



## **OFFICE OF THE CITY AUDITOR**

### **05-122 – TRANSIT PERFORMANCE AUDIT**

**MARCH 29, 2006**

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## Office of the City Auditor

### Interoffice Memorandum

Date: March 29, 2006

To: Mayor and City Council Members

Cc: Lorne Kramer, City Manager  
Ron Mitchell, Director, Public Works  
Sherre Ritenour, Manager, Transit Services  
Terri Velasquez, Director, Finance

From: Jeff Litchfield, City Auditor 

Subject: 05-122 – Transit Performance Audit

We have completed our performance audit of Mountain Metropolitan Transit, which was comprised of Colorado Springs' City Transit Service Department (TSD) and Springs Transit, which was under the management of Professional Transit Management (PTM) during the period of our audit. The purpose of this audit was to evaluate whether Transit was accomplishing its goals and objectives in an efficient, effective and economical manner. We also evaluated whether the assets utilized by Transit were being adequately safeguarded, whether reliable information was being maintained, and whether PTM was complying with the terms of their contract with the City.

Transit fixed route operations were contracted out by TSD using a management contract. Since about 1973, transit fixed route operations have been conducted as Springs Transit. The current management contract for these services was with Professional Transit Management (PTM).

TSD's mission was to provide safe, reliable, cost-effective, customer-oriented, and high quality public transportation services in order to meet as many of the personal mobility needs of the Colorado Springs region as possible. TSD had a limited staff with which to oversee the City's contract with PTM.

PTM employed members of Amalgamated Transit Union Local 19. The City of Colorado Springs assumed the potential liability for the termination benefit of the Springs Transit employee's pension plan in August 1998. The unfunded pension liability was \$2,619,500 as of June 30, 2005. The City would only be liable for the termination benefit if a future contractor refused to assume the plan or if the City chose to end transit services. Anticipated 2006 operating expenditures for PTM were \$9,416,914.

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In general, we found that PTM was not being operated in the most economical, efficient or effective manner. We also observed limited oversight by TSD of the management, staffing, or expenditures of PTM.

We recommended to TSD that they review the organizational structure, staffing requirements, and expenditures of both TSD and PTM to determine the most efficient, effective, and economical method to accomplish the City's mission. TSD eagerly accepted our recommendations and has begun evaluating the current organizational structure. We made 32 recommendations and TSD has already incorporated several of them with positive results.

The above information was provided to you on December 28, 2005. Since that time, we have received a formal response from TSD covering each of the 32 findings and have performed sufficient audit tests of records and other supporting documentation and performed procedures we deemed necessary to provide assurances their responses were accurate and were either already implemented or in the process of being implemented. That information was combined with our Preliminary Summary of Findings and Recommendations draft to arrive at a final report. Attached is a copy of the final audit report.

Because of the work effort put forth into the preparation of the final report, and the progress that has been made towards implementing our recommendations, we will not be performing the follow-up audit mentioned in our December 28, 2005 memo to you.

As always, I am available to answer any questions you may have regarding this audit.

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## **Introduction**

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### **AUTHORIZATION**

We performed an audit of Mountain Metropolitan Transit, which was comprised of Colorado Springs' City Transit Service Department (TSD) and Springs Transit, under the management of Professional Transit Management (PTM). We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code.

### **SCOPE AND METHODOLOGY**

We conducted our audit in a manner that meets or exceeds the Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our audit included such tests of records and other supporting documentation as we deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed using statistical sampling techniques. Sufficient competent evidential matter was gathered to support our conclusions.

The purpose of this audit was to evaluate whether Transit was accomplishing its goals and objectives in an efficient, effective and economical manner. We also evaluated whether the assets utilized by Transit were being adequately safeguarded, whether reliable information was being maintained, and whether PTM was complying with the terms of their contract with the City. The audit included a review and evaluation of procedures, practices and controls related to Springs Transit, on a selective basis.

Our fieldwork covered the period May 2005 through October 2005 with follow-up review through March 27, 2006.

### **BACKGROUND**

The TSD provides oversight of the Transit fixed route operations. From about 1973 to November 2005, the operations were conducted as Springs Transit. In November 2005 (subsequent to our audit review period), the name was changed from Springs Transit to Mountain Metropolitan Transit. TSD's mission was to provide safe, reliable, cost-effective, customer-oriented and high quality public transportation services in order to meet as many of the personal mobility needs of the Colorado Springs region as possible.

During the period of our review, the contract for these services was with PTM, who employed members of Amalgamated Transit Union Local 19. The City assumed the potential liability for the termination benefit of the Springs Transit employee's pension plan in August 1998. The City would only be liable for the termination benefit if a future contractor refused to assume the plan or if the City chose to end transit services.

The City contracted with PTM using a management services contract for the period January 1, 2002 through December 31, 2006. The operating pass-through expenditure budget for 2005 was \$8,066,401 and anticipated 2006 operating expenditures for PTM was \$9,416,914.

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## Introduction

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### OVERALL CONCLUSION

In general, we found that PTM was not operating in the most economical, efficient and effective manner. We observed only limited oversight of the management, staffing or expenditures of PTM. Based on this general finding, we recommended that TSD review the organizational structure, staffing requirements and expenditures of both TSD and PTM to determine a more economical, efficient and effective method of accomplishing the City's mission related to transit services. We made 32 recommendations for improvement. TSD eagerly accepted our recommendations and began evaluating the organizational structure, making several changes before this report was issued.

Highlights of the changes already made include:

- Staffing levels identified in an efficiency study performed by Prangley and Company in 2001 were revisited by PTM, resulting in a reduction in 2006 anticipated expenditures of \$411,716 (finding 1),
- PTM had increased review and oversight of detail expenditures and TSD had increased review and oversight of general pass-through expenditures (findings 4, 5, 7, 9 and 15),
- Removal of signing authority for City expenditures from PTM employees and removal of PTM employees from City purchasing and commercial credit cards (findings 21, 22 and 23),
- PTM had increased segregation of duties in payroll processing and parts ordering, receiving and inventory control (findings 17 and 29),
- PTM had increased supporting documentation and identification of business purpose for expenditures (findings 19 and 20),
- PTM had submitted monthly performance reports (finding 28),
- An excess balance in the pass-through payroll clearing account had been cleared (finding 10), and
- PTM had submitted an accurate employee list (finding 16).

