

COUNTY AUDIT

HILLSBOROUGH COUNTY

HILLSBOROUGH TRANSIT AUTHORITY (a/k/a HART)

REPORT #122

AUGUST 27, 2004

August 27, 2004

The Honorable Thomas Scott, Chairman
The Honorable Kathy Castor
The Honorable Pat Frank
The Honorable Ken Hagan
The Honorable Jim Norman
The Honorable Jan K. Platt
The Honorable Ronda Storms

Dear Chairman Scott and Commissioners:

Enclosed is the report of the compliance audit and operational review of HART. Responses to our recommendations were received from HART and are included in the detail findings section after each finding and recommendation.

We express our gratitude for the cooperation and professional courtesies extended to our internal auditors by the management and employees of HART during this audit.

Sincerely,

Daniel A. Pohto, CPA, CIA
Director, County Audit

c: Sharon Dent, Executive Director
Patricia Bean, County Administrator

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION:

On April 7, 2004, the Board of County Commissioners, City of Tampa, Hillsborough Transit Authority (a/k/a HART), and the Clerk of the Circuit Court executed an interlocal agreement. The agreement sets forth the terms and conditions under which the Clerk is to conduct an internal control and compliance audit of HART.

OBJECTIVES:

The primary objective of the audit, as mentioned in the interlocal agreement, was to examine and evaluate the adequacy and effectiveness of HART's systems of internal control and procedures used to carry out assigned responsibilities. In addition, we wanted to examine the City of Tampa's records with respect to the construction of the streetcar. Our examination of the City of Tampa's records and the results thereof are being addressed in a separate report.

SCOPE:

The audit covered the fiscal years ended September 30, 2001, 2002 and 2003. The audit followed the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We also followed COSO's¹ *Internal Control-Integrated Framework*. The framework was developed to provide a common reference point which entities can use to assess the quality of their internal control systems. Internal control systems consist of five interrelated components-control environment, information and communication, control activities, risk assessment, and monitoring. Our audit procedures, which we consider to be very extensive, included those mentioned in the interlocal agreement.

OVERALL EVALUATION:

We reviewed five components of HART's internal controls - control environment, information and communication, control activities, risk assessment, and monitoring. For each component, management had important controls in place. There were written policies and procedures addressing the board of directors, business objectives, strategic plans, employee conduct, procurement,

¹ *Internal Control-Integrated Framework* was issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in 1992.

marketing, fleet operations, and accounting. Various controls such as physical security, approval authorizations, reconciliations, analytic reviews, monitoring, record retention and documentation, and separation of duties were used throughout HART. Staff appeared knowledgeable and has a number of years experience in the transit industry.

The Information Systems (IS) staff and manager are knowledgeable and have a number of years experience in the current IS environment. Most of the technical staff hold one or more certifications. IS also organized and standardized the help-desk process and provided an increased level of end user training. IS redesigned the HART web site to increase customer satisfaction and added information such as, bus schedules in two formats (one for the visually impaired), employee area for driver bids, route detour information, and a purchasing area for vendors to obtain requests for proposals.

We have several recommendations to improve HART's internal controls. Management was receptive to our discussions about improvements. Our recommendations include the following:

- Conflict of interests statements should be prepared by key personnel.
- Management should include measuring employee conformance with HART's employment policies as part of an employee's performance evaluation.
- At least one member of the Board of Director's audit committee should be a financial expert according to the American Institute of Certified Public Accountant's *Audit Committee Toolkit*.
- Management should implement a method for employees and others to anonymously report suspected improprieties.
- Management should develop a contract review process.
- Management should implement a formal, written risk-assessment process.
- Management should implement an internal audit function.
- Management should consider expanding the use of purchase cards, versus purchase orders, to procure goods and services.

OPINION:

Except as noted in this report, HART's system of internal control is generally adequate and there are procedures for ensuring compliance with applicable laws and regulations. HART's management is aware of the extent to which they are moving toward achieving the organization's objectives.

The final exit conference was held on July 28, 2004.

AUDIT BY:

Daniel A. Pohto, Director
Cheryl Abate, Manager
Mark Kolman, Manager
Pete McGregor, Manager
Mary Ann Kominsky, Senior Auditor
Margaret Brown, Auditor
Steve Hooper, Auditor

OTHER OBSERVATIONS

Listed below are items we observed during the audit which we felt were outside the scope of our audit but need to be addressed by HART.

OBSERVATION 1

HART could reduce their annual purchase order processing cost.

HART participates in the State's purchase card program. Management has issued purchase cards to five employees. The cards are to be used primarily for travel.

We reviewed purchase orders issued during fiscal years 2001, 2002, and 2003. We noted approximately 56,000 purchase orders that were \$2,500 or less. Based on information we obtained from an outside source, the cost of processing a purchase order ranges from \$81 to \$150, while the cost of processing a credit card transaction is \$19². By expanding use of the purchase cards, HART should be able to reduce their annual purchase order processing cost.

RECOMMENDATION:

Management should consider expanding the use of purchase cards, versus purchase orders, to procure goods and services. The State's program has "built-in" controls and has an annual cash rebate based on the volume of purchases.

CLIENT RESPONSE:

***Do not concur.** In this instance, HART prefers to maintain maximum control in order to avoid any potential abuse. Projected savings are questionable through issuing and use of more purchasing cards by staff for small purchases versus issuing purchase orders. Whereas savings can occur in processing purchases, increased costs will occur in accounting and monitoring in order to avoid abuses to gaining the potential increased efficiency. Further, the method of purchasing using credit cards recommended by the auditors, while well intentioned, would likely lower the number of transactions with small, disadvantaged, minority businesses. This change in business practice could have such an unintended outcome of damaging HART's aggressive practices of emphasizing access rather than having goals for DBE participation.*

² National Institute of Governmental Purchasing, General Public Procurement, 2nd edition, copyright 2001.

