



## THE CITY OF SAN DIEGO

DATE: December 22, 2017

TO: Kris McFadden, Director, Transportation and Storm Water Department

FROM: Eduardo Luna, CIA, CGFM, City Auditor  
Office of the City Auditor

SUBJECT: Fraud Hotline Investigation Report of Waste in the Transportation Alternatives Program

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### Summary of Investigative Results

The Office of the City Auditor received an anonymous Fraud Hotline report alleging that the Transportation and Storm Water Department's Transportation Alternatives Program (TAP) was lacking internal controls, especially over cash handling and the reconciliation of records. TAP offers City employees and volunteers Metropolitan Transit System (MTS) pass discounts to encourage the use of public transportation. We identified significant internal control weaknesses that resulted in overpayments to a vendor, unreconciled cash collections, and contracting deficiencies. Specifically, we identified:

- A lack of internal controls over cash handling;
- Over \$14,800 in MTS overcharges identified in a three-month period;
- Over \$9,700 was paid for 131 passes that were activated and used without payment from the participants;
- Over \$2,900 was paid for ineligible employees, interns, and volunteers;
- Incorrect participant payments for 57 passes;
- Employee union membership status verifications were insufficient;
- TAP's discount-pricing structure is inconsistent; and
- Discounted annual premium passes are available, but the City does not offer them.

We also found that no contracts exist for monthly passes, and that no City policy extends transit subsidies to volunteers, interns, or non-union represented employees.



We reviewed TAP's sales, cash, and recording processes, as well as available agreements between the City and MTS. We also reviewed a sample of monthly passes that were sold in the months of August through September 2016 and December through March 2017, and annual passes that were sold for Fiscal Years (FY) 2014 through 2017. Lastly, we interviewed TAP staff and management.

We made recommendations to automate TAP's processes by implementing payroll deductions, and to recover underpayments or reimburse overpayments where appropriate. In total, we made 12 recommendations, and management agreed to implement all of them.

## I. Lack of Internal Controls Identified

During our investigation, we identified a lack of controls over cash handling that exposed the City to risk. We discussed this in detail in the confidential report.

### Recommendation 1

**We recommend that TAP management strengthen internal controls over cash handling at all sites as described in the confidential report. (Priority 1)**

## II. Lack of Invoice Reconciliation Resulted in Overcharges from MTS

### A. Over \$14,800 in MTS Overcharges Identified in a Three-Month Period

TAP paid MTS \$14,848 for 192 transit passes it did not order during January through March 2017 because MTS invoiced TAP for passes that TAP had not requested for the respective month. These invoices were paid in full without a thorough review by TAP staff or a reconciliation with TAP's own records. The documents we reviewed indicate that these passes were not purchased or used by participants. See **Exhibit 1** below for a breakdown by invoice sample period.

#### **Exhibit 1: Overcharges for Passes Not Ordered**

<b>Invoice Period</b>	<b>Total Invoice Amount</b>	<b>Amount Overpaid</b>	<b>Unordered Passes Invoiced</b>	<b>MTS Issued Credit Amount</b>
<b>January 2017</b>	\$49,144	\$3,441	45	No credit issued <sup>1</sup>
<b>February 2017</b>	\$52,378	\$5,193	66	\$5,625
<b>March 2017</b>	\$55,842	\$6,214	81	\$6,367
<b>Grand Total</b>	<b>\$157,364</b>	<b>\$14,848</b>	<b>192</b>	<b>\$11,992</b>

TAP staff could have identified these overcharges if they had performed regular invoice reconciliations. A new staff member reconciled the January through March 2017 invoices shortly after joining TAP. The staff member identified discrepancies between the invoice totals and TAP records in all three months. January and February invoices had already

<sup>1</sup> A credit for January passes has not been requested by TAP as of December 2017.

been paid by TAP staff, so the staff member held the March invoice to work with MTS to resolve the discrepancies. We determined that the March invoice was paid in full as of June 2017. Subsequently, MTS issued two credit memos to TAP for the February and March 2017 invoices as a one-time courtesy. The credits were based on the reconciliations performed by the TAP staff member who identified the discrepancies. The credit memos totaled \$11,992. See **Exhibit 1** above.

It is not possible to determine a specific cause for the overcharges because adequate reconciliations were not performed when invoices were received. It is possible that TAP staff made errors in the request spreadsheets when ordering the passes from MTS, or that orders were not processed correctly by the MTS system.

As we did not identify similar overcharges in the September 2016 invoice period, it is also possible that miscommunication and misunderstanding between TAP staff and MTS over a process change led to the overcharges. No contracts between TAP and MTS exist for monthly passes (discussed elsewhere in this report). As such, TAP staff have prepared transit pass orders in different ways in consultation with MTS throughout the life of the program. In August 2016, TAP staff agreed with MTS to submit future orders that listed only active accounts for a given request period. Previously, TAP staff had submitted orders that listed both active and inactive accounts for a request period. This change may have been a factor in the overcharges. Based on what we found, it is likely that MTS overcharged TAP for other invoices from 2016 and 2017.

## **Recommendation 2**

**We recommend that TAP management:**

- a. Consult with the Office of the City Attorney to determine if overpayments can be recovered from MTS given that no contracts exist for the monthly passes;**
- b. If overpayments can be recovered, TAP staff should perform detailed invoice reconciliations for the October through December 2016 and April 2017 invoices, and work with MTS to recover to the extent possible overcharges that we identified from January 2017, and any additional overcharges identified by TAP reconciliations. (Priority 1)**

### **B. Over \$9,700 Was Paid for 131 Passes That Were Activated and Used Without Payment from the Participants**

TAP paid MTS \$9,780 for 131 passes it did not order, but were still used by participants during the invoice periods of September 2016 and January through March 2017. Similar to the overcharges we identified, MTS invoiced TAP for passes that TAP had not requested for the respective month, and TAP staff did not perform adequate reviews of these invoices. TAP lacks records to support that these passes were purchased by participants. However, the MTS invoices indicate that the participants had used the passes at least once during the invoice periods we reviewed. See **Exhibit 2** below for a breakdown by invoice sample period.

