

CapMetro

SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS November 2025 (26-01A)

Terry Follmer, Chief Audit Executive

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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, 2025. The follow-up included 7 audit reports with a total of 32 findings and 98 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. To monitor the disposition of audit recommendations, the Internal Audit Department conducts two follow-up (semi-annual) audits per fiscal year (May and November). This report reflects the status as of November 30, 2025, for the outstanding Corrective Action Plans (CAP's) resulting from internal audit projects.

Conclusion on Corrective Action Plans

We followed up on 32 findings with 98 recommendations from 7 different audit reports and have concluded that 32 recommendations remain open, and Management has made reasonable progress in implementing action plans to implement the items listed as "In Process of Being Implemented." Many of the remaining open action plans are partially to significantly completed with additional work tied to complex systems implementations/integrations and/or significant policy and procedure revisions. Here are hyperlinks to the [Summary of the Implementation Status on Open Recommendations](#) and a [Detailed Status by Project and Recommendation](#).

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 – including the individual original Audit Recommendations, open Corrective Action Plan status, and Target Completion Dates.

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

Valerie Carson, Senior Internal Auditor (Project Lead)
Terry Follmer, Chief Audit Executive

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

Summary Implementation Status of Open Recommendations and Progress

The table below provides the summary implementation status for audit reports with open recommendations as of November 2025, with footnotes below indicating the summary of progress that management has made to date on key projects. Additional details on the progress on individual recommendations for each project are included in [Appendix A – Details of Open Audit Recommendations](#).

| Report # | Report Date | Report Name | Total Audit Findings | Total Audit Recommendations | Implemented as Recommended | | | Open Recommendations In Process of Being Implemented | | | Rejected - Management Has Accepted the Risk | | | % Action Plan Implemented |
|---------------|-------------|---|----------------------|-----------------------------|----------------------------|-----------|-----------|--|-----------|----------|---|----------|----------|---------------------------|
| | | | | | H | M | L | H | M | L | H | M | L | |
| 20-03 | 3/9/2020 | OrbCAD Incident/Accident Process Review | 3 | 10 | - | 10 | - | - | - | - | - | - | - | 100.00% |
| 21-07 | 8/20/2021 | Payroll & Benefit Controls Audit | 5 | 19 | - | 12 | 7 | - | - | - | - | - | - | 100.00% |
| 21-09 | 12/1/2021 | Transit Store and Ticket Controls Audit | 6 | 23 | - | 17 | - | - | 6 | - | - | - | - | 73.91% |
| 23-12 | 5/31/2024 | Hexagon - Post Implementation Review | 5 | 12 | - | 5 | 3 | - | 1 | 3 | - | - | - | 66.67% ¹ |
| 24-12 | 12/18/2024 | McKalla Station Capital Project Controls | 5 | 12 | - | 3 | 4 | - | 5 | - | - | - | - | 58.33% |
| 24-08 | 1/15/2025 | CLS Order System ROW Revenue Audit | 6 | 18 | - | 2 | - | - | 14 | 2 | - | - | - | 11.11% ² |
| 24-10 | 7/22/2025 | UHC Eligibility KPIs and Payment Controls | 2 | 4 | - | 2 | 1 | - | - | 1 | - | - | - | 75.00% |
| TOTAL: | | | 32 | 98 | 0 | 45 | 15 | 0 | 32 | 6 | 0 | 0 | 0 | 67.35% |

Footnotes detailing progress on selected reports listed above:

1 – 23-12: Hexagon Post-Implementation Review: A new parts cross-functional working group (including Ops Bus/Rail/DR, IT and Accounting) is being formed which will provide significant guidance on Hexagon asset lifecycle management processes, cross-referencing between the Hexagon and Oracle systems, and developing SOPs to address minimum required fields for asset classes and inventory counts, etc. A Hexagon user survey is planned to be re-run in May 2027.

2 – 24-08: CLS Order System ROW Revenue: Significant progress has been made with the following steps: 1) planned replacement of the CLS system with a Tyler Technologies solution go live of 7/1/2026 to improve functionality and interface to Oracle; 2) improved collections policies and processes; 3) identify and correct non-compliant/unauthorized infrastructures on CapMetro’s ROW; 4) address unapproved RWIC overtime and hours billed beyond those prepaid by customers; 5) update ROW SOPs; and 6) establish a process for collecting COI updates as licenses are renewed annually.

