SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS MAY 2023 (#23-04)

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 May 31, 2023. The follow-up included 7 audit reports with a total of 29 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 May 31, 2023, for the outstanding Corrective Action Plans (CAP's) resulting from internal audit projects.

Conclusion on Corrective Action Plans

We followed up on 29 recommendations from 7 different audit reports and have concluded that 22 recommendations remain open, and Management has action plans to implement the items listed as "In Process of Being Implemented." Table 1 listed below provides a summary breakdown of audit reports with open recommendations for May 31, 2023.

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	% Action Plan Implemented
20-03	3/9/2020	**OrbCAD Incident/Accident Process Review**	3	0	3	0	0%
20-05	8/3/2020	**Fuel Management & Controls Audit**	4	3	1	0	75%
21-01	4/2/2021	**Positive Train Control (PTC) Expenditures Audit**	2	0	2	0	0%
21-03	4/2/2021	**DBE/SBE Program Controls & Analysis Audit**	4	3	1	0	75%
21-07	8/20/2021	**Payroll & Benefit Controls Audit**	5	1	4	0	20%
21-09	12/1/2021	**Transit Store and Ticket Controls Audit**	6	0	6	0	0%
22-05	9/22/2022	**Public Transportation Agency Safety Plan (PTASP) Audit**	5	0	5	0	0%
TOTAL:			**29**	**7**	**22**	**0**	**24%**

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.

More details regarding the recommendations and open Corrective Action Plans can be found below in the detailed audit report. This audit was conducted in accordance with the US Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

Matt Bell, Internal Auditor II (Project Lead)
Terry Follmer, VP of Internal Audit

We want to thank Management for their support and satisfactory 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 audits, we identified 22 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.

20-03 ORBCAD INCIDENT/ACCIDENT PROCESS REVIEW (3/09/2020 Report Issued with 3 Recommendations)

RECOMMENDATION 1 – (Disconnected Systems & No Comprehensive Database)
The Director of Contract Oversight, IT Director of Transit Technology Systems and the Director of Risk Management will consider the following improvements:

a) Establishing a single comprehensive database for all incident/accident data.
b) Require MV to enter all data into the chosen single comprehensive database.
c) Automate the flow of data from OrbCAD into the required Excel templates (e.g., Operator Report, Supervisor Report, etc.) that are saved to SharePoint, thus requiring the Supervisor to only record new data and not have to rekey all data that is already captured in OrbCAD.

OPEN ACTION PLANS: (*Rafael Villareal, Director of Contract Oversight; Charlie Jackson, Director of Transit Technology Systems*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** 7/01/2023
  MV staff investigate and manually enter accident/incident information into Excel forms as required by contract terms, however, we are currently in process of replacing our CAD (Computer-Aided Dispatch) system, and a GRC (Governance, Risk, & Compliance) software has recently been procured by the IT Department (capital project #ITS2403). One of these systems should be able to further automate this process. For example, dispatch information from OrbCAD will be auto populated into the GRC system so it does not have to be re-keyed by MV staff. Additionally, the new CAD system should be able to automate the supervisor/operator investigative report with auto-populated basic fields (date, time, unit #, route, operator id, etc.) from the CAD system which would reduce manual entry errors.

RECOMMENDATION 2 – (Improve QA Oversight, Analysis, and Monitoring)
The Director of Contract Oversight, IT Director of Transit Technology Systems, and the Director of Risk Management should consider and evaluate the following process improvements:

d) Develop controls to ensure that data recorded in OrbCAD matches the data captured in the RiskMaster system. If events are reclassified from incident to accident or vice versa, ensure that both systems are updated with final classification between Incident or Accident.

OPEN ACTION PLANS: (*Rafael Villareal, Director of Contract Oversight; Charlie Jackson, Director of Transit Technology Systems*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** 7/01/2023
  MV staff investigate and manually enter accident/incident information into Excel forms as required by contract terms, however, we are currently in process of replacing our CAD (Computer-Aided Dispatch) system, and a GRC (Governance, Risk, & Compliance) software has recently been procured by the IT Department (capital project #ITS2403). One of these systems should be able to further automate this process. For example, dispatch information from OrbCAD will be auto populated into the GRC system so it does not have to be re-keyed by MV staff. Additionally, the new CAD system should be able to automate the supervisor/operator investigative report with auto-populated basic fields (date, time, unit #, route, operator id, etc.) from the CAD system which would reduce manual entry errors. Note that the current OrbCAD is currently configured to lock and not allow edits/corrections in OrbCAD.