The following pages contain the 32 findings and recommendations we identified. It also contains management's responses, which are broken into two parts, an initial response to the City Manager made in December 2005 and a follow-up response made to us in March 2006. We performed sufficient audit tests of records and other supporting documentation and performed procedures we deemed necessary to provide assurances their responses were accurate and were either already implemented or in the process of being implemented.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS ARE GENERAL IN NATURE

1. PTM staffing levels did not appear to be the most efficient or effective. An efficiency study performed in 2001 by Prangley and Company for PTM expressed concerns related to staffing levels in transportation, scheduling/run cutting, manual scheduling preparation, marketing, and other areas. It did not appear that any action had been taken on these recommendations.

PTM should evaluate staffing levels to ensure that the most efficient and effective combination is in place to accomplish transit's mission. This evaluation would include such areas as increases or decreases in administrative personnel, information clerks, dispatchers, road supervisors, mechanics, inventory control, and bus operators. The evaluation should consider combining job responsibilities and/or functions where appropriate; evaluating the skill level necessary to perform the level of service provided; along with determining if vehicle repairs, facilities repairs and maintenance should be totally out-sourced, partially out-sourced, or done in-house (with the necessary staff changes depending on the decision). The evaluation should also consider a comparison of function to staff levels; as in number of road supervisors to number of routes/runs reviewed.

#### *Transit's December 2005 Response to the City Manager*

Springs Transit (now PTM) has evaluated staffing levels to ensure that the most efficient and effective combination is in place to accomplish City Transit's mission. PTM management made a presentation to TSD management and staff that included decreasing staffing levels of administrative personnel, maintenance workers, and bus operators. Additionally, vehicle repair procedures were evaluated and changes in process and procurement of spare parts were made. These changes are purported to provide a net savings to the 2006 Transit Services budget of \$411,716, although the savings are subject to other potential cost increases associated with the management form of agreement. PTM was instructed to implement the changes immediately. PTM advised that with these changes, we would run the risk of not making a pull-out once or twice a month. We believe between the two contracted firms, customer service will not suffer and the general fund will recognize a substantial savings.

#### *Transit's March 2006 Response to the City Auditor*

The actions needed to meet the target of the estimated costs savings have been verified. In addition to changes brought about immediately following December 20, 2005, PTM has: reduced the number of extra board operators, realized salary savings from 5 unfilled administrative positions, and eliminated the need for two driver trainers. PTM is now operating with approximately 67% of the previous administrative staffing levels. The TSD is in the process of issuing an RFP for a service contract that will result in a new service provider effective September 4, 2006.

2. PTM had no incentive to manage or control expenditures, increase revenues, or increase ridership. According to the management contract, costs incurred by PTM were passed through to the City of Colorado Springs.

Future contracts for transit services should include incentives and/or controls to manage expenditures, stay within the City budget, increase revenue and ridership. If the City decides to continue using a management type contract for transit services, TSD should ensure that operating

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## Findings, Recommendations and Responses

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costs are clearly defined, administrative costs are included in the management fee, staffing needs are defined in advance, and staffing level changes are approved prior to implementation.

### *Transit's December 2005 Response to the City Manager*

TSD staff and the Public Works Director have had numerous discussions on the use of different contracting types and built in controls aimed at managing expenditures, minimizing negative financial impacts to the City budget, yet still increasing revenue and ridership. TSD developed a preliminary Business Plan, new organizational chart, and financial plan to facilitate the needed changes as identified by this audit and staff. With the recent award of a service contract form of contracting to Laidlaw Transit Services for the PPRTA funded fixed route service, TSD is in a position to quickly evaluate the pros and cons associated with a service contract versus a management contract. PTM's contract expires December 31, 2006. A decision will be made in the immediate future as to the type of contract to use for the new contract term and whether to continue the existing contract until the expiration date.

### *Transit's March 2006 Response to the City Auditor*

The City Manager has approved the TSD reorganization; TSD staff is currently working with the Human Resources Department to add new staff and retain existing PTM staff critical to reorganization of the TSD. Reorganization of the TSD puts in place additional resources to increase TSD oversight of transit operations. This is projected not to increase the cost to the general fund; contingent on award of the service contract. In addition, award of a service contract for the general fund fixed route service will fix the cost for a given service level, addressing issues raised with expenditures being passed through to the City under the management contract form of agreement. Prior to the transition to a service contract, PTM is required to obtain TSD approval for expenditures, and all invoices require TSD approval prior to payment.

3. TSD management had no input into the pass-through operating budget of PTM. PTM's 2005 pass-through budget was \$8,066,401 and the 2006 budget will be \$9,416,914.

TSD management should be instrumental in budget preparation for pass-through PTM expenses. A pre-existing labor agreement between PTM and Amalgamated Transit Union, Local 19 determines the majority of labor costs, however pass-through amounts related to staffing levels, administration costs, training expenses, capital and/or equipment purchases, etc. could be determined or capped by TSD management during the budget process.

### *Transit's December 2005 Response to the City Manager*

In June 2005, TSD requested changes to the current benefits associated with PTM employees for 2006 and beyond. PTM complied with the request with a resulting legal action by ATU Local 19 against PTM. Changes have been implemented; however their permanency will be determined by the court. TSD insisted the PTM internal financial documents used to track city funding allocations be provided for TSD staff review. In the past, requests for this documentation were met with strong resistance due to alleged labor relations issues. The documents are now provided to TSD for use in budget preparation and generalized oversight at all times of the year.

