

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE SHREVEPORT AREA TRANSIT SYSTEM (SporTran)

INTERNAL AUDIT REPORT 160013-06

December 31, 2013





The Council
City of Shreveport

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December 31, 2013

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Joe Shyne:

Subject: IAR160013-06 - Audit of the Shreveport Area Transit System (**SporTran**)

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
AUDIT OF THE
SHREVEPORT AREA TRANSIT SYSTEM (SporTran)
INTERNAL AUDIT REPORT (IAR) 160013-06**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Shreveport Area Transit System (SporTran) is the mass transit system for the citizens of Shreveport and Bossier City.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains six findings and eight recommendations.

Risk Levels	Recommendations
<p style="text-align: center;">High Risk</p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	<p>No findings were considered high risk</p>
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<ul style="list-style-type: none"> • Determine operational means to decrease operational costs and increase customer ridership. Maintain and provide productivity service measures (performance standards) for services rendered. Determine if all applicable charges are considered in indirect costs associated with the Bossier City operation. (Findings 1, 2, and 3)
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<ul style="list-style-type: none"> • Develop a written policies and procedures manual that clearly defines authority and responsibilities for operational and administrative activities. (Finding 4) • Periodically obtain claims information from the City's Risk Management office. (Finding 5) • Ensure that discrepancies noted during cash reconciliation procedures are resolved. (Finding 6)

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AUDIT OF THE SHREVEPORT AREA TRANSIT SYSTEM (SporTran) INTERNAL AUDIT REPORT (IAR) 160013-06

OBJECTIVE

Our objective was to determine if SporTran's operations were being conducted consistently with applicable terms established by federal, state and local laws and regulations.

INTRODUCTION

The Shreveport Area Transit System (SporTran) is the mass transit system for the citizens of Shreveport and Bossier City.

SCOPE AND METHODOLOGY

The scope of the study of internal control was limited to the general controls surrounding our objectives for the specified operating years 2010 through 2012. Audit procedures applied included the following:

- Determine compliance with the management agreement by and between the City of Shreveport and Metro Management Associates, Inc., the company who manages SporTran's operations.
- Determine compliance with federal, state, and local laws and regulations governing grant monies received.
- Determine if goals and objectives of the unit were being met.
- Ascertain if proper controls over cash, inventory, and payroll were established.

We conducted this audit in accordance with generally accepted government auditing standards, except that a peer review has not been performed, and included such test of procedures and controls as considered appropriate. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

BACKGROUND

The Shreveport Area Transit System (SporTran) was established pursuant to Article 9 of the Shreveport City Charter, which provides that a *"city transit department shall be responsible for the proper operation and management of public transportation in the city..."* SporTran's mission is to provide transportation service to the Shreveport and Bossier City metropolitan community effectively and efficiently. The City of Shreveport contracts with Metro Management Associates, Inc. to manage and oversee SporTran operations. Approximately 150 employees are employed by Metro Management Associates to carry out SporTran activities. In 2012 SporTran's service consisted of 17 bus routes operating in Shreveport and Bossier City, carrying approximately 3.5 million passengers. The bus service operated with 45 vehicles, seven days a week. SporTran's 2012 operating budget was \$13.6 million.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office appreciates the courtesy and cooperation extended to us by SporTran personnel during the audit. Based on the results of our audit, our observations are listed below.



1. Operational Expenses

Criteria: As an enterprise fund, SporTran’s operations are accounted for and operated in a manner similar to a private business, in that the costs of providing goods and services to the general public should be financed through user charges.

Condition: As illustrated in the chart below, the amount of subsidy provided by the City and SporTran’s operational costs have increased while ridership (measured as passenger miles) has slightly decreased from 2008 to 2012.



Effect: The overall cost to operate SporTran has increased with the additional money that the City pays to help operate SporTran coming out of the City’s general operating funds.

Cause: The overall cost to operate SporTran has increased.

Recommendation: We recommend that SporTran look for ways to decrease operational costs and increase ridership.

Management Plan of Action: SporTran is working with the Northwest Louisiana Council of Governments (NLCOG) to prepare a Transit Development Plan (TDP) in 2014 aimed at enhancing operational efficiency and increasing ridership. Major route changes are anticipated as a result of this plan, with changes expected to coincide largely with the opening of the new Intermodal Terminal in 2015. SporTran is also deploying a real-time passenger information system in 2014 to improve access to information for passengers as a means to attract new riders and retain current customers. Operating costs will however continue to increase due to inflation and other ordinary costs of doing business. To keep



City subsidies flat year over year, SporTran must increasingly rely on federal grants to pay for maintenance costs. The effect of this is that less federal funds are available for capital equipment, i.e. buses, which hampers efforts to replace vehicles that have reached the end of their useful life and thus impacts efficiency.

Additionally, it should be noted that SporTran brought the paratransit LiftLine service in house in 2012 in an effort to improve operations and control costs (this service was previously contracted out to Balentine). LiftLine trips have more than doubled since this transition, without additional subsidy from the City required.

2. Bossier City Chargeback

Criteria: The fees for services should be based on all costs to provide the services.

Condition: SporTran charges Bossier City for bus transportation. The charge back fee does not include the indirect costs to the City.

Effect: It is estimated that the Bossier City fee would have been an additional \$32,000 in 2012. This is based on the 2012 indirect costs of \$361,438.

Cause: Only the direct operational costs were included in the calculation of the charge back fee. Indirect costs incurred by the City were not included.