<u>RECOMMENDATION 3</u> – (Automate Reporting Out of Systems)

The Director of Contract Oversight, IT Director Transit Technology Systems, and the Director of Risk Management, should consider and evaluate the following improvements:

a) Request the IT Departments Report Writing Team to develop required pre-printed reports (e.g., monthly reports as well as daily Operator/Supervisor Reports, etc.) out of OrbCAD and/or RiskMaster based upon which system is designated the system of record with all comprehensive data.
b) Review for additional monitoring needs (i.e., Capital Metro and MV) and develop additional reports as necessary to improve MV oversight and improve efficiencies.

OPEN ACTION PLANS: (*Rafael Villareal, Director of Contract Oversight; Charlie Jackson, Director of Transit Technology Systems*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** 9/30/2023
  MV staff investigate and manually enter accident/incident information into Excel forms as required by contract terms, however, we are currently in process of replacing our CAD (Computer-Aided Dispatch) system, and a GRC (Governance, Risk, & Compliance) software has recently been procured by the IT Department (capital project #ITS2403). One of these systems should be able to further automate this process. For example, dispatch information from OrbCAD will be auto populated into the GRC system so it does not have to be re-keyed by MV staff. Additionally, the new CAD system should be able to automate the supervisor/operator investigative report with auto-populated basic fields (date,

time, unit #, route, operator id, etc.) from the CAD system which would reduce manual entry errors. Additionally, there will be opportunities to generate new and improved reports through the new CAD and GRC systems which include the complete incident/accident population from OrbCAD and will help improve contract monitoring.

20-05 FUEL MANAGEMENT & CONTROLS AUDIT (8/03/2020 Report Issued with 4 Recommendations)

RECOMMENDATION 1 – (Update Fueling Procedures & Improve Gasboy Controls)
The Chief Customer Officer/Chief Operating Officer, VP of Bus Operations & Maintenance, Director of Vehicle Maintenance, Director of Security & Emergency Management, and VP of Demand Response and Innovative Mobility should complete the following:

d) Request that the service providers send list of terminations to Gasboy administrators on at least a monthly basis to ensure they are removed from the system in a timely manner.

OPEN ACTION PLANS: (*Andrew Skabowski, EVP, Chief Operating Officer*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023
  Management is currently working with IT to improve the system access termination process to help ensure terminated employees have their system access removed in a timely manner.

21-01 POSITIVE TRAIN CONTROL (PTC) EXPENDITURES AUDIT (4/02/2021 Report Issued with 2 Recommendations)

RECOMMENDATION 1 – (Update Policy & Procedures for Workflow Approval Exceptions)
The Controller, together with the AX Administrator in the IT Department, should consider:

c) Update AP policy (#FIN-106) to define acceptable ways to document appropriate approval to strengthen segregation of duties (e.g. email approval attached to transaction in AX.)

OPEN ACTION PLANS: *(Nadia Nahvi – Controller; Ron Ledesma – Technology Systems Program Manager)* Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 12/31/2023
  CapMetro is in the process of considering implementation of the FastPath SOD (Segregation of Duties) solution for the Oracle ERP system. *As a note, all recommendations related to AX will be implemented for Oracle*.

RECOMMENDATION 2 – (Update AX Approvals & Workflow)
The Controller, together with the AX Administrator in the IT Department, should complete the following:

a) In AX workflow, review by department (see Appendix D) and ensure it aligns with Cap Metro's AP policy (#FIN-106).

d) In AX workflow, ensure every department has identified a Chief level approval and review the Manager and Director level approvals to ensure this appropriately reduces the risk of unauthorized payments.
e) In AX workflow, review dollar thresholds in the configuration and make any necessary adjustments.