OBSERVATION 2

There may be efficiencies to be gained regarding the inventory in the Parts Department.

Many item numbers in the Parts Department inventory are inexpensive and consumable. At September 30, 2003, there were 320 item numbers that cost less than \$1.00 each. These items included springs, nuts, bolts, rear wheel studs, nut locks, screws, gaskets, o-rings, washers, grommets, clamps, splicing sleeves, dowels, relay clips, relay sockets and circuit breakers. The 320 items amounted to only \$4,445, or less than one-percent, of the \$944,925 total inventory value.

At year-end, a complete count of the inventory in the Parts Department is conducted. Also, throughout the year, Parts Department employees count the inventory. The year-end inventory counts are used to update the perpetual inventory in the Fleet-Net computer system, while the counts throughout the year are for the Parts Department use only.

There may be efficiencies to be gained regarding the inventory in the Parts Department. Control over the inventory process should be efficient and effective to ensure against the loss or misuse of parts and to ensure the proper allocation of costs. However, including low-cost items in the inventory is not efficient because these items account for an immaterial amount of total inventory value. Also, inventory count errors could be reduced if there were fewer items to control.

RECOMMENDATION:

Management needs to define what parts are considered inexpensive and consumable. Inexpensive, consumable parts should not be inventoried. Items such as fuels (gasoline and diesel), oils (motor and gear) and fluids (transmission and window-washer) should remain as inventory items, because they are susceptible to a higher risk of theft.

Management should use the existing perpetual inventory control system to replace the year end physical inventory count. A perpetual system updates the inventory as items are received and used. The perpetual inventory could replace the year-end inventory count, if during the year the perpetual is checked for accuracy.

CLIENT RESPONSE:

Partially concur with the recommendation about amending or eliminating the annual physical inventory.

A. Concur with the finding that inexpensive and consumable items can be deleted from annual physical inventory to reduce manpower cost in the actual inventory count. An analysis will be completed of which items can be exempted from the annual physical inventory through an adjustment to the perpetual inventory system. This will be accomplished by December 31, 2004.

B. Do not concur with eliminating annual physical inventory. However, man hours to achieve the annual inventory can be reduced which was the goal of the auditors recommendation through the elimination of some of the inexpensive and consumable items from the annual county by modifying perpetual inventory system as identified in item "A" under this observation.

OBSERVATION 3

In FY 01 and 03, expenditures of \$7,950 and \$8,250, respectively, were made for holiday grocery store gift certificates (\$15 each) and were given to all HART employees.

Section 215.425, Florida Statutes, states in part that “extra compensation can be given if governing boards adopt resolutions.” HART does not have written guidelines to determine how extra compensation is determined. A lack of written guidelines for these types of expenditures could lead to abuse. Although these gift certificate expenditures were a small portion of the total funds budgeted in the account “Staff Development Fund”, and approved by resolution in total by the HART Board of Directors, there were no detail back up explanations for the Staff Development Fund line item budget.

RECOMMENDATION:

HART should develop detail written guidelines to determine how extra compensation is determined.

CLIENT RESPONSE:

***Concur.** Completion of written guidelines describing how extra compensation is determined is set for September 30, 2004. Such items are being identified in the annual budget and described in employee manuals.*

OBSERVATION 4

The server room is equipped with the fire suppression chemical - Halon -1307.

Halon-1307 was determined to be an ozone depleting chemical and the Montreal Protocol of 1987 required a phase out of new production of this chemical. No new Halon-1307 is being manufactured. Information technology organizations are advised to seek an alternative solution. The Information Service Department has not planned to replace the Halon-1307 chemical. Eventually, no Halon-1307 replacement chemical or recycled product will be available and an alternative will have to be installed.

RECOMMENDATION:

We recommend that the HART IS department begin to plan for the replacement of the Halon - 1307 with a Halon alternative and budget accordingly.

CLIENT RESPONSE:

Concur. HART is grandfathered for use of Halon as a fire suppressant. This is documented in writing. The HART system is inspected routinely and certified. It is HART's plan to switch to another product prior to the obsolescence of Halon.

OBSERVATION 5

Most of the current organizational structure has been in effect for at least three years.

An entity's organizational structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled and monitored. The structure should not be so simple that it cannot adequately monitor HART's activities nor so complex that it inhibits the necessary flow of information. An aspect of establishing a relevant organizational structure includes defining key areas of authority and responsibility and establishing appropriate lines of reporting. If an individual's responsibilities cross organizational lines, then that individual should be positioned organizationally with authority to affect policies and procedures to all levels of employees. We noted the following:

1. The current structure has been in effect for at least three years.
2. A lack of independence may exist between the Accounting/Administration function and the Information Systems (IS) function.
3. The risk management function and the safety and security function have duties and responsibilities for policies and procedures which cross organizational lines.

RECOMMENDATION:

Management should review the reporting relationship of IS in an effort to improve the control environment. To ensure independence from the Accounting function, IS should not report directly to the General Manager of Administration & Finance. In theory, the IS function's authority would be improved if the reporting line was direct to the Executive Director. This alignment would improve the ability of IS to cross organizational lines in communicating policy and procedures that affect all employees, especially in areas of IS system standards, security requirements and project development.

Management should consider reorganizing the risk management and the safety and security functions into one office under the direct supervision of the Executive Director.

CLIENT RESPONSE:

Partially Concur. The IS Manager was reclassified to Director and added to the Senior Staff to heighten accessibility and participation in strategic decisions. Reporting of Safety and Security was reorganized for direct report to General Manager of Operations, and the Safety and Security position was reclassified to an Officer providing organization-wide span and access. Both changes were completed in June 2004.

