



Audit Report
CATS Bus Operations – Imprest Account
For Fiscal Year 2015
October 26, 2015

City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine whether the City has reimbursed the bus operations management company accurately and the funds have been disbursed properly. The City's outside auditor, Cherry Bekaert LLP (CB), performs agreed-upon procedures related to the Bus Operations Division (BOD). The work performed by Internal Audit is provided to CB auditors for their review.

The City contracts with a management company, McDonald Transit Associates, Inc. (McDonald) to manage bus operations, known as Transit Management of Charlotte, Inc. (TMC). TMC sends reimbursement requests to the Charlotte Area Transit System (CATS) for operating expenses, except bus parts for which the City pays directly to suppliers. The City wire transfers the reimbursements into an imprest bank account in the name of TMC, from which BOD issues checks for operating expenses.

Auditors reviewed the operations and specific transactions for the fiscal year ended June 30, 2015. Tests were designed to determine whether:

- Internal controls over the transactions handled through the bus transit imprest fund, including payroll, are adequate,
- Wire transfers to the CATS Bus Transit Payroll Imprest Account are accurately recorded;
- BOD's reimbursement requests are adequately supported, and
- Bus operations employees' wages comply with union agreement terms.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, CATS and the City's external auditor Cherry Bekaert.

Conclusion

CATS has established adequate internal controls to ensure expenditures from the imprest fund are timely and accurate.

Prior Year Update

For FY14, CATS and TMC addressed audit findings and recommendations satisfactorily, as discussed below.

2014 Recommendation #1: TMC should complete the steps necessary to establish the agreed-upon Retiree Health Insurance Fund. Until an investment tool is identified, the money should be deposited into a separate account rather than co-mingling funds. TMC should abide by the terms of the Union Contract by depositing the one-time contribution of \$50 per participant into the Fund.

- The funds collected for the Retiree Health Insurance Fund have been deposited into an interest bearing account while the United Transportation Union and TMC continue to work on establishing the fund (included in the deposit was \$4,700 to reflect the one-time contribution for 94 employees at \$50 each).

2014 Recommendation #2: TMC should develop policies and procedures for the receipt and payment of invoices to ensure that all of the items were ordered, the quantity received matches the amount ordered, and that all items for which payment is requested have been received. The verification should be documented and provided to CATS with the Request for Reimbursement to expedite the payment process.

- Reimbursement requests to the City included sufficient backup information to correct deficiencies found last year.

2014 Recommendation #3: TMC should designate at least one backup person to substitute in the absence of staff completing payroll functions.

- Additional staff have been trained and assigned as backup to the lead payroll clerk when they are absent (three in total; two in operational and one in maintenance).

Summary of Current Year Findings and Recommendations

Since last year, the process to review and approve invoices has been improved. CATS and TMC acknowledge the importance of payroll deduction accuracy and a strategy is being developed which will assist benefit administrators with maintaining accurate and up-to-date records. The findings, recommendations, and actions planned are summarized as follows, and further detailed beginning on page 4.

1. **Procedures should be modified to ensure approvals occur before payments are made.**

Auditors reviewed 54 wire transfers from FY15, examining supporting documentation and verifying proper approvals.

- Seven of the fifty-four wire transfers (13%) were signed and dated after the wire transfer date.
- There were three instances (6%) of missing signatures.

Internal Audit recommended steps be taken to improve the controls of the approval process to minimize the risk of approving payments after the wire transfer has occurred.

- CATS worked with Accounts Payable (AP) to increase the effectiveness of the controls. A new process for submitting and approving the payment requests has been implemented.
- CATS designated a backup for the Chief Operations Planning Officer (COPO) to approve payments in the event of the COPO's absence.

2. TMC should ensure that employees' payroll deductions match their benefits elections.

Audit staff tested 40 employees' deductions for two pay periods to determine the accuracy of the payroll deductions. There were minor documentation discrepancies for two of the 40 employees reviewed in FY15.

Further actions should be taken to ensure employees' payroll deductions match their benefit elections.

- TMC plans to supply a summary of benefits to employees in February 2016, in preparation for annual open enrollment in March. Employees will then have a chance to review their elections and make any changes to their benefit elections during open enrollment.
- TMC has researched and cleared the deduction errors found during the audit.

Background

McDonald began providing transit management services for CATS' Bus Operations Division (BOD) on September 1, 2003. The City awarded McDonald another contract for three years plus two additional optional years effective August 1, 2008. The City has exercised its right to extend the contract terms. On March 25, 2013, the City Council approved an additional six month extension of the contract (through January 31, 2014) to enable McDonald to complete negotiations with United Transportation Union (UTU). On January 31, 2014, a new contract was signed between McDonald Transit Associates, Inc. and the City of Charlotte for three years plus two additional optional years effective February 1, 2014.

McDonald is responsible for managing day-to-day operations and maintenance of CATS' largest bus fleet. (Other fleets include Special Transportation Services, and Lynx Blue Line light rail.) CATS engages a transit management firm in this capacity because North Carolina law prohibits governmental entities from managing and collectively bargaining with unions. Bus drivers, maintenance and parts room workers are employed by the private company Transit Management

of Charlotte, Inc. (TMC), which is managed by McDonald under its contract with the City. McDonald and TMC employees work at the Davidson Street and the Tryon Street facilities.