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## Findings, Recommendations and Responses

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### *Transit's March 2006 Response to the City Auditor*

TSD worked closely with PTM to develop the 2006 budget as well as for the previous 5 years. Operating expenses will be fixed for a given level of service with the transition to a service contract in September 2006. Prior to the transition to a service contract, PTM is required to obtain TSD approval for expenditures, and all invoices require TSD approval prior to payment.

4. Management oversight or review of PTM expenditures was inadequate. During this audit, it was apparent that controls over expenditures were inadequate. Purchases and expenditures were processed without the review or approval of TSD management or PTM management.

TSD management should provide adequate review and oversight of PTM pass-through expenditures. PTM management should provide adequate review and oversight of all expenditures related to operations and other areas to ensure that only appropriate items are purchased and passed through to the City.

### *Transit's December 2005 Response to the City Manager*

For over 30 years the General Manager of Springs Transit (always a private contractor) has had signature authority over the City budget the firm was provided to operate the bus service. Small changes to that process began over two years ago as the TSD recognized the need to have greater control and oversight of the expenditures of the contractor. Copies of all transactions were requested, and then all invoices were requested to come through TSD for review. In August of 2005, TSD asked that all PTM employees' signature authority for all financial matters be removed. At this time, between 350 – 500 invoices per month are routed to the TSD for financial review and the Manager's signature. In September 2005, PTM was instructed to request permission prior to purchasing any capital equipment or other operations related purchases. All procurements must now be authorized by TSD.

### *Transit's March 2006 Response to the City Auditor*

As stated in responses 2 and 3, PTM is required to obtain TSD approval for expenditures, and all invoices require TSD approval prior to payment.

5. PTM management-type costs were included in the pass-through expenses to the City. Management-type costs include managers/professional training, organizational dues and fees, travel and meals, and conferences. In 2004, these were approximately \$40,512. Other expenses that should be directly related to the contractor and not passed through to the City are; employee recognition awards, staff meeting costs, and baseball team fees, which were approximately \$4,803 in 2004. Costs that were specifically detailed in the contract as contractor expenses included legal fees, which could include arbitration costs, and auditing fees. These fees were approximately \$37,640 in 2004. The total amount that was passed through to the City in 2004 that could be management-type costs was approximately \$82,955.

TSD should amend their contract with PTM to make the pass-through cost distinction more clear for the remainder of the contract period. Such clarifications should also be included in future contracts. Expenditures should be reviewed by TSD management to determine if they are operating-type or management-type expenses and make the appropriate payment decisions prior to payment by the

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## Findings, Recommendations and Responses

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City. Training costs to be included in operating expenses, should provide a direct benefit to the operations of transit.

### *Transit's December 2005 Response to the City Manager*

While TSD completely agrees that future contracts should clearly identify what costs are included in the management fee, and what costs are paid by the City, the current contract does not address this specifically. It has been the practice of the City since the inception of the management contract to pay these costs as an element of doing business. All future contracts issued by the TSD will have language that specifically addresses these items

### *Transit's March 2006 Response to the City Auditor*

To the extent specified in the City's contract with PTM, the TSD will ensure that costs included in the management fee are not passed through to the City during the remaining duration of the Contract. The PTM Contract is silent on arbitration costs. With the issuance of a service contract, these expenses will be the responsibility of the new service contractor.

6. Pass-through expenses for PTM went into one account in the City's accounting system. TSD management was unable to easily determine expense variances or budget effectively. This one account had an annual budget of approximately \$8 million. Annual cost increases were not easily identifiable by specific items when bundled together into one expense account number. It was difficult for TSD to measure the effectiveness or efficiency of transit operations, to measure the benefits of increasing or decreasing routes, or to implement cost saving strategies.

TSD should work with City Finance to ensure that the account numbers are established which will allow TSD to accurately track identifiable expenses categories. TSD management should be able to make decisions based on easily obtainable, reliable, accurate, and relevant data. Performance measures based on expenditures such as; cost per fixed route revenue hour can not be accurately determined or reported if management is not able to adequately review or evaluating expenditures.

### *Transit's December 2005 Response to the City Manager*

Under the original management contract issued to the first contractor, numerous accounts were established. More than eight years ago City Finance requested the numerous account numbers be consolidated into one transit management line item. The TSD will work with City Finance to establish a new accounting process that ensures that account numbers are established to allow TSD to more accurately track identifiable expenses categories and to more accurately track performance measures.

### *Transit's March 2006 Response to the City Auditor*

TSD has talked with City Finance. The movement to a service contract will alleviate much of the concerns associated with this item. TSD now has access to the PTM budget and accounting system and will monitor expenses until the expiration of the contract Sept. 3, 2006.

7. PTM miscellaneous revenues were recorded under the expense account number. PTM revenue and expenditures reviewed were understated by \$55,322 for miscellaneous revenue received between January 2004 and September 2005.

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## Findings, Recommendations and Responses

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City Finance should establish a miscellaneous revenue account for use by PTM. Revenue collected for special service runs or other non-recurring services should be posted to that miscellaneous revenue account.

### *Transit's December 2005 Response to the City Manager*

The TSD contacted City Finance for help in establishing a miscellaneous revenue account for use by TSD and PTM. As of September 2005 revenues collected for special service runs or other non-recurring services will now be posted to that miscellaneous revenue account.

### *Transit's March 2006 Response to the City Auditor*

City Finance has Miscellaneous Revenue accounts established to accommodate the posting of revenue collected for special transit services. Upon review of the deposits for 2005, it was noted that, despite instructions, PTM had not made the miscellaneous deposits to the Miscellaneous Revenue Account. Per review of 2006 transactions to date, no revenues have been received by PTM since January 1, 2006 that would be classified by City Finance as miscellaneous revenue. PTM has been advised to forward all miscellaneous revenue to the TSD for processing, coding, and deposit of revenues. TSD will then submit the revenues to City Finance for recording and deposit.