Risk Rating Definitions

Ratings Definitions: Auditors used professional judgment and rated the audit findings identified in this report. The risk ratings identified for each recommendation were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

| Rating | Issues identified | Action required |
|---------------|--|--|
| HIGH | Issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. | Immediate action is required to address the noted concern(s) and reduce risks to the audited entity. |
| MEDIUM | Issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. | Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity. |
| LOW | Issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. | Action is needed to address the noted concern(s) and reduce risks to a more desirable level. |

Ratings methodology: In determining the ratings of audit findings, auditors considered factors such as:

1. Financial impact
2. Potential failure to meet program/function objectives
3. Noncompliance with state statute(s), rules, regulations, and other requirements or criteria
4. The inadequacy of the design and/or operating effectiveness of internal controls
6. Evidence of potential fraud, waste, or abuse
7. Significant control environment issues
8. Little to no corrective action for issues previously identified

Auditors also identified and considered other factors when appropriate.

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, we identified 21 open findings. Detailed below are the open (as well as closed as of this follow-up cycle) findings and recommendations, along with the name of the audit report, report date, the original recommendations, and Management's updated target completion dates and comments.

20-03 ORBCAD INCIDENT/ACCIDENT PROCESS REVIEW (3/09/2020 Report Issued with 3 Findings and 10 Recommendations)

RECOMMENDATION 1 – Disconnected Systems & No Comprehensive Database MEDIUM

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 (now Keolis) 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: Management agreed with the recommendation above.

Management's Updated Target Completion Date: CLOSED

Detailed Actions/Comments:

Trackit has been identified as the single comprehensive database (recommendation a) to be used by Keolis (recommendation b) for all incidents and accidents and some data flow automation has been implemented (recommendation c). There have been minor adoption issues with Trackit, but the project team has completed ongoing training and meetings with key stakeholders and has processes in place to address the challenges. The Vontas project is well underway for replacement of the OrbCAD dispatch system and is on schedule for a 2027 replacement. Design decisions have been completed for Vontas and Trackit Transit and surrounding future-state processes and the Design Phase will be completed in January 2026. Capturing incident and accident information and reporting will be addressed in the Design Phase with the intent of addressing and implementing process improvement and reporting of accidents and incidents.

RECOMMENDATION 2 – Improve QA Oversight, Analysis, and Monitoring MEDIUM

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: Management agreed with the recommendation above.

Management's Updated Target Completion Date: CLOSED

Detailed Actions/Comments:

The previous RiskMaster system has been retired. Management is still working on addressing some minor adoption issues for Trackit, but the system can be used for some QA oversight and monitoring.

RECOMMENDATION 3 – Automate Reporting Out of Systems MEDIUM

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. Track-it has been chosen as the system to be automated and use with electronic reporting, except for Bus operator report that is downloaded.
- b) Review for additional monitoring needs (i.e., CapMetro and Keolis) and develop additional reports as necessary to improve oversight and improve efficiency.

OPEN ACTION PLANS: Management agreed with the recommendation above.

Management's Updated Target Completion Date: CLOSED

Detailed Actions/Comments:

Report templates are available in Trackit, although there have been some minor adoption challenges that are being actively worked with key stakeholders to improve Trackit usage, reporting and visibility. Additional reporting capabilities are being defined and will be available with the adoption and integration of Vontas in January 2027.

21-07 PAYROLL & BENEFIT CONTROLS AUDIT (8/20/2021 Report Issued with 5 Findings and 19 Recommendations)

RECOMMENDATION 3 – Improve Accuracy of Benefits and HR Policies **LOW**

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

- a) Ensure deadlines and the maximum elapsed time after an event are defined (birth, adoption, or placement of a child) in which the employee must start using the parental leave or other family related benefit.
- b) Define the process for approving special exceptions to the policy (e.g. who can approve them, how to document the approval).
- c) Require employees to submit a long-term (greater than two weeks) leave request to the P&C Department.
- 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.

