

Audit Follow-Up

As of September 30, 2017



Don Hancock, CPA
Interim City Auditor

Audit of Internal Controls – StarMetro Transit Fare Box Collections and Petty Cash Fund (Report #1715, Issued July 7, 2017)

Report #1806

January 31, 2018

Summary

StarMetro completed 11 of the 14 action plan steps established to address issues identified in audit report #1715. Efforts have been initiated and are ongoing to complete the remaining three steps. Completed actions included implementation of several measures to (1) enhance the integrity and controls over processing and depositing general transit fare box cash collections, (2) enhance controls and procedures for miscellaneous expenses and disbursements of StarMetro funds, and (3) properly restrict access to fare box collections. Action steps determined to be in progress pertain to implementation of adequate software applications to provide a control to help ensure general transit fare box collections are properly processed and deposited, and establishment of records to enhance accountability for remaining petty cash funds. We will address StarMetro's efforts to complete those remaining action steps in our subsequent follow-up engagement.

In audit report #1715, Audit of Internal Controls – StarMetro Transit Fare Box Collections and Petty Cash Fund, issued July 7, 2017, we identified several issues that increased the risk that general transit fare box collections could be diverted without timely detection, and the risk those collections would not be properly accounted for in City records. We also identified an unauthorized petty cash fund. Fourteen action plan steps were developed by management to address the identified issues.

Each of those 14 steps were due for completion as part of this initial follow-up engagement. We determined that, as of September 30, 2017, 11 of those action plan steps were completed and efforts

had been initiated to complete the three remaining steps.

The 11 action plan steps that were completed included the following:

- Two employees (instead of just one) now count and process general transit fare box collections for deposit. *(One step)*
- Other than authorized and documented change fund requests, general transit fare box collections are now deposited intact. *(One step)*
- General transit tickets deposited by riders into fare boxes are now destroyed by StarMetro staff; general fare tickets to be issued to members of the public at no charge are now provided from the supply of unused fare tickets and are no longer supplied from used tickets retained by staff counting and processing fare box collections. *(Two steps)*
- The unauthorized \$800 petty cash fund was eliminated and the funds returned to the City Treasurer-Clerk's Revenue Office. *(One step)*
- Miscellaneous expenses are no longer being paid from petty cash funds. Those expenses and disbursements are now paid with City P-Cards. *(Two steps)*
- Access to the collection room used to secure, process, and prepare fare box collections for deposit has been better secured by (1) further restricting the number of staff with authorized access, (2) use of a security access system and log to better control and document access, and (3) escort of other staff and vendors in and out of the room by authorized employees. *(Four steps)*

The three action plan steps that were determined to be in progress included:

- Implementing a new fare box system, or modifying/adjusting the existing fare box system, to accurately and completely read general transit fare box collection data. (*One step*)
- Properly using the fare box system to generate accurate reports that can be used to substantiate that general transit fare box collections are properly processed and deposited. (*One step*)
- Developing comprehensive records to account for all activity of the authorized petty cash fund. (*One step*)

In our subsequent follow-up engagement, we plan to follow up and report on management's efforts to complete the three action plan steps that are in progress.

We appreciate the cooperation and assistance provided by Fleet and StarMetro management and staff during this audit follow-up.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Original Report #1715

The initial audit was conducted after our office identified a potential internal control matter regarding general transit fare box collections, and further inquiry disclosed an unauthorized imprest (petty cash) fund maintained at StarMetro.

The primary purpose of the audit was to determine the adequacy of internal controls implemented to ensure the proper processing and deposit of general transit fare box collections. A secondary purpose was to determine the authority for an identified petty cash

fund, as well as, the uses of and accounting for monies maintained in that fund.

To address the stated objectives, we interviewed appropriate StarMetro management and staff; observed procedures and processes; reviewed applicable records, documents, and videos; and conducted unannounced physical counts of StarMetro petty cash funds.

Report #1806

This is our first follow-up on action plan steps identified in audit report #1715. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion no later than September 30, 2017. To determine the status of the action plan steps, we interviewed staff and reviewed relevant documentation.

Background

Concerns Identified

During a routine inquiry of StarMetro management and staff in early May 2017, we became aware of a potential internal control matter regarding general transit fare box collections. Further inquiry disclosed an additional matter of concern regarding an unauthorized imprest (petty cash) fund maintained at StarMetro. As a result, we conducted an audit, with a scope limited to the procedures used to process and account for general transit fare box collections and the maintenance of the noted petty cash fund.

