AC TRANSIT DISTRICT
Board of Directors
Executive Summary

GM Memo No. 05-043
Meeting Date: February 16, 2005

Committees:
Planning Committee □
External Affairs Committee □
Student Pass Committee □
Board of Directors □

Finance Committee  □
Operations Committee □
Paratransit Committee □
Financing Corporation □

SUBJECT:
Internal Audit 2nd Quarter Status Report (FY 2004/05)

RECOMMENDED ACTION:
☒ Information Only  ☐ Briefing Item  ☐ Recommended Motion

Fiscal Impact:
None

Background/Discussion:
AC Transit Administrative Regulations require that the Internal Audit Department report quarterly to the Board of Directors on the status of the audit program. This report summarizes the status of all audit activities for the 2nd quarter of fiscal year 2004/2005.

BOARD ACTION:  Approved as Recommended  [x]  Other  [ ]
Approved with Modification(s)  [ ]

MOTION:  BISCHOFBERGER/JAQUEZ to receive report as presented (7-0-0-0).

Ayes: Directors Bischofberger, Jaquez, Kaplan, Hayashi, Peeples, Vice President Harper, President Wallace - 7
Noes: None - 0
Abstain: None - 0
Absent: None - 0

The above order was passed and adopted on March 2, 2005.

Rose Martinez, District Secretary

By ________________________________
During the 2\textsuperscript{nd} Quarter of fiscal year 2004/2005, three projects were completed, and one had fieldwork in progress. The three completed audits include: Purchase Card Policy Compliance Review, Oakland Ticket Office Audit, and the S.F. Ticket Office Audit. Additionally, the Fixed Asset Inventory Audit was in progress.

\textbf{AUDIT PROJECTS COMPLETED:}

\textbf{Purchase Card Compliance Review}

The purpose of this review was to evaluate the District’s purchase card program to determine if internal controls are adequate to ensure accurate accounting, valid purchases, and compliance with District policies and procedures. The scope of the audit covered review of internal controls over credit card issuance, card inventory, and expenditures. Internal controls within the purchase card system were evaluated for adequacy, and transactions were tested to evaluate degree of compliance with District policy relating to purchase cards.

The audit was initially completed with a report in August 2004. Department management discussed the draft report in August and agreement was obtained. The results of the audit indicated that the overall internal control over purchase card purchases was strong, and that testing of transactions indicated an overall high degree of compliance district-wide. Staff had noted only one account holder with outstanding purchase documentation.

The District has continued to follow-up on the required documentation. The Internal Audit Department assisted in this process by reviewing and reporting on the documentation status. The District noted significant progress in early January 2005, and expects that it will continue until its resolution.

\textbf{Oakland Ticket Office Audit}

The purpose of this audit is to determine if internal controls for handling and accounting of ticket stock and revenues are adequate to safeguard them against loss, improper handling and accounting. The audit continues to focus on the ongoing improvement efforts of the department to ensure the adequacy of internal controls over ticket and cash handling.

The audit report was issued and discussed in December 2004. Staff found no significant variances in cash and ticket counts, and agreements between recorded cash accountability and cash on hand. Audit staff commends the department for improving its overall internal control, especially by maintaining its efforts to perform supervisory surprise cash audits.
S.F. Ticket Office Audit

The purpose of this audit is to determine if internal controls for handling and accounting of ticket stock and revenues are adequate to safeguard them against loss, improper handling and accounting. The audit continues to focus on the ongoing improvement efforts of the department to ensure the adequacy of internal controls over ticket and cash handling.

The audit report was issued and discussed in December 2004. No material variances were found in cash and ticket counts, or between recorded cash accountability and cash deposited. It was also found that internal control had improved due to departmental efforts to keep up with supervisory surprise cash audits. Staff noted that department management has taken concrete steps to implement a major recommendation to increase frequency of central ticket stock audits. Discussions and observations indicate the department is continuing its focus on maintaining good internal controls over its cashiering operations.