ACTION PLANS: Management agrees with the recommendation above.

Management's Updated Target Completion Date: CLOSED

Detailed Actions/Comments:

Changes to People and Culture (P&C) processes as well as Oracle system changes that automate leave requests have reduced the risks identified in this audit to an acceptable level and Internal Audit concurs.

21-09 TRANSIT STORE AND TICKET CONTROLS AUDIT (12/1/2021 Report Issued with 6 Findings and 23 Recommendations)

RECOMMENDATION 5 – Define E-Ticket Policies, Procedures, and Responsibilities MEDIUM

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: Management agreed with the recommendation above.

Management’s Updated Target Completion Date & Comments: March 2026

Detailed Actions/Comments:

Job descriptions have been updated in the system. We will revisit this recommendation with the implementation of UMO, CapMetro’s new payment processing system. Written SOPs are being further developed and vetted. Job descriptions were updated for individuals using Bytemark, but we are sunsetting Bytemark for Umo. There are currently only 4 or 5 people who can change permission settings in UMO and roles are establish for what each individual can see. We will resume the UMO project and this finding will be overwritten and superseded by the new UMO audit in FY 2026.

RECOMMENDATION 6 – Develop SOP for Each Type of Ticket and Distribution Method MEDIUM

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. Stored Value Cards
 5. Free Passes
 6. Discount Pass Program
 7. MetroWorks
 8. Ticket Vending Machines
 9. Mobile App
 10. Family Passes
 11. Web Portal
 12. AMP Card
- b) Develop and define responsibilities for the Square system (point-of-sale) and Flowbird system (TVMs).
- c) Update employee job descriptions to ensure key ticket and system controls have been assigned and defined.

OPEN ACTION PLANS: Management agreed with the recommendation above.

Management’s Updated Target Completion Date & Comments: March 2026

Detailed Actions/Comments:

Job descriptions have been updated in the system. We will revisit this recommendation with the implementation of UMO, CapMetro's new payment processing system. Written SOPs are being further developed and vetted. All the same types of tickets and passes will continue to exist with the new UMO system and Flowbird. CapMetro to go back to Square for point of sale. It will take 6-12 months for it to flow through UMO. The Director of Revenues and Fares feels it makes more sense to identify these responsibilities in the SOPs, not the job descriptions. These SOPs need a full overhaul, because UMO has changed everything.

23-12 HEXAGON - POST IMPLEMENTATION REVIEW (05/31/2024 Report Issued with 5 Findings and 12 Recommendations)

RECOMMENDATION 1 – Facility Assets with Missing Preventive Maintenance Programs **MEDIUM**

The COO and EVP of Capital Construction, Engineering and Design should marshal internal/external resources to take action on:

- a) Physical inventory of facility equipment and update Hexagon and Oracle records based upon this review.
- b) Establish written criteria (e.g. value; life cycle remaining; etc.) for facility assets that should be included in the PM program and then update/create PM's for assets accordingly.
- c) Ensure asset tags and ID #s are in place and cross-referenced between the Hexagon and Oracle systems based upon the capitalization policy.
- d) Identify required fields to be captured in Hexagon and document in procedure guides, etc. so that the system prompts staff to provide required key information.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date:

Recommendations A, C & D – CLOSED

Recommendation B – May 2026

Detailed Actions/Comments:

Recommendation B: Facilities Management is working on an integrated PMI plan with assistance from a dedicated Data Analyst and improved coordination with Keolis. PMIs are being defined based on Asset Classes (parent vs. child assets) and the Classes are based on asset criticality, value, estimated useful life expectancy, and maintenance needs.

- New assets will have PMI plans put in place upon entry into the Hexagon EAM system based on expected life of the asset and preventive maintenance requirements. Management is proactively setting asset life expectancies for planning and budgeting purposes – if an asset is still functional at the end of its initial estimated life, they will extend in EAM to reflect revised end of life (EOL) date and coordinate with Finance.
- For legacy assets (a small population of total current assets), management will not be going back to fill in empty fields unless they still have a considerable remaining useful life, and asset tags will not be added – because the costs of doing so outweigh the benefits.