#### **Exhibit 2: Passes Activated and Used with No Record of Payment from Participant**

<b>Invoice Period</b>	<b>Amount Overpaid</b>	<b>Participant Share Not Paid</b>	<b>Unordered and Used Passes Invoiced</b>
September 2016	\$200	\$20	2
January 2017	\$2,946	\$718	39
February 2017	\$3,414	\$798	45
March 2017	\$3,220	\$678	45
<b>Grand Total</b>	<b>\$9,780</b>	<b>\$2,214</b>	<b>131</b>

Again, TAP staff could have identified these overcharges if reconciliations were performed for each invoice as required by standard City processes. TAP staff also could have detected the use of unordered passes by reconciling additional data sources. TAP staff maintain pass order and participant purchase data in at least five different sources: (1) TAP database; (2) TAP pass sales spreadsheets; (3) TAP pass ordering spreadsheet; (4) individual email requests for passes from TAP to MTS; and (5) hard copy sales lists from remote sites. The number of different sources and the number of people with access to modify these sources greatly increases the likelihood of errors, and makes it difficult to trace the cause of errors.

Without adequate payment or reconciliation records, it is not possible to determine why these unordered passes were used, or why TAP lacks records to support whether the passes were purchased. Errors could have been made by TAP staff, MTS, participants, or some combination thereof.

### **C. TAP's Reconciliation Process is Inadequate**

TAP staff did not identify many of the overcharge errors because they did not perform a thorough invoice reconciliation, nor reconcile other supporting data sources. Guidance from the Office of the City Comptroller's Internal Controls Process Narrative (PN-0010) requires departments to correct invoice errors prior to payment. Specifically, the Process for Non-Purchase Order Invoices states that errors in amount charged should be noted by the receiving department, corrected by the vendor, and reissued to the City. However, this policy does not specify how to identify the errors. Thus, departments are responsible for developing a process that will suit their needs.

When TAP staff performed reconciliations, they did not reconcile what was actually billed and received with what was actually ordered. In other words, TAP staff did not compare the MTS invoice to the monthly pass orders. Instead, TAP staff relied on reports from the TAP database, in which we found numerous errors. We also found that the TAP database is missing critical fields that make it impossible to produce a sales summary report that would match MTS' invoice detail or summary.

In trying to address the lack of critical information in the TAP database, TAP staff began recording transaction data in a separate spreadsheet. However, they lacked a consistent and adequate approach for recording the information, which introduced more complications to the reconciliation process. The separate spreadsheet contributed to discrepancies in cash reconciliations for monthly pass sales because those were based on reports from the TAP database only. Although we identified cash deposit discrepancies, deposit records did not substantiate theft because most errors identified in the period reviewed were unexplained cash overages.

TAP staff mistakenly believed that reconciliation issues stemmed from the MTS invoice period being different from the TAP sales period. This led to TAP staff believing that changing the date parameters on the database reports used to match to MTS invoice would resolve discrepancies between the invoice and sales totals. In fact, in trying to perform invoice reconciliations, a staff member had tried to get totals "as close as [they] could" by adjusting the date parameters in the report.

A TAP staff member stated that management was made aware of the discrepancies. However, the invoices were approved when the totals between the database reports and MTS invoices did not match. Per TAP management, there have not been discrepancies since March 2017. As of December 2016, TAP management implemented two process changes to reduce the occurrence of these discrepancies.

The first change was to implement a new process and device that would limit the need for the monthly pass requests. The Compact Point of Sale (CPOS) device instantly loads passes onto participants' cards, which eliminates the need for a separate spreadsheet to track sales. The CPOS device was rolled out at the downtown site for testing in December 2016, and fully implemented at the downtown site in May 2017.

The second change made by management was to add a receipt printing capability to the TAP database. TAP management worked with a City IT consultant to roll out receipt printing in May 2017. These receipts facilitate the daily cash reconciliation process.

Although TAP staff and management attempted to address the invoice reconciliations, their approach was inconsistent. TAP staff lacked adequate training and direction from management on how to address issues such as mismatched pass sales and invoice periods until new procedures were developed and implemented beginning in April 2017.

Our own process for identifying errors involved a number of steps to manually review, edit, and add information in order to get the data to a state where it could be accurately compared to the MTS invoice detail. First, we performed a two-way match between what was billed and received, and what was actually ordered. Specifically, we compared the MTS invoice detail to TAP's monthly pass orders. Then we verified the accuracy of the monthly pass orders by comparing them to the TAP database, TAP's participant sales spreadsheet, and an SAP report of TAP's cash deposits. We compared a large number of transactions and sources, and found inconsistencies between them all. We checked many of the inconsistencies manually across all of the different sources.

TAP's new procedures are detailed and comprehensive. The procedures include instructions for performing daily cash reconciliations, monthly invoice reconciliations, and steps to prepare monthly pass requests. Additionally, the procedures specify the various documents that should be copied and maintained as support for sales, pass requests, and invoice reconciliations. The procedures are a significant improvement on the previous reconciliation process, and should ensure adequate detection of future overcharges or other errors.

### **III. Lack of Eligibility Verification Resulted in Overcharges from MTS**

#### **A. Over \$2,900 Was Paid for Ineligible Employees, Interns, and Volunteers**

We found that 33 passes worth \$2,934 were sent to people who were not eligible City employees, interns, or volunteers during the sample months of January through March 2017. These passes were not ordered on the monthly order forms TAP staff sent to MTS. According to the invoice detail provided by MTS, four of these passes had been used. These instances could have been identified if TAP staff regularly monitored and verified participant eligibility, as well as performed regular invoice reconciliations. Per standard City processes, TAP staff should be reviewing invoices for such errors prior to payment of the invoices.

TAP staff did not adequately verify participants' employment, internship, or volunteer status with the City because they do not have sufficient access to SAP or the City's intern and volunteer database. Pertinent information, such as start and end dates, is not easily accessible in order to verify a participant's status. TAP staff only have limited access to employee reports in SAP. For example, TAP staff could not check an employee's name to ensure that it matches the application information.

TAP staff do not have direct access to intern and volunteer information. The information is maintained by the Citywide Volunteer and Youth Development Programs' (Volunteer Programs) Program Manager within the Human Resources Department. Volunteer Programs maintains its own intern and volunteer database as this information is not in SAP. Without direct access to the database, TAP staff would have to request information from the Volunteer Programs Program Manager on a regular basis.

