

MINUTES OF THE BOARD AUDIT COMMITTEE

Open Session –October 13, 2005



Mrs. Mack called the meeting to order at 10:30 a.m. Present were:

Committee Members:

Mrs. Gladys Mack
Mr. Dana Kauffman
Mr. Charles Deegan
Mr. Robert Smith
Mr. Christopher Zimmerman
Mr. William D. Euille

Other Members:

Dan Tangherlini

I. **ACTION ITEMS:**

A. Approval of Minutes - June 9, 2005

Minutes were approved.

II. **INFORMATION ITEMS:**

A. Review of Quarterly Audit Reports for April – June 2005

- Mr. Stewart briefed the committee members on the Audits included in the Fourth Quarter Quarterly Audit Reports.
- Mr. Stewart gave an overview of an Internal Audit on Bus Maintenance Performance Standards. Mr. Kaufman asked if there were certain things that have taken place to make the 6,300 miles mean distance between failures a realistic goal.
 - Mr. Requa stated that as a result of new buses placed into service during 2000 and 2002, the mean distance between failures had increased. He stated that a new goal for FY 2006 of 6,000 miles between failures has been established considering an additional 300 new buses will enter service within the next nine months.
 - Mr. Euille asked a question regarding the various responses to recommendations since the quarterly report states that it is as of September 30, 2005. He questioned what was the date that the recommendations were formerly issued.

Audit Committee Minutes
October 13, 2005

- Mr. Stewart's reply was that the report was dated May, 2005
- Mr. Euille asked if the recommendations are getting the highest priority for consideration or is it more of an agency "general response".
- Mr. Stewart stated that a new intervention policy has been implemented which tracks all the recommendations and ensures that they are completed in a timely manner.
- Mr. Stewart gave an overview of an Internal Audit on FY04 Purchase Card Program which is a follow-up to the prior year audit. He stated that there were improvements and there are areas which still require some improvement. Overall spending using the purchase card exceeded \$9 million and the same issues from the prior audit were raised: Split Purchases, Missing Receipts, and accountable property purchased not being bar-coded.
 - Mr. Smith commented on the frustration he has regarding the information in this particular report. He stated that for the last three years, this report on purchase card usage has been exactly the same referring to the same issues raised three years ago. What is the problem? How come the abusers are still employed?
 - Mr. Tangherlini asked how many people were committing this violation and what types of purchases are being made?
 - Mr. Stewart responded that there is no evidence that stealing or personal purchases are being made. Mr. Tangherlini asked if perhaps the violation was of a policy nature versus product. Also, he asked what the difference was between purchasing with a purchase card versus purchasing through procurement, stating that the purchase card in his opinion was a much more efficient way of purchasing and not to mention every month a statement is received which states who made that transaction and what was purchased.
 - Mr. Smith commented that employees using the purchase cards and are repeatedly scamming the system should receive stiffer punishment, ie, fired.

Audit Committee Minutes
October 13, 2005

- Mr. White responded that the authority implemented the purchase card program taking into consideration that most agencies now do their business in this way. It is cost savings that was brought forth in using the purchase card and that in every instance where a violation of the procedure occurred; the reason was the same – “the purchaser was trying to get the job done.” Mr. White also noted that employees were not buying just to buy, instead, there was a reason for the purchase in each instance. And in situations where there was abuse, it was flagged by Audit and the abuser is dealt with very harshly. Our performance is done much better than most agencies who use the purchase card system.
- Mr. Smith responded that he felt better after Mr. White’s explanation
- Mrs. Mack asked Mr. White if the Authority had a menu of sanctions for purchase card holders who are abusive and if he could ensure the board that any incident that ends up in an audit report if he could assure the board that the violator(s) received some kind of sanction.
- Mr. White agreed to the request/suggestion made by Mrs. Mack and requested the Auditor General supplement the methodology they typically use in their audit reports. Mr. White went over the steps in preparing an audit report and also discussed that the purpose of an audit report was not to describe the after actions but describe the actions found. He also assured the board that if a supplement to the audit report is what the board is requesting, he would work with the Auditor General and Management to identify in the audit report what actions were taken.
- Mrs. Mack responded the importance in this matter and agreed the supplement would be good for everybody.
- Mr. Tangherlini stated that there is a fundamental rule in auditing where you don’t spend more on auditing than what it is you are auditing. He asked Mr. Stewart what percentages of transactions were found to be problems.
- Mr. Stewart responded that he estimated that approximately 5 to 10 percent of the transactions had issues.

