



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DIVISION***

***Report Number: 2013-002***

***FINAL REPORT - Review of the Controls Over the  
Revenue Recognition of the Breeze Card Program***

***June 5, 2013***

***Latona Thomas, CPA, Manager  
Steven Harper, Staff Auditor I  
Barry Huff, Staff Auditor I***

## *Table of Contents*

<b>Transmittal Letter</b> .....	Page i
<b>Background</b> .....	Page 1
<b>Results of Review</b> .....	Page 5
<b>A Reconciliation Process Needs to be Developed and Implemented</b> .....	Page 5
<u>Recommendation 1</u> .....	Page 6
<u>Recommendation 2</u> .....	Page 7
<u>Recommendation 3</u> .....	Page 8
<b>Contract Management Practices Need to be Improved</b> .....	Page 8
<u>Recommendation 4</u> .....	Page 10
<u>Recommendations 5-7</u> .....	Page 11
<b>Additional Issues that Need to be Addressed</b> .....	Page 12
<u>Recommendations 8-10</u> .....	Page 13
<b>Appendices</b>	
Appendix I – Detailed Objectives, Scope, and Methodology .....	Page 14
Appendix II – Abbreviations and Glossary .....	Page 15
Appendix III – Major Contributors to the Report .....	Page 16
Appendix IV – Final Report Distribution List .....	Page 17
Appendix V – Outcome Measure .....	Page 18
Appendix VI – Auditee Response .....	Page 19



## COBB COUNTY INTERNAL AUDIT

Latona Thomas, CPA

100 Cherokee Street, Suite 250  
Marietta, Georgia 30090  
phone: (770) 528-2559 • fax: (770) 528-2642  
TDD/TTY: (678) 581-5429  
latona.thomas@cobbcounty.org

*Division Manager*

June 5, 2013

### MEMORANDUM

TO: MEMORANDUM TO COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** – Review of the Controls Over the Revenue Recognition of the Breeze Card Program

Attached for your review and comments is the subject final report. The objective of our audit was to determine if controls were in place to validate the completeness and accuracy of the revenue recognized through the Breeze Card system and that Cobb County (the County) was receiving the correct amount of funds due.

#### *Impact on the Governance of the County*

The recommendations in this report will strengthen the controls over approximately \$2.2 million<sup>1</sup> of revenue currently processed through Breeze Cards annually and potentially \$6.2 million<sup>2</sup> if the County converts to all Breeze Card and cash only. The recommendations will also ensure that the County receives the correct amount of revenue and funds generated by Cobb Community Transit (CCT).

#### *Executive Summary*

We reviewed the controls over revenue recognition for passenger fares paid with Breeze Cards. Our review found that incoming funds from the Metropolitan Atlanta Rapid Transit Authority (MARTA) were accounted for; however, there is no process to independently validate the completeness or accuracy of the amounts remitted to the County. In addition, the Breeze Card participation agreement is expired with outdated terms and conditions, and the revenue recognition and reconciliation principles are inconsistent with said agreement. Effective contract management practices would ensure contract provisions are met or revised in a timely manner. Additional issues regarding the portable key security and ridership reports are also addressed.

<sup>1</sup> Based on MARTA's FY2012 monthly settlement and reconciliation reports.

<sup>2</sup> Total sum of CCT's FY2012 passenger fares and Breeze Card revenue from AMS Financial System.

## Recommendations

We made recommendations to address the issues above, including:

- Develop a process which enables the independent validation of Breeze Card revenue.
- Execute an updated Participation Agreement with MARTA.
- Develop guidelines with the regional partners for the distribution of dormant funds.
- Initiate an in-depth audit of the Clearinghouse functions.
- Implement best practices for contract administration.
- Evaluate and update the current controls over the portable farebox key.
- Develop a process to ensure data download functions of buses in repair.
- Continue to monitor and reconcile ridership data.

## Response

The Transportation Department Director and the Transit Division Manager provided a response to our draft report and concurred with each of our ten recommendations. Eight recommendations will be implemented by the end of calendar year 2013. A new Breeze Card Participation Agreement will be executed by June 30, 2014; however, DOT/CCT staff will consult with the County Attorney's office to determine interim measures needed. DOT/CCT staff will also coordinate with the Atlanta Regional Commission and other regional transportation partners to resolve referenced recommendations with a target completion date of March 31, 2014. The complete response to the draft report is included in Appendix VI. We will perform a follow-up in three months, and quarterly thereafter, on the implementation of corrective actions. Please contact me at (770) 528-2559 if you have questions or Steven Harper, Auditor-in-Charge, at (770) 528-2557.