#### **Recommendation 3**

**We recommend that TAP management work in coordination with the Human Resources Department's Citywide Volunteer and Youth Development Programs in order to implement a process of regular verification of intern and volunteer eligibility. (Priority 3)**



## **B. The TAP Database is Unreliable**

Even though TAP staff have some access to employee information in SAP, data errors that we identified in the TAP database compound the difficulty of verifying participant information. Some errors were typographical in nature. However, we also found instances where birthdates were used to identify a participant instead of that participant's employee identification number. Interns and volunteers are also difficult to verify because they are not assigned an employee identification number, nor are they assigned consistent identification when entered into the TAP database. This makes it difficult to identify and segregate interns and volunteers from employees if a verification check were to be performed.

### **Recommendation 4**

**We recommend that TAP management implement a consistent numbering system policy for intern and volunteer identifications numbers. (Priority 3)**

### **Recommendation 5**

**We recommend that TAP staff perform a review of current participant records to identify errors in employee identification numbers, and correct the records when the errors are identified. (Priority 3)**

#### IV. 57 Passes Were Incorrectly Collected or Recorded

##### A. Employee Union Membership Status Verifications Were Insufficient

TAP staff collected or recorded incorrect San Diego Municipal Employees Association (MEA) participant payment amounts for 57 passes sold. Of those passes, 46 were monthly passes and 11 were annual passes for the sample period reviewed. The monthly passes were sold for the September 2016 and January through March 2017 invoice periods, and the annual passes were sold for FY 2016 and FY 2017. We found that 13 participants were shown to have received discounts for which they were not eligible. We found that 16 participants were shown to have not received the discounts for which they were eligible as shown in **Exhibit 3** below.

##### **Exhibit 3: Incorrect MEA Participant Payments Collected or Recorded**

Error Type	Passes Sold	# of Participants	Participant
			(Under) / Over Payment
Ineligible for MEA discount received	21 monthly	7 participants	(\$223)
	6 annual	6 participants	(\$583)
Eligible for MEA discount not received	25 monthly	11 participants	\$167
	5 annual	5 participants	\$486
<b>Total</b>	<b>57 passes</b>	<b>13 Ineligible / 16 Eligible</b>	<b>(\$806) Under / \$653 Over</b>

These discounts are determined by a participant's MEA membership. However, TAP staff did not adequately verify MEA membership, and thus may have collected or recorded incorrect amounts for some passes sold.

During our investigation, TAP staff did not have sufficient permission to access any SAP report or module that will provide all of the information necessary to verify a participant's MEA status. Thus, TAP staff mostly relied on participants to notify staff of their MEA status each time they purchased a transit pass. During our investigation, the staff did try to verify participants' MEA status. However, TAP staff could only run a report that returns a participant's MEA status coupled with an employee identification number. The report did not return the employee name. Due to errors and inconsistencies in TAP's participant data, employee names are necessary to accurately verify a participant's MEA status.

Other errors we found include instances where employee names and identification numbers in the TAP database do not match SAP employee records. For example, we identified typographical errors in the employee names and identification numbers. In some of these cases, TAP staff had incorrectly identified some participants' MEA status.

During our investigation, TAP staff worked with the necessary City departments to receive reports that include the information necessary to adequately verify a participant's MEA status. TAP staff now receive these reports on a regular basis.

In instances where TAP staff identified participants that had underpaid, the remaining balance was recovered. According to TAP management, some of these participants had once been MEA members and paid a one-time fee. Some of these participants may have mistakenly believed that even though they were no longer MEA members, the one-time payment entitled them to the transportation subsidy offered to current MEA members as part of the union agreement with the City. However, we confirmed with MEA staff that there is no one-time fee that entitles members to special discounts. Additionally, we confirmed that MEA members are entitled to the transportation subsidy only as MEA members, not after their representation status has changed.

## **Recommendation 6**

**We recommend that TAP staff and management:**

- a. Investigate the instances of underpayments and overpayments we identified in the confidential report;**
- b. Identify and investigate instances of underpayments and overpayments from participants for the months of October through December 2016 and April 2017; and**
- c. Recover underpayments where appropriate, and refer participants to their respective Appointing Authority for appropriate corrective action; and**
- d. Determine whether refunds or credits for eligible participants who made overpayments are appropriate. (Priority 1)**

## **V. Contracting Deficiencies**

### **A. No Contracts Exist for Monthly Passes**

For nearly five years, there has not been any contract in place between the City and MTS for the administration of the monthly passes.<sup>2</sup> Operating without a contract leaves the City vulnerable to costly mistakes and misunderstandings with little recourse on the City's part. For example, the City may have been better able to remedy the overcharges we identified if there had been a contract in place that specified available options. Additionally, City Council approval is required once the program exceeds a five-year duration, which is also the case with the annual pass contracts.

### **B. TAP's Discount-Pricing Structure is Inconsistent**

Regularly priced passes are offered by MTS at tiered rates based on services provided. TAP applies discounts to the pass prices based on negotiations with employee associations. In the case of MEA negotiations, the subsidy was not applied consistently for all passes. The Premium pass serves more lines than the Regional pass, and is more costly for the City to purchase at the regular price, but is offered to MEA participants at a lower price than the Regional pass. See **Exhibit 4** for example of prices.

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<sup>2</sup> Prior to purchasing the passes from MTS, the City was purchasing passes from the San Diego Association of Governments (SANDAG). No contract between the City and SANDAG was provided or could be found. The program between the City and SANDAG was in operation from 1988 to 2013.

**Exhibit 4: Regional and Premium Route Passes and Prices**

<b>Regional Pass</b> <b>City Cost \$72</b> <ul style="list-style-type: none"><li>• MTS Trolley</li><li>• MTS Bus/Express</li><li>• MTS Rapid</li><li>• NCTD Breeze</li><li>• NCTD Sprinter</li></ul>	<b>Premium Pass</b> <b>City Cost \$100</b> <ul style="list-style-type: none"><li>• MTS Trolley</li><li>• MTS Bus/Express</li><li>• MTS Rapid</li><li>• NCTD Breeze</li><li>• NCTD Sprinter</li><li>• MTS Rapid Express</li></ul>
<b>Discounted MEA</b> <b>Pass Price \$18</b>	<b>Discounted MEA</b> <b>Pass Price \$10</b>

In our samples, we found 11 instances where the City was either shorted in payments collected from five participants, or shorted in the recording of the sale by TAP staff. Participant payments were recorded as a \$10 MEA-priced Premium pass. However, those accounts were invoiced by MTS as an \$18 MEA-priced Regional pass. Thus, the City was shorted by \$8 ( $\$18 - \$10 = \$8$ ) for each of the passes.

