is the online application system for right-of-way licenses, permits and RWIC applications. Platinum allows our customer the ability to request ROW services and to track progress of submissions. The Platinum system does not interface with CLS Link, and obligations must be manually added into CLS Link by the Real Estate Specialist. In order to reconcile RWIC charges from Herzog, once a month the Rail Operations Finance Manager compares the Herzog RWIC hours worked to the CLS system, and the A/R Specialist in the Finance Department is notified of any manual invoicing to cover the Herzog RWIC time that exceeds the prepaid time in the CLS portal which only bills in 8 or 10 hour increments. The FY2018 Right of Way revenues totaled \$808,806 from 375 invoices.

## **Audit Objective & Scope**

The primary objective of this audit was to determine whether the design and operating effectiveness of internal controls is sufficient to ensure the completeness and accuracy of miscellaneous revenue. The scope included conducting walkthroughs and interviews, reviewing Authority policies, contracts, invoices, desk procedures, testing a selection of transactions processed from the original source to AX, and reviewing testing results with management.

## **Opinion**

Internal controls related to miscellaneous revenues are generally in place and properly functioning. During our review we identified internal controls that require improvement and made the following recommendations:

1. Add late fees and interest to contract terms and invoices.
2. Establish a credit policy.

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3. Cross check monthly billing totals to source records.
4. Implement a contract management system.
5. Update Advertising policy for discounts.
6. Extra RWIC charges should be billed in CLS System.

More details regarding issue/risk and recommendation can be found in the detailed audit report below.

This audit was conducted in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor's International Professional Practices Framework (IPPF). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

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

Recommendations to strengthen controls and improve accountability were provided to management. Management agrees with the internal audit recommendations and has provided target completion dates which are included in the detailed audit report below. A follow-up audit is performed semi-annually (i.e. May and November) to ensure management action plans for all issued audit reports are completed timely.

We appreciate the cooperation and assistance provided to us throughout this audit.