General Transit Fare Box Collections

Generally, individuals pay established fees (fares) for the privilege of riding StarMetro general transit buses. To accommodate those riders, StarMetro provides several options to pay those fares, to include buying tickets (passes) at C.K. Steele Plaza or at StarMetro headquarters at Appleyard Drive, or paying cash when getting on the bus. If paying cash, upon entering the bus the riders place the cash (includes bills and/or coins) in a secured fare box located on the bus. Similarly, if a ticket was purchased, the rider deposits the ticket into the fare box.

StarMetro established a secured process for removing daily cash fare collections from general transit buses for processing and deposit. Specifically, the fare boxes can only be physically removed from each bus

using a combination of a key and either a magnetically coded card (swipe card) or the entering of a unique code on the fare box container. The fare boxes are built such that the contents (deposited fares) remain secured (not accessible), even after the fare boxes have been removed from the bus. To remove the deposited fares, the fare boxes must be placed into a secured vault built into the external wall of the collection room located at StarMetro headquarters. The vault door is locked when not in use. The fare boxes are placed into the vault in a manner that allows a unique apparatus (key) to open the box such that the contents (cash, coins, and fare tickets) drop into a container located inside the locked collection room. During this process, the cash (bills and coins) and fare tickets remain inaccessible to the individuals (employees) that place the fare boxes into the vault.

On a periodic basis (generally daily), designated StarMetro staff enter the secured collection room and count the fares removed from the buses and prepare the related deposits. A contracted armored courier picks up and delivers the prepared deposits to the bank on a daily basis. The deposit reports prepared by StarMetro staff provide the basis for the recording of the collections into the City's accounting system.

The current fare boxes placed on each general transit bus were acquired in connection with StarMetro's purchase of an electronic fare collection system, Fare Logistics, in 2006. In addition to providing secured fare boxes, that system includes a software application that electronically captures rider and fare collection data. When buses return to StarMetro headquarters at the end of their daily routes for removal of the daily fare collections, that captured data is read and downloaded by a software application ("Tsunami") through a wireless connection. Once downloaded by the Tsunami application, designated StarMetro staff use a separate application (Calmsoft) to process the captured data and generate a report showing the number of riders and the amount of cash fares deposited into the fare boxes.

Comparison of the amounts collected on reports prepared using the Tsunami and Calmsoft applications to amounts deposited into the City's bank account, by staff not having access to the collections, would serve as an important control to ensure that collected fares are properly processed and not diverted or used for unauthorized purposes.

Petty Cash Funds

In accordance with procedures established by the City Treasurer-Clerk's Revenue Office (Revenue Office), StarMetro was advanced funds totaling \$7,690 in the 1980's and 1990's to operate a petty cash fund. The primary purpose of that petty cash fund was to provide operating cash for cashiers selling passes and tickets to riders at the C.K. Steele Plaza and StarMetro headquarters. Funds advanced in excess of the amounts needed for the cashiers could be used to pay miscellaneous StarMetro expenses, with reimbursements obtained from the Revenue Office upon submittal of appropriate documentation supporting and substantiating the related expenditures. Advanced funds could also be used to provide operating cash to bus drivers during special events, for which riders might need change when paying with cash in denominations greater than the fare amounts.

Good business practices provide that each use of a petty cash fund be supported by adequate documentation. For uses involving the purchase of goods or services, that documentation should include vendor receipts. Good business practices also provide that each use of petty cash funds be approved by appropriate managerial staff. Those approvals should be documented. In addition, for budgetary control purposes, each use that represents an expenditure should be accounted for in a manner that allows the expenditure to be properly recorded in the City's accounting system. Accountability and documentation should also be maintained for other uses (non-expenditures), to include providing cashiers and drivers operating cash to make change for riders purchasing tickets/passes or in need of change to pay fares paid when entering (riding) a bus during special events.

Over the years the need for petty cash funds within City departments to pay miscellaneous expenses has diminished with the issuance of City credit cards (Purchase Cards, or P-Cards). The use of City P-Cards not only resulted in purchasing efficiencies, but also reduced the likelihood that State sales taxes will be paid on purchases, as the City P-Cards substantiate the tax exempt status of the City to vendors.

Previous Conditions and Current Status

In our initial audit (report #1715), we identified several issues that increased the risk that general transit fare box collections could be diverted without timely detection, and increased the risk that those collections would not be properly accounted for in City records. We also identified an unauthorized petty cash fund. Recommendations were made to address the applicable issues.

