

EXECUTIVE SUMMARY
AUDIT OF INTERNAL CONTROLS OF TREASURY FUNCTION

INTRODUCTION

Internal Audit conducted an audit of internal controls for the treasury function. This audit was a full-scope review of all Treasury Department processes. In fiscal year 2009, passenger revenue was \$78 million. The sources of this revenue are categorized as follows:

<u>Revenue Source</u>	<u>Amount</u>	<u>Percent of Total</u>
Fare Box Collections	\$24,038,148	31%
Ticket Sales	7,536,214	9%
Weekly Permit Sales	10,669,792	14%
Monthly Pass Sales	26,797,353	34%
Annual Pass Sales	3,122,058	4%
Park and Ride – Parking Revenue	533,685	1%
Contract Service Revenue	<u>5,472,780</u>	<u>7%</u>
Total	<u>\$78,170,030</u>	<u>100%</u>

The Treasury Operations Department is responsible for collecting and processing all monies received through fare boxes and miscellaneous income sources. It is also responsible for supplying partner retail sales outlets and the downtown service center with fare instruments to sell and for servicing change token vending machines. The audit objectives were to determine the adequacy of internal controls for probing fare boxes, pulling cash boxes, transporting and processing cash, fare box repairs, accounting for fare instruments and change machine operations.

STATEMENT OF AUDIT OPINION

Except for the internal controls for limiting access to cash boxes on revenue vehicles and after considering the changes implemented by the Accounts Receivable Billing Statement Project, the internal controls of the treasury function are adequate and provide a sound foundation upon which to implement the new automated fare collection system. The risks associated with access to cash boxes will be mitigated with the implementation of the new automated fare collection system because the new cash boxes cannot be opened with hand-held keys.

AREA RECOGNIZED FOR SIGNIFICANT IMPROVEMENT IN PROCESSES DURING THE AUDIT

Fare instruments are sent to approximately 400 retail partners on a monthly basis. Approximately 40% of Port Authority's fare instruments are sold through the retail partner Giant Eagle, approximately 30% are sold at Port Authority's service center and the remaining 30% are sold through various other retail partners. At the end of each month, the consignment retail partners return unsold fare instruments and payment for fare instruments that were sold. Giant Eagle provides a reconciliation for its accounts, however the other retail partners do not. These accounts were not consistently reconciled (i.e., cash receipts and unsold fare instruments were not reconciled against original invoices to a zero balance). Retail partners were not consistently contacted for outstanding balances. Management explained that the billing process was segregated from the accounts receivable process to address a previous internal control weakness related to segregation of duties. After the segregation, some accounts were not reconciled and some delinquent accounts were not resolved as responsibilities changed and evolved.

To address this situation, Accounting and Treasury Department personnel developed the Accounts Receivable Billing Statement Project (refer to Attachment A for details of the project). The project outlines a series of actions to improve the billing and collection process. Management reports that some of the actions implemented include working with the Legal

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Department to collect outstanding amounts due to Port Authority, training employees, defining new processes, utilizing enhanced reports to monitor account balances, documenting collection efforts and consistently reconciling vendor accounts (tracking fare instruments and reconciling original invoices to returns and cash receipts). As of December 22, 2009, management reported that five accounts totaling \$25,311 were written off and a miscellaneous balance of \$17,196 was deemed uncollectible for fiscal year 2008. The total amount of \$42,507 represents 0.09% of retail partner account sales of \$45,814,801.

Full implementation of the Accounts Receivable Billing Statement Project will address the internal control weaknesses. Internal Audit will monitor the implementation progress as part of its ongoing follow-up process. In addition, management has developed written guidelines which detail the current process for delinquent account resolution. Employees in the Accounting and Treasury Departments are commended for their prompt action in implementing the Accounts Receivable Billing Statement Project. The following is recommended:

- Procedures to determine when fare instruments should no longer be sent to customers and the manner in which accounts will be deemed uncollectible should be documented. In addition, the process used to authorize and complete any write-off should be documented.
- Management responded that the Accounting and Treasury Departments initiated the Accounts Receivable Billing Statement Project several years ago to improve the processes and controls over these functions. During the project, major improvements were made for handling deposits, customer returns, collections and reconciliation of daily activity. Management appreciates Internal Audit's recognition of the efforts made by the Accounting and Treasury Departments. The process for reviewing account balances and the process flow for collection has been documented and includes procedures to determine when fare instruments will no longer be sent to customers and the requirements for consulting with the Legal Department to determine timely write-off of accounts receivable deemed uncollectible by Finance and Legal. Procedures for authorizing and completing the write-off are currently being refined and documented. The target date for developing the above procedures is February 12, 2010.