FINDINGS & RECOMMENDATIONS

CONTROL ENVIRONMENT

The control environment sets the tone of HART, influencing the control consciousness of its people. It addresses the integrity, ethical values and competence of HART's people, management's philosophy and operating style, the way management assigns authority and responsibility, organizes and develops its people, and the attention and direction provided by HART's Board of Directors. It is the foundation for all other components of internal control, providing discipline and structure.

FINDING 1

Management must continue to convey the message that integrity and ethical values are an important part of HART.

Management must continue to convey the message that integrity and ethical values are an important part of HART. One way to accomplish the message is to have written conflicts of interests statements. Conflicts of interests emphasize the importance of integrity and ethical behavior. The statements are a tool for employees to disclose outside business interests and relationships, in order to determine if it is in conflict with their job duties and within the best interests of HART.

RECOMMENDATION:

Conflict of interests statements should be prepared by key personnel. Statements should be either prepared annually or updated when a conflict arises. They should be reviewed and acted upon by management when appropriate.

CLIENT RESPONSE:

Concur. HART's existing ethics and conflict of interest policy is being updated to include disclosure and conflict of interest statements. The adoption of these modifications to the policy is scheduled for HART Board action in September 2004.

FINDING 2

HART needs additional documented fraud/ethics procedures.

HART has a documented ethics policy. Several circumstances that are enumerated below indicate that HART needs additional procedures for addressing suspected wrongdoing.

In May 2003, a statement was made by an employee to HART's management regarding possible wrongdoing by a member of HART's senior management. HART did not fully document the employee's statements, nor did they document the investigation and subsequent actions taken. HART's management concluded that the investigation revealed poor management practices.

HART's management did not provide the Board of Directors with a written report of the investigation.

Neither the statements made by the employee nor the related investigation were reported to HART's external auditor by HART's management during the external auditor's inquiry about potential fraud risks, conducted as part of the requirements of the auditor's 2003 year end audit of HART's financial statements. HART did not inform their CPA of the employee's statements because at the time of the CPA's inquiry (October 2003), management had investigated the employee's complaints and agreed with the employee that they indicated poor management practices but not criminal wrongdoing. When interviewed by management, outside counsel and the private investigator about his suspicions, the employee suggested that illegal acts could be occurring, but did not make any specific allegations of criminal acts. He did not make specific allegations of wrongdoing until after his termination in August 2003 (for personnel related issues) when he filed his lawsuit for wrongful termination on November 20, 2003. The external auditor was made aware of this lawsuit, as part of his review of HART's legal actions, when he received the information from HART's outside counsel on January 15, 2004.

In June 2003, HART's management hired a private investigator to investigate the employee's statements, however the procurement of this service was not documented with a written contract. The private investigator declined to give HART's management a written report of the investigation, and instead, gave a verbal report. HART agreed that a written report would not be necessary unless evidence of wrongdoing was discovered.

Documented investigations may serve as a foundation for investigating future complaints of wrongdoing. Allegations and related investigations that are not properly documented may allow risks to the organization to go uncorrected and expose the organization to charges of mishandling known threats.

The American Institute of Certified Public Accountant's *Statements on Auditing Standards* require CPA's who are performing an audit of an organization's financial statements to make inquiries of management regarding incidents of fraud and fraud risks, including allegations of fraud or suspected fraud. Management's responses to these inquiries provide the CPA firm with a basis for determining the scope of their audit for rendering an opinion on the organization's financial statements and the adequacy of the organization's system of internal controls. Management is responsible for informing the CPA of incidents they are aware of related to these inquiries.

The Institute of Internal Auditors (IIA) recommends having a planned approach for handling

suspected wrongdoing. According to the IIA³, a formal fraud/ethics policy is a relatively inexpensive way to discourage wrongdoing and encourage early reporting. A formal policy:

- Raises awareness of management and others
- Establishes responsibility for detection and investigation
- Reduces the opportunity for discrimination
- Reduces the opportunity for successful litigation by suspects

A formal policy might include, but is not limited to, a definition of responsibility for:

- Receiving and documenting suspected improprieties
- Conducting investigations
- Initial notification to management
- Notifying the insurance company and independent CPA
- Referring cases to law enforcement
- Developing guidelines for case handling, so as to avoid charges of malicious prosecution, slander, libel and false imprisonment

Also, employees and others should have a means to anonymously report suspected improprieties. This increases the organization's opportunity to discover, investigate and correct problems in the workplace.

RECOMMENDATIONS:

HART should make additions to their fraud/ethics policy to ensure that:

1. Reports of wrongdoing (e.g., improper business/management practices, policy violations, theft or other criminal activity) are documented, tracked and addressed so that potential risks to the organization are properly investigated, followed up and resolved. Documentation should include the details of the complaint, what was done to investigate the complaint, the disposition of the investigation and actions taken in response to its findings.
2. Management informs the CPA who performs the organization's financial statement audit of potential fraud or risks.
3. Investigations (and other professional services) are contracted, documenting the services to be provided, cost, timing and deliverables.
4. Employees and others have a means to anonymously report suspected improprieties. Internal or third-party telephone hotlines, or web-based approaches can be used.
5. Management identifies a position within the organization to "own" a fraud/ethics program that oversees the procedures for monitoring controls and other detective and deterrent measures (e.g., fraud hotline, background checks, employee fraud

³ *The IIA's Fraud Detection & Investigation for Internal Auditors course*, Copyright 2002, Courtenay Thompson & Associates.

awareness training) and proactively seeks to identify these organizational risks.

6. Outside parties - customers, suppliers, other parties - are made aware, in writing, of HART's ethical standards, management's philosophy and operating style (i.e., honesty, fairness, dealings with employees, gifts).