The City is fully responsible for the finances of the BOD and is required by agreement to pay all operating expenses. TMC is required to maintain an Imprest account through which the following expenses are paid: wages and salaries of all TMC employees, the employer's share of payroll taxes and benefits, employer contributions to the pension plan, all payments made in settlement of claims or satisfaction of judgment incurred in the operation of the public transportation system, all general and miscellaneous expenses for BOD, all expenses for liability insurance, workers' compensation and tort claims, and all expenses for materials and supplies.

The individual payroll checks for the employees of TMC are prepared by Ceridian. In addition, Ceridian calculates and deposits payroll withholding and the employer's share of the taxes. Each week the payroll administration staff for TMC prepares a report based on printouts from Ceridian listing the amount and the account to be charged for payroll. This report is then forwarded to the accounting specialist for inclusion in the request for payment from the City. Also included in the request are any other miscellaneous payroll-related expenses to be paid.

Each week, TMC requests payment for itemized expenses and documents the request by providing copies of invoices. The request for funds is reviewed by CATS administration and the City's Finance staff. Upon approval, a wire transfer of the funds is made by the City, and TMC issues the checks the following day. TMC's accounting specialist writes the checks using Quicken software, and they are forwarded to the general manager for his signature. The checks are then given to the financial support clerk who prepares the envelopes and mails the checks. The payroll/finance administrator is responsible for reconciling the Imprest account on a monthly basis.

The annual cost of bus operations exceeds \$60 million, with over three-quarters of this cost covering payroll and related expenses.

Audit Findings and Recommendations

1. Procedures should be modified to ensure approvals occur before payments are made.

In FY13, CATS established a procedure which required the CATS Chief Operations Planning Officer (COPO) to sign and date the invoices in advance of the actual transfer to indicate the invoices were reviewed and approved. The COPO's dated signature initiated the wire transfer process to reimburse TMC for payroll and operational expenses.

On July 21, 2014, the City of Charlotte implemented a new ERP system, Munis, to handle purchasing and accounts payable City-wide. Munis is the financial system of record and all payments should move through the appropriate work flow for the specific type of purchase.

For the past several years, occasional late and missing signatures have been noted. In order to receive payment for payroll and operational expenses, TMC emails a summary of

expenses to CATS and Accounts Payable (AP), usually every Thursday. The next day TMC submits detailed invoices to CATS via interoffice mail. Currently, CATS conducts a review of the detailed invoices and indicates approval with a dated signature, which will initiate AP to input the dollar amounts to correspond with account numbers in Munis. An employee with City Finance's Treasury Division will then log into the City's bank account to schedule the wire transfer of funds to TMC.

Internal Audit noted the following exceptions in FY15:

- Seven of the fifty-four wire transfers (13%) were signed and dated after the wire transfer date.
- There were three instances (6%) of missing signatures.

The late or missing signatures indicate the current review and approval process is not an adequate internal control for authorizing the wire transfers.

Recommendation: CATS should update its approval process to include the following procedures:

- Improve controls by removing AP from the weekly summary emails to ensure CATS has approved the expenses before AP can process the invoices and Treasury can initiate the wire transfers.
- Designate a backup to approve expenses when the COPO is unavailable.

Actions Taken: AP has been removed from the weekly summary email distribution list to prevent processing invoices in advance of CATS' approval. Effective for FY 2016 and moving forward, all documentation is being scanned into Munis to provide electronic support for wire transfers made to TMC. The originals are filed with the other electronic payments and made available to Internal Audit for the corresponding fiscal year audit. CATS has designated a backup to approve expenses in the COPO's absence.

CATS Response: CATS agrees with the recommendation. Additionally, BOD has taken steps to expedite the review process by hand delivering the imprest documents to CATS rather than letting these documents go through the company mail system.

2. **TMC should ensure that employees' payroll deductions match their benefits elections.**

Open enrollment for benefits such as medical, dental, life, short-term disability, and supplemental insurance occurs annually in March. Employees are required to attend open enrollment only if they are making changes to their benefits. Otherwise their current elections are automatically rolled over (unchanged) into the new policy year. The rollover approach is practical for TMC because it is difficult to obtain updated documentation for all employees annually. However, the lack of positive confirmation introduces a risk of administrative error, and places the burden for ensuring accuracy on employees' review of deductions which are detailed on each paycheck.

In recent annual audits, payroll withholdings for benefits had several incorrect deduction amounts. Auditors noted that two of 40 employees reviewed in FY15 had minor documentation discrepancies.

Recommendation: TMC should ensure that employees' payroll deductions match their benefits elections. While open enrollment provides an opportunity for all employees to confirm or change existing benefit elections, it has not been practical to obtain full participation. Therefore, CATS and TMC should consider alternate methods to ensure that employees are regularly updated regarding their existing coverage, allowing discrepancies to be resolved in a timely manner.

CATS/TMC Response: The problem we run into with having all employees signing authorization forms is that many of our employees will not attend open enrollment and we run the risk of terminating benefits that an employee thinks are currently in place.

We have been working with our Insurance Brokers to provide our employees with a benefits summary sheet listing all benefits that the employees have elected. This was provided to our employees at our last open enrollment in March 2015. We plan to supply the benefit election forms to employees in February 2016, in preparation for our annual open enrollment in March. Employees will then have a chance to review their elections and make any changes to their benefit elections at open enrollment.