# Fairfax County Internal Audit Office

**Department of Transportation**
**Fairfax Connector Revenue Collection Audit**
**Final Report**

**July 2008**

*"promoting efficient & effective local government"*

# Executive Summary

Our audit of the Fairfax Connector farebox revenue collections process found that revenue owed the county was being properly collected, safeguarded, and deposited and there was a separation of duties within the process. The farebox collection process along with bus operations was outsourced to Veolia Transportation in 2002 under a contract awarded by the Department of Purchasing and Supply Management (DPSM). In FY 2006, the farebox revenue was $2.9 million, which represented approximately 20% of the costs to the county for the contract. The Department of Transportation's (DOT) role is to monitor Veolia's process and contract compliance.

We identified more than $100,000 in farebox revenues that had been collected and deposited in the contractor's bank account through June of 2006, but had not yet been credited to the county on the contractor's monthly invoice. We noted that DOT was monitoring the contract, however we determined that oversight could be strengthened by applying additional control procedures to its monitoring activities. The following areas were in need of improvement:

- Monthly reconciliations of cash counts with revenue reports per invoice were not consistently performed
- Farebox pullers were not reconciling puller reports to the bus assignment sheets to ensure complete collections
- Three years of relevant financial records were not retained by DOT per state and county requirements

Additionally, we noted that in one instance a formal adjustment to the contract terms was not implemented and a verbal agreement was used to procure additional services without the required written documentation or contract changes.

# Scope and Objectives

We performed this audit of the Fairfax Connector's farebox revenue collection process as part of our Annual Audit Plan, at the request of DOT management. Our objectives were to determine that:

- Revenue owed the county was collected
- Amounts received were deposited
- There was separation of duties within the collection process
- There had been proper adjustments, or refunds of amounts due
- Fees were calculated properly and
- Revenue collected was properly safeguarded.

We concentrated our testing on fiscal year-end June 30, 2006, revenue reports and other farebox revenue information.

# Methodology

Our audit included detailed testing and analysis of the farebox revenue reports, bank statements and contractor invoices. Additionally, we interviewed key DOT personnel involved in the process, contractor personnel and performed a site visit at the Fairfax Connector's Huntington Bus Division to observe the process. We focused our audit testwork on the Huntington Bus Division. We referred to the Washington Metropolitan Area Transit Authority's (WMATA) as a relevant comparison and evaluated pertinent applicable procedures within the DOT business practices. We also researched materials from the Transit Cooperative Research Program which is sponsored by the Federal Transit Administration (FTA).

Our audit did not examine the system controls over financial applications. Our transaction testing did not rely on these controls; therefore, this was not a scope limitation.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the county executive and the Board of Supervisors, and reports are available to the public.

# Findings, Recommendations, and Management Response

**1. Timely Reconciliations**

DOT reconciliations of farebox revenue cash-counts, GFI reports (a cash box mechanism which provides ridership data and dollar volume) and revenue credits per monthly vendor invoices were not performed on at least a monthly basis. Documentation of reconciling items was not descriptive in the reconciliations that were provided for our review. We determined that neither the contractor nor DOT was performing monthly reconciliations. Veolia did prepare a comparison of bank cash deposits with the farebox receipts per the GFI reports.

The fiscal year 2005 DOT reconciliations of cash counts and credits per Veolia's invoice were infrequent; however, they did identify over $167,000 in revenue credits through November 2005 which were not included in Veolia's invoices. These funds were eventually credited on subsequent invoices in late calendar year 2005 and early 2006.

Our analysis of cash receipts per the bank deposits and revenue credits per Veolia's monthly invoice identified in excess of a $100,000 shortfall in credits that were not given the county for farebox revenue collected for the seven month period up to June 2006.

Accurate and timely reconciliations of farebox revenue cash counts, GFI reports and farebox revenue credits per vendor invoices should be performed regularly. Lack of review for extended periods makes recovery and error correction more difficult.

Differences should be investigated and reconciled. We noted that the under-applied credits that were not included in Veolia's monthly invoices in 2005 and 2006 caused the county to pay a total of $270,000 before actually being due. These funds could have been invested in the county's cash investments earning interest for a portion of each fiscal year.

**Recommendation:** We recommend that DOT perform monthly reconciliations of the farebox revenue credits with the vendor monthly invoices and cash counts per the bank. We recommend documented supervisory review of the reconciliations, including written supervisory approval. Shortages should be reimbursed by the contractor on a monthly basis per the contract terms. Further, the contractor should be required, per the contract terms, to provide monthly reports, including daily farebox reconciliations, to DOT.

**Management Response:** DOT understands the necessity of capturing all revenue sources. The contract does state that a daily farebox reconciliation report be part of the monthly invoice.

