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**CENTRAL OKLAHOMA TRANSPORTATION  
AND PARKING AUTHORITY  
INVESTIGATION REPORT**

**AUGUST 13, 2013**

**MAYOR AND CITY COUNCIL**

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August 13, 2013

Trustees of the Central Oklahoma Transportation and Parking Authority:

As a result of allegations received from a Central Oklahoma Transportation and Parking Authority (COTPA) vendor, the Office of the City Auditor has investigated improper part inventory returns to and questionable purchases from the parts vendor. Our investigation substantiated some of the allegations and revealed certain related operational weaknesses.

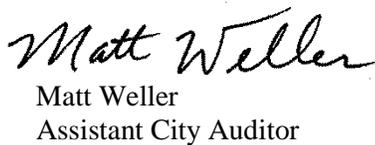
Results of our investigation discussed in the attached report include the following:

- The parts vendor provided COTPA account records detailing returned parts corresponding with reductions to COTPA's parts inventory totaling \$7,669 during calendar years 2011 and 2012. COTPA did not receive credit for these returned parts to their purchasing card balance; however, vendor records indicate refunds were dispensed at the time parts were returned. See Comments 5, 6 and 7.
- COTPA purchases from the parts vendor during calendar year 2012 included refundable deposits totaling \$62,400. COTPA received deposit credits from the vendor totaling \$42,700 during calendar year 2012. We were unable to completely account for these deposits. See Comments 8, 9 and 10.
- During calendar years 2010 through 2012, the parts vendor procured merchandise for \$166,700 from other vendors and resold it to COTPA for \$222,200 representing a total price mark-up of \$55,500 or 33%. See Comment 11.
- The parts vendor's allegation that a television was given to a COTPA employee by their sales representative could not be substantiated. See Comment 12.
- The effectiveness of segregating controls over purchasing and receiving is compromised by assigning these responsibilities to employees who are immediate family members. See Comment 14.

The attached report also includes recommendations to address operational matters relating to general inventory control, parts inventory returns, refundable deposits, procurement practices and ethics.

The content and emphasis of items in this report have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the recommendations and observations arising from our work. Management's responses are attached to this report in their entirety.

  
Jim Williamson  
City Auditor

  
Matt Weller  
Assistant City Auditor

  
Lori Rice  
Audit Manager

# CENTRAL OKLAHOMA TRANSPORTATION AND PARKING AUTHORITY INVESTIGATION REPORT

## SCOPE, BACKGROUND AND METHODOLOGY

As a result of allegations received from a Central Oklahoma Transportation and Parking Authority (COTPA) bus maintenance facility parts vendor, the Office of the City Auditor investigated improper returns of COTPA parts inventory to and questionable purchases from the parts vendor. Our investigation substantiated some of the allegations and revealed certain related operational weaknesses.

COTPA is a public trust of the State of Oklahoma with the City of Oklahoma City as beneficiary. The purpose of COTPA is to provide a means of financing municipal public transportation services and public parking facilities. The trust indenture provides that COTPA will acquire and operate the transportation service and parking facilities and equipment, receive all revenue generated from these services, pay all operating expenses and the debt service requirement on revenue bonds issued, and finance future improvements.

COTPA operations include a bus maintenance facility where trust-owned vehicles are maintained and repaired. Parts inventories are stored at the facility to support maintenance and repair activities. These parts are ordered by the Buyer and received and held in restricted access by Parts Clerks.

Procedures performed during our investigation included reviewing transaction documentation, investigation notes, and employee statements provided by the parts vendor; interviewing COTPA management and operations personnel; analyzing purchase, return, and inventory records and comparing those records to parts vendor provided documentation; review of inventory controls and certain vendor contracts; and reviewing purchasing and personnel policies and procedures.

Our work focused on investigating the allegations referenced above and did not include an audit of COTPA operations. Therefore, we have no opinion regarding the adequacy of internal controls in the above mentioned areas.