CLIENT RESPONSE:

Partially Concur. *HART does have a documented written ethics/conflict of interest policy adopted by the Board of Directors which covers fraud. It includes procedures for reporting information to the appropriate HART representative. These policies are contained within Chapter 400 of HART's policies. It also identifies the consequences for a knowingly false report. Further, HART has a professional conduct policy, 410.01(1) which in part states that "...all job-related activities be conducted consistent with professional standards, which respect the integrity and dignity of individual employees and member of the public." HART's ethics and conflict of interest policy 410.02(1) states "...As a public agency, HART will accept nothing less than the highest standards of ethical conduct from its employees, consistent with the code of ethics of the State of Florida (Chapter 112, Florida Statutes) and the advisory opinions rendered in respect thereto." Both policies describe what is prohibited, identify to whom the violations are to be reported, identify appropriate discipline for violations and other procedures. Chapter 112 of the Florida Statute authorizes HART's employees to confidentially disclose information in the nature of questionable behavior to the office of Chief Inspector General for the State of Florida.*

Both of these policies are being updated, however, to clarify: a) who does investigations, b) documentation of complaints, investigations, dispositions, and c) the appeal process. The current policy identifies who manages the policy, however, the position is now Ethics, EEO, DBE Compliance Officer and the position has direct reporting lines to the Executive Director and HART Board of Directors. This title change occurred in June 2004. In addition, the policies for the Board of Directors are being elaborated to clarify their obligation and responsibilities, not only as it relates to ethics and fraud, but also reporting and removal from office for certain conduct. The update is following the process set forth by the Florida Administrative Procedures Act and is expected to be adopted by the HART Board of Directors by October 31, 2004.

Concur. *Notifications happen annually with the annual audit, but high risk cases will be reported throughout the year.*

Concur. *This recommendation is not a feature of the policy, but procedures have been adjusted such that the intent of the audit recommendation is achieved while confidentiality is maintained. The recommended application to other professional services already exists.*

Concur. *A method of confidential reporting to HART and an enhanced description as to how to make reports to the Office of the Inspector General of the State of Florida has been added to the updated policy.*

Partially concur. *HART has a position in charge of investigations of professional conduct, ethics, and conflicts of interest.*

Concur. *Completed. Notices were sent early in the year to all on the vendor list providing*

notification of HART's ethics standards. Further, ethics provisions have been elaborated on in the bid and RFP documents. All vendors and contractors are to receive the ethics policy notification annually in January of each year, and this information is also issued with awards.

FINDING 3

Human resource policies and practices need improvement.

Human resource policies and practices send messages to employees regarding expected levels of integrity, ethical behavior and competence. They are also central to recruiting and retaining competent employees to enable HART's plans to be carried out so its goals can be achieved. Human resource policies and practices need improvement. Three conditions were noted:

1. Annual performance evaluations do not measure employees adherence with HART's employment policies (e.g., code of conduct, ethics, etc.).
2. Hiring criteria, such as age, background checks, and written and visual examinations, limits the hiring of mechanics and operators.
3. The number of employees on Family Medical Leave Act (FMLA) may be high. For example, at July 2004, there were approximately 120 of 426, or 28%, fleet operations personnel certified eligible for FMLA.

RECOMMENDATION:

Management should include measuring employee conformance with HART's employment policies as part of an employee's performance evaluation.

Management should review the hiring criteria for mechanics and operators. Close-call candidates should be evaluated on a case-by-case basis in order to assist with filling of vacancies.

Management should implement a written procedure to investigate FMLA participants for questionable absences or abuse of FMLA rules.

CLIENT RESPONSE:

Concur. HART will add a measurement of employee performance to HART's employee appraisal system. The revisions are complete and will be phased in on an employee by employee basis to coincide with evaluation periods which start on their anniversary date.

Do not concur. HART will maintain consistent hiring criteria and therefore does not concur with doing evaluations of applicants on a case-by-case basis.

Concur. Out of the 426 Fleet Operations personnel, 120 employees are certified eligible for FMLA, with an average of twelve per day are absent. HART will evaluate its current practices for investigating FMLA participants use of leave, and any resultant procedure for reviewing use of leave will be documented in a written procedure by October 31, 2004.

FINDING 4

The audit committee's charter needs clarification.

An active and effective audit committee can provide an important oversight function and, because of management's ability to override system controls, the committee can play an important role in ensuring effective internal control. The audit committee needs to clarify its charter. The following conditions were noted:

1. The audit committee does not have a formal, written charter.
2. The audit committee should have a member with financial expertise. An alternate member is a Florida CPA.
3. The audit committee's charter should include the evaluation of the independent external auditor.
4. The current independent external auditor has been HART's auditor since 1992.

RECOMMENDATION:

The Chairman of the Board should clarify the audit committee's purpose, duties and responsibilities.

At least one member of the audit committee should be a financial expert.

The audit committee should routinely evaluate the independent external auditor. According to the Government Finance Officers Association, a multi-year agreement of at least five years should be obtained for the services of independent external auditors. In addition, the committee should have a policy requiring that the independent external auditor be replaced at the end of the audit contract.

CLIENT RESPONSE:

***Concur.** Complete. HART has an audit committee whose purpose, duties and responsibilities have been issued by the Chairman of the Board.*

***Concur.** HART will encourage its member entities (Hillsborough County, Cities of Tampa and Temple Terrace and the State of Florida) to appoint as its representatives to HART people with financial expertise so that the HART audit committee can be populated with experts.*

***Concur.** Complete. Evaluation of auditors is a feature of the duties described in the charge to the committee. HART routinely competitively procures its independent external auditor consistent with the GFOA's recommendation and will continue the practice.*

INFORMATION AND COMMUNICATION

This component addresses the need for HART to identify, capture and communicate information to the right people to enable them to carry out their responsibilities. Information systems within the organization are key to this element of internal control. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. There also needs to be effective communication with external parties, such as customers, suppliers, and regulators.