**Recommendation 7**

**We recommend that TAP management work in coordination with the Human Resources Department to revise the current discount-pricing structure for Regional and Premium passes sold to members of the Municipal Employees Association. The revised discount should be applied consistently to all passes and included in future agreements with the Municipal Employees Association. (Priority 3)**

**Recommendation 8**

**We recommend that TAP management review the instances of shortages we identified. TAP should recover the shortages where appropriate, and refer participants to the appropriate Appointing Authority for potential corrective action. (Priority 1)**

### **C. No City Policy Extends Transit Subsidies to Volunteers, Interns, or Non-Union Represented Employees**

During our investigation, we did not identify any policies or agreements formally approved by the appropriate level of City management that extend the transit pass subsidy to volunteers and interns. When we inquired with TAP staff about the subsidy policies for volunteers and interns, we were directed to the applications for monthly and annual passes, as well as the Employment Work Status Report form. Although these documents reference interns or volunteers, they do not serve as adequate substitutes for a policy that can be consistently implemented.<sup>3</sup>

We also did not identify any agreements that extended the subsidy to non-union represented employees, such as employees in management positions. We inquired with TAP staff regarding the availability of overall program policies, and specifically policies that established the program for City employees. Although TAP staff could not provide any policy documents, we did identify agreements that extend the subsidy to employees of officially recognized employee organizations, such as the MEA. These agreements define the subsidy and discount structure available to the employees affiliated with the applicable organization.

We did not identify any agreements similar to employee association agreements that extended the subsidy to unrepresented employees. We inquired further with TAP management about City policies that extend the subsidy to non-union represented employees. TAP management stated that a memorandum that extends some MEA benefits to unrepresented employees is sent out annually to all departments by City management. TAP management indicated that this memorandum would include the transit subsidy. However, we reviewed the two most recent memorandums sent by the Human Resources Department, and we did not identify an extension of the transit subsidy to unrepresented employees.

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<sup>3</sup> The annual application and the Employment Work Status Report form both reference student-interns, whereas the monthly application references only volunteers.

### **Recommendation 9**

**We recommend that TAP management create and implement program policies that define program eligibility for volunteers, interns, and all classes of employees. TAP management should ensure these policies are approved by the appropriate level of City management. (Priority 3)**

#### **D. Contracts for the Annual Pass Program are Insufficient**

We found that the annual pass contracts between the City and MTS do not meet City requirements for contracts. The agreements for FY 2014 through FY 2017 lack basic contract components, such as an audit clause, and certifications for sole source and availability of funds. These components are required by City Charter Sections 39 and 39.2, and San Diego Municipal Code (SDMC) Section 22.3016. We met and discussed these components with the Office of the City Attorney and the Human Resources Department as they both take part in preparing the contracts. We recommended that future contracts comply with both the City Charter and SDMC.

By FY 2019, the annual pass contract and related amendments could violate the City Charter if the City Council does not authorize further extensions to the contracts. Per City Charter Section 99, no contract may be extended past a five-year period without an ordinance adopted by a two-thirds majority vote of the City Council. As of FY 2018, the annual pass contract is in its fifth year.

### **Recommendation 10**

**We recommend that TAP management:**

- a. Prepare and execute a contract with MTS for the monthly pass program;  
and**
- b. Work in coordination with the Office of the City Attorney and the Human Resources Department to ensure that future monthly and annual pass contracts comply with both the City Charter and San Diego Municipal Code (Priority 1)**

### **E. Discounted Annual Premium Passes Are Available, but the City Does Not Offer Them**

We found that MTS offers a discount for annual purchases of Premium passes, but the City does not extend this offer to TAP participants. Currently, the City only offers an annual discount to participants that purchase an annual Regional pass. During the months of January through March 2017, an average of 207 participants per month had purchased Premium passes. Had TAP offered the discount to these participants, they would have saved an additional 25 percent in pass costs, and may have only had to come to the downtown office once a year instead of on a monthly basis. We inquired with TAP management as to why the discount had not been offered. However, TAP management did not provide a specific reason for why this occurred.

### **Recommendation 11**

**We recommend that TAP management work in coordination with the Human Resources Department and MTS to ensure that future annual pass contracts include discounts for both Regional and Premium passes. (Priority 2)**

## **VI. TAP Would Benefit from Process Automation**

### **A. Program Inefficiencies Discourage Participation and Lead to Errors**

We identified program inefficiencies that discourage program participation and lead to errors. For example, TAP's downtown hours are weekdays from 9:00 am to 1:00 pm from the 1<sup>st</sup> through the 12<sup>th</sup> of each month. Typically, participants must take time from their work day to purchase their pass or make any needed changes. The limited sale days and hours, long wait times, and inconvenient monthly travel to sale sites have been a regular source of frustration for participants, and may discourage program participation.

Additionally, TAP's current processes make it difficult to identify errors and understand their cause. As discussed earlier in this report, the lack of invoice reconciliations and the recording of transactions to multiple sources have led to thousands of dollars' worth of errors. Without a process to identify or understand such errors, TAP staff may not be able



to correct the errors or clearly explain the situation to participants, which is another source of frustration for staff and participants alike.

### **B. Some TAP Processes Are Becoming Automated**

TAP management is in the process of trying to address program inefficiencies by automating some of the TAP processes. One option TAP management has researched is online payments. TAP is well into the process of trying to make an online payment system available to participants for the subsidized monthly passes, and the portal could go live next calendar year. However, this system would be based on unreliable data from the TAP database, not open to all participants, not able to process account changes, and would charge participants a fee for each transaction. Participants would also have to travel to the downtown location to make account changes.

TAP management has also inquired with the Office of the City Comptroller regarding the option of payroll deductions for transit passes. Payroll deductions would substantially reduce contact between participants and TAP staff, as well as eliminate inefficiencies for participants related to traveling downtown. Payroll deductions would also address issues related to participant verifications and unreliable data as discussed earlier in this report. Specifically, payroll deductions would automate the program in the following ways:

- Participants would be automatically excluded from receiving more than one transit subsidy at a time, such as a parking pass subsidy and transit pass subsidy;
- Pass requests from the City to MTS would be automatically generated and based on the amount withheld from paychecks;
- Reports for the types and number of passes requested would be automatically generated and could be used to perform invoice reconciliations;
- Participants who have left City service would automatically be removed from the monthly pass requests; and
- Participants' MEA statuses would be automatically verified and updated as participants move into different positions.

