



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

PURCHASING COMPLIANCE, VENDOR MANAGEMENT & ADMINISTRATION

DEPARTMENT OF ENVIRONMENTAL SERVICES: ART BUS OPERATIONS

Report Date: May 6, 2019

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The 2016-2017 Risk-Based Internal Audit Work Plan (the Plan) identified the Department of Environmental Services (DES) monitoring controls over outsourced functions and the Purchasing Office’s procurement controls as functions that may include operational risks. Contract compliance reflects the processes in place that enable the County and those who have entered into a contract with the County to execute such contract in accordance with its terms and conditions. Purchasing controls include the processes in place that permit the County to acquire necessary goods and services at a reasonable cost in a fair and impartial manner.

Arlington Transit (ART) operates within Arlington County, supplementing Metrobus with cross-County routes as well as neighborhood connections to Metrorail. The County has entered into three arrangements that provide services related to the operation of the ART system; the ART Bus Operations and Maintenance Contract (271-11), the SmarTrip Operations Funding Agreement and a Memorandum of Understanding with the Washington Metropolitan Area Transit Authority (WMATA) the SmarTrip Funding Agreement.

All three arrangements were selected to audit.

This report is organized as follows:

Executive Summary	This section gives a background summary of the function and a detailed description of the issues noted during this audit, recommended actions, and management’s corrective action plan, including the responsible party and estimated completion date.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objective and Approach	The review objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

We would like to express our appreciation to the staff and all others involved with this review.

Respectfully Submitted,

Internal Audit
 Department of Management and Finance

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This audit was designed to assess whether the system of internal controls related to the solicitation and purchasing of goods and services related to the ART system and its system of internal controls over contract compliance for key provisions of each arrangement is adequate and appropriate. It focused on compliance with certain purchasing aspects, management and administration of each arrangement including monitoring. The overall objectives were as follows:

- Determine that policies and procedures are adequate, in place, and operating effectively.
- Obtain, review and test key purchasing and contract compliance policies and procedures.
- Identify the monitoring controls in place over the vendors and accountability for goods and services provided.
- Test purchasing compliance and documentation of the selection process.
- Assess that monitoring controls are designed and operating effectively.
- Identify control gaps, opportunities for process improvement, and efficiency gains.

Summary of Arrangements

The ART Bus Operations and Maintenance Contract (the Contract) The County entered into Contract 271-11 with Forsythe Transportation, Inc. in 2009 to provide complete operations management, fueling, and maintenance of fixed-route public transportation services in Arlington County utilizing County-vehicles and County-supplied fuel and tires. Forsythe Transportation, Inc. was later acquired by National Express Transit.

The SmarTrip Operations Funding Agreement (SOFA) The County participates in the regional SmarTrip system which various Washington DC area municipalities participate in and is an effort led by WMATA using Genfare Odyssey fareboxes and Cubic software. Among other services provided, WMATA hosts and prepares various data collection documents called Hummingbird reports. The data captured on the Hummingbird reports originates from data generated by the daily probes of fare boxes as performed by National Express Transit.

Memorandum of Understanding with WMATA (MOU) The County entered into a MOU with WMATA in July, 2015 whereby WMATA provides Compressed Natural Gas (CNG) fuel, bus exterior wash, and engine wash services to the County for ART Buses at WMATA's Four Mile Run Facility.

Presentation of Findings

As more fully described in the Executive Summary section, significant processes and controls are performed by National Express Transit and WMATA and relied upon by the Arlington County Transit Bureau. The findings are presented in three distinct sections:

- I. *Transit Bureau - Department Level Findings*
- II. *Transit Bureau and WMATA Findings*
- III. *County Level Finding*

The audit period was from July 2016 through December 2017 and encompassed the above referenced processes at the Transit Bureau in DES and Purchasing Division within the Department of Management and Finance (DMF) for that period. Certain items related to cash collections were tested through March 2018.

A detail of the issues identified and their relative risk ratings is provided below, including recommendations for remediation and management's response. Relative risk factors have been assigned to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the operations. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

- ✓ High - Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately..
- ✓ Moderate - Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic

reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term..

✓ Low - Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure..

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS

Issues	Risk Rating
1. Hierarchy of Policies and Procedures	HIGH
<p>The Contract requires National Express Transit to perform key internal control processes for the ART Bus program. The County relies on National Express Transit to design, implement, and execute such processes in a manner that will assist with the achievement of the ART Bus program’s goals and objectives. Similarly, the Transit Bureau executes various internal controls towards achieving the ART Bus program’s goals and objectives. Without proper execution of key controls, the Transit Bureau cannot effectively monitor National Express Transit and properly measure the results of the ART Bus mission. Effective, documented policies and procedures are critical to these processes. Our testing identified the following:</p> <ul style="list-style-type: none"> • Inspection of the Transit Bureau’s documented policies and procedures identified various documents in different stages of completion such as draft status, and not all located in one place for staff awareness... Appendix A lists the status of the Transit Bureau’s policy documents as of August, 2018. • Documented policies and procedures for key controls such as revenue collection, revenue reconciliation, and review do not exist. • The Transit Bureau does not have evidence of National Express Transit’s documented policies and procedures relevant to the ART Bus program. Internal Audit was advised by the Transit Bureau that National Express Transit does maintain various documented policies and procedures. Internal Audit could not confirm whether the National Express Transit’s policies and procedures document the key internal control processes they perform for the ART Bus program nor confirm the proper execution against those Standard Operating Procedures (SOPs). 	
Recommendations	
<ul style="list-style-type: none"> • Documentation of all key internal controls and the creation of necessary Standard Operating Procedures (SOPs) related to the ART Bus program is necessary. A key internal control is often defined as a control that, if it fails, means there is at least a reasonable likelihood that an error or omission is not prevented or detected in a timely manner. Upon completion of the review of key controls, the Transit Bureau should assess its current SOPs as well as National Express Transit’s and any future service provider’s SOPs and identify those key controls that require SOPs. Consideration should be given to creating a central location where all ART Bus SOPs, whether Transit Bureau or National Express Transit or the future service provider’s, are stored and available to all relevant County staff. • On at least an annual basis: <ul style="list-style-type: none"> ○ All SOPs must be reviewed and approved by the Transit Bureau for all future service providers. If, during the year, a process is significantly modified, the SOP must be revised and approved at that time. SOP’s should be reviewed at least on an annual basis. ○ Mandatory SOP training will be conducted for all Transit Bureau and future service provider personnel who have a role in the Art Bus program. All new employees, whether Transit Bureau or the service provider must attend SOP training as part of their onboarding process. Evidence of training must be documented and retained. ○ Request that National Express Transit and any future service provider provide a written certification from a properly designated official that all employees who are assigned a role or responsibility under the Contract are aware of their SOPs, acknowledge 	

compliance of thereon and attest they are not aware of any violations.

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Management Response

The recommendations under this issue range from documenting all key internal controls, the creation and compliance of necessary Standard Operating Procedures (SOPs), and mandatory SOP training. Prior to the audit, the Transit Bureau developed and implemented key internal controls such as Safety which were completed in December 2015. The Transit Bureau agrees that additional key controls such as revenue collection and revenue reconciliation are a necessary element to the oversight of ART; moreover, prior to, during and after the audit period, drafts of such key controls were initiated and are in the process of being finalized. Such internal key controls were updated in April 2019.

