

Internal Audit Report

**OFFICE OF TRANSPORTATION
DISBURSEMENTS AUDIT
MARCH 2019**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

March 2019

The Honorable Members of the County Council
The Honorable Calvin Ball, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a disbursements audit of the Office of Transportation. This report contains recommendations we believe will improve accountability and compliance with applicable policies.

This report has been reviewed with the Chief Administrative Officer and we have included the Administration's response. We wish to express our gratitude to the Office of Transportation for the cooperation and assistance extended to us during the course of this engagement.

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County Auditor

EXECUTIVE SUMMARY

We conducted a performance audit of disbursements of the Office of Transportation and the Regional Transportation Agency of Central Maryland (RTA). Services for RTA are managed by First Transit, Inc., under a contract with the Office. The objectives of our audit were to:

1. Determine the adequacy of internal controls over disbursements made by the Office of Transportation and RTA.
2. Determine if payments were properly supported and appropriate.
3. Ensure that RTA complied with contract requirements regarding audited financial statements.

Conclusions

For the audit objectives, we found that:

1. The Office of Transportation (Office) and RTA had appropriate procedures and controls over disbursement processing. However, we found that the procedures were not always followed. Our tests of invoices processed by the Office disclosed that invoices were not always properly approved prior to payment.
2. Invoices did not always agree with related contract documents. Our testing found two instances in which the amounts per the invoice did not match pricing contained in the related contract documents.
3. As of February 2019, First Transit, Inc., had not issued audited annual financial statements for any fiscal year since the inception of the contract in Fiscal Year 2015.

BACKGROUND

The Office of Transportation is a unit under the County Administration, and the Transportation Administrator reports directly to The Chief Administrative Officer. In May 2014, the County entered into a contract with First Transit, Inc., (Corporation) to manage transit operations for Howard County. The contract was amended in July 2014 to include transit services in Anne Arundel and Prince George's Counties and the City of Laurel. Howard County entered into a Memoranda of Understanding (MOU) with those jurisdictions. The MOU established the services, oversight and funding responsibilities of the parties.

The contract may be unilaterally renewed by the County for nine years in one-year increments. The contract and related amendments specify the annual amount of the management fee. The contract requires that:

- The Corporation create a wholly owned subsidiary corporation responsible for managing, administrating and operating the fixed-route and paratransit services.
- The employees of the Corporation are not County employees.
- Policy and oversight is the responsibility of the Central Maryland Transportation and Mobility Commission.
- The contract administrator is the County's Office of Transportation.
- The County shall reimburse the Corporation for expenses incurred including services provided on behalf of the other jurisdictions. These payments for services are contingent on a written amendment to provide such services and receipt of sufficient funds from the jurisdictions to pay for the services.

First Transit, Inc., incorporated under the name Transit Management of Central Maryland (TMCM), better known as the Regional Transportation Agency of Central Maryland (RTA).

In November 2017, the jurisdictions issued a draft Transit Development Plan (TDP). The TDP served as a guide for implementing service and/or organizational changes, improvement, and/or potential expansion over a five-year period. The TDP process included a review of previous studies and data, demographic and land use analysis, public and stakeholder outreach, assessment of existing services, development of service alternatives and recommendations. The recommendations include bus route reconfiguration and service expansion and anticipate the continued purchasing of new buses.

For Fiscal Year 2018, the Office of Transportation's expenditures totaled \$17.4 million. Payments to First Transit, Inc., for management services and transit operations for the fiscal year totaled \$1.05 million and \$13.6 million, respectively.

FINDINGS AND RECOMMENDATIONS

Finding 1

The Office of Transportation did not always properly process invoices for payment.

Our test of 20 invoices totaling \$7.9 million processed by the Office of Transportation in Calendar Year 2017 disclosed that they did not always properly approve invoices prior to processing them for payment. Specifically, four invoices totaling \$1.26 million were not approved by an independent supervisory employee before being paid. The failure to independently review and approve invoices increases the risk of improper payments, including payments made to ineligible recipients, duplicate payments, payments for a good or service not received, or payments made in an inaccurate amount, including both overpayments and underpayments.

We recommend that an independent supervisory employee approve all invoices prior to processing the invoices for payment.

Administration's Response:

The Administration concurs with this finding but notes that, prior to the issuance of this response, the Office of Transportation has implemented a separate process for approving and processing invoices.

Finding 2

Rates charged for services did not always agree to the related contract documents and were not always properly supported.

Our test of 39 invoices processed by the Office of Transportation and RTA found that rates charged on the invoices did not always agree with the related contract documents. Specifically:

- The Office of Transportation paid a per hour rate on one invoice that was not in the related contract. Our review of all payments for this contract disclosed that they may have overpaid the vendor by \$1,060. Payments on the contract totaled \$15,050.
- The RTA underpaid one invoice for \$11,056 by \$203. This was due to the vendor invoicing certain services at a per hour rate lower than the contracted rate. Additionally, the invoice was not properly supported.

We recommend that the Office of Transportation and RTA ensure that invoices agree with the related contract documents. We also recommend that the Office of Transportation determine if it overpaid for contracted services and take appropriate action (such as collecting the overpayment).

Administration's Response:

The Administration concurs with this finding.

Finding 3

The Office of Transportation had not received annual audited financial statements from First Transit, Inc., since the inception of the contract.

The contract requires that First Transit, Inc., complete an annual audit of the financial records and provide audit reports to the Office of Transportation. As of February 2019, First Transit, Inc., had not issued audited annual financial statements for any fiscal year since the inception of the contract in Fiscal Year 2015. First Transit, Inc., advised us that the independent auditors had completed field work and the audited statements for all three fiscal years would be available shortly.

We recommend that the Office of Transportation ensure that it receives annual audited financial statements, as required by the contract.

Administration's Response:

The Administration concurs with this finding.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of disbursements of the Office of Transportation (Office) and the Regional Transportation Agency of Central Maryland (RTA). Services for RTA are managed by First Transit, Inc., under a contract with the Office.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States, except for the requirement to obtain an external peer review at least once every three years. We have not contracted for a peer review due to our recent conversion to the use of government auditing standards. We believe that not complying with this requirement had no impact on the audit or the findings contained in this report.

Government auditing standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine the adequacy of internal controls over disbursements made by the Office and RTA.
2. Determine if payments were properly supported and appropriate.
3. Ensure that RTA complied with contract requirements regarding audited financial statements.

To accomplish our objectives, we met with the Office, First Transit, Inc., and RTA staff responsible for operation and oversight of the disbursement process. We reviewed invoices and related contract documents. We performed tests designed to ensure that disbursements were proper.

Management is responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from February 2018 to August 2018. The Office's responses to our findings and recommendations are included in this report.

AUDIT TEAM

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