## *Background*

The Transit Division of the DOT manages CCT, the County's public transportation system,<sup>3</sup> oversees the contracted daily operations, and plans for system enhancements and expansion. Passengers are transported within Cobb County and can connect directly to the MARTA system of buses and trains. Although the CCT system is operated by a contracted service provider<sup>4</sup> that hires drivers, dispatchers, maintenance and administrative staff, the vehicles, transfer centers, park-and-ride lots and the central Transit Center facility are owned by the County.

In May 2006, Cobb County entered into a participation agreement with MARTA to implement and utilize the Breeze Card<sup>5</sup> system. The agreement provides for CCT to utilize the Breeze Card as a cashless fare collection method on CCT fixed route services and patron transfers to the fixed route services of MARTA's Regional Partners.<sup>6</sup> MARTA agreed to provide the equipment and other services so CCT could sell the Breeze Card fare media, collect fares through fareboxes equipped with Breeze Card readers, and provide transfers between the MARTA system and CCT consistent with the Reciprocal Agreement.<sup>7</sup>

The Breeze Card is a durable, plastic contactless smart card (CSC) that enables CCT to offer many unique benefits such as automatic reloading and loss protection for registered customers. The card may also be used to store cash value for pay-per-ride and/or to load unlimited ride passes that CCT offers. Effective October 2011, passengers were required to use a Breeze Card for transfers between CCT and MARTA.



Breeze Cards cost \$1.00 and can be purchased through CCT at their administration office and kiosk location. Breeze Cards can also be purchased through MARTA at Breeze vending machines (BVM) and online. Senior, disabled, and youth passengers can obtain a special Breeze Card, with photo identification, that will allow them to take advantage of CCT discounted fares; however, these are only available at CCT's administration office.

### **Breeze Card Revenue Recognition**

Breeze Card Revenue is recognized in one of four ways: 1) Breeze Card product purchases; 2) Stored Value; 3) Pass sales; and 4) Online web sales. The proceeds of Breeze Cards and products sold by Cobb County are held by the County and credited against any sums due from MARTA to the County as a result of the recognition and reconciliation of revenue. All other revenue is collected by MARTA and included in the monthly reconciliation process to determine the total amount due to the County. No value is credited to CCT for transfers from MARTA to CCT and no value is credited to MARTA for transfers from CCT to MARTA.

---

<sup>3</sup> Includes fixed-route buses and Paratransit bus services for citizens with disabilities.

<sup>4</sup> Veolia Transportation (Veolia).

<sup>5</sup> Limited use or extended use smart card displaying the Breeze logo and used in MARTA's automated fare collection system.

<sup>6</sup> MARTA, CCT, Clayton County (C-Tran), Georgia Regional Transportation Authority (GRTA), and Georgia Rail.

<sup>7</sup> An agreement between Cobb County and MARTA dated July 7, 1989, which governs the transfer of transit patrons to and from MARTA and CCT.

### *Breeze Card fare media*

Breeze Card fare media is sold at a cost of \$1.00 from the CCT Administration building or the Kiosk located at the Marietta Transfer Center (MTC). Revenue from the fare media is included in the daily reconciliations that are processed by Veolia/CCT and submitted to the DOT Accounting Division. These amounts are then posted to the County's financial system as passenger fares. The County currently purchases the Breeze Card fare media from MARTA at a cost of \$1.43 per card. During FY2012, we purchased 3,200 Breeze Card fare media for a total cost of \$4,576.

### *Stored Value*

Stored value (SV) is a cash amount loaded onto a Breeze Card. It is not specific to any regional partner or fare product type and can be used at any of the regional partners to pay for the value of a single trip. The reconciliation of SV is made up of two components: SV added and SV used.

SV additions occur when a person adds money to a Breeze Card or when an SV autoloan<sup>8</sup> occurs. Funds must be added with the initial Breeze Card fare media purchase, at CCT Administration office, MTC Kiosk, CCT buses, MARTA Breeze vending machines (BVM), via MARTA's website, or any other regional partner facility. Money collected by CCT for SV additions is retained by the County and recognized as passenger fare revenue immediately. SV additions collected by MARTA or other regional partners, including autoloans, are collected by that partner and included in MARTA's monthly reconciliation of amounts due to the County.