City management developed 14 action plan steps to address the identified issues and related audit

recommendations. Each of those 14 steps were due for completion no later than September 30, 2017, with seven being reported by StarMetro as completed by the date the initial audit report was released on July 7, 2017. Table 1 that follows shows the status of those 14 steps as determined through our audit follow-up process. As indicated in that table, 11 of those steps have been completed and efforts have been initiated to complete the remaining three steps. We will follow up on efforts to complete the three action plan steps not yet completed in our subsequent follow-up engagement.

**Table 1
Current Status of Action Plan Steps from Audit Report #1715
Due as of September 30, 2017**

Action Plan Steps Due	Current Status
<p>Objective A: Ensure general transit fare box collections are properly processed, accounted for in City records, and deposited into the City’s bank account.</p>	
<ul style="list-style-type: none"> • Prior to the completion of Steps A2 and A3 that follow, two employees will jointly count and process general transit fare box collections in the collection room, and prepare those collections for deposit. (Report #1715 Action Plan Step A1) 	<ul style="list-style-type: none"> ✓ Complete: Our follow-up showed that two employees have jointly counted and processed fare box collections on a regular basis since the initial audit. Management indicates that process will continue until appropriate additional controls have been implemented (see Action Plan Steps A2 and A3 that follow). Accordingly, this step is considered complete.
<ul style="list-style-type: none"> • A determination will be made as to whether the Tsunami and Calmsoft applications are accurately and properly capturing and reading rider and fare collection data on general transit bus fare boxes. In the event those applications are not, appropriate actions will be taken to capture complete and accurate data and to generate reliable reports. (Report #1715 Action Plan Step A2) 	<ul style="list-style-type: none"> ➤ In Progress: Through system testing and correspondence with the vendor, StarMetro staff determined the Tsunami and Calmsoft applications are <u>not</u> accurately and properly capturing and reading rider and fare collection data on general transit bus fare boxes. The reason asserted by the vendor is that the Calmsoft application is not compatible with the current version of the City’s network. Furthermore, tests performed by StarMetro staff showed that the Tsunami application is only reading approximately 57% of the fare boxes. An analysis prepared by StarMetro staff validated these assertions/determinations, as collections reported by the applications are significantly different (generally less) than the amounts processed and deposited. As an initial step in deciding what actions should be taken to address this matter, several StarMetro staff made site visits to other transit systems to identify and review the systems (applications) used to capture and read rider and fare collection data. At the date of this follow up, StarMetro management had not

	<p>determined a specific course of corrective action, but indicated consideration was being given to requesting funds for the implementation of new applications. Because of the importance of adequate controls to help ensure fare box collections are properly and accurately processed and deposited, as well as the importance of accurate and complete ridership and collection data for general transit buses, <u>we recommend</u> StarMetro management identify and enact an appropriate course of action in the near future. We will follow up on management efforts and actions in a subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> Monthly comparisons and reconciliations of amounts reported as collected by the fare box applications to amounts deposited will commence. Such comparisons and reconciliations will be documented and performed timely, and be performed by staff that do not have access to or process collected fares. Reports of those comparisons and reconciliations will be provided to management on an ongoing basis. <i>(Report #1715 Action Plan Step A3)</i> 	<p>➤ In Progress: As stated in the status reported for the previous action plan step (Step A2), StarMetro commenced comparisons of amounts reported as collected by the fare box applications to amounts deposited. As noted, those comparisons substantiated their determinations that the two software applications (Tsunami and Calmsoft) are not capturing complete data or reporting accurate information. Until complete and accurate data is captured and reported, these comparisons will not serve to help StarMetro management ensure that general transit fare box collections are properly and accurately processed and deposited. As also reported for the previous action plan step, StarMetro management has initiated efforts to address this matter. We will follow up on those efforts in a subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> Other than collected monies used for properly authorized and documented change requests, all general transit fare box collections will be deposited intact. Funds will not be withheld to reimburse petty cash funds. All change requests will be adequately documented within the collection records. <i>(Report #1715 Action Plan Step A4)</i> 	<p>✓ Complete: Collection records provided by StarMetro during our follow up, along with StarMetro management and staff's assertions, demonstrated/indicated that, other than authorized and documented use of collections for change funds as described in the initial audit, collections are now being deposited intact. Accordingly, this step is complete.</p>
<p>Objective B: Ensure StarMetro activities are proper and accurately recorded in City records.</p>	
<ul style="list-style-type: none"> All general transit fare box tickets deposited by riders in fare boxes will be destroyed by staff processing collections within the collection room. A record will be maintained documenting the number of fare tickets destroyed each day. <i>(Report #1715 Action Plan Step B1)</i> 	<p>✓ Complete: StarMetro management and staff asserted that all used fare box tickets are now destroyed by staff processing collections within the cash collection room. Staff processing collections document the number of destroyed tickets on a calendar maintained in the cash collection room. During our follow up site visit, we did not observe any tickets that were withheld for re-use and distribution. Accordingly, this step is complete.</p>
<ul style="list-style-type: none"> General fare tickets to be issued at no charge to citizens will be provided from the supply of unused fare tickets maintained at StarMetro headquarters. 	<p>✓ Complete: General fare tickets to be issued at no charge to needy citizens in unique circumstances are now provided from the supply of unused fare tickets;</p>