8. Professional Transit Management (PTM) contract employees appeared to be unclear concerning who was their employer. Every five years, a new management contractor does business as Springs Transit. In most cases, the new management contractor retained the same employees; however the employees now work for a new employer. PTM employees made a distinction between themselves and the Resident Management team, describing employees within their organization as either Springs Transit employees or PTM employees. During the course of this audit, controls were recommended that were viewed as unfair to "Springs Transit" employees based on this employment confusion. Contractor employees should be aware of the name of the company that hires, fires, and pays them.

TSD and PTM should clearly define the current employee/employer relationships. The distinction between "Springs Transit" employees and PTM employees should be eliminated by explaining as necessary the process of "doing business as" Springs Transit and the employer name appearing on the employee's paycheck.

### *Transit's December 2005 Response to the City Manager*

Because of over 30 years of institutionalized processes that allowed the various transit firms' General Managers to have "carte blanche" oversight of City assets, long term employees of the contractors have viewed themselves as "City" employees, despite continuous reminders that they are in fact employees of the various firms that have operated the system. Unfortunately this problem is not easily rectified. Regardless of whether a service or management type of contracting option is used, the same effort by competing transit firms to retain existing employees will occur. It is the nature of the transit industry to retain existing employees if possible since they are familiar with the transit system and the community; replacing them would be very difficult.

Any perception by the union of any attempt to eliminate union employee jobs would likely invoke labor relation challenges. As a result of the audit and the new contract with Laidlaw Transit Services, PTM employees have recently been reminded of their status as non City employees.

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## Findings, Recommendations and Responses

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Currently there exists a great deal of anger, frustration, and hard feelings among PTM employees, as they continue to express a strong sense of ownership of transit operations. The fact that “Springs Transit” has officially gone away will assist in changing perceptions. PTM employees have been told they are “Mountain Metro by PTM” and their counterparts are “Mountain Metro by Laidlaw”. Progress is slow and tempers flare, but with the possible change in contractors, and new bus operators and staff, a new awareness should occur.

### *Transit’s March 2006 Response to the City Auditor*

All contractor employees have been repeatedly reminded by their employer PTM, that they are now, and always have been, employed by a private firm. PTM employees are identified as the providers of Mountain Metropolitan Transit service operated by PTM.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS RELATE TO PAYROLL

9. PTM pass-through payroll costs were paid by the City Finance Department without adequate support. PTM pass-through payroll costs were approximately \$200,000 every two weeks. Annually, approximately \$5,200,000 was wired to PTM's checking account. Each pay period, City Finance wired payroll funds to PTM's checking account after receiving an e-mail from PTM with the requested amount. The payroll processing company, ADP, withdrew the necessary amount for the current payroll period to create PTM payroll checks and paid the tax liability.

City Finance should require a payroll summary report, payroll register, or other adequate support documentation from the payroll processing company prior to wiring any funds for PTM pass-through payroll costs. This request should be reviewed and approved by TSD management.

*Transit's December 2005 Response to the City Manager*

The TSD concurs with this finding. While not a requirement of the current management contract, the TSD will request PTM agree to the changes recommended by the City Auditor's office, and will implement such changes through an addendum to the contract as approved by the City Attorney's office (if required).

*Transit's March 2006 Response to the City Auditor*

This audit finding has been addressed with City Finance. Finance receives a payroll register with a wire transfer request and a signed wire transfer request from the Manager of the Transit Services Division. This was implemented in December 2005 -- before the final audit was distributed.

10. On September 26, 2005, the PTM pass-through payroll checking account had a balance of \$24,598.38. Pass-through payroll expenses for PTM were reimbursed by the City Finance Department. However, excess City funds had been requested and were under the control of PTM.

PTM should return the excess funds collected for payroll to the City as soon as possible. All funds requested by PTM should have adequate support for the requested amount during that pay period. Manual checks issued between scheduled pay periods should be written by PTM and submitted with adequate support for reimbursement during the next scheduled pay period.

*Transit's December 2005 Response to the City Manager*

The TSD concurs with this finding. The TSD will request a written response by PTM to this finding.

*Transit's March 2006 Response to the City Auditor*

City Finance has worked with PTM to address this audit finding. Based on the reconciled ending balance of December 31, 2005 and an imprest (emergency fund) of \$2,500, \$17,820.49 was returned to the City General Fund via a reduction of the payroll wire transfer request made on January 17, 2006, for the pay date of January 20, 2006. The bank account leaves an imprest balance of \$2,500 in the account which is typical on a City checking account. Funds requested by PTM now have adequate support for the requested amount during that pay period. The account will

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## Findings, Recommendations and Responses

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be reconciled monthly, with a bank reconciliation provided to Transit and Finance for an ongoing review of the account.

11. In some cases, withdrawals and credits from/to PTM's payroll checking account funded by the City were not adequately supported. In 2005, five withdrawals or credits were processed by ADP without support or explanation which resulted in a credit of \$424.

PTM should review the payroll checking account information and ensure that the payroll processing company makes the proper withdrawals and credits for each pay period.

*Transit's December 2005 Response to the City Manager*

The TSD concurs with this finding. The TSD will request PTM provide a written response that identifies the change in procedures and the effective date of the change.

*Transit's March 2006 Response to the City Auditor*

The PTM General Manager now reviews the payroll checking account information and ensures the payroll processing company makes the proper withdrawals and credits for each pay period. TSD and Finance will periodically verify this is being done.

12. City Finance processed between 8-12 checks every two weeks for PTM payroll. PTM used a third party payroll processing company to handle the pass-through payroll funds for PTM employees. The third party payroll processing company did not handle pass-through payments to the benefit providers. The City Finance Department's work load was increased by processing the pass-through contractor employee's benefit checks for these additional payments. The City was not the employer and did not have control over updating the provider information or submitting payment corrections in a timely manner.

