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TO: BOARD OF DIRECTORS

FROM: RONNY GOLDSMITH 

**SUBJECT: FOLLOW-UP TO THE SEPTEMBER 1995 OIG
REPORT - "A REVIEW OF MANAGEMENT
CONTROLS OVER THE BUS REVENUE SYSTEM"**

ISSUE

This report provides an update on actions taken to address recommendations made by the Office of the Inspector General in the September 1995 "Review of Management Controls Over the Bus System."

BACKGROUND

In September 1995, the Office of Inspector General issued "A Review of Management Controls Over the Bus Revenue System." The report identified deficiencies in our system and issued recommendations to improve the overall controls of revenue related operations.

The report addressed:

- a) maintenance of fare collection equipment
- b) currency processing operations
- c) cash counting facility
- d) controls and security of revenue equipment repairs
- e) controls and supervision of vaulting operations

STATUS REPORT

The Revenue Department, formed in July 1995, is working to address the issues raised in the Inspector General's Report. Funds are included in the FY 97 budget to implement many of the recommendations from the report. The key points are:

- 1) The FY 97 Operating Budget includes funds for fifteen positions to:
 - a) conduct inspections and ensure compliance with revenue policies and procedures,
 - b) repair and provide preventive maintenance to receiver vaults, fareboxes and cashboxes,
 - c) improve service to the public at our Customer Service Centers and
 - d) establish a full-time unit for collection of receivables owed to the MTA.

- 2) The bid for currency counting services has been released with responses due by July 1, 1996. The vendor responses will determine if it is advisable to continue to have the work performed by contractors or to bring this work in-house.

- 3) The design work was started in May 1996 on a "Point of Sale" system to account for the token inventory and fare media sales at the Customer Service Centers.

ATTACHMENT

Attachment A: Status Report through June 1996, Follow-up to Recommendations from Inspector General's Review of Management Controls over Bus Revenue System (9/15/95)

Prepared by: Agapito Diaz

**STATUS REPORT THROUGH JUNE 1996
FOLLOW-UP TO RECOMMENDATIONS FROM INSPECTOR GENERAL'S
REVIEW OF MANAGEMENT CONTROLS OVER BUS REVENUE SYSTEM (9/15/95)**

RECOMMENDATIONS	ACTIONS TAKEN	FOLLOW-UP
<p>1. Ridership statistics be accurately collected and analyzed in relation to actual revenues and that estimates of expected revenues be developed.</p>	<ul style="list-style-type: none"> • Reports have been developed that combine revenue and ridership data. The extensive use of passes in our system and the methodology for sampling ridership data does not allow us to accurately project revenues down to the level of individual bus routes. 	<ul style="list-style-type: none"> • Planning staff is working to develop a more accurate fare model to report on ridership. • The Agency is designing a regional fare collection system that will accurately capture ridership data. Funds have been included in the FY 97 budget to proceed with this project.
<p>2. Daily cash reconciliation be made between the control totals and an actual count and that all significant variances be resolved.</p>	<ul style="list-style-type: none"> • A systematic process is now in place to follow-up on negative variances of 2% or greater in dollar currency (difference between revenue counted and reported in probe data). Procedures include equipment checks, evaluation of records and counts, meetings with Transit Police and support staff. Computer equipment down time and our system of combining revenues from hundreds of buses into 2 or 4 safes makes it unfeasible to reconcile all differences. 	<ul style="list-style-type: none"> • In FY 97, staff will work with ITS personnel to improve transmission of revenue data by upgrading the revenue computers used in the divisions. • In FY 97, currency counting equipment will be modified to include use of computers in the counting process. This will improve our ability to identify errors and improve audit functions. • The FY 97 budget includes funds to design a fare collection system that will provide more accurate data and increase our ability to manage revenue operations.

