SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS MAY 2022 (#22-04)

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, 2022. The follow-up included 9 audit reports with a total of 33 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, 2022, for the outstanding Corrective Action Plans (CAP's) resulting from internal audit projects.

Conclusion on Corrective Action Plans

We followed up on 33 recommendations from 9 different audit reports and have concluded that only 20 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, 2022.

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
19-05	4/5/2019	Genfare Cash and Ticket Controls Audit	5	4	1	0	80%
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%
20-06	6/8/2020	OrbCAD Service Delays Process Review	2	2	0	0	100%
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%
22-03	2/8/2022	Plaza Saltillo - Lease Revenue Audit	2	0	2	0	0%
TOTAL:			33	13	20	0	39%

In our opinion, Management has made reasonable progress in implementing the recommendations and open Corrective Action Plans. Additional details related to all open recommendations can be found in Appendix A.

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

Sarah Daigle, Internal Auditor III (Project Lead)
Terry Follmer, VP of Internal Audit

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

APPENDIX A – DETAILS OF OPEN AUDIT RECOMMENDATIONS

Prior Recommendations and Audit Results

As required by the Institute of Internal Auditors' International Professional Practices Framework, we have reviewed all open audit recommendations. Based on our review of audits, we identified 20 open recommendations. Listed below are the open recommendations, along with the name of the audit report, report date, original recommendation, and Management's updated target completion date and comments.

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

RECOMMENDATION 2 – (Compare Genfare Ticket Sales to Cash)
The Controller and Manager of Revenue should consider the following:
   a) Developing written standard operating procedures (SOP) covering the reconciliation and variance analysis related to farebox tickets and cash.
   b) The SOP should state the cadence as to how often the review is performed as well as establish tolerance levels to identify outliers.
   c) Ticket to cash variances outsides tolerance levels are researched with action plans to remediate as applicable.

OPEN ACTION PLANS: (*Nadia Nahvi, Controller*) Management agreed with the recommendation above.
   - **Management's Updated Target Completion Date & Comments:** 11/30/2022 Management is still working on reviewing and finalizing the SOP's.

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:** 11/30/2022

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 doesn't 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:** 11/30/2022 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 doesn't 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.

RECOMMENDATION 3 – (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:** 11/30/2022 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 doesn't 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:** 5/31/23 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:

a) Identify opportunities to improve segregation of duty controls in AX so invoices must be approved by separate personnel in accordance with AP Policy (FIN-106) at various levels (e.g. PM, Manager; Director, Chief/EVP). Alternatively, if AX cannot be configured to remediate this delegation weakness, then a compensating control should be put in place. For example, a monthly or quarterly list of invoices approved with limited segregation of duties should be reviewed by the Controller/departments to ensure oversight and transparency on these workflow exceptions.

b) When segregation of duties is not possible in the system (e.g. vacation, sick, etc.) but appropriate approval is granted through a separate means (e.g. email approval), this documentation should be saved to AX. If a separate and duly authorized means of approval cannot be obtained within that department hierarchy, the Controller should be consulted for either the Controllers approval or one of their designees.

c) 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:** 11/30/2022 Management is in process of replacing the AX Accounting System with Oracle to help improve functionality and internal controls.

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).
b) In AX workflow, ensure a first level Project Manager level approval is required for all active projects at CapMetro as identified by the EPPM system (project management software).
c) Remove any old departments or employee numbers listed in the AX system.

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:** 11/30/2022 Management is in process of replacing the AX Accounting System with Oracle to help improve functionality and internal controls.

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 OOD's Program Manager 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 included 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:** 10/1/2022 Management is currently implementing a new financial system to replace Microsoft AX. After the new financial system is set up, Management can implement recommendation #4 above.

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 on 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:** 5/31/2023 Management is in process of implementing a new Oracle system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system with the help of a consultant.

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:** 5/31/2023 Management is in process of implementing a new Oracle system that will further automate Payroll and Benefit processes. Additionally, standard operating procedures will be written for the new system with the help of a consultant.

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):
- 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.

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:** 5/31/2023 Management is in process of implementing a new Oracle system that will further automate Payroll and Benefit processes.

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:** 5/31/2023 Management is in process of implementing a new Oracle system that will further automate Payroll and Benefit processes.

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:** N/A – This action plan is not due until 2/24/2023.

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 ticket's 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:** N/A – This action plan is not due until 2/24/2023.

RECOMMENDATION 3 – (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:** N/A – This action plan is not due until 2/24/2023.

RECOMMENDATION 4 – (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 handle 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:** N/A – This action plan is not due until 4/1/2023.

RECOMMENDATION 5 – (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:** N/A – This action plan is not due until 2/24/2023.

RECOMMENDATION 6 – (**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 tickets 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:** N/A – This action plan is not due until 2/24/2023.

22-03 PLAZA SALTILLO – LEASE REVENUE AUDIT (2/8/2022 Report Issued with 2 Recommendations)

RECOMMENDATION 1 – (**Develop Permanent File & Procedures**)
The Program Manager assigned by the Strategic Planning & Development Department, along with the Controller in the Finance Department, should consider the following improvements:

b) Create written procedures that establishes the roles and responsibilities between the Finance and Strategic Planning Department to be used for the 101-year life cycle of this agreement. Ensure appropriate staff have their Saltillo responsibilities listed in their job descriptions and new staff are properly trained.

c) Establish at least an annual cadence of meetings between Saltillo property management and CapMetro's Finance and Strategic Planning & Development Departments.

OPEN ACTION PLANS: (*Julie Barr, Program Manager IV, Strategic Planning and Development Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** N/A – This action plan is not due until 7/31/2022.

RECOMMENDATION 2 – (Enhance Controls Related to Lease Payments)

The Program Manager within the Strategic Planning & Development Department, along with the Controller within the Finance Department, should complete the following:

a) Develop a matrix of required reports/documents, due dates, distribution list, etc. (E.g. Insurance certificates; Board Agendas and Minutes; Financial Statements, etc.)

b) Perform yearly walk-throughs to determine whether Tenant has built on the property/actual RSF has changed, all operating retail businesses are correctly included in the Percentage Rent calculation, prohibited businesses are not operating on the property, and the property is in good condition (i.e. no trash or graffiti).

c) Evaluate using an independent architect to recalculate rentable square footage based upon inspections and engineering drawing when the Tenant builds on the property (changes in RSF affect Base Rent calculations).

d) Evaluate using a CPA firm to review and validate the following records that impact rental payments to CapMetro as follows: Financial Statements; Net Operating Income; subtenant contracts that have Percentage Rent clauses with "breakpoints" that escalate rental payments.

e) Create a Contract Monitoring Plan based upon the division of roles and responsibilities of the PM and Finance Department assigned staff.

OPEN ACTION PLANS: (*Julie Barr, Program Manager IV, Strategic Planning and Development Department*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** N/A – This action plan is not due until 7/31/2022.