The City should remit the gross pass-through payroll amount to PTM each pay period; this would include the portion the City is required to reimburse PTM for employee benefits and taxes. It is PTM's responsibility to ensure that payroll, payroll taxes, and benefits are paid as required.

*Transit's December 2005 Response to the City Manager*

The TSD concurs with this finding. The TSD will request PTM provide a written response that identifies the change in procedures and the effective date of the change.

*Transit's March 2006 Response to the City Auditor*

A termination for convenience letter was sent to PTM on February 21, 2006. The PTM contract will be terminated on September 3, 2006. Because of the limited time that PTM will continue to operate fixed route service, the Finance Department will continue to process pass-through contractor employee benefit checks. PTM is now required to provide the TSD with supporting documentation for the benefit checks. Once a new service contract for the fixed-route transit services is in place (on September 4, 2006), the City will no longer process any payroll activities on behalf of the contractor.

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## Findings, Recommendations and Responses

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13. PTM submits COBRA reimbursement payments to the City for amounts collected from PTM employees for these benefits. The City processed the checks to PTM employee's benefit providers and the amount submitted for reimbursement to the City was to take care of employee costs that were not the City's pass-through responsibility. However, the City had no control over how much was additionally paid, how much should have been paid, and how much had been reimbursed for non-employee benefits.

PTM employees should reimburse their employer for COBRA benefits. It is PTM's responsibility to ensure that non-employee benefit amounts are not included in the pass-through amount requested from the City.

*Transit's December 2005 Response to the City Manager*

The TSD concurs with this finding. The TSD will request PTM provide a written response to this finding.

*Transit's March 2006 Response to the City Auditor*

PTM now provides TSD with a monthly spreadsheet of the debits and credits to PTM for Cobra reimbursement payments.

14. PTM non-union employees were accruing employee benefits at the same rate as union employees. PTM non-union employees indicated there should be no distinction between union and non-union employees, however, a negotiated Labor Agreement determined the benefits received by union employees. The exact percentage between employee and employer paid benefits was not known for non-union employees, however, the Labor Agreement negotiated the union employer portion allowed for medical, dental, and life insurance which passed through to the City. Other union negotiated benefits included birthday pay, mandatory group life insurance, mandatory long-term disability insurance, incentive awards for increased revenue, safety, and perfect attendance, free ridership on all City buses for current employees and spouses, and reduced fare for eligible employee dependents. PTM employee's manual specifies 3 days of funeral leave compared to 5 days of funeral leave negotiated for union employees.

PTM non-union employees should accrue benefits according to the employer's non-negotiated benefit policies and procedures. If PTM does not want to provide a distinction between union and non-union employees, the additional cost of providing similar benefits to all employees should not be passed through to the City.

*Transit's December 2005 Response to the City Manager*

Professional Transit Management was made aware of the City auditors concerns and advised of the City's desire to see changes that result in a savings to the City general fund. The new contract for transit services to be let in 2006 will address these concerns either in the contract language and/ or by the contract type.

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## Findings, Recommendations and Responses

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### *Transit's March 2006 Response to the City Auditor*

Due to the Termination for Convenience of the PTM contract, the TSD does not recommend making changes of this magnitude during the remaining term (5 months) of the contract.

15. A PTM supervisor did not review payroll reports before or after payroll had been processed. After data entry, the payroll clerk and the bookkeeper reviewed the payroll information prior to submittal to the third party payroll processing company. Our review noted numerous instances where incorrect payroll information was corrected by issuing a manual check to employees and reversing the entry during the next pay period.

PTM supervisors should review the payroll.

### *Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's concerns and changes in accordance with the Auditor's recommendations have been requested. PTM supervisors should review the payroll. The new contract for transit services to be awarded in 2006 will address these concerns either in the contract language and/or by the contract type.

### *Transit's March 2006 Response to the City Auditor*

TSD has corrected this issue. The PTM General Manager, or his designee, will review the payroll report prior to submittal to TSD for processing.

16. PTM employee list was not accurate or complete. During our review, an employee list of active and inactive employees was requested at two different times. The employee lists had differences that could not be explained by the two periods requested. Also, there were some employees that had termination dates but were still considered active employees.

PTM employee lists should be updated to reflect accurate and complete information. Employee lists should be updated each time there is a change in employee status.

### *Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations. On December 6<sup>th</sup> 2006 TSD staff requested an updated employee list. A list was provided that appeared accurate and up to date. It included a termination that has just occurred the previous evening. The new contract for transit services to be let in 2006 will also address these concerns either in the contract language or by the change in contract type.

### *Transit's March 2006 Response to the City Auditor*

PTM is now providing the TSD a current active employee list monthly. PTM is also submitting changes to the employee list to TSD as they occur.

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## Findings, Recommendations and Responses

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17. PTM had no separation of duties between the person requesting the pass-through payroll wire deposit amounts and the person reconciling the payroll checking account. Adequate separation of duties helps to prevent intentional and unintentional misstatements.

PTM should separate the duties of requesting the pass-through payroll deposit funds and the reconciliation of the payroll checking account so that one person doesn't have control over both activities.

*Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations in this area. The new contract for transit services to be let in 2006 will address these concerns either in the contract language or by the change in the contract type.

*Transit's March 2006 Response to the City Auditor*

The PTM General Manager, or his designee, is now responsible for reconciling the payroll checking account separately from the individual requesting the payroll wire deposits.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS RELATE TO EXPENDITURES

18. Transfers were made between the General Fund expenditure account to various grant fund accounts for qualified revenue hours and preventive maintenance costs without adequate support and/or justification. The amounts to be transferred were calculated by PTM's General Manager. The amounts are submitted to TSD by the PTM General Manager without adequate support for the calculations. TSD received approximately \$2-3 million dollars in annual grant money.