The Transit Bureau received SOPs developed by ART's current Operations and Maintenance contractor, National Express in February 2018. The Transit Bureau will include all finalized SOPs on the Transit Bureau's SharePoint site and into a cloud storage site for access by National Express and future contract service providers. This SOP will help the Transit Bureau document the current practice which is being followed by National Express to ensure proper control and handling of fare revenue.

Although not a standard practice within the transit industry, starting in the first quarter of Fiscal Year 2020 the Transit Bureau will review all SOPs on a tri-annual basis (or as revisions are created) and provide SOP training to all employees that fall within the Transit Bureau's Operations Team. SOP training will be used to inform and coach the Transit Bureau's Operations Team on internal control processes. . As procedures are significantly modified, the Transit Bureau and/or ART's contract service provider will revise and approve such SOPs.

As the existing contract, does not call for SOP certifications by the contract service provider, future contracts for the Operations and Maintenance of ART will require the Transit Bureau to receive written certification from the General Manager or Assistant General Manager confirming that all ART contractor employees are aware of both the Transit Bureau's and the contractor's SOPs, acknowledge compliance, and are not aware of any violations. All future contracts will ensure all SOPs are in place and approved before operation of ART service begins. The Transit Bureau has reached out to the existing contractor, National Express, and requested certifications to confirm all ART contractor employees are aware of all SOPs.

Responsible Party: Transit Bureau and all future contracted service providers of ART

Estimated Completion Date:

- SOPs provided by National Express – Completed (February 2018)
- Transit Bureau's SOPs Finalized – April 2019
- SOP Training– Q1 of FY 2020
- Request written certification from the General Manager or Assistant General Manager to confirm all ART contractor employees are aware of all SOPs – Completed (February 2019)_

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Issues	Risk Rating
<p>2. Fare Collection, Reporting and Fare Box/Cash Box Maintenance - National Express Transit</p>	<p>HIGH</p>
<p>Among other services to perform, the Contract requires National Express Transit to execute the following:</p> <ul style="list-style-type: none"> • “The Contractor shall work closely with the County to monitor revenue collections and to correctly identify problems.” • “The Contractor will maintain the fare boxes and fare collection equipment as installed in good working order and with a tolerance of accuracy as recommended by the manufacturer.” • “The Contractor shall probe, vault and replace fare box self-locking cash boxes at the conclusion of each run. The Contractor shall ensure all fareboxes are probed and vaulted at the end of the day and at the end of the end of the last day of each calendar quarter.” • “The Contractor shall engage the services of an armored car service (currently Dunbar) to pick up the cash fares to be counted and deposited to the County’s bank.” <p>The contract also states, “The County will conduct a reconciliation of the actual cash deposited versus the reported revenue collected as provided in the Contractor’s Monthly Report and Daily Collections Schedule (the Reconciliation) and reports as requested by the County.”</p> <p>Findings</p> <p>I. The Reconciliation as defined in the Contract has not been performed. The Bureau is using an alternate approach. The Transit Bureau performs a weekly reconciliation analysis comparing deposit details (coins and bills) reflected in the Dunbar deposit report against the probing data included in the WMATA Hummingbird Report #R001 <i>Cash Box Revenue by Facility & Transit Date</i> (R001). This report has been prepared since the beginning of FY 2016 and it has indicated cash deposits are less than the R001 data. Cash deposits from the inception of this analysis, July 2016, to August 2018 are approximately 9% less than the R001 data or approximately \$254,000. The Transit Bureau and National Express Transit have performed limited testing and the results suggest the differences are a result of aging Kontron boards. Kontron boards are more fully described in the Equipment Failure table below.</p> <p>National Express Transit has not worked closely with the County to monitor revenue collections and to correctly identify problems. On or about February 2018, National Express Transit dispatched their internal auditor “to review their cash handling procedures, to assess the design of controls and to provide management reasonable assurance that adequate controls exist to mitigate the risk of theft or misstatements and to confirm that adequate segregation of duties exist within Arlington’s cash handling procedures.” The report was issued on April 6, 2018. The report identified various findings that resulted in the following correction action plans:</p> <ul style="list-style-type: none"> • Inspect all fare box equipment on the current bus fleet and test them for accuracy to ensure the equipment is properly recording receipts. • Implement a Preventative Maintenance schedule for all key equipment on the buses (e.g. batteries, fare boxes, etc.) that includes calibration, cleaning, routine inspections, preventative repairs, equipment upgrades and replacements. • Count all or a sample of cash prior to the Dunbar pick up. • Consider installing closed-circuit televisions (CCTV) on the buses in order to have the cash under surveillance at all times which may be an expense of the County given that they own the buses. 	

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Findings (cont'd)

II. National Express Transit failed to maintain the fare boxes and fare collection equipment in good working order and in certain instances did not notify the Transit Bureau of such failures either at all or on a timely basis. Neither National Express Transit nor the Transit Bureau maintain effective protocols that proactively monitor data and equipment to identify potential malfunctions. The following table summarizes equipment failures identified during the audit period and compares such failures against detective measures and/or Hummingbird Reports, that upon additional scrutiny, could have identified potential equipment failures on a current basis:

Equipment Failure	Detective Measures/ Hummingbird Report
Broken vault (a.k.a. Pumpkin) not properly functioning from December 2016 through June 2017. National Express Transit did not advise the Transit Bureau of the malfunctions until March 2017.	Timely preparation of the Reconciliation would have identified cash/data differences warranting immediate follow up.
National Express Transit advised the Transit Bureau on or about October 1, 2017 that the vault receiver was malfunctioning. The vault receiver was repaired on or about December 2017; and its operation required excessive manual assistance in the insertion and removal of farebox cashboxes.	Hummingbird Report R400 (“Not-Vaulted”) would have identified data anomalies that suggested additional scrutiny is necessary.
Expired cash box batteries (it is not known when batteries began to fail). On or about June, 2017, National Express Transit began replacing cashbox batteries; according to the Transit Bureau all batteries are replaced as of June, 2018.	Hummingbird Report R400 (“Not-Vaulted”) would have identified data anomalies that suggested additional scrutiny is necessary.
National Express Transit staff sharing cash boxes among buses.	R400 (A review of R400 will identify different “Cash Box ID” numbers with same bus number)
Kontron boards on various buses are not functioning properly. Kontron boards contain the microprocessor that controls the operation/functionality of the farebox. The underlying source code of various applications is outdated and data tables are outdated and/or not functioning as intended. This is the key component of determining cash collections. The Kontron board also stores all software and operating data; controls all internal components (coin & bill validator, SmarTrip reader/processor); communicates with the Operator Control Unit (OCU; the OCU captures operational data); and exchanges information such as transactions with the data system during probing. The board has two sets of memory, a hard drive that stores operating software for the farebox and flash memory which stores all transactions.	Contemporaneous review of all Hummingbird reports would identify unexpected data trends or error messaging.

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Findings (cont'd)

- III. Our review of various Hummingbird reports identified errors due to National Express Transit’s failure to appropriately probe, vault and replace fare box self-locking cash boxes at the conclusion of each run.

- IV. Several keys provide different levels of access to vaulting equipment, fare boxes, cash boxes etc. No documentation exists that assigns proper custodial responsibility considering National Express Transit employee’s roles and responsibilities. Internal Audit was advised that the Transit Bureau identified an instance where a National Express Transit mechanic had access to a “bullet key” that provided him the ability to open cash boxes without detection.

