

Internal Audit Report

**OFFICE OF TRANSPORTATION
INVENTORY AUDIT
JANUARY 2019**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

January 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 an inventory 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 and the Department of Finance for the cooperation and assistance extended to us during the course of this engagement.

A handwritten signature in blue ink, appearing to read "Craig Glendenning", is written over a horizontal line.

Craig Glendenning, CPA
County Auditor

EXECUTIVE SUMMARY

We conducted a performance audit of capital inventory at the Regional Transportation Agency of Central Maryland (RTA). Their services are managed by First Transit Inc. under a contract with the Office of Transportation (Office). The objectives of our audit were to:

1. Determine if procedures and controls over capital inventory are adequate.
2. Determine if the inventory records are accurate.
3. Ensure County ownership of vehicles is properly documented.

Conclusions

For the audit objectives, we found that:

1. Procedures and controls over capital inventory were adequate.
2. Inventory records were not accurate.
 - a. The inventory records in the County's financial system (SAP) did not agree with RTA inventory records.
 - b. The Office did not always obtain prior approval to dispose of surplus vehicles.
 - c. We could not verify the disposition of proceeds from the sale of some vehicles.
3. Based on discussions with RTA, official records did not always indicate the proper owner of the vehicles.

BACKGROUND

In May 2014, the County entered into a contract with First Transit Inc. to manage transit operations for Howard County. The contract was amended in July 2014 to include transit services in Anne Arundel County, Prince George's County, and the City of Laurel. The County entered Memoranda of Understanding (MOUs) with these jurisdictions. The MOUs establish 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:

- First Transit Inc. 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 (Office).
- 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. created the Corporation 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 serves as a guide for implementing service and/or organizational changes, improvement, and/or potential expansion over a five-year period. The TDP process includes 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.

FINDINGS AND RECOMMENDATIONS

Finding 1

Inventory records in SAP are not accurate and do not agree to RTA inventory records.

The vehicle inventory records maintained by RTA did not agree with SAP records maintained by the Department of Finance (Finance). According to RTA inventory records, the cost of County vehicles was \$13.2 million as of January 1, 2018. Our review of SAP and RTA inventory records disclosed that:

- There were 13 vehicles included in RTA's inventory records that we could not locate in the SAP inventory records. Eleven of these vehicles had a value under the \$5,000 asset threshold and were, therefore, not included in the SAP inventory records. The remaining two vehicles had differing asset numbers.
- The SAP inventory records included 20 vehicles that were not readily identifiable in the RTA inventory records.
- The SAP inventory records included eight vehicles which were recorded twice.

Our review disclosed that the differences between the inventory records are due, at least in part, to differences in how the vehicles are identified in both sets of records. For example, SAP asset numbers do not correspond to similar asset control numbers in the RTA inventory records. Also, while RTA records included the vehicle identification numbers, SAP records did not always include this information.

We recommend that the Office work with Finance to ensure that RTA and SAP vehicle inventory records are accurate.

Administration's Response:

The Administration concurs with this finding. The Office will work with Finance to implement procedures that will ensure more consistent record keeping between the RTA and SAP. Additionally, Finance will continue to conduct annual vehicle audits.

Finding 2**Several vehicles were incorrectly registered.**

We were told by the Office that six buses were not transferred to Howard County because they would be unlikely to pass MD State inspection, which could result in the need for expensive repairs. According to the Request for Proposal, all revenue generating vehicles are to be owned by the County.

We recommend that the Office and RTA ensure that the vehicle ownership is transferred according to the Request for Proposal.

Administration's Response:

The Administration concurs with this finding. The decision to purchase the six buses identified in this finding was made by a prior Administrator, under the premise that Anne Arundel County would reimburse TCM for the purchase price and subsequently take ownership of the vehicles. TCM was never reimbursed by Anne Arundel County, therefore the vehicles remained registered to TCM. At the time of the purchase, the buses were beyond their useful life and therefore a policy decision was made to not pursue the transfer of the vehicles to Howard County due to the expected costs of preparing the vehicles for external inspection. RTA performs routine preventive maintenance, as well as any necessary repair work, on the vehicles to internally ensure that the vehicles are safe for route operation.

Of the six vehicles that are incorrectly registered, five are currently operational. The County and RTA are prioritizing the decommissioning of these vehicles as new vehicles are acquired and become available.

Finding 3**Required approvals for vehicle disposals were unavailable or were not obtained before disposal and proceeds from the sale of vehicles could not be traced to deposit for all sales.**

The Office and RTA did not always obtain approval to dispose of surplus vehicles as required by the Maryland Transit Administration's (MTA) Locally Operated Transit System (LOTS) Manual. Concurrence from the MTA is required before vehicle disposal for any vehicles purchased with State or Federal grant funds. The RTA must obtain County approval before disposing of vehicles purchased solely with County funds. Our test of all Fiscal Year 2018 disposals (19 vehicles total) disclosed that RTA did not receive the required approvals for 7 of the 19 vehicles tested. Two of those seven vehicles were County owned and should have received County approval before disposal.

These 19 disposals generated a combined \$6,185 in related proceeds. We were not able to trace proceeds for three disposals totaling \$650 to subsequent deposit by the County or RTA. The LOTS Manual requires that proceeds from the sale of vehicles purchased with State or Federal funds be used for subsequent capital purchases. According to the Office, proceeds from the sale of vehicles are maintained in the financial system until used.

We recommend that the Office and RTA obtain approvals before disposing of vehicles as required by the LOTS manual. We also recommend that the Office and RTA determine the status of proceeds related to all vehicle disposals and that such proceeds be recorded in SAP and retained for use in future capital purchases as required by the LOTS Manual.

Administration's Response:

The Administration concurs with this finding. Moving forward, the Office and RTA will obtain approvals before disposing of vehicles as required by the LOTS Manual.

The proceeds from the three disposals that were not able to be traced were not sold by Central Fleet. These vehicles were owned, and therefore sold by, TCMC; the proceeds from these disposals were processed through RTA. Nonetheless, proof of deposit should have been made available during the audit, and the Office and RTA will ensure that proceeds from vehicle disposals are properly recorded for designated future use per the LOTS Manual.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of capital inventory at the Regional Transportation Agency of Central Maryland (RTA). Their services are managed by First Transit Inc. under a contract with the Office of Transportation (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 if procedures and controls over capital inventory are adequate.
2. Determine if the inventory records are accurate.
3. Ensure County ownership of vehicles is properly documented.

To accomplish our objectives, we met with Office, First Transit Inc., and RTA staff responsible for operation and oversight of the transit system. We reviewed contract documents and amendments along with First Transit Inc. and RTA policies. We reviewed applicable Federal and State regulations. We performed tests designed to determine adherence to contracts and regulations. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

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 December 2017 to April 2018. The Office's responses to our findings and recommendations are included in this report.

AUDIT TEAM

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