OPEN ACTION PLANS: *(Nadia Nahvi – Controller; Ron Ledesma – Technology Systems Program Manager)* Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 12/31/2023
- CapMetro is in the process of considering implementation of the FastPath SOD (Segregation of Duties) solution for the Oracle ERP system. *As a note, all recommendations related to AX will be implemented for Oracle*.

21-03 DBE/SBE PROGRAM CONTROLS & ANALYSIS AUDIT (4/08/2021 Report Issued with 4 Recommendations)

RECOMMENDATION 4 – (No Reconciliation is Performed of the Systems)

The Director of Diversity, Equity, and Inclusion and the Manager of Supplier Diversity and Civil Rights Compliance will consider the following improvements:

a) Define the process of the AX to B2Gnow system reconciliation (i.e., which contracts have DBE/SBE participation; and all prime payments are imported to B2Gnow) and include it in the standard operating procedures.
b) Periodically (e.g. quarterly or semi-annually), perform a complete reconciliation of the systems to ensure the payments are accurately imported in B2Gnow.

OPEN ACTION PLANS: (*Jacqueline Evans, Director of Equity & Inclusion, Diversity and Compliance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 12/31/2023
  Management recently implemented the Oracle financial system to replace Microsoft AX, filled the Manager of Supplier Diversity and Civil Rights Compliance position, filled a Supplier Diversity Specialist position, and is in the process of filling a second Supplier Diversity Specialist position. These employees will continue to refine and re-engineer the data flow processes from Oracle to B2Gnow, and to refine and formalize the procedures for periodic reconciliation between the two systems. *As a note, all recommendations related to AX will be implemented for Oracle*.

21-07 PAYROLL & BENEFIT CONTROLS AUDIT (8/20/2021 Report Issued with 5 Recommendations)

RECOMMENDATION 1 – (Automate & Strengthen Controls Over Personnel Changes)

The Controller and Senior Director of People & Culture should consider implementing the following improvements:

a) Look at automating the PCN form and related workflow into the new ERP system. If this is not possible, look at automating the workflow using workflow features in Outlook and SharePoint and/or within the UltiPro system. The workflow should be a

closed loop with the parties receiving notice that the change has been made in UltiPro.

b) The P&C Department should develop written procedures and tools to help guide P&C staff in their day-to-day tasks. The guide should cover various personnel changes (e.g. pay rate, terminations, promotions, new hires, etc.), payroll deadlines and holidays, and year end processing procedures including annual merit process.

OPEN ACTION PLANS: (*Donna Simmons, EVP of Administration, Diversity and Inclusion Officer*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023
  Management has recently implemented the Oracle ERP system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system.

RECOMMENDATION 2 – (Improve Accuracy of Benefit Calculations)

The Controller and Senior Director of People & Culture should consider the following improvements:

a) Create an internal P&C Department Procedures Guide for staff to follow, which should include each benefit category offered by CapMetro, internal processes that staff should follow, deadlines, specific calculations, review and approval process, etc. (part of recommendation 1b above).

OPEN ACTION PLANS: (*Donna Simmons, EVP of Administration, Diversity and Inclusion Officer*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023
  Management has recently implemented the Oracle system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system.

RECOMMENDATION 3 – (P&C Policies – Compliance & Approved Exceptions)

The Controller and Senior Director of People & Culture should consider the following improvements to Leave Policy (HRC-440):

d) Ensure parental and other types of leave are timely communicated to the payroll personnel so that time and attendance records can be properly updated.

OPEN ACTION PLANS: (*Donna Simmons, EVP of Administration, Diversity and Inclusion Officer*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023
  Management has recently implemented the Oracle system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system.

RECOMMENDATION 5 – (Time and Attendance Reporting & Approvals)

The Controller, along with the Manager of Payroll/Accounts Payable, should consider the following improvements:

a) Create a cumulative report to track and report all unreported and unapproved time by week and by employee and manager until each week is properly reconciled and properly reported and approved.
b) Have a formal process to communicate periodically (e.g. quarterly) to department heads regarding unapproved time for their department.
c) During the employee exit process, require the manager to review unapproved time reports and certify prior to final paycheck.
d) Setup an enterprise level calendar reminder to all CapMetro employees to remind them to submit and approve time before the payroll processing deadline.
e) Ensure each supervisor has a back-up approver if they are on vacation or cannot approve time and attendance records.
f) Review P&C policies to identify payroll and time and attendance policies that should be owned (e.g. HRC 205) by the Finance Department because their payroll group administers the area.

