SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS
May 2026 (26-16A)

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 advisory review of all open audit recommendations as of May 20, 2026. The follow-up included 8 audit reports with a total of 33 findings and 103 recommendations. The audit objective and conclusion on the implementation of the corrective action plans follows.

Audit Objective & Scope

The objective of this advisory 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 May 20, 2026, for the outstanding Corrective Action Plans (CAPs) resulting from internal audit projects.

Conclusion on Corrective Action Plans

We followed up on 33 findings with 103 recommendations from 8 different audit reports and have concluded that 43 recommendations remain open, and Management has made reasonable progress in implementing action plans to open recommendations 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:

Christine Joy Fatima Dy, Internal Auditor
Valerie Carson, Senior Internal Auditor
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 May 2026, 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.

Table 1: Summary Implementation Status of Recommendations

Project #	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	
21-09	12/1/2021	Transit Store and Ticket Controls Audit	6	23	0	19	0	0	4	0	0	0	0	82.61%
23-12	5/31/2024	Hexagon - Post Implementation Review	5	12	0	5	3	0	1	3	0	0	0	66.67%[1]
24-12	12/18/2024	McKalla Station Capital Project Controls	5	12	0	3	4	0	5	0	0	0	0	58.33%
24-08	1/15/2025	CLS Order System ROW Revenue Audit	6	18	0	6	0	0	10	2	0	0	0	33.33%[2]
24-10	7/22/2025	UHC Eligibility KPIs and Payment Controls	2	4	0	2	1	0	0	1	0	0	0	75.00%
25-16	10/22/2025	Inventory Controls Bus Parts	4	15	0	9	0	0	6	0	0	0	0	60.00%
25-17	11/25/2025	Inventory Controls Demand Response Parts	2	9	0	3	0	0	6	0	0	0	0	33.33%
25-18	12/17/2025	Inventory Controls Rail Parts	3	10	0	5	0	0	5	0	0	0	0	50.00%
TOTAL:			**33**	**103**	**0**	**52**	**8**	**0**	**37**	**6**	**0**	**0**	**0**	**58.25%**
					60			**43**			**0**			

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) has been formed which is providing new 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 following areas: 1) planned replacement of the CLS system with a Tyler Technologies solution go live of 11/19/2026 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 22 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.

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:

Recommendations A and B: June 30, 2026

Recommendation C: CLOSED

Detailed Actions/Comments:

Job descriptions have been updated in the system. SOPs have been drafted and are currently pending approval.

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:
Recommendations A and B: June 30, 2026
Recommendation C: CLOSED

Detailed Actions/Comments:
Job descriptions have been updated in the system. Many SOPS are completed and are currently pending approval while the rest are being further developed and are expected to be completed in early June. With the new UMO system and Flowbird, some ticket types were phased out.

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: August 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. The PM program is undergoing a complete overhaul with focus on data validation. 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 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: 12/1/2026

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: October 2026
FIN-104: October 2026
FIN-105: Revisit in October 2026

Detailed Actions/Comments:
Recommendation A: 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.

Recommendations B, C, and D: CLOSED. Management is evaluating additional process and/or technology improvements beyond the audit recommendations.

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: October 2026
FIN-105: Revisit in October 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.

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

<u>RECOMMENDATION 1-Missing Interfaces Between Systems Require Manual Workarounds</u> **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) <u>New ROW Orders</u> - 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) <u>New ROW Customers</u> - 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) <u>Prepaid RWIC Hours</u> – 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: November 19, 2026

Detailed Actions/Comments:

Management has extending the existing CLS contract and is working to replace CLS with Tyler Technologies. The new system will go live in mid-November. 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.

<u>RECOMMENDATION 2 – Controls Over Delinquent Receivables Require Improvement</u> **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:
Recommendations A, C, & D: 12/31/2026
Recommendation B, E, F, & G: CLOSED

Detailed Actions/Comments:
Recommendation A: FIN 109 was updated and approved and covered many of these processes. Processes for late fees and establishing customer credit evaluation and limits and SOPs will be defined and tested by December 31, 2026.

Recommendation C: Further discussion will be had to determine whether to charge the 5% fee after further research and benchmarking is done.

Recommendation D: Legal, Real Estate and Finance have been looking at including the collections information on license agreements and invoices and have updated legal templates, but additional work will be completed.

Recommendations B, E, F & G: CLOSED due to FIN-109 updates, management's decision to delay Oracle Collections module implementation, and lack of funding for a third-party consulting firm.