Recommendations

Finding I, II

A SOP is recommended to document the reconciliation process. The reconciliation must be performed and reviewed each week and reflect evidence of approval such as a signature by a supervisor or other appropriately designated individual. A scanned copy of the reviewed document should be retained as evidence of approval. Discrepancies must be immediately researched and their resolution must be documented in the reconciliation. Threshold for discrepancies will be established in the Transit Bureau’s fare collections policy as discussed in *Finding # 11- Assessment of Fare Collections Against Funds Handling Policy DMF-ARC-1*

Finding III

Measure and record National Express Transit’s actual performance against contract requirements; consider implementing mutually agreed upon Key Performance Indicators (KPIs)/dashboards/scorecards and establish rigorous reporting requirements, deadlines etc.

- Identify areas where National Express Transit is not performing to expectations and establish improvement metrics;
- Establish clear roles, accountability and responsibilities within the Transit Bureau and with National Express Transit;
- Schedule continuous update meetings including DES senior leadership and National Express Transit stakeholders and require National Express Transit senior leadership to attend;

Finding IV

The Transit Bureau advised Internal Audit that National Express Transit is creating a SOP that documents the necessary processes and procedures so that proper control and accountability over keys is established.

Management Response

With respect to this issue, the Transit Bureau had begun to take numerous steps to address these issues prior to and during the audit.

Finding I, II

Between February 2018 – June 2018, National Express inspected and audited all fareboxes and cashboxes on ART’s active fleet. All inspections and audits were done under video surveillance. As a result, National Express found malfunctioning Kontron Boards on several fareboxes. Prior to and continuing through the audit as a result of reconciliation review it was discovered that fareboxes with malfunctioning Kontron Boards provided significant differences in terms of data found in Hummingbird reports versus the actual count of cash and tokens collected.

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Management Response (cont'd)

Hummingbird data taken from fareboxes with malfunctioning Kontron Boards showed that \$20 bills were being over reported and the actual cash count of \$20 bills was significantly less than what the Hummingbird data reported. Hummingbird data taken from fareboxes with working Kontron Boards showed that the amount of cash and tokens collected matched the actual cash and token count. Kontron Boards are proprietary hardware components which are tied to the regional SmarTrip system. Kontron Boards are no longer being manufactured nor supported by the original equipment manufacturer and have obsolete components. SmarTrip is the Washington Metropolitan Area Transit Authority's (WMATA) regional electronic fare system; ART is a partner transit agency in the SmarTrip program. WMATA is seeking a solution which would replace the dated Kontron Boards by installing an upgraded Driver Control Unit 3 (DCU3) tablet.

As this upgrade has not been made available, National Express has been in the process of using a third party to refurbish twenty-two Kontron Boards. As the Hummingbird software is dated, WMATA is planning to retire Hummingbird over the next 12 months and is looking to switch to Crystal Reports.

The existing ART Bus Contract does not include language requiring a SOP to document the reconciliation process; however, the Transit Bureau has developed a SOP to document the reconciliation process, and to ensure analysis is being performed between data within the Hummingbird report and cash collected and deposited.

Since FY 2016, the Transit Bureau has used the process of analyzing data uploaded from each farebox in ART revenue service found in the Hummingbird report and the reported cash collected and deposited into the bank. Such reconciliation has been performed weekly.

National Express has completed SOPs related to fare revenue collection and handling, service lane operations, armored service cash collection, and fare enforcement. National Express began implementing practices within this SOP in January 2018.

The Transit Bureau finalized internal SOPs related to revenue reconciliation and token handling and processing in December 2018. These SOPs will be included in the Transit Bureau's Fare Policy document that support the latest ordinance on fare structure, includes steps to perform test audits of fare boxes and the contracted service provider's fare collection practices and procedures.

Since January 2018, National Express has implemented a preventive maintenance checklist for all fareboxes and fare collection equipment.

The Transit Bureau has installed video recording devices on all ART buses which would place cash under surveillance at all times. Video cameras were first installed on four ART buses in May 2018 as part of a pilot project. This pilot was successful and as a result, video camera installation on all ART buses was completed in November 2018.

In June 2018, the missing part which completely aligns the cash box inside the vault receiver was installed by National Express.

Although there are no prohibitions regarding the sharing of cash boxes among buses within the existing Contract with National Express; on May 19, 2017, the Transit Bureau issued a directive to National Express to cease this practice to help identify which buses were causing discrepancies within the Hummingbird report. As of May 19, 2017, National Express has ceased to use this practice.

As of June 8, 2018, all cash box batteries have been replaced.

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Management Response (cont'd)

Finding III

In January 2018, the Transit Bureau established clear roles, accountability and responsibilities within the Transit Bureau and with National Express in terms of the maintenance of fareboxes, fare collection equipment, and monitoring weekly cash and Hummingbird data reports. Those roles and responsibilities are described within documented procedures in place by the Transit Bureau and National Express.

Bi-weekly meetings between National Express (General Manager, Assistant General Manager, Operations Manager, and Maintenance Manager) and the Transit Bureau (Transit Bureau Chief, Assistant Transit Bureau Chief, Transit Services Manager, and Asset Manager) have and will continue to take place. The focus of such meetings includes: reviewing operating and maintenance procedures, overviews of service delivery and safety and providing updates on corrective action items. The Transit Bureau has also engaged in meetings with the Chief Executive Officer, Chief Operating Officer, National Maintenance Director and eastern and western regional Maintenance Directors of National Express to discuss maintenance procedures, service delivery and corrective action items.

Although a formal contract modification has not been executed, as the existing contract with National Express does not include any provisions for Key Performance Indicators (KPIs), the Transit Bureau has done the following to arrive at a mutual understanding with National Express: National Express has developed SOPs to document their fare collection process. This was completed in conjunction with and reviewed by the Transit Bureau.

Future contracts for the Operations and Maintenance of ART will include and establish KPIs and reporting requirements for the contract service provider as well as more clearly establish the roles and responsibilities between Arlington County and the contract service provider.

The future contracts for ART operations and maintenance will identify specific tolerances of accuracy and thresholds of proper equipment maintenance and appropriate actions when thresholds are exceeded.

Finding IV

A SOP that documents the necessary processes and procedures for proper control and accountability over keys was established and implemented in January 2018. Since its implementation, proper control and accountability over keys has been followed and no issues have been identified.

Responsible Party: Transit Bureau, National Express and all future contract service providers of ART

Estimated Completion Date: Completed

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Issues	Risk Rating
3. Absence of Documented Departmental Procedures- SmarTrip and Cash Fare Collections	HIGH
<p>Not all policies and procedures for cash fare and SmarTrip collection processes are documented. (See the SmarTrip Reimbursement finding below for further discussion). We understand certain elements of cash fare processes are in draft form (Appendix A). Establishing and documenting procedures are essential. Procedures demonstrate management’s commitment to effectively maintaining accountability over fare revenue as well as establishing processes and providing all personnel clear communication and comprehensive instructions and guidelines. Establishing written procedures helps ensure consistent and accurate compliance and application needed to achieve high levels of integrity and accuracy.</p>	
Recommendations	
<p>The Transit Bureau should develop SOPs to properly account for fare revenue. Effective SOPs will achieve the following objectives:</p> <ul style="list-style-type: none"> ✓ Provide employees the proper awareness and wherewithal to execute their roles and responsibilities within these processes, minimize ambiguity, and firmly establish management expectations. ✓ Facilitate transitioning of roles and responsibilities when staff leave. ✓ Afford a basis for training staff; consider including checklists to support procedures. ✓ Formally document the internal control processes and procedures for fare collection. <p>Elements to consider:</p> <ul style="list-style-type: none"> ✓ Establish accountability and responsibility for fare collection and reconciliations. ✓ Effective segregation of duties: <ul style="list-style-type: none"> ○ Optimal segregation of duties occurs when no one individual has custody of cash or tokens, access to systems that records fare revenue and cash receipts, responsibility for recordkeeping or reconciliations and the ability to approve transactions. ✓ Train those responsible for recordkeeping and reconciliation preparation on the proper procedures for doing so. ✓ Designating the proper individual(s) to review and approve all reconciliations and evaluate results and store the results and evidence of review. ✓ Create follow-up protocols when results are not consistent with industry standards, key performance indicators or management’s expectations. ✓ 	
Management Response	
<p>The Transit Bureau notes the need to formalize procedures, some of which were already in place prior to the audit. The Transit Bureau has updated procedures to account for fare revenue which will achieve the noted objectives in the recommendation. SOPs have been included in the Transit Bureau’s Fare Policy document which also includes processes on fare structure, steps to perform test audits of fareboxes and the contracted service provider’s fare collection practices. The Transit Bureau will ensure that National Express’ and all future contract service provider’s collection processes are in line with the Transit Bureau’s Fare Policy.</p> <p>Responsible Party: Transit Bureau Estimated Completion Date: Complete</p>	