OPEN ACTION PLANS: (*Alyce May, Manager of Payroll & Accounts Payable*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023
  Management has recently implemented the Oracle system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system.

21-09 TRANSIT STORE AND TICKET CONTROLS AUDIT (12/1/2021 Report Issued with 6 Recommendations)

RECOMMENDATION 1 – (Define Physical Inventory Policies, Procedures, and Responsibilities)

The Controller, Manager of Accounting and Revenue, and Manager of Cash Operations should consider implementing the following improvements:

a) Develop a Physical Inventory Policy defining the responsibilities and the cadence of physical inventory review.
b) Develop written procedures for the Physical Inventory to ensure how to conduct and document the review, including the responsibilities of the systems.
c) Define procedures in the system to ensure tracking of the sequentially pre-numbered tickets.
d) Update the job descriptions to support the procedures outlined in recommendations a, b, and c above.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023.

RECOMMENDATION 2 – (Risk Management of Tickets & Ticket Vendor)

The Chief Risk Officer, the Senior Director/Chief Contracting & Compliance Officer, and the Controller should consider the following improvements:

a) Establish SOP so that all critical and material vendors receive a periodic credit and health check using D&B or other credit rating reports. Identify which department (e.g. Procurement or Finance) should perform this check.
b) Update the Procurement Manual to ensure that contracts that impact safety or handle financial instruments (e.g. tickets) with a monetary value require the vendor to do annual criminal background and credit checks on their employees.
c) Evaluate adding insurance and surety bonds to the contract to further safeguard CapMetro's s interest in the live tickets which needs to be managed like a cash asset.
e) Perform an inspection of the ticket factory to ensure CapMetro tickets and printing controls are adequate.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023.

<u>RECOMMENDATION 3</u> – (Improve the ODR Process, Tracking and Invoicing)
The Controller, Manager of Cash Operations, and the Manager of Accounting and Revenue should consider implementing the following controls:

a) Update the ODR procedures to ensure they align with ordering, delivering, billing, tracking, and reconciliation of the ODR records.
b) Ensure the ODR and AX reconciliations are performed timely.
c) Update the job descriptions to ensure roles and responsibilities on the ODR process are defined.
d) Evaluate the opportunity to eliminate the manual ODR form and automate the process to manage the inventory/sale of paper tickets.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023.
  The process recommendations have been addressed through implementation in the Oracle ERP system and documentation is in progress and will be completed by 5/31/2023. Job descriptions are in progress and will be completed by 5/31/2023 but will still need to be reviewed by compensation before being updated in our system.

<u>RECOMMENDATION 4</u> – (Improve HEB Consigned Contract and Inventory Controls)
The Controller, the Accounting Manager, and Cash Operations manager should consider the following improvements:

a) Improve the Consignment Contract language to ensure each party holds equal responsibility for the following areas.
    1. Risk of any loss of tickets, including loss of theft.
    2. The right to Audit should be included in the contract.
    3. Insurance coverage should be requested for CapMetro.
    4. Periodic background checks should be required of HEB staff who manage tickets.
    5. HEB should provide periodic Inventory records.

b) Ensure the Project Manager role is assigned and defined in at least one job description.
c) Develop consigned inventory procedures that can be tracked down to the store level from delivery to reconciliation, including periodic inventory audits.
d) Ensure management oversight is defined in the procedures to ensure the accuracy and completeness of the records.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023.