SV used occurs when existing funds on a Breeze Card are used to pay for a fare at any of the regional partners. Each time the card is used, the funds are deducted and the regional partner where the trip originates receives credit for the revenue. As such, when a Breeze Card is presented and cash is deducted to pay the fare for a trip originating on CCT, the County gets credit for the revenue. SV used amounts are offset by the SV additions at CCT (since the cash is already on hand) during MARTA's monthly reconciliation of amounts due to the County. Adjustments are also included in the monthly reconciliation for various reasons such as the replacement of a broken card and restitution adjustments made by CCT customer service. MARTA's monthly recognition and reconciliation of revenue due to regional partners is managed using clearinghouse reports.<sup>9</sup> See Page 4 for additional discussion.

### *Pass sales*

Pass sales are regional partner products that can be purchased and loaded onto a Breeze Card. The passes can be for one trip, multiple trips, or a specified time period, and can only be used on the regional partner for which it was purchased. Pass sales of CCT products can be loaded at the CCT Administration office, MTC Kiosk, through MARTA, at BVMs, or via MARTA's website. Pass sales by CCT are retained by the County and recognized as passenger fare revenue immediately upon purchase. Pass sales of CCT products at MARTA facilities are collected by MARTA and included in MARTA's monthly reconciliation of amounts due to the County.

---

<sup>8</sup> An autoloan is when a product that has been purchased is pushed or transmitted to the Breeze Card. This occurs when a card is first used after the purchase.

<sup>9</sup> Clearinghouse reports provide information about how revenue is distributed among participants in a multiple organization, automated fare collection (AFC) system.

### Online web sales

Online web sales through MARTA's website provides the option to purchase Breeze Card fare media, purchase any regional partner product, or add stored value amounts. Breeze Card fare media purchased online is collected by MARTA. CCT products purchased are recognized upon purchase and loaded onto the card once tapped on a bus 24-48 hours after purchase. SV amounts added online are collected by MARTA and recognized upon usage on a CCT bus. Both SV usage from online sales and CCT products purchased online are included in MARTA's monthly reconciliation of amounts due to the County.

For FY2012, the County's total Breeze Card revenue was \$2,165,566. Below is a breakdown of the revenue by recognition source or type. The \$1 purchase price of Breeze Card fare media and pass sales by CCT are not included.

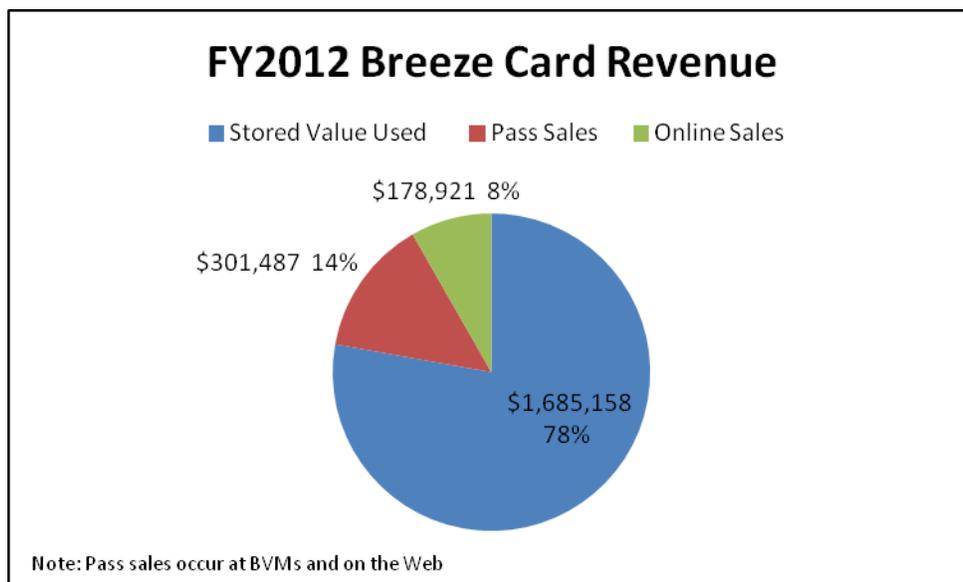


Chart 1 - Source: MARTA's monthly reconciliation reports for October 2011 through September 2012.

### System Infrastructure

According to the 2006 participation agreement, Cubic Transportation Systems, Inc. (Cubic) was contracted for the design, fabrication, installation and maintenance of the automated fare collection system utilizing the Breeze Card fare media. Under this contract, MARTA agreed to use the Nextfare<sup>10</sup> system for the processing of Breeze Card transactions from the CCT farebox, recognition of revenue, transfer of revenue to CCT's account and the production of reports. Cubic also makes available the Hummingbird (HB) software suite of reporting tools that is used to extract and document Nextfare data for reports and ad hoc queries. Standard built-in reports include various categories, but are not limited to patronage, sales, revenue, equipment, etc. Although HB includes all regional partner activity, CCT is limited to only data within their operations. HB also includes the ability to customize reports as needed.