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>1. <u>ADD LATE FEES &amp; INTEREST TO CONTRACT TERMS &amp; INVOICES</u></b></p> <p>We reviewed the contract terms as well as the Capital Metro invoice terms used for all miscellaneous revenues and we noted that there is no stipulation stating that Cap Metro can charge late fees and interest on delinquent accounts. In general, the accounts receivable has improved a lot in the last year and is in good shape (see Appendix A), however, per discussions with management Cap Metro has never charged late fees and interest on delinquent accounts. The ability to charge interest and late fees on delinquent accounts will create extra incentive for all accounts to be paid timely.</p>	<p>The CFO and Chief Counsel should consider modifying the standard terms and conditions listed in contracts and on invoices to include a statement that allows late fees and interest to be charged by Capital Metro on delinquent accounts.</p>	<p>Management agrees to add language to the standard contract template and all new contract to include a statement regarding late fees and interest to be charged on past due accounts. Text will also be added to the invoices, notifying debtors that late fees and interest will be charged on past due accounts.</p> <p><b><u>Target Completion Date:</u></b></p> <p>12/23/2019</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>2. <u>ESTABLISH A CREDIT POLICY</u></b></p> <p>The Finance Department has established an Accounts Receivable Policy (FIN-109), that defines responsibilities for accounts receivable personnel, billing processes, collections and segregation of duties.</p> <p>We reviewed all Finance policies and noted there is no credit policy and delegated approval levels covering the following areas:</p> <ul style="list-style-type: none"> <li>• Performing credit checks and establishing credit limits.</li> <li>• Require delinquent and past due reporting to specific management (e.g. President, VP of Marketing, VP Real Estate) outside of Finance.</li> <li>• Delinquent account write-offs and settlements.</li> <li>• How to handle and record prepayments (e.g. check or payment received before invoicing).</li> <li>• Refunds and issuing credits.</li> </ul> <p>In general, accounts receivable has improved a lot in the last year and we noted that although A/R Aging reporting (see Appendix A) to members of management is not required, it is being performed. However, establishing credit policies, approval levels and specific reporting requirements to outside departments ensures transparency and appropriate approvals.</p>	<p>The CFO and Controller should consider establishing a Credit Policy to include the items below and/or add these items to other policies:</p> <ol style="list-style-type: none"> <li>a) Required credit checks for new and existing customers.</li> <li>b) Establishing credit limits for all customers who do not prepay</li> <li>c) Identify required and specific management reporting of delinquencies based upon materiality level with built in escalation.</li> <li>d) Write-off and settlement approval levels with tiered escalation based upon materiality.</li> <li>e) How to handle and record prepayments received.</li> <li>f) Approval levels for issuing refunds and credits.</li> </ol>	<p>While these items are current practice, they are not specifically noted in the procedures. Management agrees with adding the items to the procedures and creating a written credit policy.</p> <p><b><u>Target Completion Date:</u></b></p> <p>12/23/2019</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>3. <u>CROSS CHECK MONTHLY BILLING TOTALS TO SOURCE RECORDS</u></b></p> <p>We noted that the A/R Specialist consistently performs individual miscellaneous billings as instructed by other departments (e.g. Marketing, Real Estate, etc.), however monthly transaction totals are not reported back to source departments nor are they reconciled to source records. Our testing identified a few minor discrepancies and delays in billings that may have been detected sooner if enhanced two-way communication and reconciliations between the Finance Department and the originating departments (i.e. Marketing, Real Estate &amp; Right of Way; and Rail Operations) was occurring.</p>	<p>The Controller and Accounting Manager should review the monthly revenue reporting and reconciliation process to source systems/records, and opportunities to improved communication as follows:</p> <ul style="list-style-type: none"> <li>a) <u>Right of Way &amp; RWIC</u> – The Finance Department should provide a monthly report of all Right of Way billings to the Real Estate and Rail Departments. Additionally, Real Estate department should provide CLS access to the Finance Department so that the system totals can be reconciled by both departments.</li> <li>b) <u>Marketing &amp; Advertising</u> – The Finance Department should provide a monthly report of all billings to the Marketing Department.</li> <li>c) <u>Bulk Ticket Sales</u> - ODR invoices created by the A/R Specialist should be reconciled to the ODR Excel Spreadsheet maintained by the Revenue Accountant.</li> </ul>	<p>Management agrees to implement additional controls to ensure completeness and accuracy of invoices.</p> <p><b><u>Target Completion Date:</u></b> The accounting manager will implement an effective process:</p> <ul style="list-style-type: none"> <li>a) CLS Invoices by 12/31/2019</li> <li>b) Advertising invoices by 11/30/2019</li> <li>c) ODR Invoices by 11/30/2019</li> </ul>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>4. <u>IMPLEMENT A CONTRACT MANAGEMENT SYSTEM</u></b></p> <p>We noted that all miscellaneous revenues are based upon contracts that are stored in their source department's (e.g.; Real Estate &amp; Right of Way, Marketing; etc.) Sharepoint site where the transaction originated. Capital Metro does not have a central contract database and/or contract management system (CMS) to help in monitoring and managing the status of all vendor and customer contracts. Contract management systems allow users to track and manage contracts through the various lifecycle stages (e.g. developing and tracking drafts through expiration) and provides a single database used by all departments to track key dates and versions of the contract.</p> <p>In lieu of not having a CMS system at Cap Metro, we compared the Sharepoint sites where the contracts are saved for the various departments (e.g. Marketing, Real Estate, Legal, etc.) and noted that the Legal Departments Sharepoint site has the most robust functionality which provides summary view of the following important attributes: Sharepoint Link to contracts, Start Date, Current End Date, Term, Owner Name, Dept Name, Agreement Type, Status, Agreement Value, Expense, Income, and Payment Terms.</p>	<p>The EVP of Administration and Chief Counsel should evaluate either purchasing a contract management system to help in managing all customized vendor and customer contracts in a central repository, or alternatively leveraging and standardizing each departments Sharepoint site to incorporate some of the best practices and features used on the Legal Departments Sharepoint site.</p>	<p>Management agrees with the recommendation.</p> <p><b><u>Target Completion Date:</u></b></p> <p>3/31/2020</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>5. <u>UPDATE ADVERTISING POLICY FOR DISCOUNTS</u></b></p> <p>The Marketing Department has established a Transit Advertising Policy (MKT-102). Under this policy, Cap Metro offers Non-Profit and Governmental Entity Discounts in order to generate revenue and foster good will to the Authority in the community Capital Metro discounts the cost of advertising space by fifty percent (50%) for all non-profit 501(c)(3) organizations.</p> <p>Our testing identified two contracts that did not qualify as non-profit but an advertising discount was provided as follows:</p> <ul style="list-style-type: none"> <li>• CMTA-2018-30 dated 08/10/2018 with IMG College DBA had a discount on the King Rapid signage with approval from the Marketing Director.</li> <li>• CMTA-2018-43 dated 09/25/2018 with Honor Technology received a 12-month promotion under a one-time charge per bus of \$6,930 versus standard \$46,200 full price. While there was a flyer brochure on CapMetro logo showing promotional pricing, management approval for this discount was not found.</li> </ul>	<p>The VP of Marketing should update the advertising policy to include discounts for-profit organizations, and identify the necessary executive approvals (e.g. CFO, President, Chief Counsel) from outside the Marketing Department for these advertising discount exceptions.</p>	<p>Management agrees with the recommendation.</p> <p><b><u>Target Completion Date:</u></b></p> <p>4/15/2020</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>6. <u>EXTRA RWIC HOURS SHOULD BE BILLED IN CLS SYSTEM</u></b></p> <p>All RWIC charges are to be prepaid in the Platinum/CLS system in 8 and 10 hour increments, but because RWIC hours charged to Cap Metro by Herzog and Watco are usually in excess of the prepaid hours, an adjustment must be made at month end to bill the customers for these extra hours. In order to reconcile this, the Rail Operations Finance Manager must compare the CLS/Platinum prepaid hours to the actual labor charges received from Herzog and Watco for their RWIC labor charges. Currently the excess hours identified by the Rail Finance Manager is reported monthly to the A/R Specialist in Finance who does manual invoices in the AX system for the extra RWIC time.</p> <p>We noted that this process results in the Platinum/CLS system not capturing all RWIC hours worked as well as a lack of transparency to the Real Estate Department. Additionally, segregation of duties can be improved by including the Real Estate Department in the reconciliation process.</p>	<p>The VP of Real Estate, Property and Asset Management should work with Rail Operations to establish monthly reconciliation procedures to ensure all RWIC charges are billed in 8 and 10 hour increments and entered into the CLS System by Real Estate rather than the current manual billings performed by Finance in the AX System.</p>	<p><b><u>Target Completion Date:</u></b></p> <p>03/31/2020</p>

## Appendix A: Cap Metro Aging Report