FINDING 5

Additional IS information should be reported to the Executive Director and HART's Board of Directors on a periodic basis.

Senior HART management are responsible for managing and controlling the various departments including the Information Systems department. Senior management makes decisions regarding the use of IS technical, human and financial resources. They need to know, in non-technical language, how these resources are being utilized and if the IS department is complying with established goals and objectives. The better the communication the more effective HART's Board can be in carrying out its oversight responsibilities, and in acting as a sounding board on critical issues and providing advice and counsel.

Management needs to know and understand the issues facing the IS department in order to properly allocate those resources and set priorities. Management cannot perform its duties and responsibilities without clear, concise and timely information. Senior management and the Board may be unaware of what types of information IS can track and produce. They also may need this information in business terminology vs. technical terminology, and displayed clearly and concisely.

RECOMMENDATION:

Management should consider including the following information in its periodic IS report:

- Information regarding help desk calls with details on the number of calls received, number of calls fixed without handoff, types of problems reported and by whom (department, function etc.)
- HART web site hits, with comparisons over time
- Computer equipment, age of equipment and replacement schedule should be reported periodically
- IS Project status reports
- List of any backlogs the IT department may have, i. e., service requests etc.
- Employee internet usage should be monitored and problems reported to Management

CLIENT RESPONSE:

Concur. Complete. Effective with its July 2004 written report, IS expanded the report to include the information appropriate to HART.

CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure that management objectives are carried out. They help ensure that necessary actions are taken to address risks to achievement of HART's objectives. Control activities occur throughout the organization at all levels in all functions. These include activities like approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

FINDING 6

HART has not monitored the net collections of the advertisement contract with Obie Media.

In 2000, HART entered into a five-year contract with Obie Media to sell bus advertisement. Seventy-five buses were designated for advertisement. The contract guaranteed an annual revenue to HART ranging from \$150,000 to \$500,000. Additionally, HART was to be paid 30% to 35%, depending on the contract year, of net sales over the guaranteed amount. HART is in the fourth year of the contract. We were informed that net sales for the previous three years have not exceeded the guaranteed amount.

No one from HART has confirmed the accuracy of the contract's revenues. HART has a right to audit clause in the contract to access Obie's files to verify that their revenues are accurate. Obie reports revenues monthly to the Accounting Department. Data maintained by outside vendors should be reconciled to the contractor's records to ensure accuracy.

RECOMMENDATION:

Management should develop a contract review process that includes periodic sampling of advertisement sales and reconciling them to the Obie Media's records. The process should include a mechanism for HART to independently track advertisement sales by bus. At a minimum, the mechanism should include the bus number, size of advertisement, inclusive dates of the advertisement, the advertiser, and the revenue generated by the sale.

CLIENT RESPONSE:

***Concur.** Contract review procedures have been implemented including the recommended information to more closely monitor net collections under this contract. Further, an audit of the contractor will be initiated by January 31, 2005.*

FINDING 7

Cash collected by paratransit operations is not reconciled to the operator's manifest.

Passengers of paratransit service either show the driver a pass card or they put their fare in the onboard fare box. The paratransit operator indicates on the *Operator Manifest* the passenger's fare by entering either cash (C) or pass (P) next to their name. At the end of the route, the fare boxes are removed from the vehicles and secured in the cash count room. They are counted by the cash room attendants during their next count session. The cash room attendants indicate the amount collected, by vehicle number, on a *Money Breakdown By Vault* report. Cash collected by paratransit operations is not reconciled to the operator's manifest. Therefore, all fares collected may not be deposited.

The fare box has no capability to produce a receipt showing the total cash collected.

RECOMMENDATION:

Management should implement a procedure to reconcile the *Money Breakdown by Vault Report* to the *Operator Manifest* to ensure all cash collected was accounted for.

CLIENT RESPONSE:

Concur. *A procedure was implemented in June 2004 for reconciliation of the Paratransit cash receipts to the operators' manifest. Additional audit procedures have been documented and will be implemented by September 30, 2004.*

FINDING 8

The courier who collects the Transit Center's daily cash collections does not sign a receipt for the collections from the Center.

At the end of the business day, the three transit centers close-out their registers. They reconcile their cash-on-hand to the register's sales and they record it on the daily reconciliation report. The cash is delivered to the cash room. Two conditions were noted:

1. There was no signed receipt for the cash.
2. The cash needs to be better secured.

A best practice and good preventive and detective controls would be to ensure that a chain of custody exists for all funds received.

RECOMMENDATION:

Management should implement a secure process for the transfer of funds to include proper receipting and secure transport.

CLIENT RESPONSE:

Concur. Completed.

FINDING 9

HART's Information Systems Department (IS) has not tested the entire Disaster Recovery Plan. Two of three mission critical applications, Trapeze and Fleet-Net, have been tested in December 2003 and April 2004, respectively, using the on-site back-up tapes.

Daily back-up tapes are sent off site on a weekly basis.

Disaster Recovery plans should be tested on a periodic basis to ensure that systems can be restored accurately and timely. Information systems should be available as needed. Adequate resources and allocated time may not have been provided to the IS staff to plan and schedule these tests.

If the systems and processes in the Disaster Recovery plan are not completely tested on a regular basis there is no way of knowing that the plan is complete and will function properly when needed. The time to test a Disaster Recovery plan is not during the disaster.

