



METRO

SEMI-ANNUAL FOLLOW-UP ON AUDIT RECOMMENDATIONS – May 2020 (20-07)

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, 2020. The follow up included eight audit reports with a total of 35 outstanding 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, 2020, for the outstanding Corrective Action Plans (CAP's) resulting from internal audits projects.

Conclusion on Corrective Action Plans

We followed up on 35 recommendations from eight different audit reports and have concluded that only 18 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 as of May 31, 2020.

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
19-01	12/11/2018	Commuter Rail - DMU Maintenance Program, Oversight of Herzog	7	5	2	0	71%
19-04	4/25/2019	Watco Freight Revenue & Contract Compliance	4	4	0	0	100%
19-05	4/5/2019	Genfare Cash and Ticket Controls	5	4	1	0	80%
19-07	8/14/2019	Capital Project Expenditure Controls	4	2	2	0	50%
19-08	9/30/2019	Commuter Rail Operations- Contract Management & Oversight of Herzog	2	0	2	0	0%
19-09	10/31/2019	Sox Controls Audit	6	2	4	0	33%
20-02	4/24/2020	IT End Point Management	4	0	4	0	0%
20-03	3/9/2020	OrbCAD Incident/Accident Process Review	3	0	3	0	0%
TOTAL:			35	17	18	0	49%

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:

Jeannette Lepe, Internal Auditor II (Project Lead)

Sarah Daigle, Internal Auditor II

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 eight audits, we identified 18 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.

19-01 COMMUTER RAIL – DMU MAINTENANCE PROGRAM, OVERSIGHT OF HERZOG (12/11/2018 Report Issued with 7 Recommendations)

RECOMMENDATION 3 – (Compliance with Contract Monitoring Plan): The Director of Rail Operations will implement the following CMP improvements:

- c) Develop Rail Operation Policies and Procedures that are specific to the Herzog contract covering: quality performance review and sampling requirements; preventive maintenance and DMU overhauls; asset management and recordkeeping including part costs in accordance with the contract; safety; invoice certification; and how to use the Audit Inspection Report.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 10/31/2020
Management is in the process of updating department policies.

RECOMMENDATION 5 – (Contractor Staffing Changes & Reporting): The VP of Rail will work with Herzog to achieve the following staff reporting changes:

- b) Herzog will submit staffing changes in real time directly to the IT Service Desk, Security, and Rail Operations. An IT Access Request form will be submitted for any new hires, terminations, or requested access changes to systems.

OPEN ACTION PLANS: (*David Dech – VP Rail Operations*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 10/31/2020
Management is in the process of ensuring IT Requests are made timely from receiving the termination notice from Herzog.

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 outside tolerance levels are researched with action plans to remediate as applicable.

OPEN ACTION PLANS: (*Susan Renshaw – Controller*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date & Comments:** 12/31/2020
Management has hired a consultant who is working on the procedures.

19-07 CAPITAL PROJECT EXPENDITURE CONTROLS AUDIT (8/14/2019 Report Issued with 4 Recommendations)

RECOMMENDATION 1 – (Lack of Criteria and Required Approvals for Project Changes):

The VP of Capital Projects should develop the following internal control enhancements:

- a) The Capital Projects Department and the Authority as such should adopt the formalized policy on when PM's need to obtain Steering Committee approval that is being developed as part of the EPPM tool. This should include the implementation of a formal EPPM Steering Committee charter.

OPEN ACTION PLANS: (*Ken Cartwright – VP of Capital Projects*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 6/30/20
Management has drafted a formal charter for the agency and is scheduled for review and approval.

RECOMMENDATION 4 – (Lack of Current Formalized Policies & Procedures): The VP of Capital Projects should develop the following internal control enhancements:

- a) Develop formalized policies and checklists for the department's key controls, add these to the *Capital Metro Capital Projects Group Policies and Procedures* guide, and provide the guide to department staff.

OPEN ACTION PLANS: (*Ken Cartwright – VP of Capital Projects*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date & Comments:** 08/31/20
Management is in the process of updating policies, checklists, and procedure guides.
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19-08 Commuter Rail Operations - Contract Management & Oversight of Herzog (09/30/2019 Report Issued with 2 Recommendations)

RECOMMENDATION 1 – (Herzog Did Not Submit All CDRL's and PDC's Were Not Enforced): The VP of Rail should develop the following internal control enhancements:

- a) Ensure contractually required CDRL's are properly reviewed and appropriate incentives/disincentives are taken from Herzog's monthly fixed price invoice.
- b) Ensure the content of each CDRL is clearly defined in future contract modifications and as part of the contract update evaluate the list of CDRL's to determine the need and required frequency.

OPEN ACTION PLANS: (*David Deck – VP of Rail*) Management agreed with the recommendations above.

- **Management's Updated Target Completion Date and Comments:**
10/31/2020 Management has completed the modification and is waiting on Procurement to complete.

RECOMMENDATION 2 – (Improve Monitoring and Oversight of CDRL Documents): The VP of Rail should develop the following internal control enhancements:

- a) Document the CDRL status in the CMP tracking spreadsheet to evidence that staff opened and reviewed CDRL reports. Staff should document red flags (e.g. incorrect reports, late submissions, and deadline extensions they give Herzog to submit late reports, etc.) in this column so that Management can monitor performance over time.
- b) Review all CDRL's that are listed as NTP submitted once at the beginning of the contract and require updates for any changes and periodic review and updates as required by regulations.