The focus is on ensuring that new assets are being created correctly. Management hasn't changed the depreciable life expectancy yet because it will impact State of Good Repair (SOGR) and financial capital budget forecasting/planning and it requires coordination across the Facilities, CCED and Finance departments.

RECOMMENDATION 2 – FTA Record Keeping Requirements – Rolling Stock **MEDIUM**

The COO and EVP of Capital Construction, Engineering and Design should marshal internal/external resources to take action on:

- a) Ensure any FTA-required fields are complete and accurate by completing the following:

- For any NTD (National Transit Database)-required fields in Hexagon, make the naming conventions consistent with the FTA to eliminate confusion (e.g. use same name used by FTA or at least capture FTA name somewhere).
- Check newly entered asset records regularly and make timely adjustments if not compliant with FTA requirements.
- Design report formats to allow direct upload to NTD, simplifying the process.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management’s Target Completion Date and Comments: CLOSED

Detailed Actions/Comments:

Internal Audit performed additional testing to confirm that assets with FTA funding have all the NTD-required fields noted in the original audit report populated.

RECOMMENDATION 3 – Parts Records – Completeness & Accuracy **LOW**

The COO and EVP of Capital Construction, Engineering and Design should document record keeping requirements in policies/procedures that cover the following:

- a) Identify which fields (e.g. Class, Catalogue Description, Location, Quantity, Price, Min/Max Quantity, etc.) are required for all parts.
- b) Perform data analytics to identify all Part numbers that are missing required fields and take necessary actions to ensure Hexagon database records are properly updated.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management’s Target Completion Date: CLOSED

Detailed Actions/Comments:

As a result of the recently completed parts inventory controls audits across Bus, Demand Response, and Rail, a cross-functional working group (Operations, Finance and IT) is being established. The goal of the working group is to analyze parts inventory balances and identify process and system improvements in an annual plan with stated goals (e.g., system enhancements, cycle count coverage, contractual physical inventory requirements, etc.). The group will also develop tools (e.g., exception reports, analysis, etc.) to identify and discuss reasons for any significant changes in parts inventory and expense balances.

RECOMMENDATION 4 - Hexagon User Survey - Feedback on Issues and Improvement Opportunities **MEDIUM**

The COO and EVP of Capital Construction, Engineering and Design should marshal internal/external resources to take action on some of the user suggestions for improvement listed below:

- a) CapMetro specific help materials and training guidance (not generic)
- b) Additional training/advanced training, hands-on mobile training
- c) Stream-line work order creation
- d) Add ability to open multiple work orders of same type from one screen.
- e) Enhance ability to edit/correct previously saved input more easily.
- f) Improve integration/data flow and frequency with other systems (e.g., Trapeze, Gasboy, etc.)

- g) Improve reporting capabilities.
- h) Reduce/eliminate redundant data entry/keying (e.g., entering VMRS 042, 042-010, 042-010-094)
- i) Improve summary and 'at-a-glance' data screens.
- j) Improve 'Data Spy' query function/capability for search efficiency.
- k) Involve CapMetro Subject Matter Experts (SME) in user-acceptance testing.
- l) Reduce/eliminate system clutter (disabled options/functions/dropdowns)
- m) Improve support/assistance outside regular hours

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date and Comments: CLOSED

Detailed Actions/Comments:

In the spirit of continuous improvement, additional Hexagon user experience improvements are being explored, even though not required by these audit recommendations. The Hexagon user survey will be re-run in May 2027.

RECOMMENDATION 5 – Update Policies and Procedures LOW

The COO, CFO and EVP of Capital Construction, Engineering and Design should document, communicate, monitor, and update policies and procedures for all assets (i.e. rolling stock, fixed assets, parts) in Hexagon and Oracle systems that covers the following activities:

- a) Additions/Disposals/Consumption/Adjustments and related recordkeeping in Hexagon and Oracle.
- b) Physical Inventories & Cycle Counts - documented process covering when; how; frequency; who; what forms to use; "blind count" or known count; how to reconcile; when a second count is required; who must approve adjustments based upon materiality; segregation of duties between counter, reconciler, approver and adjuster in Hexagon and Oracle; etc.
- c) Hexagon to Oracle Reconciliations - Automated and/or manual reconciliations between assets (i.e. fixed assets, vehicles, parts, etc.) in Hexagon and Oracle. The separate asset #s used in the two systems should be reconciled including certain critical fields (e.g. date, asset description, value, etc.).
- d) Management Reporting related to the items listed above.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date:

Recommendation B – CLOSED

Recommendations A, C & D – May 2026

Detailed Actions/Comments:

This recommendation is related to recommendation 3 above regarding aligning SOPs with FTA requirements/industry best practices and encompasses all assets (not just parts). Facilities is currently piloting a process for integrating PMI and inventory count processes. Collaboration across departments is ongoing to define and refine business processes surrounding inventory management and provide actionable EAM system requirements.

Note: Recommendation 5b has been closed due to the recent FY2025 parts inventory controls audit reports, pending follow-ups on those audit reports, and related cross-departmental working group efforts.

24-12 MCKALLA STATION – CAPITAL PROJECT CONTROLS (12/18/2024 Report Issued with 5 Findings and 12 Recommendations)

RECOMMENDATION 2 - Construction Capitalization Process MEDIUM

Internal Audit recommends that the Controller and the VP of Facilities Management & Capital Construction should consider the following improvements:

- a) Define and develop SOPs for construction processes to ensure CPG and Accounting Departments are getting timely and appropriate information to ensure capitalization records in both Hexagon and Oracle systems can be properly updated. From here, develop Policies and SOP's that codify the process and ensure appropriate staff within CPG and Accounting are trained and understand how their activities support each other.
- b) Periodic meetings (e.g. monthly and/or quarterly) should be scheduled between CPG and Accounting to ensure proper communication and coordination of projects.
- c) The monthly PlanView Upcoming Go-Live report should be updated to include a field that captures the actual project percentage of completion.
- d) Capitalized assets in Hexagon should be reconciled to Oracle asset records monthly. Any unexpected differences should be investigated and adjusted in Hexagon and/or Oracle.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Dates:

TAM SOP: February 2026

FIN-104: February 2026

FIN-105: Revisit in May 2026

Detailed Actions/Comments:

Recommendations 2 b, c, and d have been closed, and management is evaluating additional process and/or technology improvements beyond the audit recommendations. For recommendation 2a, Finance has been working with Capital Construction and Transit Asset Management on these SOPs. Two of these SOPs (TAM & FIN-104) are related, so they will be reviewed as a whole and implemented around the same time.

- The Transit Asset Management (TAM) SOP is in final stages of review/input from Project Management before circulation to management for final review.
- FIN-104 SOP is underway.
- FIN-105 is related to capitalization of labor associated with capital projects. Our external audit firm has previously discouraged its use due to the complexities of and detailed record-keeping requirements for accurately allocating overhead to projects for staff who do not directly perform physical tasks related to the capital project assets being placed in service (e.g., Project Manager time). This will be revisited at a later time.

RECOMMENDATION 3 - Capitalization Policies Require Updates and SOPs are Needed

MEDIUM

Internal Audit recommends that the Controller consider the following improvements:

- a) Updating FIN-104 and FIN-105 to reflect current accounting requirements, practices, and document form hyperlinks. The policy should include basic definitions of assets to guide users outside the Finance department. Instructions should be communicated with other departments to ensure that all parties are aware of and understand the requirements.

- b) Identify and document the relevant accounting standards to be used and incorporated into the Finance policies.
- c) Develop SOPs and procedures documents for the capitalization process which will define the expectations for all parties to follow to ensure items are properly categorized.
- d) Determine whether the forms (FIN2, FIN5, FIN6) are still necessary for documenting assets and if so, update the fixed assets forms to correspond to the current Hexagon EAM fixed assets system.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Dates:

FIN-104: February 2026

FIN-105: Revisit in May 2026

Detailed Actions/Comments:

FIN-104 (Fixed Asset Capitalization-Disposal Policy) & FIN-105 (Capitalization of Labor on Capital Projects) and related more detailed SOPs are still a work in process. Implementation is tied to the TAM SOP which is being worked in Action Plan 2 above.