PTM should include adequate support and/or justification documentation with grant transfer requests. Support and/or justification should include such items as necessary, such as a copy of the applicable route revenue hours with justification for noted deviations for the period, a break down of the "fully allocated cost" used per revenue hour, a vehicle history showing preventative maintenance performed during the period and the costs involved for each allowable vehicle, and other support as deemed necessary. If Federal guidelines for allowable matching costs are not adhered to, the City could lose the necessary grant money or be obligated to reimburse the Federal government.

*Transit's December 2005 Response to the City Manager*

The TSD has requested PTM provide adequate support and/or justification documentation for grant transfers that include a copy of the applicable route revenue hours with justification for noted deviations for the period. PTM was requested to provide a breakdown of the "fully allocated cost" used per revenue hour, a vehicle history showing preventative maintenance performed during the period and the costs involved for each allowable vehicle, and other support as to meet Auditor recommendations.

*Transit's March 2006 Response to the City Auditor*

TSD has requested that PTM submit supporting documentation for expenditures in the General Fund that are transferred to grant fund accounts. Supporting documentation is required for all capitalized maintenance expenditures and for demonstration projects (i.e., FREX and Downtown Shuttle).

19. PTM did not include the business purpose or other work related identifying information on invoices submitted for payment. Invoices were paid without verification of business purposes or other work-related information. The review process was circumvented or inadequate.

PTM should include the business purpose or other work related identifying information on all invoices submitted to TSD management for payment. Work related identifying information would include information as necessary to support the payment request such as; vehicle identification numbers, reason for purchase (inventory, individual repair, etc.), special circumstances, the name of the requestor, business purpose, etc. All invoices submitted by PTM for pass-through payment should also have an indication of PTM management approval.

*Transit's December 2005 Response to the City Manager*

Since August 2005, all PTM invoices (350 – 500 per month) come to TSD for approval before City Finance can pay them. TSD personnel require that all invoices list the business purpose or other work related identifying information before authorization for payment can occur. Invoices now include such information as: vehicle identification numbers, reason for purchase, special project

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## Findings, Recommendations and Responses

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identification, the name of the requestor, and business purpose. All invoices submitted by PTM are required to have PTM management approval indicated on the invoices by initials or signature.

### *Transit's March 2006 Response to the City Auditor*

All specific supporting information is added to each invoice by PTM before it is submitted to TSD for approval of payment.

20. PTM did not include adequate supporting documentation on invoices submitted for payment. Invoices were paid with little or no supporting documentation.

PTM should include adequate supporting documentation on all invoices submitted to TSD management for payment. Adequate supporting documentation would include such items as; details of work performed on special service invoices, complete original invoice, itemized receipts, any necessary support that will enable the reviewer to understand what and why the charges have been submitted, etc. All invoices submitted by PTM for payment should also have prior indication of PTM management approval.

### *Transit's December 2005 Response to the City Manager*

Since August 2005, all PTM invoices submitted to TSD must include adequate supporting documentation in order to be approved for payment. Supporting documentation is to include information that details of the work performed, complete original invoice, itemized receipts, and necessary information that will enable the reviewer to understand what and why the charges have been submitted, etc. All invoices submitted by PTM are required to have PTM management approval indicated on the invoices by initials or signature.

### *Transit's March 2006 Response to the City Auditor*

All specific supporting information/documentation is added to each invoice before it is submitted to TSD for approval of payment.

21. PTM contract employees had signing authority with City Finance. This signing authority allowed the contractor's employees to circumvent the normal review process within the City. Approximately \$8 million in expenditures were paid without anyone from the City reviewing the expenditures to ensure that they were appropriate and made within City policies and guidelines.

Signing authority should be removed from contractor's employees and a review process for all expenditures should be implemented by City Management.

### *Transit's December 2005 Response to the City Manager*

As of August 2005, all signature authority for any PTM employee on City financial accounts has been removed. All expenditures by PTM are subject to prior approval by TSD management.

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## Findings, Recommendations and Responses

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### *Transit's March 2006 Response to the City Auditor*

As of August 2005, all signature authority for any PTM employee on City financial accounts was removed. All expenditures by PTM are subject to prior approval by TSD management.

22. PTM contract employees had City Purchasing Cards. These Purchasing Cards allowed the contract employees to circumvent any review by the City. About \$50,000 in expenditures were paid without anyone from the City Reviewing the expenditures to ensure that they were appropriate purchases and made within City policies and guidelines.

City purchasing cards should be removed from contract employees and a review process by City Management should be implemented for all expenditures.

### *Transit's December 2005 Response to the City Manager*

As of August 2005, all City purchasing cards have been removed from PTM employees. All expenditures by PTM are subject to prior approval by TSD management.

### *Transit's March 2006 Response to the City Auditor*

As of August 2005, all signature authority for any PTM employee on City financial accounts was removed. All expenditures by PTM are subject to prior approval by TSD management. It should be noted that several years ago the contractor was issued City Purchasing Cards at the request of City Finance in order to reduce the processing cost of lower dollar expenditures.

23. PTM had a commercial credit card account in the City's name. There was no City management oversight of this account. In 2004, PTM requested that statements for the commercial credit account be sent directly to PTM, bypassing the City Accounts Payable Department. This effectively circumvented the City review process for pass-through payments made to that account. Activity on the commercial credit card account during the period of January 2004 to July 2005 was \$3,518. PTM employees were allowed to sign for purchases.

The commercial credit card account should be canceled.

### *Transit's December 2005 Response to the City Manager*

As of September 2005, the commercial credit card account was cancelled. All expenditures by PTM are subject to prior approval by TSD management.

### *Transit's March 2006 Response to the City Auditor*

As of August 2005, all signature authority for any PTM employee on City financial accounts was removed. All expenditures by PTM are subject to prior approval by TSD management.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS RELATE TO REVENUE

24. PTM special service runs had no written agreements and were not approved by TSD management. PTM contract management approved special service runs, usually verbally, and did not always inform TSD management. PTM special service runs could have been provided without TSD knowledge or City Finance receiving compensation for the service provided. Misunderstandings between PTM and the customer requesting the special run could have occurred as to the specifics of the service to be provided by PTM or the compensation required from the customer. The City could have incurred various liabilities while PTM was providing the special service run without prior knowledge of the potential liability.

