



**CHARLOTTE**<sup>SM</sup>

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**INTERNAL AUDIT**

**Audit Report  
CATS Bus Operations – Imprest Account  
For Fiscal Year 2014  
October 27, 2014**

**City of Charlotte  
City Auditor's Office  
Gregory L. McDowell, CPA, CIA**

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**For Fiscal Year 2014**  
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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, 2014. 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.

**Summary Results**

The annual cost of bus operations exceeds \$57 million, with over three-quarters of this cost covering payroll and related expenses. The system of controls used by TMC is adequate to ensure satisfactory compliance with the City's contract. Controls are also sufficient to ensure the wire transfers are accurately recorded and all significant reimbursement requests are adequately supported. Recommendations have been made to further improve controls. CATS staff agreed with the findings and has begun implementing corrective measures.

## **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.

**Audit Findings and Recommendations**

**1. The Retiree Health Insurance Fund should be administered as outlined in the Operations Agreement between TMC and UTU.**

On February 21, 2012, the Operations Agreement between TMC and UTU established the Retiree Health Insurance Fund which they would jointly govern. With the assistance of TMC, the Fund was to acquire an investment and administrative vehicle. A weekly fee was to be deducted from the paycheck of each participating employee and deposited into the fund. TMC agreed to make a one-time contribution of \$50 per participant into the Fund during the first full pay period in February 2012.

Exceptions noted include the following:

- An investment and administrative vehicle for the Retiree Health Insurance Fund has not been acquired, and the funds deducted from the participants' wages have been deposited into the Bus Imprest Account (non-interest bearing account) maintained by TMC. Therefore, the funds are not producing any earnings. A total of \$30,663 (\$18,774 for FY13 and \$11,889 for FY14) was withheld from employees' paychecks.
- TMC has not made its required contributions of \$50 per employee for the 94 participating employees (\$4,700).

According to TMC, the Committee charged with setting up this Fund has found the task to be difficult and continues to consider the following: payout administration; eligibility; selection of a fund administrator; and the appropriate expenses allocable to fund management.

**Recommendation:** 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.

**CATS Response:** United Transportation Union Local 1715 is a full partner in this endeavor. McDonald Transit is not in a position to unilaterally impose conditions without the Local's consensus.

CATS has directed McDonald Transit Associates, Inc. to fulfill its contractual obligations. A suitable vehicle must be found to hold the fund, and TMC must make its contribution to the fund. CATS has recommended that TMC investigate other companies with agreements for similar funds, as it develops its approach.

McDonald Transit has agreed and will comply as soon as practicable.

2. **Requests for Reimbursement from the City of Charlotte should include adequate backup documentation.**

Controls should be in place to provide assurance that goods have been received in proper quantity and condition before invoices are approved. As a part of the agreed-upon procedures performed for external auditor Cherry Bekaert, internal audit staff examined 20% of TMC's weekly reimbursement requests.

Missing or inaccurate documentation included the following:

- Auditors reviewed invoices which included \$39,678 – of total uniform expenses exceeding \$200,000 during the year. About \$3,000 of the \$39,678 uniform reimbursement requests paid to Best Uniform were not adequately documented. Sixty items totaling \$2,194 were listed on invoices, but were not included in requisitions (as ordered or received). Four invoices totaling \$523 were ordered by TMC administrative staff with no documentation of the employee. Eight items totaling \$275 did not have a signature of the employee as evidence of receipt.
- Other invoices from Best Uniform included a larger quantity of items than were shown on the requisition, items invoiced at a higher cost than shown on the requisition, and items substituted for items ordered on the requisition. No comments were shown on the invoices or requisitions to justify these changes.
- Supporting documentation for insurance that was about \$1,000 less than the request.
- Over \$200 reimbursement for fast food restaurant expense without a receipt.
- Receipts without signatures for employee work-shoes.

**Recommendation:** 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.

**CATS Response:** CATS has reviewed the documentation and concurs with the finding. CATS staff has instructed TMC to develop guidelines to obtain complete documentation and signatures where appropriate.

CATS staff will review the Imprest Fund documents to ensure that TMC is complying with expectations.

3. **TMC should have backup staff available to perform the payroll functions.**

In December 2013, the Maintenance Administrator (title of person performing payroll duties) was unable to perform the payroll functions for the maintenance staff for three pay periods. The substitute who prepared the payroll was not adequately trained. As a result, many employees were paid for the incorrect number of hours. Upon return, the Maintenance

Administrator checked all three payroll periods, identified the errors and made the appropriate adjustments in a subsequent pay period.

Although the errors were detected and corrected on a timely basis, it is important to have adequately trained staff to perform payroll duties in the absence of the person primarily responsible.

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

***CATS Response:*** CATS will direct McDonald Transit Associates, Inc. to adequately train at least one other staff member to step in when the maintenance payroll clerk is away.