AUDIT PROJECTS IN PROGRESS:

Fixed Asset Inventory Audit

The purpose of this audit is to ascertain the accuracy of fixed asset inventory records and the balance in the District’s fixed asset inventory account in the general ledger. The review will focus on recorded balances in the financial statements and subordinate reports, and also include a review of internal controls surrounding fixed asset inventory. The testing procedures will consist of physical inspection of a sample of fixed assets on District premises, and verification of proper identification and recording. For the physical test of inventory, inventory items will be selected from the fixed asset system as of January 10, 2005.

Completion of the audit occurred in January 2005, and an audit report will be issued and responded to in February.

NEXT QUARTER SCHEDULED AUDIT PROJECTS (3rd QUARTER FY 2004/2005):

For the 3rd Quarter of FY 2004/2005, it is expected that the Fixed Asset Inventory Audit, Warranty Tracking System Review, P.G.&E Electric Billing Review, and Kaiser Eligibility Review will be completed or in progress.

Prior Relevant Board Actions/Policies:
Board Policy #334 requires that the Internal Audit Department submit a quarterly status report of audit activities to the Board of Directors.
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Attachment: (A) FY 2004/05 Audit Plan Status Report

Approved by: Rick Fernandez, General Manager

Prepared by: Jim Gleich, Deputy General Manager
              Tom Wong, Manager of Internal Audit

Date Prepared: February 4, 2005
## AC TRANSIT DISTRICT
### INTERNAL AUDIT DEPARTMENT
#### FY 2003/2004 AUDIT PROJECTS STATUS REPORT
Through the 2<sup>nd</sup> Quarter of 2005

<table>
<thead>
<tr>
<th>No.</th>
<th>Audit Project Name</th>
<th>Status</th>
<th>Status Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Remanufactured Inventory Advisory Follow-up</td>
<td>Completed</td>
<td>Audit work completed and results discussed with department management in August 2004.</td>
</tr>
<tr>
<td>6.</td>
<td>Health Insurance Benefit Eligibility Advisory</td>
<td>On Hold</td>
<td>Advisory on hold.</td>
</tr>
<tr>
<td>7.</td>
<td>Oakland Ticket Office Audit</td>
<td>Completed</td>
<td>Audit completed with audit report issued to Department management for response in December 2004.</td>
</tr>
<tr>
<td>8.</td>
<td>S.F. Ticket Office</td>
<td>Completed</td>
<td>Audit completed with audit report issued to Department management for response in December 2004.</td>
</tr>
<tr>
<td>9.</td>
<td>Brinks Farebox Revenue Handling Audit</td>
<td>Planned</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Grants Expenditures Accounting Review</td>
<td>Planned</td>
<td></td>
</tr>
</tbody>
</table>
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### INTERNAL AUDIT DEPARTMENT
#### FY 2003/2004 AUDIT PROJECTS STATUS REPORT
Through the 2nd Quarter of 2005

<table>
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<tr>
<th>No.</th>
<th>Audit Project Name</th>
<th>Status</th>
<th>Status Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.</td>
<td>Long Term Leave Procedural Compliance Review</td>
<td>Planned</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Petty Cash Audit</td>
<td>Planned</td>
<td></td>
</tr>
<tr>
<td>14.</td>
<td>Accounts Payable Payment Audit</td>
<td>Planned</td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>EBMUD Water Billing &amp; Conservation Survey</td>
<td>Planned</td>
<td></td>
</tr>
<tr>
<td>17.</td>
<td>Other Special Request Audit Projects &amp; Business, Accounting, &amp; Control Advisories</td>
<td>Planned</td>
<td></td>
</tr>
</tbody>
</table>

### Other Work In Progress

Internal Audit Department website/Info Central construction in progress. The objective will be to enhance knowledge of internal control and related best business practices district-wide. Additionally, this information will help departments evaluate their own internal control systems, as well giving employees information to help protect valuable assets.