## RESULTS OF WORK PERFORMED

Recommendations included in this report are intended to provide constructive suggestions for addressing certain operational matters noted during our investigation. Each recommendation is immediately followed by *management's response*, which is also attached to this report in its entirety.

## **General Inventory Controls**

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The COTPA bus maintenance facility parts inventory totaled \$862,000 as of June 30, 2012. From January 1, 2011 through January 31, 2013, 921 inventory correction adjustments were made resulting in a net reduction to the inventory of \$21,500. For the same period, 327 obsolete inventory adjustments were made resulting in a net reduction to the inventory of \$70,000.

### **Comment (1)**

The reasons for inventory correction adjustments are not documented and bus maintenance facility management does not review and approve inventory correction adjustments. This increases the risk of lost or stolen parts inventory being concealed by improper inventory correction adjustments.

### **Recommendation (1)**

All inventory correction adjustments should be supported by a documented reason for the adjustment and bus maintenance facility management should review and approve all inventory correction adjustments.

### **Management Response (1)**

*Agree with recommendation. As of May 1, 2013, all inventory adjustments/corrections are supported by documentation and routed through the Fleet Manager for approval. With the implementation of M-5 version 3.0 (the inventory management system) on July 16, 2013, there is a notes field on the inventory adjustment/corrections screen to allow for documenting the reason for a change in the computer as well as on paper.*

### **Comment (2)**

Obsolete inventory adjustments are not reviewed and approved by bus maintenance facility management. This increases the risk of lost or stolen parts inventory being concealed by improper obsolete inventory adjustments.

### **Recommendation (2)**

Obsolete inventory adjustments should be reviewed and approved by bus maintenance facility management.

### **Management Response (2)**

*Agree with recommendation. As of May 1, 2013, all obsolete inventory adjustments are routed through the Fleet Manager for approval. With the update of M-5 (as noted in item one) there is a notes field on the obsolete inventory screen to allow for documenting the reason for a change in the computer as well as on paper.*

**Comment (3)**

Parts inventory storage area keys have been issued to 13 COTPA bus maintenance facility employees. Parts inventory safekeeping responsibilities are primarily shared by only 3 of the employees with storage area keys. Unnecessary physical access to the parts inventory storage area increases the risk of theft.

**Recommendation (3)**

Management should assess whether inventory storage area keys have been issued to only those employees with a legitimate need for access to the area.

***Management Response (3)***

*Agree with recommendation. Keys have been recovered from seven employees. Each of these employees could still need occasional access to the parts room. A key box system has been initiated to secure one key in the maintenance shop and one backup key in the administration building for emergency situations. By August 31, 2013, COTPA will add a camera to the existing camera security system. This will provide video coverage for parts room accessibility points which include the entrance door and the parts counter window. Procurement of a card access system for all COTPA facilities is currently underway. Information is being collected on available systems and their compatibility with systems in use or being considered for use by the City. Staff is working with the City's IT department in selecting a system.*

**Comment (4)**

Based on discussion with bus maintenance facility management, regular unmonitored parts inventory storage area access was granted to the parts vendor's sales representative. Unrestricted, unmonitored access to the parts inventory storage area increases the risk of theft or unauthorized changes to accounting records.

**Recommendation (4)**

Parts storage area access should be restricted to those with a legitimate business need. When access is granted to vendors or employees not charged with inventory safekeeping, their activities should be monitored.

***Management Response (4)***

*Agree with recommendation. As of May 1, 2013, a vendor sign-in book has been established so that all vendors have to note time of arrival, person being visited and time of departure. The vendor must have an escort at all times when in areas where parts inventories are stored.*

## **Parts Inventory Returns**

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The parts vendor provided records detailing returned parts on COTPA's account totaling \$13,314 during calendar years 2011 and 2012 for which COTPA did not receive a credit. We were unable to completely account for the source of these returns.