RECOMMENDATION 4 – Delegations of Authority Not Defined for Temporary Construction Easement Acquisitions **LOW**

Internal Audit recommends that the VP, Facility Management & Capital Construction should work with the Legal Department to develop acceptable approval limits for routine and exception transactions (e.g. paying more than appraised value) within the overall CapMetro delegations of authority approval matrix.

ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date: CLOSED

Detailed Actions/Comments:

The Real Estate section of the Capital Design and Construction (CDC) Policies and Procedures Manual has been updated with the delegations for the exception approval process for paying higher than appraised value for real estate transactions.

24-08 CLS ORDER SYSTEM RAILROAD RIGHT-OF-WAY, RWIC, PERMITS & LICENSES (01/15/2025 Report Issued with 6 Findings and 18 Recommendations)

RECOMMENDATION 1-Missing Interfaces Between Systems Require Manual Workarounds

MEDIUM

Internal Audit recommends the Controller, Director of Revenues & Fares, Director of Enterprise Application & Data Services, and the Director of Real Estate and ROW evaluate the following process improvements:

- a) New ROW Orders - If new orders are entered by customers into the CLS Platinum system can be interfaced to CLS Link, so that the Real Estate Specialist does not have to enter all new orders from scratch to create an order in the CLS Link system. Thus, creating a single database in the CLS Link system instead of having two separate databases in CLS Platinum and CLS Link that do not talk to each other.
- b) New ROW Customers - For new customers in CLS Link, opportunities to automate the creation of new customer requests into Oracle, so that the A/R Accountant does not have to enter all data from scratch. Currently manual emails between Real Estate Specialist and AR Accountant are needed to notify each other and then manual key into CLS Link and Oracle.
- c) Prepaid RWIC Hours – Create workflow automation notifying Rail Operations when RWIC orders have been prepaid. Currently manual emails must be sent to Rail Operations with all details (e.g., requested RWIC dates, number of prepaid RWIC hours, milepost #, etc.). Include a closed loop in the workflow so that actual hours worked by Herzog are reported back and compared to prepaid hours. If actual RWIC hours exceed prepaid hours, include a process to create an extra billing for the extra hours worked. The revenue leak for this was \$23,600. See issue #3 below.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management’s Target Completion Date: July 9, 2026

Detailed Actions/Comments:

Management is extending the existing CLS contract by 6 months (through July 2026) and is working to replace CLS. Management is planning to present a proposal for a CLS replacement system to the Board in February 2026. The audit recommendations above have been considered in the requirements for the replacement system. The plan is to have major features replaced by June 2026 and a complete system replacement by June 2027.

RECOMMENDATION 2 – Controls Over Delinquent Receivables Require Improvement

MEDIUM

Internal Audit recommends that management consider the following:

- a) The CFO and Controller should update FIN Policy 109 to include processes for establishing customer credit evaluations and limits, charging late fees, escalation process for past due accounts, delegations of authority for credit limits and write-offs and notifying management of delinquent account balances.
- b) The CFO and Controller should develop SOPs that describe how delinquent accounts will be managed. The procedures should include frequency of customer communications, dispute resolution procedures, and establish debt collections procedures such as discontinuing new business with delinquent account customers, issuing breach of contract notices, obtaining liens, contracting with collection agencies, and account write-off or settlement procedures.

- c) The CFO and Controller should consider charging the 5% fee for late payments as defined in the customer license agreement.
- d) The CFO and Chief Counsel should consider modifying the standard terms and conditions listed in new license agreement contracts and on invoices to include a statement that allows late fees and interest to be charged by Capital Metro on delinquent accounts.
- e) The Controller and AR Accountant should establish agreed upon procedures with the Manager of Real Estate & Right-of-Way to obtain updated customer AP contact information annually to maintain current billing information.
- f) The CFO, Controller and Director of Revenue & Fares should consider implementation of the Oracle Collections module.
- g) The Director of Real Estate & ROW should consider hiring a third-party consulting firm, on a consignment basis, to reconcile installed infrastructure with active CapMetro license agreements to identify any non-compliant or unauthorized infrastructure.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Dates: Multiple dates – see below