RECOMMENDATION:

We recommend that the HART IS Department, with input from the business and operating units:

- Prioritize the applications in order of restore importance
- Schedule a restore test, from back-up media stored off-site for each of these critical applications
- Store daily tapes in a safer location until they are sent off-site
- Schedule regular Disaster Recovery Plan testing
- Assess the impact of new or modified systems on the Disaster Recovery Plan

By testing applications individually over time, all components of the Disaster Recovery plan can be exercised.

CLIENT RESPONSE:

***Concur.** Completed in July 2004. HART recognizes the importance of the Disaster Recovery Plan testing and all critical applications have been fully tested and documented. Off-site backup tapes were used in the latest test of the Disaster Recovery Plan.*

FINDING 10

Standards, procedures and policies have not been developed for certain IS processes:

- **Change Management**
- **System Development and Implementation Guidelines (in Draft)**
- **Programming Standards (in Draft)**
- **Review & Reporting of System/Event logs**
- **Project Management**

Standards describe the best practices that the department should follow. Written procedures support the standards and describe the appropriate methods to be followed, and provide guidance and instruction to new and current employees. They also provide documentation for back-up/recovery purposes.

Without documented procedures, required tasks and duties may not be performed as required. Verbal instructions can be mis-interpreted and mis-understood. New employees and/or back-up employees may not perform as required without adequate written procedures and standards.

Without system development guidelines there are little or no means to assure integration with existing infrastructure, or that systems are delivered in a timely manner by a responsive and responsible vendor. Systems may not be designed according to user needs or may not be properly implemented. Systems and program modifications may be implemented incorrectly.

RECOMMENDATION:

Policies, Standards and Procedures provide: a level of control for the IS function, a means to determine compliance with user needs, and measurement criteria to determine if systems are designed according to user needs and are properly implemented. Project management procedures ensure proper management of systems development activities. HART IS should finalize the drafts and develop an action plan for completing written standards and procedures for the following:

- Change Management
- System Development and Implementation Guidelines (in draft)
- Programming Standards (in draft)
- Review & Reporting of System/Event logs
- Project Management

CLIENT RESPONSE:

***Concur.** IS will continue to develop and document policies, standards and procedures. System Development and Implementation Guidelines and the Programming Standards are in draft form and will be completed by December 31, 2004. The other three recommendations for documentation will be finalized by March 31, 2005.*

FINDING 11

An employee who left HART had network access removed but did not have the Fleet-Net computer application access removed promptly.

Procedures should be documented and updated for the user access process that removes Fleet-Net user privileges. Failure to promptly remove user access can allow inappropriate access to the computer application.

RECOMMENDATION:

Procedures should be updated for the Fleet-Net user access removal process. The applicable department should verify that de-activation /removal of user ID and password was completed correctly.

CLIENT RESPONSE:

Concur. Complete July 2004.

FINDING 12

Fourteen individuals have keys to the HART Server Room. Key access to the server room may be excessive.

Access to the server room should be controlled and limited to only those individuals who must work in the room or service the equipment. Poor control of server room access can result in harm to the equipment, the applications running on the equipment and the data residing on the equipment.

RECOMMENDATION:

Limit the number of server room door keys to appropriate IS staff and Dispatch management. The use of an emergency back up key should be considered.

CLIENT RESPONSE:

Concur. Complete July 2004. The access was reduced by 25%.

FINDING 13

The Fleet-Net application should provide stronger password controls and security.

Computer application systems should provide adequate password protection; i.e., passwords should be of a certain length, and they should be force-changed on a periodic basis. A lack of strong password protection, could result in reduced accountability for changes to data if passwords have been compromised.

RECOMMENDATION:

Even though the network software provides one level of sign-on protection, the Fleet-Net application should also provide stronger password controls. The HART IS department should seek more robust password security in future versions of this application. They should also request strong password controls as a requirement in any new software purchased.

CLIENT RESPONSE:

***Concur.** Upgrade to new software application will address this recommendation with projected completion 2006. Effective June 2004, other protocols are in place to increase security until the software upgrade occurs.*

FINDING 14

Capital asset disposal files were inconsistent in documentation to support the disposal authorizations.

Capital asset disposal files should contain all pertinent information regarding the disposal of a capital asset. The Federal Transit Administration (FTA) notification and the Board's resolution are relevant disposal-related documents. During a review of ten capital asset disposal files, the following concerns were noted:

1. Four files did not identify the asset as being purchased by Federal or State grant funds. However, three of the four files included a memorandum notifying the FTA of the asset disposal.
2. One file did not contain the Board's Resolution authorizing the disposal of the asset. However, the file contained a memorandum to the FTA stating that the Board had approved the disposal of the asset.
3. One file did not contain the memorandum that notified the FTA of the asset's disposal.

Capital asset disposal files were inconsistent in documentation to support the disposal authorizations.

RECOMMENDATION:

Management should develop a checklist of relevant documents that support the disposal of a capital asset. The checklist should be used to ensure that sufficient information has been filed to support the disposal of the capital assets. A supervisory review of the completed file should be conducted and the review should be documented. The checklist should be maintained with the completed file (possibly affixing it to the inside cover of the file for easy access).

CLIENT RESPONSE:

Concur. Completed in July 2004.

FINDING 15

The Fleet-Net computer system will permit purchase orders to be issued in excess of line item budgeted amounts.

Fleet-Net purchase orders can be issued in excess of line item budgets. Section 189.418 (3), Florida Statutes, prohibits expenditures in excess of the budgeted appropriations. Any purchases made in excess of the budgeted amounts would violate the Florida Statutes. The Fleet-Net system control option was not “turned on.”

RECOMMENDATION:

Management should activate the system control option in Fleet-Net.

CLIENT RESPONSE:

Concur. Implementation scheduled for October 1, 2004, concurrent with fiscal year.

FINDING 16

The supervisor's sign-off is not required on manually prepared Journal Entries.