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: November 1, 2026

Detailed Actions/Comments:
Recommendation 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.

Recommendation 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: November 1, 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: October 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.

<u>RECOMMENDATION 6 – Certificates of Insurance (COIs) Are Not Obtained for Recurring Annual License Agreements</u> **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: October 31, 2026

Detailed Actions/Comments:
<u>Recommendation A:</u> Additional discussions are needed between Real Estate, Legal, and Risk Management on COI update management, related responsibilities (including reviewing minimum insurance requirements on older license agreements, which may no longer be sufficient), and available resources and/or use of technology for assistance. Real Estate management believes licensees are liable regardless of their insurance coverage status, but it has been suggested that adding a COI renewal reminder to annual license fee invoices could be helpful and assist in our due diligence.

<u>Recommendation B:</u> CLOSED: Real Estate Management worked with Marketing to add COI requirements to the CapMetro website.

<u>Recommendation C:</u> 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 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:

Recommendation A: Management agrees with the recommendation to regularly review performance guarantees and has developed the action plan below.

Recommendation B: 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:

Recommendation A: June 2026

Recommendation B: CLOSED

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.

25-16 INVENTORY CONTROLS BUS PARTS (10/22/2025 Report Issued with 4 Findings and 15 Recommendations)

RECOMMENDATION 1. Cycle Counts - Establish Baseline & Set Target Goals for Keolis MEDIUM

The Superintendent of Bus Parts & Inventory should consider implementing the following cycle count enhancements using Power BI:

a) Establish Baseline - using historical cycle count results from the last 12 months for the following areas: 67.8% of SKU's cycle counted annually; 24.5% of cycle counts that had differences; for unit count adjustments, the 13.2% that was a negative adjustment (missing parts) versus 11.2% a positive adjustment;
b) Set Target Goals for Keolis - measure cycle count actual performance against goals and historical baseline.
c) Periodic Reporting - Periodic reporting (Monthly/Qtrly) to Keolis and CapMetro management showing actual cycle count results against target goals and historical baseline.
d) Inventory Data Analyst role- Management would benefit from establishing a dedicated Inventory Data Analyst to oversee stock takes, cycle counts, and data integrity. This role would strengthen accuracy of inventory records, provide timely variance analysis, and allow parts managers to focus on operational responsibilities, supporting more effective inventory control.
e) Develop a systematic solution within Hexagon to differentiate true inventory stock takes from all other stock adjustments.

OPEN ACTION PLANS: Management agrees and has implemented the action plans.
Target Completion Date:
Recommendations A-E: CLOSED

Detailed Actions/Comments:
Established baseline and goal of 100% in place. Cycle count results are reported weekly. Management currently has someone from EAM team in Inventory Data Analyst Role, but they are looking for more support. IA was able to review physical inventory adjustments in Hexagon and confirm differentiation.

RECOMMENDATION 2. Keolis Contract - Inventory Parts Requirements & SOPs MEDIUM

The Superintendent of Bus Parts & Inventory should consider implementing the following:

a) Create a cross-functional working group (Operations, Finance, IT) led by the Superintendent in order to analyze balances and identify process and system improvements in an annual plan with stated goals (e.g. system enhancements; cycle count coverage; Keolis 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 inventory and expense balances.
b) Bus Operations owns the policies and should create and/or update existing policies and procedures related to how/when/who will be responsible for ongoing cycle counts and any physical inventory performed. Finance should participate in changes to SOPs and include a hierarchy of notifications and approvals needed within Operations and Finance management based upon materiality level of the cycle count adjustments.
c) Evaluate on a cost-benefit basis if it would make sense to bar code inventory locations (e.g. bins) and parts to help automate the cycle counts and Hexagon records.

d) Add a required justification field for every stock adjustment to separate true discrepancies from input errors and improve accountability.

OPEN ACTION PLANS: Management agrees and has implemented the action plans.
Target Completion Date:
Recommendations A - D: CLOSED

Detailed Actions/Comments: Working Group is meeting monthly; SOPs have been updated; and it has been determined that with the required systematic modifications and add-ons there is no cost-benefit for bar coding at this time. Internal Audit reviewed Hexagon report to confirm that a required justification field was in place.