Additionally, automation from payroll deductions would eliminate errors related to misspellings and duplicate orders. Although volunteers and some interns may not be able to participate in the payroll deduction, the volume of passes processed by TAP staff would be greatly reduced. Reducing the volume of passes processed by TAP staff could also eliminate the need for a database since the lower volume could be managed in spreadsheets.

**Recommendation 12**

**We recommend that TAP management work in coordination with the Office of the City Comptroller to implement a process for automatic payroll deductions for monthly and annual transit pass sales. TAP management should ensure that this process is documented and approved by the appropriate Appointing Authority.**

**Prior to implementation of the payroll deduction process, TAP management should consider whether SAP can automatically generate pass orders and reports for the types and number of passes sold. (Priority 1)**

## **Conclusion**

The allegation of weaknesses in internal controls was substantiated. We performed a detailed analysis of TAP policies, sales, cash, and recording processes for monthly transit passes sold in the invoice periods of September 2016 and January through March 2017, and annual passes sold for Fiscal Years (FY) 2016 and 2017. We found that due to errors and a lack of adequate oversight, the City overpaid MTS and made errors in collecting and recording participant payments. We made recommendations to strengthen internal controls, to automate TAP's processes by implementing payroll deductions, and to recover underpayments or reimburse overpayments where appropriate.

We also conducted a review of TAP's contracting process and annual pass contracts with MTS executed in FY 2014 through FY 2017. We found deficiencies in TAP's contracts for annual passes, and that TAP lacks contracts for monthly passes. We made recommendations to comply with the City Charter and San Diego Municipal Code.

**Recommendations and Management's Responses (see Attachment A for definitions of Fraud Hotline recommendation priorities):**

- 1. We recommend that TAP management strengthen internal controls over cash handling at all sites as described in the confidential report. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. As the report indicates, controls over the Downtown office have been implemented. TAP is in the process of distributing new procedures to the four Off site Sales Locations.

**Target Implementation Date:** February 2018.

- 2. We recommend that TAP management:**
  - a. Consult with the Office of the City Attorney to determine if overpayments can be recovered from MTS given that no contracts exist for the monthly passes;**
  - b. If overpayments can be recovered, TAP should perform detailed invoice reconciliations for the October through December 2016 and April 2017 invoices, and work with MTS to recover to the extent possible overcharges that we identified from January 2017, and any additional overcharges identified by TAP reconciliations. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP will consult with the City Attorney's Office in January 2018 to determine if overpayments can be recovered.

**Target Implementation Date:** If determined to be recoverable, TAP will work with MTS to recover funds to the greatest extent possible by April 2018.

- 3. We recommend that TAP management work in coordination with the Human Resources Department's Citywide Volunteer and Youth Development Programs in order to implement a process of regular verification of intern and volunteer eligibility. (Priority 3)**

**Management Response:** Agree.

Management agrees with this recommendation. As of December 21, 2017, TAP has access to the Volunteer database, Better Impact. TAP will use this information to determine volunteer work status and eligibility.

**Target Implementation Date:** December 2017

- 4. We recommend that TAP management implement a consistent numbering system policy for intern and volunteer identifications numbers. (Priority 3)**

**Management Response:** Agree.

Management agrees with this recommendation. Starting immediately, TAP will begin to update its database and use the Volunteer IDs from Better Impact.

**Target Implementation Date:** December 2017

- 5. We recommend that TAP staff perform a review of current participant records to identify errors in employee identification numbers, and correct the records when the errors are identified. (Priority 3)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP reconciles employee PERNRs to the database on a monthly basis. TAP now has access to a monthly Personnel report to facilitate this process.

**Target Implementation Date:** December 2017

- 6. We recommend that TAP staff and management:**
- a. Investigate the instances of underpayments and overpayments we identified in the confidential report;**
  - b. Identify and investigate instances of underpayments and overpayments for the months of October through December 2016 and April 2017;**
  - c. Recover underpayments where appropriate, and refer participants to their respective Appointing Authority for appropriate corrective action; and**
  - d. Determine whether refunds or credits for eligible participants who made overpayments are appropriate. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP will conduct an investigation to identify any overpayments or underpayments and determine if refunds or credits are appropriate by the end of January 2018.

**Target Implementation Date:** February 2018

- 7. We recommend that TAP management work in coordination with the Human Resources Department to revise the current discount-pricing structure for Regional and Premium passes sold to members of the Municipal Employees Association. The revised discount should be applied consistently to all passes and included in future agreements with the Municipal Employees Association. (Priority 3)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP has met with Human Resources to discuss the discount pricing structure. Human Resources is now working with City Executive Leadership to determine the best course of action.

**Target Implementation Date:** August 2018.

- 8. We recommend that TAP management review the instances of shortages we identified. TAP should recover the shortages where appropriate, and refer participants to the appropriate Appointing Authority for potential corrective action. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP will conduct an investigation to identify any shortages and recover the shortages where appropriate.

**Target Implementation Date:** February 2018.

- 9. We recommend that TAP management create and implement program policies that define program eligibility for volunteers, interns, and all classes of employees. TAP management should ensure these policies are approved by the appropriate level of City management. (Priority 3)**

**Management Response:** Agree.

TAP has met with Human Resources to discuss the program policies that define program eligibility for volunteers, interns, and all classes of employees. TAP followed-up with Human Resources on December 21, 2017 and was asked to continue these benefits. A formal policy will be drafted and sent out to City employees.

**Target Implementation Date:** July 2018.

**10. We recommend that TAP management:**

- a. Prepare and execute a contract with MTS for the monthly pass program; and**
- b. Work in coordination with the Office of the City Attorney and the Human Resources Department to ensure that future monthly and annual pass contracts comply with both the City Charter and San Diego Municipal Code. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP is working with MTS on the Monthly Pass agreement. Edits are currently under review with MTS. We expect the agreement to be finalized and executed by February 2018. The ECO Annual Pass agreement has reached its fifth year.

**Target Implementation Date:** TAP expects to request Council approval by the end of March 2018.

**11. We recommend that TAP management work in coordination with the Human Resources Department and MTS to ensure that future annual pass contracts include discounts for both Regional and Premium passes. (Priority 2)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP consulted with Human Resources and will offer both pass types.