Journal entries may not contain supervisor approval. The Supervisor, or party with the assigned authority, should review the journal entry information for accuracy and correctness and should sign-off to authorize the journal entry. Without adequate approval authorization, journal entries could be processed with inaccurate information and go undetected.

RECOMMENDATION:

All journal entries should be reviewed and approved by a supervisory level of management as a means of ensuring the reliability and integrity of journal entry information and safeguarding of HART's assets.

CLIENT RESPONSE:

Concur. Implemented August 2004.

FINDING 17

Accounts Receivable Statements are only periodically (after 90 days) mailed to customers.

Accounts Receivable statements are only mailed after 90 days. The timely follow up on accounts receivable is necessary to help ensure timely collection and collectability. Without timely statements, the collection and resolution of outstanding accounts receivable could be delayed, thereby impacting revenue flow.

RECOMMENDATION:

Accounts Receivables should be collected or resolved in a timely manner (i.e., monthly) to ensure that the revenue flow is meeting established objectives for HART.

CLIENT RESPONSE:

Concur. Effective June 2004, HART initiated mailing monthly statements.

FINDING 18

The authorization given for changes to standard forms (such as check requests, purchase requisitions, purchase orders, etc.) is not documented.

Authorizations for changes to standard forms have been given verbally. Written authorization helps to ensure that the standard forms are functioning and being used as management intended.

RECOMMENDATION:

Authorization for changes to standard forms should be documented and no change should be made without evidence of such authorization.

CLIENT RESPONSE:

***Concur.** A staff person in the Executive Office was designated in July 2004 as the control point for standardized forms and authorization to approve changes to forms. A review and update of all standardized forms has been initiated with revision targeted by March 31, 2005.*

FINDING 19

The petty cash fund responsibilities are not rotated.

The rotation of the petty cash fund responsibilities helps to ensure that the petty cash fund is being properly managed through the separation of responsibilities and the cross training of petty cash custodians. Without the rotation of duties, errors or mishandling of the funds could go undetected.

RECOMMENDATION:

The petty cash fund responsibilities should be rotated periodically to ensure that assets are safeguarded. Other controls could be implemented, as deemed appropriate.

CLIENT RESPONSE:

Partially Concur. Due to limited staff, the current petty cash responsibilities, as defined in current written procedures will remain in place; however, HART has implemented additional internal control oversight for petty cash including routine but randomly scheduled audits.

FINDING 20

Although some budget policies are noted in HART's Charter, there are no formal, written procedures on how to prepare and establish budgets.

There are no written procedures for budget preparation. Without detailed, written budget procedures, budgetary data may not be gathered and maintained in a manner that would be of the most assistance to management's decision making process and in meeting the objectives for HART.

RECOMMENDATION:

Information on how to prepare, establish, maintain, and update budgets should be documented in a formal, written manner. This documentation should be used as a budgetary reference resource, as well as for training and cross-training purposes.

CLIENT RESPONSE:

***Concur.** A detailed budget procedures manual is currently in development. The manual will be completed by December 31, 2004 and distributed to staff who is involved with budget presentation.*

FINDING 21

Outstanding checks are not being investigated on a regular basis, but are investigated upon inquiry by management.

Outstanding checks could be indicative of a bank error or a breakdown in the receivables or payables process and could go undetected without timely follow up.

RECOMMENDATION:

All outstanding checks should be followed through to resolution in a timely manner.

CLIENT RESPONSE:

Concur. Procedures were modified in August 2004. All outstanding checks over 90 days are now being investigated and with a goal of resolution in 30 days.

FINDING 22

Some accounting procedures (e.g., State Board of Administration (SBA) investments, work orders, project management) are not in writing and distributed to the appropriate personnel. These written procedures were in the process of being developed.

Some accounting procedures were not in writing. Without written, distributed accounting procedures, personnel may not be aware and complying with management's intended policies. Additionally, training may be impaired since written procedures serve as a valuable training and reference tool.

RECOMMENDATION:

Accounting procedures should be completed in writing and distributed to the appropriate personnel. Additionally, training on the procedures should be provided to ensure accurate implementation of the management's policies.

CLIENT RESPONSE:

***Concur.** Existing procedures manuals are in the review stage for updating to reflect additional procedures. Additional procedures for administration of the State Board of Administration (SBOA) investments, project management, and work orders are currently being developed. All accounting functions are being documented and are to be disseminated as each procedure is finalized. All procedures to be completed and distributed to staff no later than March 31, 2005.*

FINDING 23

HART'S Public Relations Department sends out an average of 30 invoices yearly for certain accounts (i.e., Special Events, Purchased Transit Services). Public Relations also maintains the agreements and collects the remittances for these accounts.

To ensure that all invoices are properly charged and paid according to the agreements, someone outside of the Public Relations Department should monitor this process by reconciling the Public Relations Department's invoices and payments received to the agreements. Without such a process, these invoices may not be properly or timely paid in accordance with the agreements.

RECOMMENDATION:

Someone outside of the Public Relations Department, such as Accounts Receivable, should reconcile, in a timely manner, the Public Relations Department's invoices and payments received to the agreements.

CLIENT RESPONSE:

***Concur.** Consistent with current practice, accounts receivable will continue to record invoices and payments for special events and purchased transportation services. As an additional control, the General Ledger Senior Accountant will reconcile receipts and agreements for these services on a monthly basis.*

FINDING 24

Several potential control weaknesses that focused on a lack of separation of duties within the Accounts Payable (A/P) processes were noted.

Examples are as follows:

- I. As part of the weekly check run, A/P employees print, burst, and mail the checks.
- II. New vendor numbers are set up by A/P employees.
- III. The check signers do not review the check register. The Accounting Manager reviews the check register and provides the authorization to release the checks.
- IV. Checks are kept under double custody but released for printing to one A/P employee.
- V. The Fleet-Net A/P application allows for the check printing run to be re-started and re-run.