PTM contract management, while contractually responsible for the operations of the special service runs, should have a written agreement approved by TSD management, PTM contract management, and the customer detailing the specifics of the special service to be provided and the cost/fee to be remitted to the City.

*Transit's December 2005 Response to the City Manager*

The TSD has developed a comprehensive written agreement that details the specifics of the special service request, including the cost or fee for service; approval of the TSD is required of every special service request prior to the provision of service.

*Transit's March 2006 Response to the City Auditor*

All special service requests must be submitted to TSD for written approval prior to the provision of service.

25. City Finance and/or TSD did not receive adequate support for miscellaneous revenue received from PTM. PTM submitted a "Daily Report of Cash Collected" to City Finance when depositing miscellaneous revenues. In some cases, there was no reasonable means of supporting the miscellaneous revenue such as copies, vending machine, etc. In other cases, such as a special service run, accident reimbursement, purchasing card or other expense reimbursement, COBRA payments, etc., there would be documentation that supported the charge. In some instances revenue was posted to the expense account.

Miscellaneous revenue received by PTM should be submitted to TSD for review and account code verification with appropriate supporting documentation as applicable. Miscellaneous revenue can then be submitted to City Finance following the appropriate City procedures.

*Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations, and a request that miscellaneous revenue received by PTM be submitted to the TSD for review and account code verification with appropriate supporting documentation for processing. Miscellaneous revenue will then be submitted to City Finance following appropriate TSD actions.

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## Findings, Recommendations and Responses

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### *Transit's March 2006 Response to the City Auditor*

City Finance has Miscellaneous Revenue accounts established to accommodate the posting of revenue collected for special transit services. Upon review of the deposits for 2005, it was noted that, despite previous instructions, PTM had not made the miscellaneous deposits to the Miscellaneous Revenue Account. Per review of 2006 transactions to date, no revenues have been received by PTM since January 1, 2006 that would be classified by City Finance as miscellaneous revenue. PTM has been advised to forward all miscellaneous revenue to the TSD for processing, coding, and, deposit of revenues. TSD will then submit the revenues to City Finance for recording and deposit.

26. PTM did not adequately track accident reimbursement or restitution payments received or anticipated. During the period of January 2004 and September 2005, approximately \$31,708 was received and deposited for insurance reimbursement, repairs, or restitution. Checks received from insurance companies and courts were processed through City Finance without an accounting of why they were received. Restitution payments were received and deposited with the City Finance Department with no record within TSD or PTM of the original award amount, the court that issued the judgment, the accident or injury that the case related to, how many payments had been received, or what the monthly expected payment should have been. Insurance reimbursement checks were received and deposited with no record within TSD or PTM of the original accident, whether the reimbursement was for costs over the deductible or from a third party insurance company, what the costs of the repairs or injuries were, how many payments had been received, or what the expected payment amount should be.

PTM or TSD should implement a tracking system for all accident reimbursement or restitution payments expected or received.

### *Transit's December 2005 Response to the City Manager*

TSD has advised PTM of the Auditor's findings and recommendations. TSD and Public Works management staff met with City Claims and City Finance to discuss an appropriate tracking system for all accident reimbursement or restitution payments expected or received. All claims activities will be redirected to the City Claims Division and proper procedures are being developed.

### *Transit's March 2006 Response to the City Auditor*

When a claim made against Metro Transit-PTM is received, the claim is submitted to City Risk Management for review and issuance of a check. Prior to the audit, when a payment was received for a claim made by Metro Transit-PTM, Metro Transit-PTM would send that check directly to City Finance for deposit.

As a result of the audit finding, a new process has been established whereby Metro prepares an invoice which outlines the damages contained in the claim. The checks received for the claim outlined in the invoice are then submitted to City Finance for payment. The Accident Ledger has been (and is currently) maintained by the Metro Transit Bookkeeper. The balance due for the accident in 2006 has been received. Payments have been received and deposited into the transit account. The ledger maintained by Metro Transit shows no balance due for accidents subsequent to the last payment dated February 28, 2006.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS RELATE TO REPORTING

27. Statistical data reports used for required reporting to the National Transit Database and other Federal agencies were prepared by a PTM employee and not verified by TSD management. Federal reports for grant money received by the City, approximately \$2-3 million a year, are submitted without adequate City management oversight or review of the statistical data preparation methods used.

TSD should determine the cost-benefit of having a City analyst position dedicated to the preparation of required Federal statistical data reports necessary for receiving grant money. If TSD continues to have the data preparation done by a contract employee, TSD management should ensure that they are aware of how the data is compiled, whether data collection methods meets Federal government requirements, and whether data is an accurate and complete representation.

*Transit's December 2005 Response to the City Manager*

The TSD has evaluated the existing federal reporting process; TSD concurs with the need for involvement in development and oversight of the data. It was determined that a TSD staff member (either new or as another duty on existing staff – workload dependent) take over the responsibility for data oversight and reporting.

*Transit's March 2006 Response to the City Auditor*

TSD now reviews, and has ultimate responsibility for, the statistical data used for required reporting prior to the submittal of data to the National Transit Database.

28. PTM did not provide performance reports to TSD on a regular basis. While the information was available in the system, information obtained directly from a system was subject to change and misinterpretation. Also, the information may not have been complete or accurate at the time TSD reviewed it.

TSD and PTM should work together to develop performance reports that will adequately allow TSD to evaluate and review PTM performance on a regular basis. These reports will allow TSD to direct questions to PTM for clarification when necessary. By submitting reports, PTM will be attesting to the accuracy and completeness of the information provided.