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Issues	Risk Rating																																
4. Evidence of Review- National Express Transit Invoices	MODERATE																																
<p>The Transit Bureau SOP <i>Invoice and Review and Certification (Topic No: TBD)</i> Section 5.1, 5.3 and 5.8 establishes steps to be performed by various individuals when reviewing a vendor’s invoice. Invoices submitted by National Express Transit are prepared in a spreadsheet format and, as such, calculation and other formatting errors are possible. Inspection of the approved invoices did not identify evidence that the calculations were reviewed. Invoice #91412715, dated February 16, 2017 reflects the Monthly Mileage amount of \$81,200, however the result of multiplying the mileage number (162,400) by the monthly rate (\$1.1532) equals \$187,279. (Transit Bureau advised Internal Audit that it was charged the proper amount of \$81,200).</p> <p>The following table is a sample of dates appearing on the National Express Transit invoices and Transit Bureau’s Payment Tracking Sheet. The dating of the documents, when compared with the review steps included in <i>Invoice Review Certification</i> suggests such steps may not have been performed as thoroughly as designed. <i>Invoice Review Certification</i> Section 6.3 states the signature of a Certifying Official is evidence the required review(s) have been performed. Internal Audit was advised that the Certifying Officials for this Contract include the Project Manager, Contract Specialist and Budget Analyst.</p>																																	
<table border="1"> <tr> <td align="center">Invoice #</td> <td align="center">91412715</td> <td align="center">91403741</td> <td align="center">5013017</td> </tr> <tr> <td align="center">Invoice date</td> <td align="center">2/16/2017</td> <td align="center">1/15/2017</td> <td align="center">8/24/2016</td> </tr> <tr> <td align="center">Date invoice signed by National Express Transit General Manager</td> <td align="center">2/16/2017</td> <td align="center">1/19/2017</td> <td align="center">8/24/2016</td> </tr> <tr> <td align="center">Date invoice approved by Project Manger</td> <td align="center">2/16/2017</td> <td align="center">1/17/2017*</td> <td align="center">8/24/2016</td> </tr> <tr> <td align="center">Date tracking sheet signed by Project Manager</td> <td align="center">2/16/2017</td> <td align="center">1/19/2017</td> <td align="center">8/25/2016</td> </tr> <tr> <td align="center">Date tracking sheet signed by Contract Specialist</td> <td align="center">2/16/2017</td> <td align="center">1/19/2017</td> <td align="center">8/25/2016</td> </tr> <tr> <td align="center">Date tracking sheet signed by Budget Analyst</td> <td align="center">2/16/2017</td> <td align="center">1/23/2017</td> <td align="center">8/25/2016</td> </tr> <tr> <td></td> <td colspan="3">*Dated prior to signature date of National Express Transit General Manager</td> </tr> </table>		Invoice #	91412715	91403741	5013017	Invoice date	2/16/2017	1/15/2017	8/24/2016	Date invoice signed by National Express Transit General Manager	2/16/2017	1/19/2017	8/24/2016	Date invoice approved by Project Manger	2/16/2017	1/17/2017*	8/24/2016	Date tracking sheet signed by Project Manager	2/16/2017	1/19/2017	8/25/2016	Date tracking sheet signed by Contract Specialist	2/16/2017	1/19/2017	8/25/2016	Date tracking sheet signed by Budget Analyst	2/16/2017	1/23/2017	8/25/2016		*Dated prior to signature date of National Express Transit General Manager		
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<p>Effective invoice reviews permit the Transit Bureau to make proper payments to vendors for accepted goods and services in accordance with contract terms and conditions and minimizes the opportunity for error.</p>																																	
Recommendations																																	
<p>Revise the Transit Bureau SOP entitled, <i>Invoice Review and Certification (Topic No: TBD)</i> for the following</p> <ul style="list-style-type: none"> ✓ Require a reviewer to note he/she has spot-checked calculations (e.g., unit price times quantities); ✓ Document the review steps that are required to be performed by the Project Manager, Contract Specialist and Budget Analyst; ✓ Review the mid-month adjustments included in month-end invoices; ✓ Sample the invoice and: <ul style="list-style-type: none"> ○ Recalculate the Monthly Mileage fee ○ Review entries in Monthly Revenue Schedule Day column ○ Review entries in Daily Scheduled Revenue Hours column 																																	

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Management Response

The Transit Bureau has completed and implemented recommendations regarding recalculating the monthly mileage fee, reviewing the Monthly Revenue Schedule Day column and reviewing entries in the Daily Schedule Revenue Hours column.

The Transit Bureau has also taken action which requires a reviewer to note they have spot-checked calculations and reviewed mid-month adjustments included in month-end invoices.

The Transit Bureau has documented the review steps that are required to be performed by the Project Manager, Contract Specialist and Budget Analyst and has formulized this into a SOP. This was completed in November 2018.

The Transit Bureau will initial (electronically) the amount of National Express and future ART contracted service providers' invoices to document that the numbers were verified.

Transit Bureau currently is using a new process, the SharePoint Invoice Approval Process, that addresses the referenced invoice review issues. The Transit Bureau officially started implementing the SharePoint Invoicing Approval system on May 15, 2017.

Responsible Party: Transit Bureau

Estimated Completion Date:

Document the review steps that are required to be performed by the Project Manager, Contract Specialist and Budget Analyst – Completed

Initial (electronically) the amount on National Express invoices to document the numbers were verified - Completed

Other items - Completed

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Issues	Risk Rating
5. Preparation of Payment Tracking Sheet	MODERATE
<p>As described to Internal Audit, a Payment Tracking Sheet (PTS) is completed for each invoice received by the Transit Bureau. The PTS requires the following information: date of invoice, date invoice received, contract number, project and contract name, purchase order number, payment number, invoice number, payment amount, project manager signature of approval, and contract specialist and budget analyst signature evidencing their review. Testing of PTS identified the following:</p> <ul style="list-style-type: none"> • In certain instances, the payment number and the invoice number on the PTS were the same. • Various PTSs reflected the purchase order number as #230448, however Prism reflected the purchase order number as #293003. The Transit Bureau advised Internal Audit the correct purchase order number is #293003. • The PTS for the quarterly funding payments to WMATA for SmarTrip activity were not prepared. • The PTS for the WMATA fuel purchases were not prepared. 	
Recommendation	
<p>Internal Audit has been advised the PTS is no longer prepared and a new process, the SharePoint Invoice Approval Process, has been established that addresses the above referenced issues.</p>	
Management Response	
<p>As noted in the recommendation, the Transit Bureau currently utilizes a new automated SharePoint Invoice Approval Process, that addresses the referenced issues. The Transit Bureau officially started implementing the SharePoint Invoicing Approval system on May 15, 2017.</p> <p>Responsible Party: Transit Bureau Estimated Completion Date: Completed</p>	