<p>Accurate records will be maintained that account for the tickets provided and used for that purpose. <i>(Report #1715 Action Plan Step B2)</i></p>	<p>and no longer supplied from used tickets retained by staff counting and processing fare box collections. Those used tickets are now all destroyed as described in the status reported for the previous action plan step (Step B1). Furthermore, StarMetro maintains records showing the tickets by type (e.g., one-way tickets, seven-day passes, 31-day passes) distributed to cashiers for sale to customers. When any of those tickets are provided to a needy citizen free of charge, the applicable cashier or other staff issuing such tickets reports the complementary issuance on a standard form. Accordingly, this step is complete.</p> <p><u>Auditor Comment:</u> In addition to the corrective actions taken, <u>we also recommend</u> StarMetro staff establish a comprehensive inventory record to account for all general fare tickets (and paratransit tickets) by type. Such records <u>should</u> account for the supply of tickets purchased, distributed to cashiers for sale, and used by riders (citizens). Such records will allow StarMetro staff and management to validate that those tickets are used only for authorized purposes.</p>
<ul style="list-style-type: none"> • The unauthorized petty cash fund will be eliminated with the funds (\$800) returned to the City Treasurer-Clerk’s Revenue Office. <i>(Report #1715 Action Plan Step B3)</i> 	<p>✓ Complete: As reported in the initial audit, the unauthorized petty cash fund was eliminated and the \$800 was transferred to the City Treasurer-Clerk’s Revenue Office on May 18, 2017. Accordingly, this step was completed.</p>
<ul style="list-style-type: none"> • Expenses paid from authorized petty cash funds will be reimbursed through the City Treasurer-Clerk’s Revenue Office, with the expenses properly recorded in the City’s accounting records (PeopleSoft Financials). Other uses (e.g., return improperly collected fares to riders) will also be reimbursed through the City Treasurer-Clerk’s Revenue Office, with proper entries made in the City’s accounting records. <i>(Report #1715 Action Plan Step B4)</i> 	<p>✓ Complete: Petty cash funds have not been used since the initial audit to pay miscellaneous expenses. As noted in the status reported for a subsequent action plan step (Step B6), all miscellaneous expenses are now being paid by City P-Card. As a result, to date, it has not been necessary to seek reimbursement of expenses paid with petty cash funds from the City Treasurer-Clerk’s Office. StarMetro management and staff indicated that in the event petty cash funds are used in the future to pay a miscellaneous expense or disbursement, reimbursement will be made through the City Treasurer-Clerk’s Office, so as to allow the appropriate entry to be recorded in the City’s accounting system. Based on these circumstances, this step is complete.</p>
<ul style="list-style-type: none"> • Adequate records will be prepared and retained to document: (1) all uses and replenishments of petty cash funds; (2) transfers of custodial responsibility for petty cash funds, and (3) prior supervisory authorizations and approvals of each use of petty cash funds. Efforts will be enhanced to ensure adequate documentation (e.g., vendor receipts) is obtained and retained to substantiate each use. <i>(Report #1715</i> 	<p>➤ In Progress: As reported in the status for a previous action plan step (Step B3), the (unauthorized) \$800 petty cash fund was eliminated. Accordingly, there is no longer a need to maintain records documenting the uses and replenishments of that fund. The remaining (authorized) petty cash fund is currently used only: (1) to provide operating cash to the StarMetro cashiers selling tickets and passes at the C.K. Steele Plaza and</p>