*Transit's December 2005 Response to the City Manager*

TSD and PTM continue to work together to develop performance reports that will allow TSD to adequately evaluate and review PTM performance on a regular basis. The reports will allow TSD to answer questions from Council, City Administration, the media, and the public without relying on PTM for answers. PTM understands that by submitting reports to TSD, PTM will be attesting to the accuracy and completeness of the information provided.

*Transit's March 2006 Response to the City Auditor*

PTM is submitting current monthly performance reports along with their monthly invoice to TSD.

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## Findings, Recommendations and Responses

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### THE FOLLOWING FINDINGS AND RECOMMENDATIONS RELATE TO OTHER AREAS

29. PTM had no separation of duties in the parts department for ordering, receiving and inventory control. The same employee ordered parts, received the parts and entered the parts in the inventory system. Adequate separation of duties would help prevent intentional and unintentional misstatements. Proper authorization for purchases is essential to ensure that purchases are for authorized company business and avoid the purchase of excessive or unnecessary items.

PTM should separate the duties in the parts department so that one person doesn't have control over all activities. The person who authorized the purchase should not be the same person that ordered the parts.

#### *Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations. PTM hired a new Maintenance Manager in October 2005. The position had been vacated 18 months prior and filled by several individuals within existing PTM staff without success. The new Maintenance Manager had done an excellent job of identifying problem areas in the maintenance facility. He has now separated the duties in the parts department so that one person doesn't have control over all activities. The person who authorizes the purchase is no longer is the same person that ordered the parts.

#### *Transit's March 2006 Response to the City Auditor*

PTM is now required to separate parts ordering, receiving and inventory among a minimum of two employees. The TSD is not yet in receipt of a written process from PTM identifying the separation of these responsibilities.

30. PTM fixed asset listing was not updated on a regular basis. The fixed asset list provided by PTM was from the City Finance Office. City Finance updated asset based on information received from each department or invoices that have been paid. PTM was not able to identify assets detailed by the City asset list.

Detailed documentation and records should be retained by PTM for all fixed assets purchases. Sub-ledgers should be maintained and periodic physical asset counts performed to provide assurance that all fixed assets are in existence, appropriately written off, and accounted for.

#### *Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations. PTM is compiling detailed documentation and records with the assistance of TSD staff. TSD will maintain a list for all fixed assets purchases. PTM will maintain sub-ledgers and periodic physical asset counts will be performed by TSD staff to provide assurance that all fixed assets are in existence, appropriately written off, and accounted for.

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## Findings, Recommendations and Responses

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### *Transit's March 2006 Response to the City Auditor*

The fixed assets listing (with a value of \$5,000 or more) for TSD was reconciled and submitted to City Finance in December 2005. The City Finance Office requires an annual inventory and reconciliation of fixed assets. TSD has complied with this requirement through an inventory of TSD fixed assets submitted to City Finance annually. The annual inventory and reconciliation includes verification that the assets are still in existence, have been sold or been written off, or otherwise accounted for. PTM and previous contractors have maintained not only the fixed assets listing, but also have maintained sub-ledgers for virtually every purchase.

Additionally, in February, 2006 TSD obtained an independent inventory of all existing tools and equipment (over \$500 in value) currently in-use by PTM. This list will be compared to the list currently on file in the City Finance office to determine if assets exist that are not listed, or if listed assets are not shown on the inventory. If required, an audit of all fixed assets purchased during the term of PTM's contract will be completed prior to the termination of PTM's contract.

### *City Auditor's Response*

In reviewing the information to support Transit's March 2006 response, we have determined the original finding should not have been issued.

31. PTM used an expanded vehicle maintenance schedule. PTM management felt that an expanded maintenance schedule was necessary due to the age of the vehicles. PTM vehicle maintenance schedule was performed every 3,000 miles compared to most suggested manufacturer's maintenance schedule of every 6,000. The cost-benefit of the expanded vehicle maintenance schedule and the effect of an expanded maintenance schedule on vehicle repairs had not been evaluated.

PTM should evaluate the cost-benefit of the expanded vehicle maintenance schedule and the effect of an expanded maintenance schedule on vehicle repairs.

### *Transit's December 2005 Response to the City Manager*

PTM hired a new Maintenance Manager in October 2005. The position had been vacated 18 months prior and filled by several individuals within existing PTM staff without success. The new Maintenance Manager had done an excellent job of identifying problem areas in the maintenance facility and in the maintenance of the rolling stock. New programs have been implemented to ensure vehicles maintenance schedules are being adhered to and vehicle repairs are being conducted cost effectively. The TSD is also reviewing the schedule for fleet replacement as vehicles that are beyond the age at which retirement is scheduled also present increased maintenance costs.

### *Transit's March 2006 Response to the City Auditor*

PTM has revised the Vehicle Maintenance Standards to conform to Original Equipment Manufacturer (OEM) requirements. PTM has provided written procedures to the Federal Transit Administration and TSD. PTM has not yet submitted the cost/benefit summary associated with this change.

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## Findings, Recommendations and Responses

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32. PTM special service run costs were not adequately documented. PTM contract management approved special service runs, usually verbally. Without adequate documentation of the incremental costs related to the special service runs there was no true way to verify the actual incremental costs of providing that run.

Support documentation should be prepared and retained for all special service runs approved by TSD management. At a minimum, support documentation should include employee hours and timesheets, estimated fuel costs, and other incidental expenses as necessary. After the service has been provided Springs Transit should provide the customer with an invoice for services performed. This invoice will provide documentation of any additional charges that might have been required that were not originally shown in the initial agreement.

### *Transit's December 2005 Response to the City Manager*

PTM has been advised of the Auditor's findings and recommendations. They have been asked to provide support documentation that includes expenses associated with employee hours and timesheets, estimated fuel costs, and other information as necessary. Retention of the documentation provides information of any additional charges that might be required that were not originally shown in the initial service agreement.

### *Transit's March 2006 Response to the City Auditor*

All special service requests must be submitted to TSD for written approval prior to the provision of service.