Audit Committee Minutes
October 13, 2005

- Mr. Stewart agreed with Mr. Tangherlini. He stated one of the reasons that caused audit to want to look at purchase cards was all the issues reported by GAO pertaining to federal agencies who have problems with purchase card holders and that we want to make sure WMATA would not have the problems those agencies are faced with.
- Mr. Tangherlini agreed with Mr. Stewart's response and also stated the uniqueness of using a purchase card, i.e., being able to receive a monthly statement with some accountable persons name on it which would let you know if they are an abusive purchase card holder as opposed to the previous way of purchasing through PRMT which is very convoluted and too many steps to the point where identifying an abusive purchaser was slim to none.
- Mr. Deegan asked if WMATA has re-bid the current purchase card contract and if so, did WMATA receive any type of rebate.
- Mr. Bartlett responded under the current arrangement WMATA does receive a rebate on the purchase card.
- Mr. Deegan responded he knew about the current arrangement, but was under the impression the Authority was going to re-bid and get a better one.
- Mr. Stewart responded the process has begun but was uncertain of its current status.
- Mr. Deegan asked Mr. Stewart to find out and get back to him.
- Mr. Stewart continued briefing the committee with the remaining audit reports. He gave an overview on Fuel and Power Management audit report.
 - Mr. Smith congratulated the audit staff for their findings on recovery of over paid taxes. He was concerned about employees not monitoring fuel received versus what the supplier billed.
 - Mr. Kaufman made comment to paragraph #2 on page 35 which talks about invoices dating back to 2001 being paid in 2005 and if this was an internal issue or supplier issue.

Audit Committee Minutes
October 13, 2005

- Mr. Stewart responded there were a series of invoices in which the supplier either never turned in an invoice or the invoice was turned in and never got paid and he felt that it was both internal and supplier related issues.
- Mr. Zimmerman asked how WMATA compares to other companies concerning the number and types of audit findings.
- Mr. Stewart responded that WMATA is comparable with other companies.
- Mr. Zimmerman expressed his concern on the lack of information received from audit reports in general.
- Mr. Smith commented he was less concerned with the monetary consequences on a percentage basis as Mr. Tangherlini had spoke of, but with a pervasive notion across all these items. He was concerned that there is a lack of quality in Management controlling the processes of the Authority. WMATA has spent lots of money to ensure the accuracy of making sure fuel promised is fuel received and not take the supplier word that what we ask for is what we received.
- Mr. Deegan asked if WMATA had a standard operating procedure for Compressed Natural Gas.
- Mr. Stewart replied yes we do now. However, at the time of the audit, it was in the implementation stage.
- Mrs. Mack also commented that she too agreed with Mr. Zimmerman and she stated that since WMATA is putting the problems out in the fore front; the board members would also like to know what the solutions are and reiterating the importance in receiving a supplement of the methodology used in audit reports.
- Mr. White responded that in the future Management needs to spend more time on the follow-up and tracking, and intervention mechanism. Mr. White also explained to the board members the current audit tracking system process.

Audit Committee Minutes
October 13, 2005

- Mr. Zimmerman expressed concern regarding the current quarterly audit report format. He suggested expanding the format to include an index, better explanation and identifying areas which are good and not good.
- Mr. Deegan asked who receives the audit report when it is issued and before it is sent to the board members.
- Mr. Stewart replied that all senior management within the office that the report refers to.
- Mr. Deegan suggested possibly seeing those responses in addition to the report.
- Mr. White reiterated that this report is a summary of a detail audit report which is kept on file in the office of Auditor General with the responses from the respective departments.
- Mr. Smith expressed concern regarding the footer heading "This Document is for Internal Use Only".
- Mr. Stewart responded that the text would be removed now that most all of the reports are released to the public.
- Mr. White reminded the board members that it is now a little over one year with regards to implementing the new audit process.
- Mr. Stewart continued his presentation and gave an overview on Bus Revenue audit report.
 - Mr. Smith expressed concern regarding the statement on page 41 #1 which pertains to the Bus Revenue audit report.
 - Mr. Euille agreed with Mr. Smith's comment. He also stated that because this is a system that has been around some 30 plus years, the information they are receiving is very troublesome and the recommendations are not strong enough, noting that he knows that there will be problems but this is too pervasive and he stressed the need to have a stronger management force.

Audit Committee Minutes
October 13, 2005

- Mrs. Mack asked the board members if the rest of the report should be read individually or skipped. She agreed with the other board members that there is a need for more information in the quarterly report pertaining to the final outcome of the recommendations.
- Mr. Zimmerman also expressed the need to get better information in the quarterly report. He also stated that insufficient resources could be a result from shortage in staff, not clearly understanding the task, etc. and if that is the case, it should be noted.
- Mrs. Mack asked Mr. White for recommendations for how this should be brought back to the board so they could see a complete picture and give feedback.
- Mr. White agreed and responded that he would work closely with Mr. Stewart to improve the format and context of what is being reported in the quarterly report.

The meeting was adjourned at 11:30 a.m.