### **Comment (5)**

A Parts Clerk confirmed returning parts inventory to the vendor totaling \$1,549 for which COTPA did not receive a credit. Based upon observations and discussions with management, a process to ensure returned parts are documented and approved and credits due are appropriately received is not in place. Exchange of COTPA parts inventory with vendors for cash or credit for personal use could occur without detection.

### **Recommendation (5)**

All returns of parts to vendors should be documented, approved, and matched to the related credit memo or credit on the purchasing card statement.

### ***Management Response (5)***

*Agree with recommendation. As of May 1, 2013, a form titled COTPA/Metro Transit CORE/Warranty/Return Form was created to facilitate a paper trail for all parts being returned to vendors. This form is signed by the employee initiating the return, the vendor (when possible) and Fleet Manager. The part number, description, quantity, original vendor name, original invoice number, purchase order number (if applicable), serial number and mode of transportation (picked up by vendor or shipped to vendor) is recorded. A copy of the form is retained in an open file until the credit for the returned core or part has been confirmed by the Buyer as received from appropriate vendors. A copy of the form along with a copy of the shipping documents and or credit invoice is kept in file.*

### **Comment (6)**

Correction adjustments totaling \$4,764 to COTPA inventory records occurred for part numbers matching those returned to the vendor for which COTPA did not receive a credit. Parts Clerks responsible for safekeeping of the parts inventory confirmed making \$4,113 of the correcting adjustments. Allowing employees responsible for custody of assets to adjust related accounting records could result in lost or stolen inventory being concealed by improper inventory adjustments.

### **Recommendation (6)**

Employees responsible for custody of parts inventories should not be authorized to make adjustments to inventory records.

**Management Response (6)**

*Agree with recommendation. As of April 16, 2013, employees that are responsible for the custody of inventory no longer have the ability in M5 to adjust inventory balances.*

**Comment (7)**

Adjustments totaling \$1,356 to COTPA inventory records occurred for obsolete parts with part numbers matching those returned to the vendor for which COTPA did not receive a credit. A Parts Clerk confirmed that obsolete parts were kept until auction in an unlocked storage container outside of the secured parts storage area. Returns of unsecured obsolete parts to vendors for cash or credit for personal use could occur without detection.

**Recommendation (7)**

All parts declared obsolete should be securely stored until auctioned.

**Management Response (7)**

*Agree with recommendation. As of May 1, 2013, all obsolete parts are stored in secured Mobile Mini Storage Units until disposal takes place.*

**Part Cores**

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Many parts have “cores” for which a “core deposit” is made when the part is purchased. The core deposit is refundable upon return of the replaced part. COTPA purchases from the parts vendor during calendar year 2012 included core deposits totaling \$62,400. COTPA received core deposit credits from the vendor totaling \$42,700 for returned part cores during calendar year 2012. The vendor indicated that core deposit credits claimed by COTPA were not complete. We were unable to completely account for the disposition of these core deposits.

**Comment (8)**

COTPA maintains a current listing of part cores on hand but does not maintain detailed records of core deposits made and related credits received. Without detailed core deposit records, inaccurate or incomplete core deposit credits or core loss and theft may occur and not be detected.

**Recommendation (8)**

Detailed records of core deposits and core deposit credits received should be maintained and periodically reconciled to the current listing of cores on hand. Consideration should be given to maintaining detailed core inventory records on the M5 system used to maintain all other parts inventory records.

**Management Response (8)**

*Agree with recommendation. As of May 1, 2013, a perpetual record of all cores dating back to the beginning of calendar year 2012 has been established. The record includes all vendors that have a core bank. The record includes the purchase of the replacement part (with date/invoice/vendor/part number/quantity/price) and the return of (with date/invoice/vendor/credit amount) the corresponding core. This record provides a snapshot of all outstanding cores at any given time and serves as an aging report for outstanding cores. Recently staff learned the M5 system has a core tracking feature. Testing this feature has begun and has the potential to improve upon and/or replace the current, newly implemented manual core record.*

**Comment (9)**

COTPA had an average of 86 unreturned cores on hand during the 6 months preceding our investigation with an average value of \$19,000. Based on discussions with management, cores are accumulated until return to the vendor is convenient. Accumulating cores for return delays receipt of core deposit credits and increases the risk of core theft.