RECOMMENDATION 3. Purchase to Pay Cycle - Missing Three-Way Match MEDIUM
The COO, CFO, and CIO should consider implementing the following business process improvements to the Oracle and Hexagon systems related to the Purchase to Pay process and 3-Way Match:

a) Investigate opportunities to improve automation of data transmissions (EDI/API/FTP) communications in Oracle with the vendors who already have such data communication capabilities. This will allow for real-time status updates on PO's (e.g. shipping and delivery details) as well remove the need to manually scan Invoices since these documents will be received via automation.
b) Develop two-way interface between Hexagon and Oracle for all order details which will then allow for an automated 3-Way Match for most transactions, and the remainder and any differences can be manually investigated and resolved.
c) Until a) and b) above are implemented, Operations should send original receiving documents (Bill of Lading and/or Packing Slips) to the Accounts Payable team who will digitize the receiving evidence and save to the respective PO in the Oracle system. This will eliminate the need for Operations to scan each receiving document and email to A/P Department.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.
Target Completion Date:
Recommendations A - B: Unknown at this time and require further research to determine best solution to be chosen.
Recommendation C: This requires further research because A/P has been working remotely, so it is not clear how a copy of these documents would be attached to the invoices in Oracle. Current email communications are not being saved by A/P into Oracle.

Detailed Actions/Comments:
Working group will continue to meet to discuss and research these items.

RECOMMENDATION 4. Oracle General Ledger & Meaningful Reporting MEDIUM
The COO, CFO and CIO should consider the following steps to help identify and improve the Oracle general ledger to provide more meaningful reporting and analysis:

a) Perform further benchmarking of CapMetro's Oracle system, chart of accounts and reporting against other relevant transit agencies to identify accounts and reports that will better support bus operations.
b) Use the benchmarking and inputs from CapMetro management to help identify

needed changes, and capital project plan with target completion dates.

c) New Working Group (Operations, Finance, IT) from recommendations (2) above will develop a plan to perform the following: i) Categorize the 14,800 SKU's within Hexagon; ii) map these new Hexagon categories to the to-be-determined new Oracle chart of accounts.

OPEN ACTION PLANS:
Recommendations A – C: The working group will create a Plan to address these recommendations and target dates will be provided in the future.

Target Completion Date:
Recommendations A – C: March 1, 2027

Detailed Actions/Comments:
Working group will continue to meet to discuss and research these items.

25-17 INVENTORY CONTROLS DEMAND RESPONSE PARTS (11/25/25 Report Issued with 2 Findings and 9 Recommendations)

RECOMMENDATION ***1. Cycle Counts - Establish Baseline & Set Target Goals for MTM & CapMetro*** **MEDIUM**

The Superintendent of Demand Response Maintenance should consider implementing the following cycle count enhancements using Power BI:

a) Establish Baseline - using historical cycle count results from the last 12 months for the following areas: 79.5% of SKU's cycle counted annually; 44.7% of cycle counts that had differences; for unit count adjustments, 25.8% of that was a negative adjustment (meaning missing parts) versus a 18.9% positive adjustment.
b) Set Target Goals for MTM & CapMetro - measure cycle count actual performance against goals and historical baseline.
c) Periodic Reporting - Periodic reporting (Monthly/Quarterly) to MTM and CapMetro management showing actual cycle count results against target goals and historical baseline.
d) Develop a systematic solution within Hexagon to differentiate true inventory stock takes from all other stock adjustments.

OPEN ACTION PLANS:

Management agrees and has developed the action plan below.

Recommendations A - B: CLOSED

Recommendation C: Reporting is already being done on Parts and Inventory KPI tracking sheet for both weekly and Monthly. Further research will be done to evaluate opportunities for automation.

Recommendation D: Management will work with the new cross functional working group on a solution.

Target Completion Dates:

Recommendations A - B: CLOSED

Recommendation C: November 2026

Recommendation D: November 2026

Detailed Actions/Comments:

Working group will continue to meet to find solutions for Recommendations C and D.

RECOMMENDATION 2. ***MTM Contract – Inventory Parts Requirements & SOP's*** **MEDIUM**

The Superintendent of Demand Response Maintenance should join the new cross-functional working group (Operations, Finance, IT) led by the Superintendent of Bus Parts, and participate in the following system and business process improvements:

a) Create and analyze parts balances and identify process and system improvements in an annual plan with stated goals (e.g. system enhancements; cycle count coverage; MTM 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 inventory and expense balances.
b) Demand Response Operations should create and/or update existing policies and procedures related to how/when/who will be responsible for ongoing cycle counts and any physical inventory performed. Finance should participate in changes to SOP's and

include a hierarchy of notifications and approvals needed within Operations and Finance management based upon materiality level of the cycle count adjustments.