<sup>10</sup> Nextfare is an enterprise system provided by Cubic Systems. It is a software and hardware platform for automated revenue management. It can be tailored to accept various forms of fare payment including smart cards, credit/debit cards, magnetic tickets, etc. Also called the Nextfare Central System (NCS).

The previously referenced participation agreement outlined MARTA's responsibility for the operation of a clearinghouse<sup>11</sup> (CH) which shall recognize revenue when the Breeze Card is presented to a CCT farebox. The agreement also required the transmission of the necessary data to properly recognize, reconcile and deposit revenue to CCT's account in accordance with agreed upon revenue recognition principles. Cubic's initial statement of work did not provide an automated clearinghouse but rather indicated that the issue would be addressed as a regional effort. MARTA currently uses Oracle<sup>12</sup> to operate its own internally developed clearinghouse system. MARTA's clearinghouse system is maintained by its Information Technology staff and managed by its Revenue Settlement & Clearinghouse staff. Regional partners do not have access to the Clearinghouse system. In addition, pre-defined parameters, changes and upgrades all occur without input from regional partners.

## **MARTA's Monthly Reconciliation**

MARTA's monthly reconciliation (Breeze Clearinghouse Settlement Summary) includes three components: SV, Pass Sales, and Web ticketing. First, the SV amount is computed by offsetting the SV added and collected by CCT by the total SV used and due to CCT. As stated previously, adjustments are made for web ticketing autoloads and other manual adjustments. Second, CCT pass sales from BVMs are added to pass autoloads for the respective month. Web ticketing pass autoloads are deducted from the total pass autoloads for the month to prevent duplication and then reflected in the third component, Web ticketing pass sales. Again, manual adjustments are made and included as needed. The net settlement amount due CCT is summed and transferred to CCT's account via a wire transfer.

In each component described above, MARTA compares HB sales and autoloading reports to their CH back office monthly sales reports. Reconciling differences are researched via MARTA's Information Technology work order system. In addition, MARTA's reconciliation is based on the financial business date<sup>13</sup> as opposed to the transit date.<sup>14</sup> Both dates are configured by MARTA without input from regional partners.



---

<sup>11</sup>An entity that processes financial transactions and manages the settlement and transfer of funds between organizations.

<sup>12</sup>The Oracle Database (commonly referred to as Oracle RDBMS or simply as Oracle) is an object-relational database management system produced and marketed by Oracle Corporation.

<sup>13</sup> The date financial transaction data is received and processed by the Nextfare database. Currently configured as 12am-12am.

<sup>14</sup> The date the transaction actually occurred. Currently configured as 4am-4am.

## *Results of Review*

Our objective was to determine if controls were in place to validate the completeness and accuracy of the revenue recognized through the Breeze Card system and that the County was receiving the correct amount of funds due. We determined the Breeze Card revenue amounts received from MARTA are not validated and there is no other process in place to ensure the County is receiving the correct amounts. The Breeze Card participation agreement has expired and includes outdated terms and conditions. In addition, MARTA's current revenue recognition and reconciliation principles are inconsistent with the expired agreement. Complete results to include additional issues are addressed in the accompanying pages.

### ***A Reconciliation Process Needs to be Developed and Implemented***

CCT does not have a process to independently validate the completeness or accuracy of the revenue generated through the use of Breeze Cards or the amounts due from MARTA each month. MARTA wire transfers the amounts due to CCT directly into the County's bank account and sends a monthly Breeze Clearinghouse Settlement Summary report. Finance Department staff agrees the amount received to the summary report in total and notifies DOT Accounting staff. DOT Accounting staff enters the cash receipt into the County's financial system and approves the transaction for posting as Breeze Card program revenue. No other review or validation is performed.

Internal Audit obtained several HB reports and unsuccessfully attempted to agree the amounts to MARTA's monthly summary reports for November 2012 (see chart below). We also attempted to reconcile CCT/DOT daily and monthly receipt reports to available HB reports. Specifically, SV summaries, both added and used, provided in MARTA's reconciliation package did not tie to sales and usage reports from HB. Reports of sales at ticket office machines (TOMs) varied significantly from the annual totals compiled by DOT. Cash totals from detailed transaction reports differed from the daily cash counts. MARTA staff was unable to explain the differences but rather attributed them to financial versus transit date timing issues. This assertion can neither be confirmed nor denied due to incomplete information.