AREA IDENTIFIED FOR PROCESS IMPROVEMENT WITH RISKS THAT WILL BE MITIGATED WITH THE IMPLEMENTATION OF NEW AUTOMATED FARE COLLECTION SYSTEM

Fare box repair rooms contain probes to open fare boxes and keys to open cash boxes. Cash boxes that contain cash and are in need of repair are sometimes sent to the fare box repair rooms without having the cash removed first. Employees having access to the fare box repair room can open cash boxes that contain cash and remove cash without detection.

- For the short term, we recommend:
 - Limiting access to the fare box repair room to authorized employees.
 - Removing currency from cash boxes prior to sending them to fare box repair rooms.
 - Maintaining lists of cash box keys and conducting periodic inventories of these keys.
 - Improving control over access to fare box repair room keys.
 - Requiring and verifying signature cards are completed for all keys issued to employees.
 - If management anticipates delays in implementing the new fare boxes, keys to cash boxes should be mounted to permanent fixtures in the fare box repair rooms so that they cannot be removed.

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- For the long term, management indicated a preference to control access to fare box repair rooms with swipe card technology and we agree that this approach would be optimal.
- Management responded that it will assess whether swipe card technology can be used to control access to all fare box repair rooms and till rooms by March 31, 2010. If swipe card technology is not feasible, keys will continue to be used and the recommendations listed above will be implemented.
- Updated cash box handling procedures were issued by Treasury Department management on October 29, 2009. These procedures include instructions to fare box repair personnel to yellow tag cash boxes containing cash and place these boxes in the till room for pick-up by the Treasury Department truck crew. With the implementation of the new automated fare collection system, situations where cash is present in the fare box repair rooms will be mitigated because the new cash boxes cannot be opened with hand-held keys.

AREA IDENTIFIED FOR PROCESS IMPROVEMENT WITH RISKS THAT WILL NOT BE MITIGATED WITH THE IMPLEMENTATION OF NEW AUTOMATED FARE COLLECTION SYSTEM

- 1) Keys to till rooms, overflow cans, J-boxes and keys to remove auxiliary tills from revenue vehicles (collectively, till room keys) are maintained in the dispatchers' or foremen's offices and these keys are accounted for daily, however, logs are not maintained in the dispatchers' offices to record key usage. Procedures for accessing keys and for entering till rooms are inconsistent between operating locations.
 - For the short term, we recommend:
 - Maintaining only two sets of till room keys and logs that document the removal and return of keys in the dispatchers' offices.
 - Requiring the Treasury Department truck crew to obtain till room keys from the dispatcher prior to entering till rooms at each location.
 - For the long term, management indicated a preference to control access to till rooms with swipe card technology and we agree that this approach would be optimal.
 - Management concurs and has reported that existing keys to access vaults and mobile bins will be replaced with the implementation of the new automated fare collection system and a key control process will be established by March 31, 2010. Management's preference is to control access to till rooms using swipe card technology and management will assess whether this technology can be implemented for all till rooms. If keys continue to be used, two sets of till room keys will be assigned to the dispatchers and a daily log of till room key usage will be maintained. Keys will be accounted for daily and inventoried periodically. A signature card will be completed for any till room keys issued to employees. The bus operations officer will ensure that new locks are installed on till room doors at all operating locations and the Treasury Department truck crew will be required to obtain keys to till room doors from the dispatchers. The target date for assessing whether swipe card technology can be used is March 31, 2010.
- 2) Eight of sixteen till room monitors at the operating locations are not in proper working order and till room cameras are not capable of recording video.