c) Participate with the new cross functional working group to determine on a cost-benefit basis whether the following automations can be implemented: bar code inventory locations (e.g., bins); automation of data transmissions (EDI/API/FTP) communications in Oracle with the vendors.

d) Add a required justification field for every stock adjustment to separate true discrepancies from input errors and improve accountability.

e) Participate through the joint working group in potentially updating the Oracle chart of accounts and the roll-up structure of the 1,900 SKU parts from Hexagon EAM into categories which in turn will roll-up into the to be determined new Oracle general ledger chart of accounts. (See Appendixes C & D for chart of accounts examples from DART and METRO.)

OPEN ACTION PLANS:
Management agrees and has implemented the action plans below.

Recommendations A, C, D & E: Demand Response (DR) is using the SOPs for Parts and Inventory. DR will participate in the upcoming focus group with all invested departments.

Recommendation B: CLOSED

Target Completion Dates:
Recommendations A, C, D & E: October 2026
Recommendation B: CLOSED

Detailed Actions/Comments:
DR is using VM SOPs along with their own SOPs for Cycle Counts. Working group will continue to meet to discuss solutions for open recommendations.

25-18 INVENTORY CONTROLS RAIL PARTS (12/17/2025 Report Issued with 3 Findings and 10 Recommendations)

RECOMMENDATION 1. *HERZOG – NOT PROPERLY USING HEXAGON EAM SYSTEM* MEDIUM

The VP of Rail should consider the following actions to improve controls:

a) Develop written procedures for Herzog and conduct training and regular monitoring to ensure Herzog is properly using the Hexagon EAM system.

b) Work with Herzog to determine if all procurement records (missing since Hexagon was implemented in December 2020) can be recreated and loaded into Hexagon. Some key records that would be beneficial are as follows: quote request and receipt date; purchase order date; unit price; quantity; vendor name; receipt date; etc. If missing records cannot be recreated, determine if, at a minimum, unit purchase prices and current vendor names can be captured and shared with CapMetro and loaded into Hexagon EAM system.

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

Management's Target Completion Date:

Recommendation A: CLOSED

Recommendation B: October 2026

Detailed Actions/Comments:

Work on the necessary procurement-related Hexagon updates is ongoing.

RECOMMENDATION 2. *HERZOG – CYCLE COUNT & PHYSICAL INVENTORY CONCERNS* MEDIUM

The VP of Rail should consider the following to help improve the accuracy of parts inventory:

a) Create written policies and procedures related to performing cycle counts and physical inventories and require Herzog compliance.

b) Update job descriptions to clearly define responsibilities surrounding inventory management.

c) Join the new cross-functional working group which includes Bus and DR Operations, Finance, and IT to identify process and system improvements related to parts management.

d) Coordinate future physical inventories conducted by Herzog/their vendor with CapMetro Rail and Accounting Departments to ensure proper controls of records, reconciliations and adjustments.

e) Set cycle count target goals for Herzog and periodic reporting and monitoring (monthly/quarterly). For example, all 3,440 SKUs should be cycle counted once per year, and accuracy of cycle counts without variance is 80%, etc. See Appendix B for a historical baseline.

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

Management's Target Completion Date:

Recommendations A, B, C & E: CLOSED

Recommendation D: September 2026

Detailed Actions/Comments:

A full physical inventory will be scheduled soon and is being coordinated between Rail Operations and Accounting.

RECOMMENDATION 3. *CO-OWNERSHIP OF RAIL PARTS NEEDS TO BE FURTHER DEFINED* **MEDIUM**

The VP of Rail should consider the following:

a) Work with Procurement and Legal to develop a written Memorandum of Understanding (MOU) as to ownership of current parts and use the existing field in the Hexagon EAM (Vendor Owned) to allow tracking and reporting from a centralized system.
b) For parts owned by Herzog, use the Hexagon field called "Vendor Owned" to clearly keep track of parts owned by Herzog.
c) Work with the Accounting Department to obtain supporting purchase price documentation from Herzog and develop a process to update the average unit price for the existing SKUs.

OPEN ACTION PLANS: Management agrees and has developed the action plan below.
Management's Target Completion Date:
Recommendations A, B, & C: November 2026

Detailed Actions/Comments:
Given the contractor transition, this is a sensitive topic and an ongoing effort. An informal MOU has been created, but it needs approval from Rail Operations and Herzog management, Procurement, Legal, etc.