



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**09-02 – COLORADO SPRINGS
TRANSIT SERVICES DIVISION**

January 28, 2009

Jeff Litchfield
City Auditor

Denny Nester, CPA CIA CGFM
Assistant City Auditor





Office of the City Auditor

Date: January 28, 2009

To: Honorable Mayor and Members of City Council

Re: 09-02 – Colorado Springs Transit Services Division Audit

We conducted an audit of the Colorado Springs Transit Services Division.

The purpose of our audit was to determine the status of issues found during the Transit audit (05-122, issued 3/26/2006) including actions taken to address those audit findings. In addition, we evaluated the effectiveness of the application, tracking and payment process of grant funding received by Transit.

We conclude that overall, Transit responded to the 05-122 audit findings satisfactorily. Transit changed the type of contractor for the fixed-route bus service from a management contract to a service contract. Changes made in the contract addressed the majority of issues found in the prior audit. We conclude the remaining prior findings were addressed adequately.

Overall, Transit staff administered grant funds and grant-funded projects with sufficient skill and knowledge. It appeared that staff members performed their duties with due diligence. We identified areas where changes to internal controls and operating procedures would reduce risks and improve operational efficiencies.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

Cc: Penelope Culbreth-Graft, DPA City Manager
Mike Anderson, Assistant City Manager, Transportation and Parks
Sherre Ritenour, Transit Services Manager
Terri Velasquez, Chief Financial Officer

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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Abbreviations and Acronyms used in this Report

City	City of Colorado Springs
FTA	Federal Transit Administration
PPRTA	Pikes Peak Rural Transportation Authority
TOC	Transit Oversight Committee
Transit	Transit Services Division

Introduction

AUTHORIZATION

We conducted an audit of the Colorado Springs Transit Services Division (Transit) for the period of January 1, 2007 through December 31, 2007. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, and 706 of the Code, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entity in this audit was the Transit Services Division of Public Works, which is under the reporting structure of the City Manager. The City Manager is a City Council Appointee.

Introduction

SCOPE AND METHODOLOGY

The purpose of our audit was to determine the status of issues found during the Transit audit (05-122, issued 3/26/2006) including actions taken to address prior audit findings. In addition, we evaluated the effectiveness of the application, tracking and payment process of grant funding received by Transit. Our fieldwork covered the period from January 1, 2007 to December 31, 2007.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included such test of records and other supporting documentation as was deemed necessary in the circumstances. We reviewed the internal control structure and performed compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

Transit provided public transportation for the City of Colorado Springs (City) and Pikes Peak region using funding from the City, Pikes Peak Rural Transportation Authority (PPRTA), as well as other funding sources including state and federal grants. Transit provided fixed-route bus service under the name of Mountain Metropolitan Transit or Metro. Transit also provided complementary paratransit service through Metro Mobility. Several other services were provided including Metro Rides (carpools), Downtown Shuttle, and Front Range Express commuter bus service.

OVERALL OPINION

We conclude that overall, Transit responded to the 05-122 audit findings satisfactorily. Transit changed the type of contractor for the fixed-route bus service from a management contract to a service contract. Changes made in the contract addressed the majority of issues found in the prior audit. We conclude the remaining prior findings were addressed adequately.

Overall, Transit staff administered grant funds and grant-funded projects with sufficient skill and knowledge. It appeared that staff members performed their duties with due diligence. We identified areas where changes to internal controls and operating procedures would reduce risks and improve operational efficiencies.

We have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations, and Responses

1. Transit did not adequately segregate duties performed by one staff member.

According to the Committee of Sponsoring Organizations of the Treadway Commission, COSO, “duties should be divided, or segregated, among different people to reduce the risk of error or fraud. Responsibilities for authorizing transactions, recording them and handling the related asset should be divided.” Segregation of duties provides checks and balances. Therefore, the majority of tasks involved in a process should not be performed by one person.

One Transit staff member initiated purchases, negotiated, reported contractual transactions, and approved payments for a grant-funded project. This staff member also submitted invoices and other documents to the grant provider in order to request reimbursement from the grant provider. Our testing did not find errors or improprieties resulting from this practice. However, segregation of these functions reduces the risk of errors and fraud.