I. TRANSIT BUREAU – DEPARTMENT LEVEL FINDINGS (CONT'D)

Issue	Risk Rating
6. Exercising the Right to Audit Clause -National Express Transit contract	MODERATE
<p>The Contract (in part) requires National Express Transit to “retain all books, records and other documents for at least five years after final payment. The County or its authorized agents shall have full access to and the right to examine any documents”. The County has not exercised its right to examine such documents. Various rates and amounts charged by the National Express Transit and paid by the County are based on annual projections supplied by National Express Transit, not actual costs. There has been no reconciliation between actual costs incurred by National Express Transit and the projected rates and amounts paid by the County.</p>	
Recommendations	
<p>On at least an annual basis, the Transit Bureau should request National Express Transit to provide a comparison of actual costs against the projected costs that are supplied to the Transit Bureau as part of the negotiated annual review of price increases. Optimally, AC should leverage the Right to Audit Clause, however that is a resource intensive undertaking. Based on the results of the actual vs projected analysis, an expanded review can be considered. The analysis submitted by National Express Transit should include an affirmation by a properly designated official that the amounts represent the true and accurate financial results as represented on the books and records of National Express Transit.</p>	
Management Response	
<p>Transit Bureau will consider the right to audit for National Express and any future ART contract service provider for a comparison of actual costs, spent on the contract, against the budgeted costs that are provided to the Transit Bureau. The Transit Bureau will consider requesting that National Express or any future ART contract service provider to include an affirmation, by a properly designated company official, that the cost comparison represents a true and accurate financial results as represented on the books and records of the contract service provider.</p> <p>Responsible Party: Transit Bureau Estimated Completion Date: Ongoing, at the Transit Bureau’s discretion</p>	

Issues	Risk Rating
7. Support for Allocations of National Express Transit Invoice Charges	LOW
<p>I. Upon receipt of the National Express Transit invoices, Transit Bureau applies various calculations to allocate the costs per the invoice to align with the amounts per its related purchase order. The basis of the calculation and the results thereon are not attached as support to the invoice. The Transit Bureau described the basis for allocations to Internal Audit. Internal Audit tested various invoices without error; the allocation basis is consistent.</p> <p>II. Each month National Express Transit submits a mid-month and month-end invoice. The invoices are submitted via a spreadsheet. The month-end invoice includes the full month's charges and reflects a deduction for the mid-month amounts previously invoiced. There is no evidence of review that validates the mid-month deduction properly represents the mid-month charge.</p>	
Recommendations	
<p>Finding I Internal Audit created a template as part of validating the allocations. Include the template as support for the entry that records the invoice. Expand the template to include instructions around how to prepare the template and rational for the allocation.</p> <p>Finding II Ensure invoice policy includes verifying mid-month invoice is correct. Request all documents be submitted in PDF form.</p>	
Management Response	
<p>The Transit Bureau does not believe the template is necessary. On July 1, 2018, the National Express Transit Purchase Order was revised to a single expenditure line item. The Transit Bureau will initial (electronically) the amount of National Express Transit's and future ART contract service providers' invoices to validate that numbers were verified.</p> <p>Responsible Party: Transit Bureau Estimated Completion Date: Completed in July 2018</p>	

II. TRANSIT BUREAU AND WMATA FINDINGS

Issues	Risk Rating
8. Monthly SmarTrip Fare Collection Statement from WMATA	HIGH
<p>Each month, WMATA submits to the Transit Bureau an Excel based document called the <i>Regional Partner Settlement</i> spreadsheet. The spreadsheet is a compilation of ridership data that is the basis for the amount of the SmarTrip reimbursement collected by the County. The spreadsheet includes ridership data from other participants in the SmarTrip consortium and certain elements of that data affects the amount received by the County. Upon receipt of the spreadsheet, the Transit Bureau prepares the <i>WMATA SmarTrip Reconciliation</i>. The reconciliation compares data reflected in the <i>Regional Partner Settlement</i> spreadsheet to various Hummingbird reports. The information included on the <i>Regional Partner Settlement</i> and the <i>WMATA SmarTrip Reconciliation</i> is based on data and its related underlying information technology, infrastructure and processes in place at WMATA. The Transit Bureau has no ability to validate the effectiveness of WMATA's processes.</p>	
Recommendations	
<p>We recommend the following enhancements:</p> <ol style="list-style-type: none"> I. To the <i>Regional Partner Settlement</i> spreadsheet: <ul style="list-style-type: none"> ○ Provide a section on the report where the preparer and the reviewer can include an electronic signature; ○ On a test basis, recalculate formulas that are imbedded in the worksheet. Likewise, compare and contrast data that originates from different tabs within the spreadsheet. ○ Periodically request WMATA to provide supporting documentation that corroborates data appearing in the spreadsheet. II. To the <i>WMATA SmarTrip Reconciliation</i>: <ul style="list-style-type: none"> ○ Provide a section on the report where the preparer and the reviewer can include an electronic signature; ○ Include a column in the reconciliation that reflects the amount collected by County Treasurer's Office and the journal entry number that records the receipt of the monies. This information will provide evidence that amounts calculated by WMATA and validated by the Transit Bureau are ultimately received by the County. III. Section 2.04 of the SOFA requires WMATA to initiate an audit of the Regional Customer Service Center's (RCSC) expenses and provide the participating jurisdictions with a reconciliation of invoiced expenses with actual expenses. According to the June 30, 2017 SmarTrip Regional Partner Comparative Billing Statements Audit Report, the Transit Bureau's share of RCSC costs is approximately \$60,000. Alternatively, annual revenue collected via WMATA's SmarTrip processes is approximately \$2,400,000 however the SOFA is silent about providing an audit of revenues collected for participating jurisdictions. The SOFA also does not include a right to audit clause. Currently, the Transit Bureau relies on the WMATA revenue collecting and report processes without the benefit of independent verification of the underlying systems of internal control. It is recommended the Transit Bureau approach WMATA and establish a means where the Transit Bureau can evaluate WMATA's revenue collecting and reporting processes. 	

II. TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Management Response

With respect to this issue:

Finding I

Regarding the Regional Partner Settlement spreadsheet, the Transit Bureau currently reviews such reports on a monthly and quarterly basis to ensure the data received corresponds and reconciles with the Regional Partner Settlement report. The supporting documentation that corresponds to the data in the Regional Partner Settlement report is obtained by Transit Bureau and is part of the Bureau's review process. In October 2018, Transit Bureau made a request to WMATA to provide a placeholder for the preparer's signature of the Regional Partner Settlement Report. The request was fulfilled in December 2018.

Finding II

Regarding the WMATA SmarTrip Reconciliation, the Transit Bureau will share the Internal Audit recommendation with WMATA and the SmarTrip Partnership as an accounting/reconciliation best practice.

Finding III

Regarding Section 2.04 of the SOFA, the Transit Bureau will make a request to WMATA to evaluate WMATA's revenue collecting, reporting and reconciliation processes.