Adequate internal control calls for a separation of incompatible duties so that no one party/area has the responsibility for the authorizing, the recording, and the custody of assets. A lack of adequate separation of duties could permit the misuse/abuse of assets to occur and to go undetected.

Specific to the items noted above:

- I. The same employees should not print, burst, and mail the checks. Under the current A/P process, alternations made to the printed checks by an A/P employee may go undetected before mailing.
- II. The set up of new vendors, and any changes to existing vendors, should be performed by someone not involved with the A/P process, thereby separating the vendor maintenance and vendor payment functions.
- III. The review of the check register would normally be performed by the parties whose signatures appear on the checks. However, the review is normally delegated to some one outside of the accounting function so that the review is performed by an independent party not related to the accounts payable or other accounting functions. Reviews which are performed by parties independent of the accounting process acts as a monitoring tool to discourage the processing of inappropriate payments. The Accounting Manager is not an independent party due to the direct reporting line by the A/P Department. The Accounting Manager could authorize the release of the checks, but performing the check register review and authorizing the check's release are incompatible duties since that establishes the custody and the authorizing function with a single person.
- IV. The releasing of the checks and signature plates to a lone employee serves to eliminate any separation of duties or double custody over the check printing process, thereby leaving the check printing process exposed to potential abuse.
- V. Under the current process, a lone employee has the entire box of check stock, the signature plates, and the ability to re-run/re-start the check printing process. Checks could be rerun, in total or individually, the data could be altered on the rerun checks, and go undetected.

RECOMMENDATION:

Management should investigate areas of potentially incompatible functions and restructure duties to establish proper separation of duties to ensure that an adequate internal control environment is established and maintained. If an adequate separation of duties cannot be achieved due to the limited size of staffing resources, then adequate monitoring controls should be established as a mitigating control.

Examples of proper separation of duties are:

- I. A/P employees would not print (run), burst, and mail the checks. At a minimum, the bursting and mailing of the checks should be handled by persons not involved with the Accounting Division or more specifically A/P. This provides an opportunity for a final, independent review of the checks before they are mailed.
- II. The set up of new vendors, and any changes to existing vendors, should be performed by someone not involved with the A/P process, thereby separating the vendor maintenance and vendor payment functions.
- III. The duties of reviewing the check registers and authorizing the release of checks should be performed by parties whose reporting position within the organization does not present an issue with separation of duties.
- IV. Two employees from different operational areas could be present during the check printing process. One could be responsible and accountable for the checks, including ensuring all checks were properly accounted for and the other employee could be responsible and accountable for the signature plates throughout the check printing process.
- V. The A/P person performing the check run should only be provided with the number of checks needed for a single check run instead of the entire box of blank checks. If checks did need to be re-run/re-started, a request for more checks could be submitted to a different employee who has the custody of the remaining check stock. The number and circumstances of the re-run/re-starts could then be documented for control purposes.

CLIENT RESPONSE:

Concur. Recommendations implemented as of August 31, 2004.

RISK ASSESSMENT

Risk assessment is the identification and analysis of relevant risks to achievement of HART's objectives. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

FINDING 25

HART does not have a formal, written risk assessment process.

Risks affect HART's ability to survive; maintain its financial strength and positive public image; and maintain the overall quality of its services and employees. Management determines how much risk is to be prudently accepted, and strives to maintain risk within these levels. We observed that management does not have a formal, written risk-assessment process.

RECOMMENDATION:

Management should implement a formal, written risk-assessment process. The process should include 1) identifying risks from external sources, 2) identifying risks from internal sources, 3) identifying significant risks for each activity-level objective, and 4) assessing the likelihood of their occurring and determining needed actions to be taken.

CLIENT RESPONSE:

Concur. Management will recommend to the HART Board of Directors that an external, qualified expert is contracted to conduct a risk assessment of the Agency.

MONITORING

Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. Monitoring is usually associated with an internal audit function, as well as other means of monitoring such as general management activities and supervisory activities. It is important that internal control deficiencies be timely reported to appropriate authorities and that serious deficiencies are reported to top management and the Board.

FINDING 26

An internal audit function appropriately staffed with access to the Board or audit committee can enhance the monitoring of the internal control system.

Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other action's personnel take in performing their duties that assess the quality of internal control performance. An internal audit function appropriately staffed with access to the Board or audit committee can enhance the monitoring of the internal control system. The Government Finance Officers Association recommends that every government consider the feasibility of establishing an internal audit function. As a rule, an internal audit function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with outside parties).

RECOMMENDATION:

HART should implement an internal audit function. The audit function could be internal or outsourced. The audit scope, responsibilities and audit plans should be appropriate to HART's needs and approved by the Board or audit committee.

CLIENT RESPONSE:

Concur. Funds have been budgeted in fiscal year 2005 to establish an internal audit function.

FINDING 27

Management does not have a structure or methodology to their internal control evaluations.

It is useful to take a fresh look at the internal control system from time to time, focusing directly on system effectiveness. The scope and frequency of separate evaluations will depend primarily on an assessment of risks, and ongoing monitoring procedures. The evaluations should be documented. Any control weaknesses should be reported with corrective actions noted in the documentation. Management does not have a structure or methodology to their internal control evaluations.

RECOMMENDATION:

Management should have a structure or methodology for their internal control evaluations. The evaluations should be documented by using checklists, questionnaires or other tools. All internal control deficiencies should be timely reported to appropriate authorities with certain matters reported to top management and the audit committee.

CLIENT RESPONSE:

***Concur.** As stated in response to findings 25 and 26, HART will establish a methodology for risk assessment and internal control evaluations as a part of establishing the internal audit function.*