Auditor’s Recommendation:

We recommend Transit review the grant processes and implement procedures that segregate purchasing and payment approval functions from the grant reimbursement function.

Transit’s Response:

Transit agrees with the findings and recommendation.

Duties have been rearranged within the remaining staff (after lay-offs and separations) to segregate purchasing and payment approval functions from the grant reimbursement functions.

- The Grants Analyst will determine the appropriate grant to which eligible expenses will be charged
- The Procurement Analyst will continue to conduct the procurement in accordance with City and grant-related procurement requirements
- The Project Manager will verify the completion of work in accordance with contract requirements
- The Accountant will ensure the invoices are charged to the appropriate account and request reimbursement to the City for grant-related expenditures.

This process now ensures a clear delineation of duties.

Findings, Recommendations, and Responses

2. Grant administration procedures could be improved.

In 2007, Transit Services Division (Transit) received the majority of its funding through grants received from the Federal Transit Administration (FTA). The FTA Master Agreement stated that “the Recipient agrees that it is ultimately responsible for compliance with all applicable Federal laws, regulations, and directives.” In addition, it states that “the Recipient agrees to support all costs charged to the Project, including any approved services or property,” and “to maintain accurate records of all program income derived from Project implementation...”

Because of the increasing volume of funding and expenditure transactions, Transit transactions were difficult to monitor using the current reporting processes and procedures. Multiple steps were required to accumulate financial information related to grant status and balances. The process of tracking grant inflows and outflows was complicated further because Transit received operating funds/grants from three separate entities (the City, PPRTA, and the Federal Government), which dictated their individual funding requirements.

Transit increased the number of grants received from 6 grants in 2005 to 17 grants in 2007 (not including Metro Ride grants). Grant funds increased from \$4.8 million in 2005 to \$15.6 million in 2007, a 225 percent increase. As the number of grants increased, gathering and submitting drawdown information became increasingly difficult and resulted in inefficiencies in administering grants. Multiple changes to the grant documents were required.

We noted inefficiencies in forecasting, project planning, and retrieval of timely information. We reviewed the self-assessment performed by Transit and noted internal concerns regarding accessibility of timely grant financial information, inefficiencies in project planning, and redundant grant functions.

Auditor’s Recommendation:

We recommend Transit review the grant processes and procedures to explore possible improvements to increase efficiencies and effectiveness regarding grant management. We recommend that Transit review ways to improve the flow and timely retrieval of critical information.

Transit had performed self-assessments and reviewed strengths and weaknesses of the grant process. Transit was in the process of researching remedies to improve information flow, access, and timely reporting of critical grant data. We recommend Transit continue to identify ways to improve efficiency and to research available solutions.

Transit’s Response:

In November 2007, Transit Administration developed a Problem Statement chart (attached) that identified the various problems associated with the current functions and procedures for administration of federal and state grants. In coordination with the then Public Works Director, Ron Mitchell, the City’s Chief Information Officer, Curlie Matthews, and various staffs, a Grants and Contracts Implementation Plan (attached) was developed to provide solutions and recommendations to improve Grant Administration.

Findings, Recommendations, and Responses

Months of work yielded initial solutions that would significantly improve the grant procedures and allow for effective tracking of grant projects. At City Administration's directive, this effort was put on hold due to budgeting, staffing, and timing concerns. Transit Services has purchased the People Soft Grants and Contracting module, and the Project Costing module is already owned by the City. If/when given the go-ahead to proceed, Federal Transit Administration (FTA) grant funding will be used to fund an implementer to develop these modules for Transit as well as set the stage for other City agencies to use the programs for their grant needs. It is anticipated that Transit will be able to begin this process in late 2009 with implementation in 2010.