The Transit Bureau will make a request to WMATA based on the noted recommendations. Since the SmarTrip Partnership operates as a consortium with all parties reviewing and approving procedures, Arlington's Internal Audit recommendations will be shared with WMATA Regional Partners.

Responsible Party: Transit Bureau and coordination with WMATA and WMATA Regional Partners

Estimated Completion Date:

Finding I – Request sent to WMATA in October 2018.

Finding II –Internal Audit recommendation will be shared with WMATA in July2019

Finding III

The WMATA SmarTrip process was developed and approved by all the WMATA compact members and other regional partners. As a member of the partnership, the recommendation to audit SmarTrip revenues and overall process must be discussed and agreed upon by the partnership to implement. The Transit Bureau will notify WMATA's Office of Management and Budget, Office of the Treasury and the SmarTrip Regional Partners of the County's audit recommendations once the audit is completed. The Transit Bureau will work with the partners and WMATA to determine feasibility and discuss the potential to amend the SOFA. Since this recommendation involves a collaborative effort with all WMATA Regional Partners, the completion date is contingent on all parties' agreement. The Transit Bureau projects this effort will take twelve to twenty-four months from July 2019.

II. TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Issues	Risk Rating
9. SmarTrip Quarterly Funding Payments to WMATA	MODERATE
<p>According to the SmarTrip Operations Funding Agreement</p> <p>I. On the first day of July, October, January and April, Arlington County shall pay to WMATA in advance quarterly funding payments. These quarterly funding payments of \$14 thousand, at a minimum covers WMATA’s expected expenses for the following quarter.</p> <ul style="list-style-type: none"> ✓ Our testing of the funding payments identified the following: <ul style="list-style-type: none"> a. WMATA is not delivering the funding invoices on a timely basis; b. Invoices are addressed to Kelley MacKinnon. Internal Audit was advised MacKinnon separated from service over two years ago; c. The invoices include a section for “Customer PO #” however the invoices reflect information other than the Transit Bureau purchase order number; d. The invoices are absent of any distinguishing characteristics that suggest the invoice has been review/approved by a properly designated WMATA official; e. Each invoice includes a “<i>Reimbursement Document</i>” that includes a breakdown of various cost elements and a total. The document appears to be an excel spreadsheet. There is no evidence of review of this document by the Transit Bureau; f. A properly completed Payment Tracking Sheet was not attached to any of the tested invoices; g. Invoice #129247 dated November 6, 2016 reflects the quarterly funding amount plus an additional amount due that appears to the result of performing the calculations as described in section III. below. The calculations are reflected on a document called <i>FY16 SmarTrip Operational Expense Allocation and Year End Adjustment Summary</i>. The document appears to be an excel spreadsheet. There is no evidence of review of this document by Transit Bureau or validation of the amounts and calculations reflected thereon. The document is absent of any distinguishing characteristics that suggest the invoice has been reviewed/approved by a properly designated WMATA official. h. Purchase Order #239009 and its related Purchase Requisition included a line item amount for the 2017 SmarTrip Operations of \$47,954. The supporting documentation attached to the Purchase Requisition was a draft version of the FY 2017 SmarTrip Operations as prepared by WMATA. The Purchase Order was prepared and approved based on a draft and not the final version of the WMATA budget. The final budget amount was \$49,327 and was properly paid. Purchase Order #239009 included two additional Requisitions. Our review of the third and final Requisition identified instances where the Date Requested, Date Needed and Date Approved reflected erroneous dates including the wrong year (Date Requested and Date Needed) and Approval dates prior to the Date Requested. 	

II. TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Issues (cont'd)

- II. Section 2.04 of the SmarTrip Operations Funding Agreement states “after review by the Board of Directors of WMATA, if necessary the draft proposed annual budget shall be distributed to Participating Jurisdictions no later than April 1. Final proposed annual budget shall be approved by Participating Jurisdictions by May 31.
- ✓ Our testing of the budget documents identified the following:
 - a. No evidence the Transit Bureau reviewed the budget amounts/calculations;
 - b. No evidence the Transit Bureau submitted WMATA an approval of the budget;
 - c. The budget documents are absent of any distinguishing characteristics that suggest it has been review/approved by a properly designated WMATA official.
- III. After the close of the fiscal year, WMATA initiates an independent audit of the Regional Customer Service Center’s expenses and provides the participating jurisdictions with a reconciliation of invoiced expenses with actual expenses.
- ✓ Our testing identified the following:
 - a. There is no evidence that the Transit Bureau verified the amounts due per the audit to the corresponding invoice. Internal Audit was provided a copy of such report and was able to compare and contrast the amounts per the report to invoices submitted by WMATA without error.
 - b. The invoices are absent of any distinguishing characteristics that suggest the invoices have been reviewed/approved by a properly designated WMATA official.

Recommendations

Finding Ia.-Id.

Contact WMATA and request they take the proper action to correct the finding. With regard to Item b. Internal Audit has been advised by the Transit Bureau that the Transit Bureau advised WMATA, via email, of the proper name.

Finding Ie.

Execute the steps required to be performed in accordance with *Invoice Review and Certification (Topic No: TBD)*.

Finding If.

Complete the SharePoint Invoice Approval document and attach to the invoices as required.

Finding Ig.

Execute the steps required to be performed in accordance with *Invoice Review and Certification (Topic No: TBD)* Contact WMATA and request the properly designated WMATA individual to initial the invoice as true and accurate.

Finding Ih.

When an individual reviews a document, his or her signature indicates they have performed a proper and thorough review.

Finding IIa-c.

The SmarTrip operating budget submitted by WMATA must be subjected to the same review and approval processes an invoice is subjected to. The Transit Bureau must submit written acceptance of the budget and retain the document for its files. Contact WMATA and request the properly designated WMATA individual to initial the budget as true and accurate.

Finding IIIa.

Upon receipt of the WMATA invoice that relates to the balance due, if any, as reflected in the SmarTrip Regional Partner Comparative Billing Statements Audit Report, perform the steps required to be performed in accordance with *Invoice Review and Certification (Topic No: TBD)*. Include a copy of the audit report as support for the invoice.

II. TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Recommendation (cont'd)

Finding IIIb.

Contact WMATA and request the properly designated WMATA individual to initial the invoice as true and accurate.

Management Response

The Transit Bureau will contact WMATA and request proper action is taken to correct the findings. The SmarTrip Funding Operations Funding Agreement does not require a Project Officer. Additionally, an amendment to the agreement is not necessary to effectuate the change as described in Finding Ib.

The Transit Bureau will also execute the steps required to be performed in accordance with Invoice Review and Certification, request WMATA's Finance Officer to initial the invoice as true and accurate, and will initial (electronically) the relevant data on the requisition and supporting documents.

The Transit Bureau will submit written acceptance of the SmarTrip Operating Budget submitted by WMATA and retain the document for its files and will contact WMATA and request the properly designated WMATA individual to initial the budget as true and accurate.