**Recommendation (9)**

Cores should be returned to vendors and the appropriate credits received for the core deposits as soon as practical after purchases of new replacement parts.

**Management Response (9)**

*Agree with recommendation. As of May 1, 2013, core inventory is reviewed on a weekly basis.*

**Comment (10)**

Battery cores stored outside of the secure parts storage area were observed. Employee physical access to these unreturned cores increases the risk of theft.

**Recommendation (10)**

Unreturned battery cores on hand should be stored in a secured area until returned to vendors for core deposit credits.

**Management Response (10)**

*Agree with recommendation. As of May 1, 2013, an inventory of battery cores is being maintained on a core record (see response number 8) and returned for credit weekly. Due to inside storage limitations and the requirement to safely store batteries in a well ventilated covered area, relocating the battery core area is not an option at this time. As an alternative, by August 31, 2013, a camera will be added to the existing security system to provide video monitoring of the area where the cores are stored.*

## **Procurement Practices**

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The Buyer at the COTPA bus maintenance facility used a purchasing card to make purchases totaling \$4.9 million from January 1, 2010 through December 31, 2012, with \$1.15 million of those purchases made from the parts vendor.

### **Comment (11)**

The parts vendor procured merchandise for \$166,700 from other vendors and resold it to COTPA for \$222,200 representing a total price mark-up of \$55,500 or 33%. Examples of more significant purchases not appearing to be subject to the terms of the product-specific pricing agreement with the parts vendor included materials to build shelving (\$16,500), an ice machine (\$6,300), and cardboard (\$4,200). Parts vendor allegations that these purchases were made to intentionally inflate sales and related bonuses for their sales representative could not be substantiated.

Evidence that price quotations were sought by the Buyer for these purchases was not available. COTPA Procurement Policies require three price quotations for purchases of more than \$500 but less than \$25,000 not subject to a contract or pricing agreement. The Buyer indicated that the pricing agreement language “any item in the vendor catalogue or catalogue available to the vendor” authorized these purchases from the parts vendor. Such application of the pricing agreement does not seem consistent with “fair and equitable” or “cost-effective” procurement guidelines contained in COTPA Procurement Policies.

### **Recommendation (11)**

COTPA management should seek guidance from the Municipal Counselor’s Office regarding the scope of purchases allowable under product-specific pricing agreements. Three price quotations should be obtained for all purchases of more than \$500 but less than \$25,000 not covered by a contract or pricing agreement in compliance with COTPA Procurement Policies.

### ***Management Response (11)***

*Agree with recommendation. Internal processes for purchasing from pricing agreements have been tightened to ensure that purchases fall within the original intent of the pricing agreement with a particular vendor. For example, purchasing an ice machine from an auto parts vendor will now be considered an inappropriate purchase even though the auto parts vendor’s pricing agreement may allow for it.*

## **Ethics**

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### **Comment (12)**

A Parts Clerk confirmed receiving a television purportedly through purchase of a winning raffle ticket from a child of the parts vendor’s store manager. The parts vendor’s allegation that the television was awarded to their sales representative for meeting sales goals and subsequently

given to the Parts Clerk could not be substantiated. The appearance of accepting gifts from vendors could result in a perceived conflict of interest, adversely impacting employee morale, citizen confidence and vendor relations.

**Recommendation (12)**

COTPA management should consider whether the employee's receipt of the television is appropriate and, if not, consider requiring that the employee return the television to the vendor. Regardless, COTPA bus maintenance facility employees should be reminded of Procurement Policies and the Business Ethics Policy prohibiting acceptance of gifts from vendors.