Detailed Actions/Comments:

a), b), c), e), & f): FIN-109 is under review with a target completion date of January 31, 2026. Legal, Real Estate and Finance are still working on determining if contracting with a collection agency is necessary. Management needs to define the escalation process and develop SOPs (including regular meetings) before exploring outsourcing for collections or making any system changes. The escalation process and SOPs will be defined and tested by September 30, 2026. From there, a determination will be made about outsourcing and/or system changes.

d): Legal, Real Estate and Finance have been looking at including the collections information on license agreements and invoices, but additional work will be completed once the FIN-109 policy updates are finalized in January 2026.

g): Real Estate SOPs for correcting potential non-compliant or unauthorized infrastructures are in progress. It will be an ongoing process to review unauthorized ROW access, and the assistance of a third-party consultant is still under consideration until possibly September 2026.

RECOMMENDATION 3 – Herzog Has Charged RWIC Overtime Not in Compliance with the Contract **MEDIUM**

Internal Audit recommends that the VP of Rail consider the following actions:

- a) Require Herzog to create and provide an improved monthly RWIC hours worked report that contains names of the five full time RWIC employees covered in our contract, which RWIC orders they worked on and how many hours on each order, clear designation as to which three Herzog employees cannot bill CapMetro for OT, and which two Herzog employees are allowed to bill CapMetro for OT.
- b) Report the Herzog overtime billing errors to the Contract Administrator in the Procurement Department and pursue a refund for the overbilled amounts of \$54,955 (\$35,226 + \$19,729).

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date: February 1, 2026

Detailed Actions/Comments:

- a) CLOSED: Only Mod56 of the Herzog contract allows for overtime billing for two employees, and no overtime hours can be worked without the prior approval of the Rail Maintenance of Way Bridges and Structural Engineering Program Manager. RWIC reported hours are tracked monthly.
- b) The Vice President of Rail sent a non-compliance memo re: Improper Billing of RWIC Overtime Charges (total of \$27,477.50, which is 50% of the original non-compliance amount as agreed upon by management) to the Herzog General Manager on 9/18/2025. Per this memo, Herzog is to reply to CapMetro with: 1) a corrective action plan for restricting future unapproved overtime; and 2) a plan for credit or reimbursement of all identified overcharges.

RECOMMENDATION 4 – RWIC Hours Worked by Herzog Exceeded Hours Prepaid by Customers **LOW**

Internal Audit recommends that Management consider the following actions to reconcile RWIC hours:

- a) The VP of Rail Operation should establish procedures for Herzog to notify both Rail Operations and Real Estate when the customer exceeds or expects to exceed the number of prepaid hours on a project and instruct the customer to complete a request for additional RWIC hours.
- b) The VP of Rail Operations, the Director of Real Estate and ROW and the Manager of Real Estate and ROW should coordinate the completion of reconciliation procedures to ensure all RWIC charges are billed by having the Rail Operations PM compare the actual RWIC hours worked to the requested prepaid hours by project and notify Real Estate Specialist of any additional billing requirements.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.
Management’s Target Completion Date: January 31, 2026

Detailed Actions/Comments:

The current process is that the Rail Project Manager reviews the hours worked, and anything exceeding prepaid amounts is rejected until a new request and prepayment is received, but a monthly billing reconciliation process to catch any discrepancies is not occurring. A prior monthly billing reconciliation procedure document (from 2020) already exists and is in the process of being updated to reflect the Oracle system and current roles and practices. The process that disallows any work that exceeds prepaid hours should also be included in this revision.

RECOMMENDATION 5 – Real Estate ROW Standard Operating Procedures Have Not Been Updated **MEDIUM** Internal Audit recommends the Director of Real Estate & ROW, and the Manager of Real Estate & ROW should consider updating the ROW procedures document for changes to be consistent with the Oracle system and to formalize any approved exceptions to the standard procedures.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.
Management’s Target Completion Date and Comments: January 31, 2026

Detailed Actions/Comments:

SOPs, including desktop procedures, will be updated to be consistent with the Oracle system and to formalize any approved exceptions to the standard procedures.