Responsible Party: Transit Bureau and WMATA

Estimated Completion Date: September 2019

II TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Issue	Risk Rating																								
10. MOU Invoices	LOW																								
<p>According to the MOU between WMATA and the County for fueling and washing of buses, every month WMATA shall submit an invoice to the County stating the total costs incurred and charged against the Arlington funds on account under the MOU. The invoice shall include costs broken down by 1) quantity of compressed natural gas (CNG) delivered to Arlington Buses;</p> <p>and 2) personnel/labor costs associated with the services. The total cost shall be inclusive of actual fuel costs, actual fluids costs, the amount of time expended by WMATA mechanics at one and one-half times the Mechanic rate of pay at the time of the servicing, taxes, if applicable, as well as WMATA's indirect costs, which shall be accounted for by including a 10% general/overhead expense on each bill.</p> <p>Our testing identified the following:</p> <ol style="list-style-type: none"> I. The invoices did not breakdown the costs as required. Each invoice reviewed included a lump sum amount described as "Bill for fueling bus" II. The invoices were not submitted each month as required. The following table summarizes the various elements reflected on the invoices: 																									
<table border="1" style="margin: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Period</th> <th style="width: 20%;">Invoice Date</th> <th style="width: 20%;">Invoice #</th> <th style="width: 40%;">Total Per Invoice</th> </tr> </thead> <tbody> <tr> <td>July 2016</td> <td>1/17/17</td> <td>130344</td> <td style="text-align: right;">\$50,116.68</td> </tr> <tr> <td>August 2016</td> <td>1/17/17</td> <td>130342</td> <td style="text-align: right;">\$46,639.18</td> </tr> <tr> <td>September 2016</td> <td>1/17/17</td> <td>130343</td> <td style="text-align: right;">\$54,693.28</td> </tr> <tr> <td>October 2016</td> <td>1/24/17</td> <td>130402</td> <td style="text-align: right;">\$65,548.91</td> </tr> <tr> <td>November 2016</td> <td>1/24/17</td> <td>130401</td> <td style="text-align: right;">\$46,731.48</td> </tr> </tbody> </table>		Period	Invoice Date	Invoice #	Total Per Invoice	July 2016	1/17/17	130344	\$50,116.68	August 2016	1/17/17	130342	\$46,639.18	September 2016	1/17/17	130343	\$54,693.28	October 2016	1/24/17	130402	\$65,548.91	November 2016	1/24/17	130401	\$46,731.48
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October 2016	1/24/17	130402	\$65,548.91																						
November 2016	1/24/17	130401	\$46,731.48																						
<p>Internal Audit has been advised that on or about August 2017, the Transit Bureau ceased purchasing fuel from WMATA, unless in an emergency. Internal Audit was also advised Transit Bureau continually notified WMATA about its delinquent billing practices.</p>																									
Recommendation																									
<p>It is necessary for the Transit Bureau to review the above WMATA fuel bills for accuracy. The invoices do not provide the necessary information to evidence the propriety of the charges. Internal Audit was provided a spreadsheet summary that includes the following attributes: period, gallons, cost per gallon, total fuel cost, labor hours, labor cost per hour, total labor cost, total cost: labor and fuel, 10% overhead and total cost. Internal Audit agreed the totals per the spreadsheet summary to the invoices. The review must include securing proper documentation to evidence the propriety of charges including, but not limited to, approved WMATA employee time records, approved hourly labor costs, fuel meter readings, etc. Based on the results of the review, Transit Bureau should consider expanding its scope to prior invoices.</p>																									

II. TRANSIT BUREAU AND WMATA FINDINGS (CONT'D)

Management Response

The Transit Bureau will accept the risk that prior invoices will not be audited as such invoices date back to 2016. In 2016, Washington Gas, WMATA's supplier, did not invoice WMATA for natural gas fuel consumption for several months until January 2017 and such impacted documentation which was provided by WMATA to the Transit Bureau. ART currently uses its own fueling facility at the ART Light Maintenance Facility and will only use the WMATA CNG Facility at WMATA's Four Mile Run Garage in cases of emergencies. Prior to the opening of the ART Light Maintenance Facility in the summer of 2017, a Memorandum of Understanding was established with WMATA and the Transit Bureau that allowed ART buses to be fueled at WMATA's Facility.

In the event of an emergency that would require ART to fuel its buses at the WMATA Facility, the Transit Bureau will request WMATA to submit proper documentation for fuel billings, which will be reviewed by the Transit Bureau for accuracy. The Transit Bureau recognizes the need to implement additional verification processes. These reviews will include securing proper documentation to evidence the propriety of charges including, but not limited to, approved WMATA employee time records, approved hourly labor costs and fuel meter readings.

Responsible Party: Transit Bureau

Estimated Completion Date: Completed

III. COUNTY LEVEL FINDING

Issue	Risk Rating
11. Payment of National Express Transit Invoices -County Level Issue	MODERATE

The Contract’s amendment #2 modifies the payment terms as follows:
“Payment will be twice a month by the County to National Express Transit. The first payment will cover the cost of operations and maintenance through the 15th day of the month and will be paid five working days after receipt. The second payment will cover the cost of operations and maintenance from the 16th day of the month through the end of month, and it will also cover the full month cost of insurance, administration and equipment cost and will be paid within thirty working days after receipt.”

Transit Bureau Invoice Review Certification (Topic No: TBD) Section 4.2 requires all invoices to be stamped (manually or electronically) upon receipt. Internal Audit was advised that the Project Officer’s signature and date on the National Express Transit invoices fulfills the requirement.

Our testing identified certain instances where the second payment (as describe above) was disbursed as soon as one day after the date stamp. The following table identifies such instances:

Inv Date	12/31/2016	11/30/2016	10/31/2016	10/26/2016	9/30/2016	8/24/2016	7/6/2016
Inv #	91399799	91391434	91380175	5013394	91368101	5013220	5012469
Invoice amount	556k	512k	566k	573k	539k	384k	532k
Billing period	12/1-12/31	11/1-11/30	10/1-10/31	8/1-8/31	9/1-9/30	7/1-7/31	6/1-6/30
Date invoice Stamped by Project Manger	1/25/17	12/5/16	11/17/16	10/26/16	11/3/16	8/24/16	7/6/16
Date paid per PRISM	1/26/2017	12/6/2016	11/23/16	11/1/2016	11/8/2016	8/30/16	7/7/2016
Working Days b/w Stamp date and Paid date	1	1	6	6	5	6	1
Paid within 30 working days?	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The payments are in accordance with the thirty-day window, however may not be the most efficient use of the County’s cash. Disbursing the payments closer to the end of the thirty-day window a more efficient use of County cash flow.

Recommendation

Internal Audit has been advised by the Transit Bureau and the Department of Finance and Management (DMF) that it is a generally accepted, undocumented practice of paying vendor invoices soon after receipt. A review of this practice is necessary to assess whether such payment practices are an efficient use of County cash flow.

Management Response

- DMF will address this matter in two steps:
1. Perform a sampling review of other vendor invoices to gain an understanding of County-wide payment practices. The review will compare vendor invoice due dates to disbursement dates.
 2. Based on the results of the review, DMF will assess whether the current payment patterns are an effective use of County cash flow.

Responsible Party: DMF
Estimated Completion Date: August 2019

IMPROVEMENT OPPORTUNITY (UNRATED)

Internal Audit understands the Transit Bureau is in the process of preparing a Request for Proposal (RFP) that requires the offeror to provide complete operations management, and fleet maintenance of fixed-route public transportation services in Arlington. The RFP was issued in March 2019. The arrangement requires the offeror to perform key internal control processes on behalf of the County. The Transit Bureau should consider reviewing all key internal controls related to the ART Bus program and identify those that will be performed by the offeror. A key internal control is often defined as a control that, if it fails, means there is at least a reasonable likelihood that an error or omission is not prevented or detected in a timely manner. Some functions performed by the offeror are critical to the ART Bus financial operations, some are critical to the mission, some involve sensitive processes and others involve data integrity. The RFP and subsequent contract should identify the key controls and require the offeror to provide assurance as to the design, implementation, and operating and effectiveness of these controls. Likewise, the RFP should consider management's corrective action plans reflected in this report. The Transit Bureau should consider requiring the offeror to engage a qualified independent accounting firm to prepare a Service Organization Control (SOC) report related to the key financial reporting controls it performs on behalf of the Transit Bureau.