RECOMMENDATIONS	ACTIONS TAKEN	FOLLOW-UP
<p>3. That statistically valid cashbox audits be regularly conducted and followed up on.</p>	<ul style="list-style-type: none"> The procedures for the farebox reviews have been revised. A team goes out once per week to inspect one division. The audit teams also follow-up on divisions with trends of negative variances between probe data and actual revenue counts. 	<ul style="list-style-type: none"> The FY 97 budget includes 6 permanent positions to field a revenue compliance team. The team will conduct farebox inspections, follow-up on compliance with revenue procedures (transfer controls, vaulting, etc.)
<p>4. That transfers and tokens be accounted for on a daily basis as to the number issued and returned.</p>	<ul style="list-style-type: none"> A perpetual inventory of tokens is now maintained by staff. Our system now accounts for tokens received in fareboxes and distributed for sale. Surplus tokens were moved to a bonded warehouse. Control of transfers remains the responsibility of Operations. Procedures were revised to improve accountability of transfers. 	<ul style="list-style-type: none"> In FY 97, the daily probe reports will be modified to include data on tokens from farebox. In FY 97, a point of sale system will be developed to account for all our fare media sales including token distribution and inventory.
<p>5. That frequent inspections be conducted on the conditions of the fareboxes, cashboxes, receiving vaults and mobile safes and that regular preventative maintenance schedules be established.</p>	<ul style="list-style-type: none"> Schedules of maintenance staff have been changed to include preventative maintenance work on revenue equipment. Modifications were developed that will improve security of receiver vaults and cashboxes and decrease frequency and cost of repairs. Staff has started to make these changes to the equipment. 	<ul style="list-style-type: none"> Funds were included in the FY 97 budget to refurbish all revenue vaults and cash boxes over the next 18 months, and to provide two new staff positions to increase the level of preventative maintenance. A proposal to implement a bar code system to track revenue equipment, work performed and repair history was included in the FY 97 budget.

RECOMMENDATIONS	ACTIONS TAKEN	FOLLOW-UP
<p>6. That an equipment replacement program be instituted and budgeted for.</p>	<ul style="list-style-type: none"> • A program to upgrade and refurbish cashboxes was instituted this fiscal year. • Staff from ITS began to upgrade the computers used in vaulting process. • Replacement and upgrading the three lines of revenue processing equipment will be completed this fiscal year. 	<ul style="list-style-type: none"> • Funds were included in the FY 97 budget to upgrade and refurbish our revenue vaulting equipment and cashboxes over the next 18 months. • Funds have been identified to purchase equipment for use in our currency processing operations. Delivery is planned for late FY 97.
<p>7. That the design and layout of facilities be re-evaluated and improvements budgeted for at the bus divisions and at the cash counting facility.</p>	<ul style="list-style-type: none"> • A vault house was built for division 6. All divisions now have vaulting islands • Plans have been developed to improve cash processing and the revenue equipment facilities. 	<ul style="list-style-type: none"> • Staff has started to look for a larger facility better suited to house a revenue processing operation. • Funds have been requested in the FY 97 capital budget to upgrade the work areas and improve the security at the Vernon Yard revenue equipment repair facility.
<p>8. That uniform operating procedures be developed for the entire bus revenue system and that deviations from procedures be regularly documented.</p>	<ul style="list-style-type: none"> • Procedures for revenue operations were revised or developed this year -- Cash Counting Operations Manual, Revenue Procedures Manual, Customer Service Center Operations Manual. 	<ul style="list-style-type: none"> • The 6 new positions in the FY 97 budget will monitor compliance with the revised revenue procedures. Staff will work with Internal Audit, Transit Police and Operations to establish procedures for the compliance team.
<p>9. That an adequate number of trained revenue supervisors be assigned to cover the various shifts particularly during peak revenue hours.</p>	<ul style="list-style-type: none"> • Operations has assigned personnel to supervise the vaulting process. A supervisor conducts random inspections of divisions' vaulting operations. 	<ul style="list-style-type: none"> • This team will also monitor compliance with vaulting procedures.
<p>10. That consideration be given to replacing the current "weigh and sell" vendor system of processing money with a system of counting the currency for direct deposit.</p>	<ul style="list-style-type: none"> • Our vendor contracts were modified to reduce costs by over 28%. MTA now receives payment from vendor within 24 hours (reduced from 48 hours). • In November 1995, staff began to count and deposit 20% of the currency. 	<ul style="list-style-type: none"> • A bid to determine vendor interest (and cost) in processing our currency has been released and the bidders' pre-bid conference is scheduled for June 10, 1996. The bids will be compared to our costs to determine the best option for the agency.