**Management Response (12)**

*Agree with recommendation. Each employee signs for an employee handbook which includes a Business Ethics policy. Part of this policy addresses prohibiting gifts as described in section 7.1 Business Ethics policy. Annually a memo will be issued to all COTPA employees reminding them of the Business Ethics policy. An investigation was conducted as to how the employee received the television. No evidence was available to contradict the employee's explanation of winning the television in a raffle.*

**Comment (13)**

Personal purchases were routinely made by COTPA employees from the vendor at the same discounted prices extended to COTPA through the pricing agreement. COTPA management indicated that such purchases were acceptable if allowed by the vendor. Ethical standards of conduct in COTPA Procurement Policies and the Business Ethics Policy in the COTPA Employee Handbook specifically prohibit COTPA employees from soliciting discounts or anything of monetary value from vendors. Even if not solicited, acceptance of such discounts from vendors without clear policy and/or specification in the vendor contract could adversely impact employee judgment or citizen confidence.

**Recommendation (13)**

Ethical standards of conduct in Procurement Policies and the Business Ethics Policy should be modified to specifically allow this practice/benefit for employees, if desired by COTPA management. Contracts with vendors extending prices to COTPA employees for personal purchases should also be modified to clearly reflect such benefits.

**Management Response (13)**

*Agree with recommendation. In accordance with the Employee Handbook the soliciting or acceptance of discounts from a vendor for personal purchases made by employees is not allowed.*

#### **Comment (14)**

The Buyer is related by marriage to a Parts Clerk with receiving responsibilities. The COTPA Employee Handbook allows employment of relatives at the discretion of the Department Director. Purchasing and receiving responsibilities are segregated in an internal control system to provide for independent review of the work performed in each role. Assignment of purchasing and receiving responsibilities to employees who are immediate family members creates a conflict of interest that may reduce the effectiveness and reliability of that control.

#### **Recommendation (14)**

Consideration should be given to reassigning job responsibilities for the related employees.

#### ***Management Response (14)***

*Recommendation under advisement. Organizationally there is only one Buyer who is located in the maintenance building where the majority of purchases originate. All parts room personnel are represented employees in the Amalgamated Transit Union Local 993. Currently there are no other jobs available in the organization for which either employee is qualified. As an alternative, the duties of the parts man in question have been limited to only signing for deliveries. The verification of material and quantities received with entry into the computerized inventory system and the stocking of the material in the warehouse have been assigned to the duties of the second and third shifts respectively. These steps along with increased supervisory review of the work product of both individuals are designed to ensure controls are not compromised.*

TO: Jim Williamson, City Auditor  
THROUGH: James D. Couchy <sup>JDC</sup> City Manager  
FROM: Rick Cain, Administrator *RC*  
DATE: July 30, 2013  
SUBJECT: Audit -- Allegations Received from Central Oklahoma Transportation and Parking Authority (COTPA) Vendor



Following are management's responses to recommendations outlined in the recent Central Oklahoma Transportation and Parking Authority Investigation Report.

1. Agree with recommendation. As of May 1, 2013, all inventory adjustments/corrections are supported by documentation and routed through the Fleet Manager for approval. With the implementation of M-5 version 3.0 (the inventory management system) on July 16, 2013, there is a notes field on the inventory adjustment/corrections screen to allow for documenting the reason for a change in the computer as well as on paper.
2. Agree with recommendation. As of May 1, 2013, all obsolete inventory adjustments are routed through the Fleet Manager for approval. With the update of M-5 (as noted in item one) there is a notes field on the obsolete inventory screen to allow for documenting the reason for a change in the computer as well as on paper.
3. Agree with recommendation. Keys have been recovered from seven employees. Each of these employees could still need occasional access to the parts room. A key box system has been initiated to secure one key in the maintenance shop and one backup key in the administration building for emergency situations. By August 31, 2013, COTPA will add a camera to the existing camera security system. This will provide video coverage for parts room accessibility points which include the entrance door and the parts counter window. Procurement of a card access system for all COTPA facilities is currently underway. Information is being collected on available systems and their compatibility with systems in use or being considered for

use by the City. Staff is working with the City's IT department in selecting a system.