BACKGROUND

Overview

DES's monitoring controls over outsourced functions and the Purchasing Office's controls are functions that may include operational risks. Contract compliance reflects the processes in place that enable the County and those who have entered into a contract with the County to execute a contract in accordance with its terms and conditions. Purchasing controls include the processes in place that permit the County to acquire necessary goods and services at a reasonable cost in a fair and impartial manner.

OBJECTIVES AND APPROACH

Objectives

The objectives of this internal audit were designed to assess whether the system of internal controls related to the solicitation and purchasing of goods and services under the ART Contract and the related system of internal controls over contract compliance for key provisions of the contract is adequate and appropriate. It focused on the compliance with certain purchasing aspects, management and administration of the ART Contract, the SOFA and the MOU including monitoring. The overall objectives were as follows:

- Determine that policies and procedures are adequate, in place, and operating effectively.
- Obtain, review and test key policies and procedures for the Purchasing Office and key policies and procedures related to contract compliance for DES.
- Identify the monitoring controls in place over the vendor and accountability for goods and services provided.
- Test purchasing compliance and documentation of the selection process.
- Assess that monitoring controls are designed and operating effectively.
- Identify control gaps, opportunities for process improvement and efficiency gains.

Approach

The overall approach consisted of the following phases:

Understanding and Documentation of the Process

- Conducted an entrance conference and met with those who were responsible for compliance over the Contract, SOFA and MOU;
- Discussed the scope and objectives of the audit, obtained preliminary data, and established working arrangements;
- Researched current policies, procedures, and protocols and identified key controls;
- Conducted interviews with departmental leaders, process owners, and other necessary resources;
- Obtained, reviewed, and inspected relevant documents.

Approach (cont'd)

Evaluate the Processes and Controls Design and Test Operating Effectiveness

The purpose of this phase is to test compliance and internal controls. Fieldwork testing was conducted utilizing sampling and other auditing techniques to meet the audit objectives outlined above.

Testing included, but not limited to the following:

- Gathered background information on the County's contract compliance and purchasing procedures and any other required controls or documentation;
- Determined whether DES has contract compliance procedures and the Purchasing Office has purchasing procedures;
- Obtained the Contract, SOFA and MOU and related amendments, purchase order(s), and detail of expenditures during the audit period;
- Tested a sample of invoices for the Contract, the SOFA and MOU and reviewed supporting documentation and determined whether payments are in accordance with the contract and whether goods and services received were properly monitored prior to payment;
- Determined whether solicitation, purchase order(s), and other necessary purchasing related processes are operating as required;
- Observed cash fare collection and probing processes for selected ART buses;
- Tested compliance with other key contract provisions.

APPENDIX A

The following tables summarizes the status of policies and procedures (as of the date of this report)

Topic	Function	Section	Applicability	Topic #	Updated	Owner	Status	Posted Status (Internal Audit comment)
Contract Management	Procurement and Operations	DES	Div. of Transportation (DOT)	TBD	Feb. 21, 2017	DES-DOT	Draft	Not posted to Shared Network Drive
Contractor Performance Evaluation	Purchasing and DES	Purchasing and DOT	DOT	TBD	Oct. 20, 2016	Purchasing and DOT	Active	Not posted to Shared Network Drive
Controls and Technical Evaluation Committee	Procurement and Operations	Purchasing and DOT	DOT	TBD	Oct. 20, 2016	Purchasing and DOT	Active	Not posted to Shared Network Drive
Project Officer Training and Certification	Training	Purchasing and DOT	DOT	TBD	Oct. 20, 2016	DES	Active	Not posted to Shared Network Drive
Cost and Price Analysis	DES	Transportation	All	TBD	Dec. 4, 2015	DES	Active	Posted to Shared Network Drive
Independent Cost Estimate	DES	Transportation	All	TBD	Dec. 4, 2015	DES	Active	Posted to Shared Network Drive
In Scope Contract Modification	DES	Transportation	All	TBD	Dec. 4, 2015	DES	Active	Posted to Shared Network Drive
Transportation Contract Numbering	Contract Numbering System-Federally Funded Transpiration Projects	Purchasing and DES	All	TBD	Nov. 2, 2015	Purchasing and DES	Active	Posted to Shared Network Drive
Federal Transit Close-Out Procedures	Non-Routine Contracts for Services	Purchasing and DES	All FTA Funded Projects	TBD	Nov. 23, 2015	Purchasing and DES	Active	Posted to Shared Network Drive
Desk Procedures-Scope Considerations When Modifying a Contract	DES	Transportation	All	TBD	Dec. 4, 2015	DES	Active	Posted to Shared Network Drive
Issuance of Task Orders	Procurement and	Purchasing and	All	TBD	Jan. 12,	Purchasing and	Active	Posted to Shared

	Operations	DOT			2016	DES		Network Drive
Invoice Review and Certification	DES	Transportation	All	TBD	May 8, 2016	DES	Active	Posted to Shared Network Drive

APPENDIX A (cont'd)

<i>The following are in a format different than the above documents</i>				
Topic	Policy/Procedure Number	Date of Issue	Revision	Internal Audit Comment
Standard Operating Procedure: Token Handling and Processing	SOP 100.12	May 9, 2017	A	Draft status, not posted to Shared Network Drive
Standard Operating Procedure: Revenue Collection Reconciliation	SOP 100.13	May 9, 2017	A	Draft status, not posted to Shared Network Drive
Standard Operating Procedure: Fare Collection & Handling	SOP 100.41	June 25, 2018	F	This is a National Express Transit SOP, applicable for ART; not posted to Shared Network Drive; Under bureau review
Standard Operating Procedure: Fare Enforcement	SOP 100.42	June 29, 2018	A	This is a National Express Transit SOP, applicable for ART; not posted to Shared Network Drive; Under bureau review
Standard Operating Procedure: Service Lane Operations	SOP 200.20	Aug 3, 2017	B	This is a National Express Transit SOP, applicable for ART; not posted to Shared Network Drive

Standard Operating Procedure: Accident/Incident Investigation and Reporting	SOP 500.11	Sept 9, 2016	B	This is a National Express Transit SOP, applicable for ART; not posted to Shared Network Drive
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The following are in a format different than the above documents

Topic	Policy/Procedure Number	Date of Issue	Revision	Internal Audit Comment
Standard Operating Procedure: Radio Communication	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
Standard Operating Procedure: Emergency Drills and Simulations	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
Standard Maintenance Procedure: Maintenance Equipment Calibration	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive

Standard Operating Procedure: Hazard Identification, Reporting, and Assessment	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
Standard Operating Procedure: Supervisor Bus Operator Competency Assessment	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive

The following are in a format different than the above documents

Topic	Policy/Procedure Number	Date of Issue	Revision	Internal Audit Comment
Standard Operating Procedure: Daily Operations Log	Not applicable- National Express Transit SOP	Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
Standard Operating Procedure: Fitness for Duty		Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
Standard Operating Procedure: Facility and Equipment Inspection		Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive

Standard Operating Procedure: Control of Trespassers		Nov 15, 2016	A	This is a National Express Transit SOP applicable for ART; not posted to Shared Network Drive
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