<p><i>Action Plan Step B5)</i></p>	<p>StarMetro headquarters located on Appleyard Drive and (2) to make change for those cashiers as needed and requested. While separate records of the funds distributed to each cashier is documented through the cashiers' daily reports, and daily count and deposit records show change requests, an additional comprehensive record (e.g., maintained in Excel or Access) that documents each distribution from and replenishment of that fund would provide enhanced accountability for those funds. Management indicated appropriate comprehensive records would be established as recommended. We will address management's efforts in a subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> • Efforts will be enhanced to use City P-Cards for miscellaneous StarMetro expenses instead of using authorized petty cash funds for those expenses. <i>(Report #1715 Action Plan Step B6)</i> 	<p>✓ Complete: As reported for a previous action plan step (Step B3), the unauthorized \$800 petty cash fund was eliminated. StarMetro management and staff indicated the remaining (authorized) petty cash fund is used only to provide operating funds for the StarMetro cashiers that sell tickets and passes to riders. City P-Cards are now used for all miscellaneous expenses. Accordingly, this step is complete.</p>
<p>Objective C: Ensure access to general transit fare box collections is properly restricted.</p>	
<ul style="list-style-type: none"> • Access to keys, swipe cards, and codes allowing removal of fare boxes from general transit buses and access to the vault on the external wall of the collection room will be restricted to appropriate staff. <i>(Report #1715 Action Plan Step C1)</i> 	<p>✓ Complete (Resolved): Because controls over cash collections have been enhanced (see the status reported for the two subsequent action plan steps), and because reasonable controls exist to preclude unauthorized removal of the contents (cash collections) from the fare boxes even after their removal from general transit buses, management determined further restriction of access to keys, swipe cards, and codes is not currently warranted. Accordingly, this action plan step is considered no longer applicable.</p>
<ul style="list-style-type: none"> • Access to the collection room will be restricted to appropriate staff. <i>(Report #1715 Action Plan Step C2)</i> 	<p>✓ Complete: Access to the cash collection room is now restricted to the administrative staff responsible for the processing and deposit of collections, supervisors of the general and special transit routes (i.e., to allow access if needed during times other than traditional work hours), department management, and applicable information technology staff that help maintain and manage the security system. Access privileges were removed from other staff (e.g., mechanics) that previously accessed the cash collection room for purposes such as repairing cash collection and processing equipment (e.g., jams). Those staff needing to access the cash collection room for such purposes are now escorted in and out of the room by</p>

	the transit supervisors or the noted administrative staff. This action plan step is complete.
<ul style="list-style-type: none"> • A security system will be installed to track and record each employee entering and exiting the collection room. (Report #1715 Action Plan Step C3) 	<ul style="list-style-type: none"> ✓ Complete: A security system was installed in June 2017 (after the initial audit was started) that restricts access to only authorized staff. The system maintains a record of entry into the collection room. Additionally, a log is maintained within the collection room for which each individual (employee or vendor) is required to sign to document his or her entry into and departure from the room. Accordingly, this step is complete.
<ul style="list-style-type: none"> • Staff and vendors without access privileges, but needing to enter the collection room for work (e.g., mechanics to work on a fare box stuck in the vault), will be escorted by appropriate staff while inside the collection room. (Report #1715 Action Plan Step C4) 	<ul style="list-style-type: none"> ✓ Complete: Staff and vendors with legitimate reasons to enter the collection room are now escorted in and out of the room by authorized staff. As noted in the status reported for the previous action plan step (Step C3), such staff and vendors are now required to sign a log documenting their entry into and departure from the room. This step is complete.
<p>Table legend</p> <ul style="list-style-type: none"> • Issue to be addressed from original audit. ✓ Action completed or otherwise resolved. ➤ Actions to address issue are in progress. 	

Conclusion

Table 1 above shows 11 of the 14 action plan steps due for completion as of September 30, 2017, have been completed. Efforts are in progress to complete the three remaining steps.

Those three remaining steps include: (1) implementing a new fare box system or modifying/adjusting the existing fare box system to accurately and completely read general transit fare box collection data, (2) properly using that fare box system to generate accurate reports that can be used to substantiate that general transit fare box collections are properly processed and deposited, and (3) developing comprehensive records to account for all activity of the authorized petty cash fund.

We will follow-up and report on management’s efforts to complete those remaining actions steps in our subsequent follow-up engagement.

We appreciate the cooperation and assistance provided by Fleet and StarMetro management and staff during this audit follow-up.

Appointed Official’s Response

INTERIM CITY MANAGER

We would like to take this opportunity to thank the Office of the City Auditor for the thorough review of StarMetro’s General Transit Fare Box Collections and Petty Cash Fund. Staff has made progress towards the completion of the audit items, by completing 11 of the 14 action plan steps with the remaining 3 currently in progress. We recognize and appreciate the significance of having the proper procedures and internal controls in place. We would like to thank the Auditor for his assistance and recommendations that will improve StarMetro’s fare box data and cash handling procedures.

Copies of this Follow-Up Audit Report #1806 or the initial audit report #1715 may be obtained from the City Auditor’s web site (<http://www.talgov.com/transparency/auditing-auditreports.aspx>), via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit Follow-Up conducted by:
T. Bert Fletcher, CPA, CGMA, City Auditor