4. Agree with recommendation. As of May 1, 2013, a vendor sign-in book has been established so that all vendors have to note time of arrival, person being visited and time of departure. The vendor must have an escort at all times when in areas where parts inventories are stored.
5. Agree with recommendation. As of May 1, 2013, a form titled COTPA/Metro Transit CORE/ Warranty/ Return Form was created to facilitate a paper trail for all parts being returned to vendors. This form is signed by the employee initiating the return, the vendor (when possible) and Fleet Manager. The part number, description, quantity, original vendor name, original invoice number, purchase order number (if applicable), serial number and mode of transportation (picked up by vendor or shipped to vendor) is recorded. A copy of the form is retained in an open file until the credit for the returned core or part has been confirmed by the Buyer as received from appropriate vendors. A copy of the form along with a copy of the shipping documents and or credit invoice is kept in file.
6. Agree with recommendation. As of April 16, 2013, employees that are responsible for the custody of inventory no longer have the ability in M5 to adjust inventory balances.
7. Agree with recommendation. As of May 1, 2013, all obsolete parts are stored in secured Mobile Mini Storage Units until disposal takes place.
8. Agree with recommendation. As of May 1, 2013, a perpetual record of all cores dating back to the beginning of calendar year 2012 has been established. The record includes all vendors that have a core bank. The record includes the purchase of the replacement part (with date/invoice/vendor/part number/quantity/price) and the return of (with date/invoice/vendor/credit amount) the corresponding core. This record provides a snapshot of all outstanding cores at any given time and serves as an aging report for outstanding cores. Recently staff learned the M5 system has a core tracking feature. Testing this feature has begun and has the potential to improve upon and/or replace the current, newly implemented manual core record.
9. Agree with recommendation. As of May 1, 2013, core inventory is reviewed on a weekly basis.
10. Agree with recommendation. As of May 1, 2013, an inventory of battery cores is being maintained on a core record (see response number 8) and

returned for credit weekly. Due to inside storage limitations and the requirement to safely store batteries in a well ventilated covered area, relocating the battery core area is not an option at this time. As an alternative, by August 31, 2013, a camera will be added to the existing security system to provide video monitoring of the area where the cores are stored.

11. Agree with recommendation. Internal processes for purchasing from pricing agreements have been tightened to ensure that purchases fall within the original intent of the pricing agreement with a particular vendor. For example, purchasing an ice machine from an auto parts vendor will now be considered an inappropriate purchase even though the auto parts vendor's pricing agreement may allow for it.
12. Agree with recommendation. Each employee signs for an employee handbook which includes a Business Ethics policy. Part of this policy addresses prohibiting gifts as described in section 7.1 Business Ethics policy. Annually a memo will be issued to all COTPA employees reminding them of the Business Ethics policy. An investigation was conducted as to how the employee received the television. No evidence was available to contradict the employee's explanation of winning the television in a raffle.
13. Agree with recommendation. In accordance with the Employee Handbook the soliciting or acceptance of discounts from a vendor for personal purchases made by employees is not allowed.
14. Recommendation under advisement. Organizationally there is only one Buyer who is located in the maintenance building where the majority of purchases originate. All parts room personnel are represented employees in the Amalgamated Transit Union Local 993. Currently there are no other jobs available in the organization for which either employee is qualified. As an alternative, the duties of the parts man in question have been limited to only signing for deliveries. The verification of material and quantities received with entry into the computerized inventory system and the stocking of the material in the warehouse have been assigned to the duties of the second and third shifts respectively. These steps along with increased supervisory review of the work product of both individuals are designed to ensure controls are not compromised.