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- We recommend that these cameras/monitors should be replaced with ones that record video.
 - In response to this recommendation, cameras will be replaced as part of the closed circuit television project by March 31, 2010.
- 3) Port Authority does not complete a periodic inventory of cash boxes, auxiliary tills, overflow cans or belly boxes.
- We recommend performing an inventory of these cash handling devices several times a year on an unannounced basis.
 - The first periodic inventory of auxiliary tills, overflow cans and belly boxes was completed by November 30, 2009 and an inventory of cash boxes will be completed by February 12, 2010. Subsequent inventories will be performed several times a year on an unannounced basis.
- 4) Till room and vault door alarms have not been tested on a regular basis and a security alarm on a till room door at one of the bus garages was disabled.
- We recommend that security alarms should be tested several times a year and that alarms on till room doors should be enabled at all times unless the Treasury Department truck crew or till puller is working in the till room.
 - In response to this recommendation, security alarms are now being tested semi-annually. The bus operations officer has reinstructed dispatchers to enable till room security alarms as soon as authorized personnel finish their work in till rooms.
- 5) The technology that is currently being used in the GFI fare boxes does not allow money collected in the cash box to be reconciled to the actual amount of cash placed in the vault. Therefore, it is not possible to determine if all revenue that was collected was also deposited. These GFI fare boxes are in the process of being replaced with fare boxes that utilize technology and processes that will allow such a reconciliation. This risk is mitigated because the vast majority of currency is processed without being touched by employees until it reaches the currency processing facility which uses adequate surveillance measures to detect theft.
- We recommend that, after the new fare boxes are in use, the amount of revenue collected under the automated fare collection system should be reconciled on a daily basis with the amount of currency deposited in the bank.
 - The director of treasury operations concurs with this recommendation and the reconciliation process has been performed at the Ross garage on all new vaults as part of the new automated fare collection system pilot program. Treasury Department management has indicated that the overall accuracy level of the cash box reports when compared to the actual cash counts during the initial phase of this pilot project is 97% and that reconciliations will be performed for vaults at all locations with the full implementation of this system.
- 6) We observed that the frequency of probing fare boxes and pulling tills on the light rail vehicles (LRVs) and on the LRV system platforms was adequate. However, at the bus operating locations, opportunities to probe fare boxes were missed between 2% and 19% of the time. This probe rate did not have a significant impact on causing cash boxes to jam or to lose route-specific ridership data. However, the inconsistent probe rate is significant because it means that some cash is being left in the revenue vehicle fare boxes while they

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are unattended overnight. This situation, coupled with the fact that the keys to the cash boxes can be removed from the fare box repair rooms, creates the risk that the cash in the unattended vehicles' fare boxes can be stolen. This risk will be mitigated with the implementation of the new fare boxes because the new cash boxes cannot be opened with hand-held keys.

- We recommend that a report should be developed as part of the new fare box implementation that will allow management to monitor probe rates on an ongoing basis. If management anticipates delays in implementing the new fare boxes, probe rates should be improved for timely removal of cash from revenue vehicles and keys to cash boxes should be mounted to permanent fixtures in the fare box repair rooms so that they cannot be removed.
- Management responded that delays in implementing the new fare boxes are not anticipated at this time. The report will be requested as part of the new fare collection system.

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ATTACHMENT A – ACCOUNTS RECEIVABLE BILLING STATEMENT PROJECT

Goals

- Process deposits same/next day.
- Reconcile customer balances over 31 days.
- Tie A/R balances to General Ledger
- Establish Billing & Accounts Receivable metrics
- Establish billing standards. i.e. deliveries, returns, etc...

What has been done

- Cleared open balances prior to January 1, 2004
- Cleared transaction balances where payments were applied but residual values remained between CY 2004 - 2007
- Consolidated return and payment processes to central location
- Developed checks and balances to reconcile deposit process to ensure transactions close daily
- Implemented PeopleSoft function "Customer Conversations" to document discrepancies on current process
- Developed customer list used in conjunction with billing process to determine chronic delinquent customers for "HOLD" status.

What are we currently doing

- Ongoing contact with delinquent customers requesting payment on open invoices
- Development of IT reports to manage process
 - Customers statements
 - Deposit reports
 - Delinquent priority reporting
 - Researching and clearing open balances for CY 2008
 - Revise batch process to reconcile and age customer accounts
- Contact remaining customers for invoices with no record of payment for the period of July 1, 2006 through July 30, 2008

What activities still need done

- | | Target Date |
|---|---------------------|
| • Identify uncollectible accounts and receive write-off approval | Completed Oct. 2009 |
| • Distribute customer statements and follow-up with delinquent accounts <ul style="list-style-type: none"> ○ Create a collection letter to distribute with the first pass of customer statements | 11/30/2009 |
| • Develop an accounting process for consignment sales and tie to G/L | 1/31/2010 |
| • Develop process to record and reconcile Giant Eagle consignment sales | Completed June 2009 |
| • Research and implement PeopleSoft functionality to automate the tracking and resolution of customer billing issues | Ongoing |

Recommendations

- Write-off old open balances that may not be collectible due to time outstanding
- Establish a customer collections function
 - Recover revenue
 - Statement resolution
- Record payments online → PNC process
- Revise payment terms for ticket orders to payment upon receipt
 - Request payment in advance for customers with past payment delinquency
- Phase out zone ticket sales and distribution at retail sites in preparation of fare collection project
- Reduce numbers of retail outlets by eliminating low volume locations and develop minimum billing requirements
- Develop the A/R Billing dashboard.