Transit Services not only concurs with this finding and recommendation, but strongly encourages implementation of the Grants and Contracting and Project Costing modules. These modules are essential to providing Transit Services with the tools to achieve a fully-integrated financial system to track revenues, expenditures, encumbrances. It also will provide readily accessible information on obligations on contracts and projects that span multiple years and funding sources (regional, state, and federal grants, PPRTA funds, and City General Fund). With an annual budget of approximately \$30 million dollars (combined funding sources), these modules will allow an integrated financial system that provides clear audit trails and enable improved use and tracking of in-kind City resources. Better tracking of City resources will increase the match dollars available and increase access to state and federal dollars.

Findings, Recommendations, and Responses

3. Grant processes were not centralized.

Adequately trained, knowledgeable, and competent employees act as a preventative internal control. Therefore, key grant management functions should be performed in a centralized area where the staff possesses needed skills and knowledge.

A Transit Oversight Committee (TOC) was formed in August 2007. The TOC provided ongoing review of significant legal, financial, and policy issues related to the City's public transportation services. A centralized flow of information was needed to provide accurate and timely information to the TOC. However, the grant funding and payment process was complex. There were several funding sources, three separate budget processes, and expenditure transactions for 17 individual projects to be considered. Monitoring these activities appeared to be difficult and inefficient, requiring multiple manual steps to produce grant balances and status information. Up flow of critical grant information to one centralized area was not achieved in a timely manner. We noted inefficiencies that resulted including multiple changes in project planning and grant documents.

Multiple staff members from different areas of Transit were involved in tracking grants and projects separately. Several departments and individuals were responsible for maintaining portions of the grant-funded information such as project managers, contract administrators and City Accounting staff. Although it was necessary and proper for project managers to maintain information relating to the project, information was not always readily accessible to the grant staff.

Auditor's Recommendation:

We recommend that Transit review key grant processes and implement improvements that will centralize grant functions in one area of Transit so that grant information could be continually monitored and reviewed by staff possessing grant management expertise. We recommend Transit review the flow of critical grant transaction information and improve timely access to grant status and financial balances. We also recommend that Transit review the current reporting tools and implement improvements in tracking and monitoring grant transactions.

Transit's Response:

Directly linked to the finding and recommendation #2, Transit Staff initiated a follow-up meeting with Sheila Thogerson, IT Project Manager, to continue the process of coordinating the analysis and implementation begun in early 2008 by IT staff. Sheila will include all possible stakeholders in evaluating the next steps, will discuss the recommended approach on how to move forward with the CFO and Finance Manager to ensure complete coordination of staffing and resources, and will get buy-in on the final plan for implementing the solutions to findings #2 and #3. It is anticipated that a final product will be in place that addresses the concerns by the end of 2010.

In the interim, the need for a sound, transparent, and easily understandable grant monitoring process is critical. Staff has been working for several months to establish procedures, develop standard forms, and ensure data integrity for all grants and individual grant projects. Each staff member responsible for grant functions will work with a standard Excel spreadsheet and Microsoft Project to ensure consistent, complete, and up-to-date information is readily

Findings, Recommendations, and Responses

available. The Transit Accountant and Grant Analyst will reconcile each grant project's finances to the FTA and state funding allocation. The Grants Analyst, in coordination with the Transit Planner, will confirm all projects are in the Transportation Improvement Plan and are in compliance with all FTA regulations.

Findings, Recommendations, and Responses

4. Written policies and procedures were not current.

Written policies and procedures were not updated in a timely manner. Transit changed some of its procedures and personnel. A vacancy in the accountant position was not filled for several months and responsibilities were shifted to other positions. Drafts of flowcharts were created for the budget/grant, project management, and invoice payment processes. However, at the end of fieldwork, final versions of policies were not completed. The lack of current formalized policies and procedures for key processes resulted in inconsistent and varied procedures.

Auditor's Recommendation:

We recommend that as responsibilities, personnel, and procedures change, Transit should update policies and procedures in a timely manner.

Transit's Response:

A team of Transit employees who all write, implement, and enforce compliance of policies and procedures have been convened to establish an electronic and paper version of a policy manual. The team is establishing regular meetings to develop, review and complete a procedures manual. This manual is targeted for completion in the last quarter of 2009.