Recommendation: We recommend that SporTran include indirect costs to the City within the Bossier City charge back fee. Additional review is needed to determine if all of the claims costs are included in the indirect costs.

Management Plan of Action: SporTran started charging Bossier City indirect costs in 2010 for estimated retained risk, however, information on indirect costs from the City of Shreveport cost allocation plan has not regularly been available to Metro Management to include this in the Bossier City charge back fees. Information has also not been available from Bossier City on indirect costs that would possibly need to be applied as a credit to the billings.

There has been some indication from the City Attorney's office that there is a desire to update the agreement between Shreveport and Bossier related to transit operations. Metro Management recommends that details on the calculation of charge back be included in the new agreement.

3. Performance Standards

Criteria: Performance standards provide a measurement of an organization's effectiveness and efficiency.



Condition: Performance standards have not been established for SporTran. The management agreement contract with Metro Management Associates (MMA) allows the City to establish performance standards.

Section 1 B) States that MMA shall provide complete, efficient and economical management services to operate the System including all transit properties, equipment, assets, and facilities, and addition to and extensions thereof, in accordance with such reasonable performance standards as may be developed and promulgated by the mayor or his designee.

Effect: No gauge of effectiveness and efficiency.

Cause: SporTran is not required to provide performance standards.

Recommendation: We recommend that SporTran provide performance measures such as, service efficiency, cost and service effectiveness for the bus and for the para-transit services. Consider those listed in the national transit database such as operating expense per vehicle revenue mile and hour, and operating expense per passenger mile.

Management Plan of Action: SporTran prepares monthly performance statistics and uses these for internal management and control. These can be made available to the administration for review. As part of the TDP referenced in #1 above, an outside consulting team will be developing a set of performance indicators for transit asset management and transit safety. These will be incorporated into future monthly performance reports developed by SporTran.

4. Operating Policies and Procedure Manual

Criteria: A standard operational procedures manual can improve operations by providing uniformity in practices, establishing clear lines of responsibility, enhancing accountability, and lessening the threat to continuity posed by employee turnover.

Condition: An operating policies and procedures manual that clearly communicates and defines authority and responsibility to its employees had not been developed. Management officials opined that developing one was not necessary because each function within the operation was governed by stated transportation policies and mandates. Although some policies and procedures are documented, a centralized and comprehensive manual is not available for each distinct operational department/area.

Effect:

- Operations may not be in accordance with mission.
- Existing laws and regulations may be violated.
- Full compliance with established policies and procedures may assist management in curbing discrepancies in future operational reviews.
- Employees may establish their own personal policies and procedures

Cause: Management determined that the need for such a document was not required.



Recommendation: SporTran management officials should consider adopting a written operational policies and procedures manual that communicates and clearly defines to employees authority and responsibility for both operational and administrative activities. Specifically, administrative policies regarding personnel issues, training, financial reporting, and other relevant requirements should be addressed therein.

Management Plan of Action: Metro Management began developing a comprehensive set of operational policies and procedures in August 2013, including an employee handbook that will be disseminated in January 2014.

5. Risk Management Claims Information

Criteria: Complete accident and claims information would allow management to determine the costs of accidents and claims.

Condition: Sportran maintains an accident/incident log as part of their safety program. We noted that although the accident/incident log contained the initial accident information, such as, date of incident, location, and number of injuries, it did not contain the information from the City's Risk Management claim's list, such as, the total number of claimants, amount incurred, amount paid.

Effect: Risk Management's claims list would aid Sportran management in determining the claims costs to the City.

Cause: Sportran does not receive a summary of claims information from the Risk Management Division.

Recommendation: To help ensure completeness of claims information, we recommend that Sportran receive the claims information from the City's Risk Management Division to aid in making management decisions regarding safety and liability issues.

Management Plan of Action: The City's Risk Management Division provides claims information to SporTran upon request, and mechanisms for better coordination were implemented starting in 2013. SporTran has also begun meeting with its insurance broker quarterly to review claims and coverage.

6. Cash Management Procedures

Criteria: Good internal control policies require that a consistent method for recording and reconciling cash overages and shortages be in effect. When a significant difference occurs between the physical cash count and that shown per related automated devices, provisions should require that an investigation be made to reconcile any discrepancies.

Condition: Procedures as noted above were not in effect at the beginning of our fieldwork. However, revisions were made shortly after to more accurately resolve discrepancies



previously noted between physical cash count amounts and data recorded by bus-installed computer equipment devices.

Effect:

- Inability to accurately reconcile cash balances.
- Potential for fraud, waste and abuse of revenue.

Cause: Ineffective use of generally accepted revenue accounting practices.

Recommendation: The SporTran resident manager should take appropriate actions to:

- Ensure that proper accountability over revenue receipts is established accurately.
- Ascertain that electronically-recorded data secured from each of the buses in use is consistently reconciled with actual cash received.
- Establish procedures to ensure that any accountability discrepancies noted during related cash reconciliations are investigated without delay and recorded accordingly.

Management Plan of Action: SporTran has had stringent internal controls in place since 1990 to monitor discrepancies between the cash count and data that is electronically recorded by fare boxes and investigates any discrepancy of more than \$100 for the three/four day count. This threshold for investigation is well within the tolerance suggested by the fare box manufacturer. SporTran also has audit procedures in place so that all fare boxes are audited monthly to detect malfunctions or to verify manual probes in case of fare box failure. Records for historical money counts, audits, and investigations are available for review.

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