Since the audit was performed, DOT has now received the new fareboxes and electronic payment capabilities that make it much easier for reconciliation. The implementation of this new capability (also known as SmarTrip) has been in process for a few years and is finally coming to fruition. DOT will perform reconciliations at least monthly and hopes to now be able to perform them on a weekly basis. This will depend, however, on how the data upload to the Washington Metropolitan Area Transit Authority centralized reporting system works.

In addition, DOT is advertising to fill a position whose main function will be to review this data, perform reconciliations and overview other data management reports. This position will have close supervision regarding these duties.

## 2. Reconciling Reports by Farebox Pullers

During our site visit to the Huntington Bus Division, we noted that the farebox pullers were not reconciling their puller reports to the bus assignment sheets. A puller report included the date, bus number and other operational information about the bus along with the puller's initials. Consequently, Veolia personnel did not know if they had properly accounted for and removed farebox revenue from all revenue buses that operated on a particular day.

Internal controls are enhanced by reconciling the puller reports to the bus assignment sheets in order to properly account for all buses in operation on a given day and remove revenue before the bus is left in an unsecured area.

When discussing the puller reports with Veolia personnel we found that Veolia had not developed policy and procedures regarding the farebox pullers and could not demonstrate that reconciliations were being performed. By not accounting for all revenue busses that operated during the day the contractor was potentially risking incomplete collections.

**Recommendation:** We recommend that DOT require the contractor to develop and implement policy and procedures for the farebox pullers to reconcile their reports with the bus assignment sheets and thereby account for the buses that operated on a particular day. Reconciliations should be reviewed and signed-off by supervisors.

**Management Response:** DOT concurs with the recommendation and has instituted such a policy to address the findings. The implemented policy requires a comparison between buses dispatched to buses probed. The contractor will be required to document any exceptions to DOT's satisfaction.

One change, however is that while buses could be probed each day, a bus that is not probed on the same day does not cause an inaccuracy in overall revenue collection for the week. This is because on the next day the bus is probed and the revenue accounted for.

**3. Contract Changes**

A $.25 reduction in the revenue rate for operations at the Huntington Bus Division was included in contract amendment #10 (effective September 26, 2006), but was not being directly realized by the county. Rather, the reduction was offset in exchange for additional staff training to be provided by Veolia. There was no written agreement detailing the terms of this offset or the nature and exact value of the training provided.

The $.25 per hour reduction was to compensate the county for paying additional utility costs at the Huntington Bus Division which were not included in original contract. This revenue rate reduction was estimated to be over $50,000 in lower expenses for 2006. By not strictly following contract terms and instead agreeing to substitute training for amounts owed, the risk of potentially overpaying for training received is increased and the agreement is not in compliance with purchasing policy.

**Recommendation:** We recommend that future changes in the contract requirements, such as training, be documented in written amendments. Contract changes which affect the level of revenue received should be accounted for directly in the applicable accounts, while training should be contracted for separately, in accordance with county procurement policy. The department should ensure that all staff receive sufficient training and conduct contract management operations in compliance with county procurement guidance.

**Management Response**: While DOT did not intend to go around any purchasing regulations, we recognize that this revenue should have been recorded and any training program should have been negotiated separately with Veolia through the Department of Purchasing and Supply Management. In the future DOT will work with the DPSM whenever changes are needed to the contract. The department's decision to do this was based on a calculation of the cost of the training using the $.25 per hour multiplied by the number of revenue hours of service.

## 4. Record Maintenance and Retention Policy

We determined that some categories of records were not available during our testwork to substantiate monthly billing to DOT. Bank statements and deposit slips for fiscal year 2006 were not fully maintained in compliance with the Virginia Record Retention Act (Act) and county ATB 10040 - Accounting Records Retention, which require that the records be kept for three years. We also noted that DOT did not have a written policy for maintaining records or how long records should be maintained.

The county's contracts require the contractor to maintain records for up to three years in the event of an audit. At a minimum, county departments are required to maintain invoices and other financial documentation for a three year period. Additionally, this requirement should be written and included in DOT's policies and procedures manual. Records retention is mandated because of their fiscal, administrative and legal value.

**Recommendation:** We recommend that DOT establish a records retention policy that complies with the Virginia Records Retention Act and county ATB #10040 whereby all contractor invoices and records are maintained a minimum of three years (hard copies or electronic).

**Management Response:** While DOT maintains contractor invoices and reports for three years, the department was not keeping the bank statements or deposit slips for the required three year period. DOT has made record retention changes and now retains bank statements and other relevant documentation. As per Accounting Technical Bulletin #10040 all records will be retained for at least three full contract years.