**Target Implementation Date:** Sales will begin in April 2018.



**12. We recommend that TAP management work in coordination with the Office of the City Comptroller to implement a process for automatic payroll deductions for monthly and annual transit pass sales. TAP management should ensure that this process is documented and approved by the appropriate Appointing Authority.**

**Prior to implementation of the payroll deduction process, TAP management should consider whether SAP can automatically generate pass orders and reports for the types and number of passes sold. (Priority 1)**

**Management Response:** Agree.

Management agrees with this recommendation. TAP is working with City Comptroller's Office on this process. We plan on testing payroll deductions in March 2018, at which time we will perform a thorough risk analysis. We will move forward with payroll deductions and potential SAP automation as long as we can maintain our current operational effectiveness.

**Target Implementation Date:** April 2018.

This investigation was conducted under the authority of California Government Code §53087.6 which states:

(e) (2) Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential.

(3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

We appreciate all of the assistance we received from the Transportation and Storm Water Department during our investigation. Thank you for taking action on this issue.

Respectfully submitted,



Eduardo Luna  
City Auditor

cc: Scott Chadwick, Chief Operating Officer  
Stacy LoMedico, Assistant Chief Operating Officer  
Hadi Dehghani, Director, Personnel  
Scott Clark, Interim City Comptroller  
Judy von Kalinowski, Director, Human Resources  
Ken So, Deputy City Attorney

# Attachment A: Definition of Fraud Hotline Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3

### FRAUD HOTLINE RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for Fraud Hotline recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration’s responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration’s official response to the findings and recommendations.

Priority Class <sup>4</sup>	Description
1	Fraud or serious violations are being committed.
	Significant fiscal and/or equivalent non-fiscal losses are occurring.
	Costly and/or detrimental operational inefficiencies are taking place.
	A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists.
	The potential for costly and/or detrimental operational inefficiencies exists.
3	The potential for strengthening or improving internal controls exists.
	Operation or administrative process will be improved.

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<sup>4</sup> The City Auditor is responsible for assigning Fraud Hotline recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

## Attachment B: Program Overview

### Transportation Alternatives Program

The Transportation Alternatives Program (TAP) is an employee-incentive program offered to City employees, interns, and volunteers who use public transportation as their primary method of transportation to and from City workplaces. Eligible TAP participants may purchase subsidized monthly or annual transit passes available for use on San Diego's Metropolitan Transit System (MTS) and the North County Transit District's Coaster train. To be eligible for the program, participants must work a minimum of twelve days per month, use public transportation to get to and from work at least three times a week, and cannot be enrolled in a subsidized City parking program.

Select monthly transit passes are subsidized by the City in the form of a discount of up to \$100 off the regular price. See **Exhibit 5** below for pass prices. City employees in the Municipal Employee's Association (MEA) receive a 90 percent discount off the regular price of the available monthly transit passes; all other participants receive a 75 percent discount. The monthly Regional Adult pass is discounted at 75 percent for both MEA employees and other participants.

### **Exhibit 5: Pass Price List**

Pass Type	Regular Price	MEA Price	Non-MEA Price	Percent Subsidized	
				MEA	Non-MEA
Premium Adult	100.00	10.00	25.00	90%	75%
Premium SDM <sup>5</sup>	25.00	2.50	6.25	90%	75%
Regional Adult	72.00	18.00	18.00	75%	75%
Regional SDM	18.00	1.80	4.50	90%	75%
Regional Youth	36.00	3.60	9.00	90%	75%
Coaster 2 Zone	150.00	50.00	50.00	67%	67%
Coaster 3 Zone	165.00	65.00	65.00	61%	61%
Coaster SDM	41.25	4.10	10.25	90%	75%
Annual ECO Regional Pass <sup>6</sup>	648.00	64.80	162.00	90%	75%

<sup>5</sup> Senior, disabled, or Medicare

<sup>6</sup> The full price of the Annual ECO Regional pass is \$864. \$72 monthly Regional pass x 12 months = \$864. MTS offers the City a 25% volume discount on Annual ECO Regional passes purchased before the City subsidy is applied. With the MTS discount applied, the Annual ECO Regional pass is \$648. \$864 Annual ECO Regional pass x 25% discount = \$216 discount. \$864 Annual ECO Regional pass – \$216 discount = \$648.

The City also subsidizes an annual version of the Regional Adult pass, otherwise known as the Annual ECO Regional pass. MTS offers the City a 25 percent discount based on the volume of annual passes purchased in advance. The discount is passed along to TAP participants, who receive either 90 or 75 percent off the already discounted pass price. The annual passes are offered by the City once a year, near the end of the fiscal year; the annual passes can only be used during the following fiscal year.

### **Program Administration**

The program is administered by staff in the downtown TAP office, which is under the purview of the Transportation Engineering Operations Division of the Transportation and Storm Water (TSW) Department. Participants can buy passes at the downtown TAP office, located within the Executive Complex in downtown San Diego, or from four other remote sites throughout the City. The remote sites send payments, receipt copies, and pass requests to the downtown TAP office once a month.

Employees, interns, and volunteers wanting to enroll in the program must submit an application at the downtown TAP office. Employees must also provide their City identification number and card. If the employee does not have a City identification card, he or she may present a current paystub with valid photo identification. Limited or hourly employees, volunteers, and interns must also submit an Employment Work Status Report form signed by their supervisor; this form must be submitted each time he or she purchases a transit pass. Once the application is processed, the participant is given a Compass Card. Each month, transit passes are loaded electronically onto the card.

Applications are processed by TAP staff at the time the application is submitted. Processing includes verifying eligibility, such as confirming the applicant does not participate in the City's subsidized parking program. Participants may not receive subsidized parking and subsidized transit passes at the same time. Applicant participation in the subsidized program is first checked verbally, then confirmed with a monthly parking report. The applicant information, including the assigned Compass Card account number, is then entered into the TAP database. The database is used to process sales, reconciliations, allocate City costs to the appropriate departments, and track participant activity and information.

**TAP Database Design**

The TAP database was originally developed by a TSW intern as a Microsoft Access database. In 2015, the data and database structure was migrated to an online version of the database, which was more easily accessible to TAP employees. The data stored and not stored in the TAP database is shown in **Exhibit 6** below.