<u>RECOMMENDATION 5</u> – (Define E-Ticket Policies, Procedures, and Responsibilities)
The Controller and Cash Operations Manager should consider the following improvements:

a) Develop an E-ticket policy defining the roles and responsibilities related to e-tickets in the Bytemark system.
b) Develop SOPs defining the roles and responsibilities of the employees with administrative access to the Bytemark system to ensure only required employees have that level of access.
c) Update the job descriptions to support the procedures outlined in sections a and b.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023.
  The process recommendations have been addressed through implementation in the Oracle ERP system and documentation is in progress and will be completed by 5/31/2023. Job descriptions are in progress and will be completed by 5/31/2023 but will still need to be reviewed by compensation before being updated in our system.

<u>RECOMMENDATION 6</u> – (Develop SOP for Each Type of Ticket and Distribution Method)
The Controller, Manager of Cash Operations, and the Manager of Accounting & Revenue should consider implementing the following improvements:

a) Develop Standard Operating Procedures for the following ticket types:
    1. General Fare Tickets
    2. Consigned Inventory
    3. Returned Tickets
    4. Cash on Delivery
    5. Stored Value Cards
    6. Free Passes
    7. Discount Pass Program
    8. MetroWorks
    9. Ticket Vending Machines
    10. Mobile App
    11. Family Passes
    12. Web Portal

b) Develop and define responsibilities for the Square system (point-of-sale) and Flowbird system (TVM's).
c) Update employee job descriptions to ensure key ticket and system controls have been assigned and defined.

OPEN ACTION PLANS: (*Rick Medina, Manager of Cash Operations, Finance Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/2023. The process recommendations have been addressed through implementation in the Oracle ERP system and documentation is in progress and will be completed by 5/31/2023. Job descriptions are in progress and will be completed by 5/31/2023 but will still need to be reviewed by compensation before being updated in our system.

22-05 PUBLIC TRANSPORTATION AGENCY SAFETY PLAN (PTASP) AUDIT (9/22/2022 Report Issued with 5 Recommendations)

RECOMMENDATION 1 – (Automate the Safety Risk Register)
The Director of Safety should complete the following:

a) Automate the Safety Risk Register and related data feeds (i.e., OrbCAD, Everbridge, ESRS, safety inspections, etc.) as part of the GRC implementation. Additionally, ensure key service provider employees can directly add safety concerns to the system to help with coordination.

OPEN ACTION PLANS: (*Sean Cagan, Director of Safety*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** Not due until 12/31/2023.

RECOMMENDATION 2 – (Update and Further Develop the Safety Plan)
The Director of Safety should complete the following:

a) Continue to develop the safety processes listed in the Safety Plan using committees, safety data, best practices, etc.
b) Ensure appropriate Demand Response inputs are documented in the Safety Plan.
c) Send out yearly safety risk surveys to members of management as outlined in the Safety Plan.

OPEN ACTION PLANS: (*Sean Cagan, Director of Safety*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** Not due until 12/31/2023.

RECOMMENDATION 3 – (Enhance Controls Related to ESRS)
The Director of Safety should complete the following:

a) Automate ESRS as part of the GRC implementation and add a risk rating (low, medium, high) to each hazard, and assign target days to close based upon risk rating.
b) Assign and document the ESRS operations process owner in the Safety Plan for further clarification. The process owner should work towards lowering the time it takes to resolve safety concerns so it is closer to the 14-day goal or, alternatively, revise the target goal.

OPEN ACTION PLANS: (*Sean Cagan, Director of Safety*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 3a) Not due until 12/31/2023; 3b) 09/30/2023.

RECOMMENDATION 4 – (Safety Performance Targets & Reporting)

The Director of Safety should complete the following:

b) Present safety performance targets to executive management and service providers on a quarterly basis to help improve CapMetro's safety awareness.

OPEN ACTION PLANS: (*Sean Cagan, Director of Safety*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 9/30/2023.

RECOMMENDATION 5 – (Further Develop the Safety Training Program)

The Director of Safety should complete the following:

a) Further formalize the safety training program by defining and documenting the safety curriculum within the standard training program. Additionally, define and document the frequency, type of training by position, and any refresher trainings.
b) Change the training process to include input from the Safety Department every year to ensure current safety issues are addressed and implemented in the training program, as necessary.

OPEN ACTION PLANS: (*Sean Cagan, Director of Safety*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** Not due until 9/30/2023.