Open Action Plans: (*David Deck- VP Of Rail*) Management agreed with the recommendations above:

- **Management's Updated Target Completion Date and Comments:**
10/31/2020 Management is waiting for the modification to get fully implemented to ensure CDRLS and PDC's are applied according to contract.

19-09 SOX Controls Audit (10/31/2019 Report Issued with 6 Recommendations)

RECOMMENDATION 1 – (Add Late Fees & Interest to Contract Terms & Invoices)

- a) The CFO and Chief Counsel should consider modifying the standard terms
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and conditions listed in contracts and on invoices to include a statement that allows late fees and interest to be charged by Capital Metro on delinquent accounts.

OPEN ACTION PLANS: (*Susan Renshaw, Controller*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:**
6/30/20 Management is working with legal to update invoice and contract language to allow late fees and interest.

RECOMMENDATION 3 – (Cross Check Monthly Billing Totals to Source Records) The Controller and Accounting Manager should review the monthly revenue reporting and reconciliation process to source systems/records, and opportunities to improved communication as follows:

- a) Right of Way & RWIC – The Finance Department should provide a monthly report of all Right of Way billings to the Real Estate and Rail Departments. Additionally, Real Estate department should provide CLS access to the Finance Department so that the system totals can be reconciled by both departments.
- b) Marketing & Advertising – The Finance Department should provide a monthly report of all billings to the Marketing Department.
- c) Bulk Ticket Sales - ODR invoices created by the A/R Specialist should be reconciled to the ODR Excel Spreadsheet maintained by the Revenue Accountant.

OPEN ACTION PLANS: (*Susan Renshaw, Controller*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:**
6/30/20 Management is working on obtaining access to the CLS System to complete the monthly reconciliations.

RECOMMENDATION 5 – (Update Advertising Policy for Discounts)

- a) The VP of Marketing should update the advertising policy to include discounts for-profit organizations, and identify the necessary executive approvals (e.g. CFO, President, Chief Counsel) from outside the Marketing Department for these advertising discount exceptions.

OPEN ACTION PLANS: (*Brian Carter, VP of Marketing*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:**
10/31/20 Management is working on updating the advertising policy for discounts.

RECOMMENDATION 6 – (Extra RWIC Hours Should be Billed in CLS Systems)

- a) The VP of Real Estate, Property and Asset Management should work with Rail Operations to establish monthly reconciliation procedures to ensure all RWIC charges are billed in 8 and 10 hour increments and entered into the CLS System by Real Estate rather than the current manual billings performed by Finance in the AX System.

OPEN ACTION PLANS: (*Shanae Davis, VP of Real Estate, Property, and Asset Management*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** 10/31/20 Management is working on establishing monthly reconciliation procedures.

20-02 IT End Point Management (04/24/2020 Report Issued with 4 Recommendations)

RECOMMENDATION 1 – (Explore Enhanced System Management Software Solutions)

- a) The Director of Network Services should explore on a cost-benefit basis other system management software solutions (e.g. IBM BigFix, etc.) that will enable the identification and deployment of patches based upon severity rating as well as improved capabilities on non-Microsoft operating systems (e.g. UNIX, Mac iOS, etc.).

OPEN ACTION PLANS: (*Steven Salinas, Director of Network*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 7/31/2020

RECOMMENDATION 2 – (Update IT Policies & Procedures)

- a) The Director of Network Services to complete the updates to IT policies and procedures.

OPEN ACTION PLANS: (*Steven Salinas, Director of Network*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A- This action plan is not due until 8/31/2020

RECOMMENDATION 3 – (Leverage Data Analytics Across EndPoint Management Tools)

- a) The Director of Network Services should carry forward the Microsoft Power Query data analytics tool and run the analysis on at least a quarterly basis to identify the highest risk machines. The highest risk machines should be identified, located and remediated on at least a quarterly basis.

OPEN ACTION PLANS: (*Steven Salinas, Director of Network*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 7/31/2020

RECOMMENDATION 4 – (Define Patching Timeliness by Patch Severity Rating)

- a) The Director of Network Services will further define patch management standards based upon the manufacturer's severity rating standards (e.g. Critical; High; Medium; and Low) and clearly state the maximum number of elapsed days from the patch release date for installation. The IT Department will measure compliance with the patch management standards at least quarterly, and machines out of tolerance will be identified and remediated.

OPEN ACTION PLANS: (*Steven Salinas, Director of Network*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 5/31/2020.

20-03 OrbCAD Incident/Accident Process Review (03/09/2020 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*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 9/30/21.

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:

- 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*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 7/31/20.

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.
- c) Ensure that the original Incident # automatically assigned by the OrbCAD system is properly captured in other reports and systems for appropriate tracking purposes

OPEN ACTION PLANS: (*Rafael Villareal, Director of Contract Oversight*) Management agreed with the recommendation above.

- **Management's Updated Target Completion Date and Comments:** N/A – This action plan is not due until 9/30/21.