**Exhibit 6: TAP Database Data**

<u>Participant Data Stored</u>	<u>Sales Data Stored</u>	<u>Data <b>not</b> stored</u>
<ul style="list-style-type: none"> <li>• Name</li> <li>• Employee number<sup>7</sup></li> <li>• Department</li> <li>• Compass Card number<sup>8</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Sales date</li> <li>• Payment method</li> <li>• Check number (if applicable)</li> <li>• Full pass cost</li> <li>• Pass type category (e.g. Coaster, bus/trolley, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Cash tendered</li> <li>• Pass period</li> <li>• MEA status<sup>9</sup></li> <li>• Specific pass route purchased (e.g. Coaster 2 zone, Regional route, etc.)</li> </ul>

TAP staff use the database to generate various reports in order to complete daily cash reconciliations, monthly invoice reconciliations, and to allocate subsidy costs between General Fund and non-General Fund departments based on the department of each participant.

**TAP Sells Passes to Participants**

TAP participants may purchase monthly passes once a month from the 1<sup>st</sup> through 12<sup>th</sup> of each month. As with the application, participants must provide some form of valid City identification and an Employee Work Status Report (if applicable) each time a pass is purchased. This information aids in identifying the participant in the TAP database, as well as validates some of the eligibility requirements.

If the purchase is made at the downtown TAP office, the transaction is completed using the TAP database, and a pass is immediately downloaded to the participant’s Compass Card using MTS’ Compact Point of Sale (CPOS) device. Copies of the receipt are printed from the TAP database, and one is given to the participant. The newly purchased pass

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<sup>7</sup> Employee number entries were not standardized, as discussed earlier in our report.

<sup>8</sup> Compass Card numbers were manually entered, resulting in several errors.

<sup>9</sup> MEA status is not linked to an external database or verified.

will be in queue until the current pass expires. The new pass is activated when the current pass expires and the Compass Card is “tapped” at a validator or in the designated bus area.

If the purchase is made at a remote site, the sale may be recorded on a piece of paper, in a spreadsheet, or both. One of the sales lists we reviewed included the participant’s name, the payment amount, the type of payment (cash or check), a signature, and self-certification of whether the participant was enrolled in the City’s parking subsidy program.

Although a receipt book was provided to each remote site recently, we found that not all sites consistently provided receipts to participants. Prior to the receipt books, receipts were issued at the discretion of the staff responsible for selling the transit passes.

At the end of the sales period, cash and sales information is processed by TAP staff. Some months the remote site staff will take the cash and sales information to the downtown location themselves; other months, the cash and sales information is picked up by TAP staff from the downtown location. TAP staff enter the information into three different recordkeeping systems: (1) the TAP database; (2) an internal tracking spreadsheet; and (3) a spreadsheet that is sent to MTS each month. Prior to the implementation of the CPOS device, TAP staff used all three recordkeeping systems to record the downtown sales as well as the remote site sales.

Cash and checks from sales at TAP are required to be reconciled to sales records and deposited with the City Treasurer daily, per the City Treasurer’s Cash Handling Training Manual. Cash and checks received from remote sites are required to be reconciled and deposited when received, or locked and deposited the following business day.

### **TAP Orders Passes from MTS**

Each month TAP staff send MTS a spreadsheet of participants who have paid for the following month’s pass. The spreadsheet does not include participants whose purchase was processed with the CPOS device. MTS uses the spreadsheet to upload account information into their database, such as new accounts, terminated accounts, and accounts that should and should not receive passes in the next period.

The spreadsheet format is prescribed by MTS, as it must be in a format that can be processed by their database. It includes 27 fields of data to be captured; most of the fields relate to specific codes for the different pass types available for purchase. Other fields

relate to participant information, such as their Compass Card number, name, and identification number.

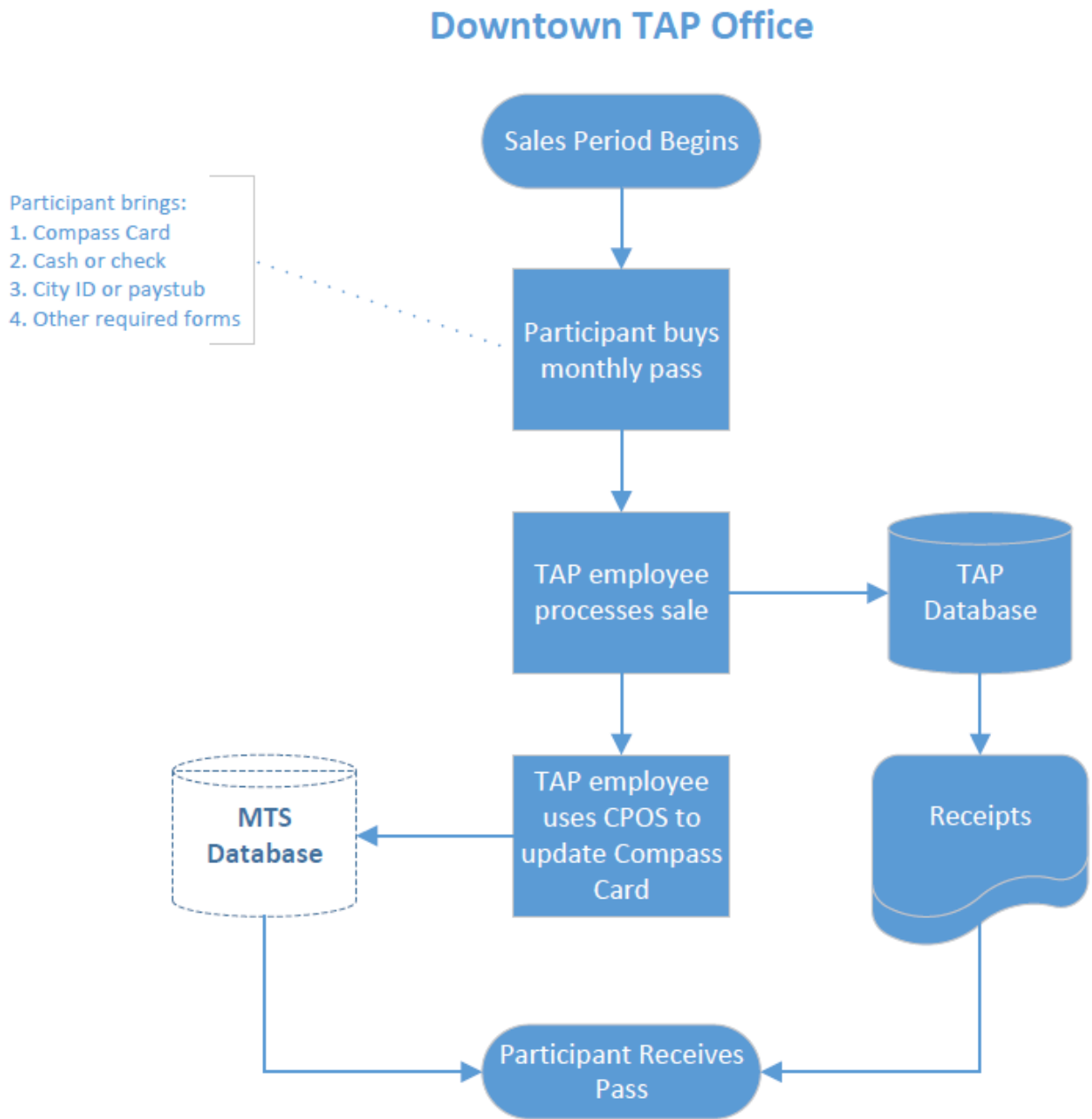
Throughout the life of the program with MTS, TAP staff have prepared the spreadsheet in different ways based on requests made in consultation with MTS. For example, at one point TAP staff submitted a spreadsheet listing all current accounts and the desired status of active, hold, or terminate. In order to simplify the reports and reduce errors, in August 2016, TAP staff agreed with MTS to submit a spreadsheet that listed only active accounts.