RECOMMENDATION 6 – Certificates of Insurance (COIs) Are Not Obtained for Recurring Annual License Agreements **MEDIUM**

Internal Audit recommends that the Director of Real Estate & ROW consider the following:

- a) SOPs will be developed covering activities to ensure initial COI is obtained as well as annual COI updates as part of the license renewal process. Protocols will be developed as to how to manage customers who refuse to provide annual COIs and/or have deficiencies in the insurance limits provided.
- b) The CapMetro website will be updated to explain COI requirements for the customer in year one as well as the annual COIs as part of the perpetual renewal process.
- c) All active license accounts will be reviewed, and customers will be notified of any missing COIs or deficiencies in insurance coverage amounts. COI records either online in CLS Link and/or Oracle and/or manual records will be developed tracking COIs for each active license account going forward.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management's Target Completion Date: January 30, 2026

Detailed Actions/Comments:

- a) Accounting will submit a ticket for creating a unique CLS invoice template for COI renewal reminder language.
- b) CLOSED: Real Estate Management worked with Marketing to add COI requirements to the CapMetro website.
- c) Real Estate has created a shared central email address to have Licensees send in their COIs. The plan is to focus on revenue customers. Real Estate will run a report from CLS to identify customers that are past due and have those customers send their COI renewals to the shared email box. Risk Management will verify the insurer ratings and Real Estate will load the COIs into CLS. Real Estate is looking to hire a temporary resource to assist.

24-10 UHC ELIGIBILITY KPIs and PROJECT CONTROLS (07/22/2025 Report Issued with 2 Findings and 4 Recommendations)

RECOMMENDATION 1 – UHC Payment Controls and Bank Access MEDIUM

Internal Audit recommends that Management consider the following:

- a) The CFO and Controller should consider ending the practice of allowing United Healthcare to make automatic debits/withdrawals from CapMetro’s bank account.
- b) If management chooses to continue the practice of allowing UHC to make automatic withdrawals from CapMetro’s bank account, management should consider creating a separate bank account for only United Healthcare activity in order to increase visibility of UHC transactions and simplify the reconciliation process. Additionally, the Manager of Accounting should perform a postmortem exercise on the two missed UHC withdrawals to understand why this occurred and lessons learned to prevent this from happening again.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.

Management’s Target Completion Date: CLOSED – Management has accepted risk with mitigating controls in place and Internal Audit concurs. See Detailed Actions/Comments below.

Detailed Actions/Comments:

- a) November Follow Up Status: Management met and explored options and determined that any changes to the CapMetro bank account could delay payment to providers, which they view as the highest risk. After a thorough cost/benefit analysis, management has decided that continued improvements to the current process is the best option. Current mitigating controls include:
 - Cash reconciliations are completed and reviewed daily, and regular weekly meetings occur within CapMetro Finance as well as with the bank.
 - The bank has an ACH (Automated Clearing House) blocker on our account, and any exceptions are reported via email to CapMetro each day. The exceptions can be overridden or rejected and if there's no response within the bank's response window, exception transactions are auto-rejected.
 - The Finance team is also trying to expedite obtaining supporting documentation for payments.
- b) From the original report, issued 7/22/2025: This issue occurred during the time of Oracle transition along with UHC portal access problems, and temporary staff responsible for making these entries had already left. We have an improved reconciliation process since then for our cash and cash clearing accounts that will help identify issues like these should they occur. After evaluating the option of opening a new bank account, we determined it's not feasible due to the significant administrative upkeep involved.

RECOMMENDATION 2 – UHC KPIs, Incentives, Penalties and Adjudication Audit LOW

Internal Audit recommends that Management consider the following:

- a) The VP of People & Culture and Director of Total Rewards should consider assigning the responsibility for review and enforcement of the performance guarantees detailed in the contract with United Healthcare.
- b) The VP of People & Culture and Director of Total Rewards should consider hiring a third-party firm to perform an adjudication audit to ensure the accuracy of claims processed and evaluate overall performance against industry standards and contractual performance guarantees.

OPEN ACTION PLANS: Management agrees with the recommendation to regularly review performance guarantees and has developed the action plan below. Management does not agree with hiring a third-party audit firm to perform an adjudication audit. The associated risks do not justify the high cost of such an audit.

Management’s Target Completion Date: June 2026

Detailed Actions/Comments:

Management will provide 2025 data on performance guarantees to the Self-Insurance Board of Trustees and will review on an annual basis beginning in June 2026.