MTS requires TAP to submit the monthly spreadsheet by the 19<sup>th</sup> of each month. New employee requests, pass type changes, account number changes, and correcting errors can be submitted throughout the month. The format of the request must be the same as the monthly submission. Once the requests are processed and passes are sent to the Compass Cards, MTS will send a one-page, summarized invoice to TAP. TAP staff verify that the calculations on the invoice are correct, and attempt to match it to pass sales totals according to the TAP database. Invoices are then approved by TAP management and paid.

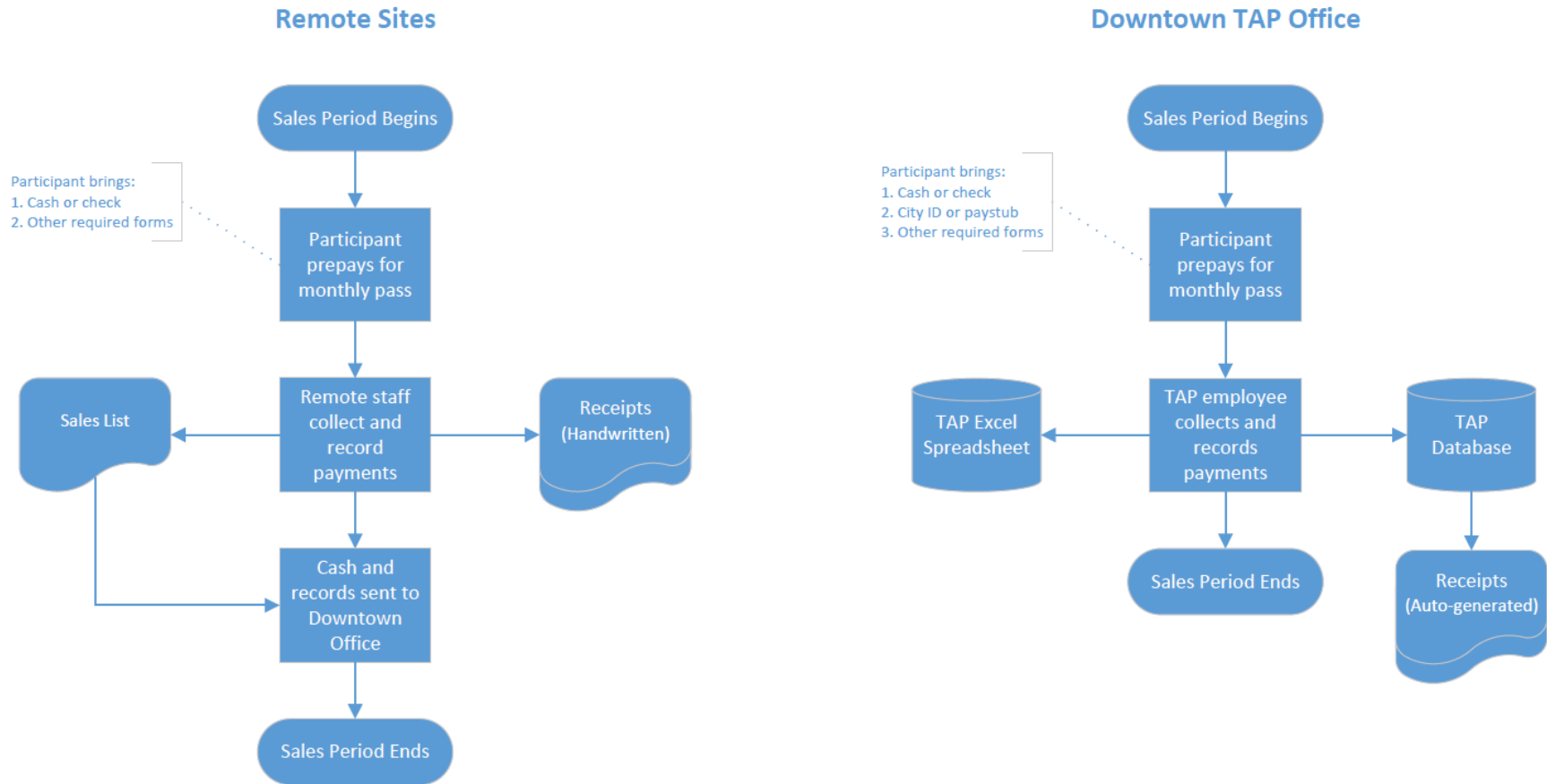


# Attachment C: TAP Process Flowcharts

## Exhibit 7: Current Process for Participants Purchasing Monthly Passes Using CPOS



**Exhibit 8: Current Process for Participants Purchasing Monthly Passes Not Using CPOS**



**Exhibit 9: City Process for Purchasing and Processing TAP Pass Sales**

**Downtown TAP Office**