November 2012 Reconciliation Summary		
SV Used	\$	151,103
BVM Passes	\$	23,667
Web Passes	\$	19,772
Net BC Revenue	\$	194,542
Less SV Added	\$	(131,071)
Net Transfer	\$	63,470

Chart 2 – Source: MARTA's November 2012 Reconciliation Report.

We also found that CCT staff has limited access to HB reports and were unaware of which reports were required to complete the validation. In addition, many of the reports accessible by CCT staff were based on the transaction date, while MARTA's reconciliations are based on the financial date. Without a documented process to independently validate the completeness and accuracy of MARTA's reconciliation, the County cannot be assured that it is receiving the total amounts due.

It is our understanding that CCT is currently assessing the option of eliminating magnetic tickets and expanding the use of Breeze Card capabilities. In the absence of proper internal controls to independently validate and verify MARTA's reconciliation, the County should consider the following:

- Increased amount of CCT revenue subject to risk (see Chart 3 below);
- Increased reliance on MARTA's settlement and reconciliation process;
- Potential for increased CH responsibilities on CCT;
- Impact on CH costs due to the expanded program; and
- Impact on the current daily reconciliation and inventory process.

The above is not all-inclusive as it only relates to the overall revenue recognition and reconciliation process. Below is a chart of Breeze Card revenue as compared to other CCT passenger fare revenue for the past five fiscal years.

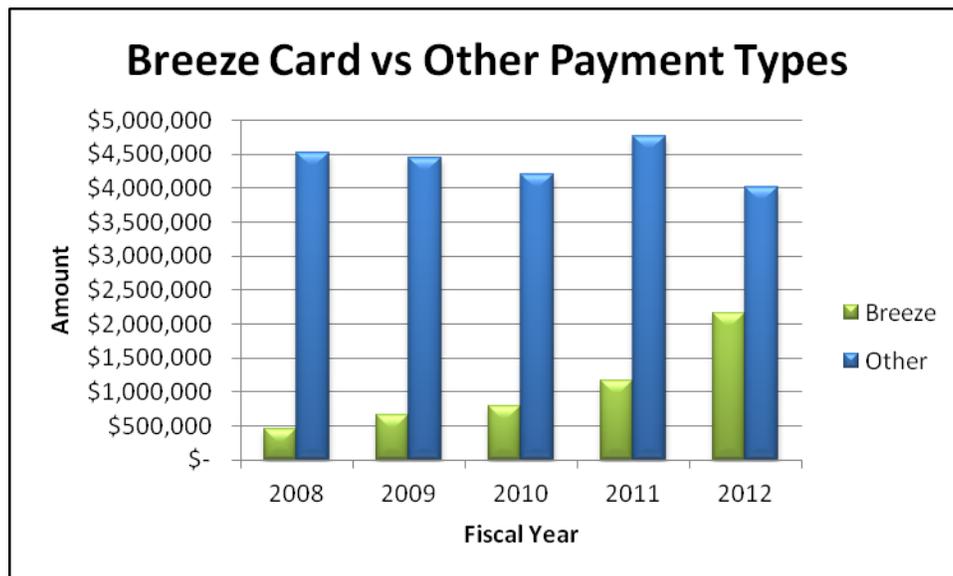


Chart 3 - Source: The County's AMS financial system and MARTA's reconciliation reports.

## ***Recommendations***

The Transit Division Manager should:

**Recommendation 1:** Develop and implement a process to validate Breeze Card revenue on a monthly basis. Coordination with MARTA, DOT Accounting, Finance and other regional partners will be essential. This process should be documented as developed and require management level review and approval.

**Auditee Response:** **Concur** - Corrective action plan will require completion/implementation of Recommendation 2 (see below). Once Cobb County has obtained access to the Hummingbird and Clearinghouse systems and required reports, a validation process will be established to include verification of Clearinghouse information received from MARTA on a monthly basis for Breeze Card revenues due to Cobb County by reconciling with daily activity from the Hummingbird report system.

Implementation of the corrective action plan will be initiated following the meeting scheduled with MARTA on June 5, 2013. Written procedures will be fully developed for Cobb County's internal validation process within six months of required reporting system access. Coordination with regional partners will follow according to completion of the Regional Transit Study.

Cobb DOT and CCT have initiated communication with the MARTA General Manager including ARC and other regional transit providers, to accomplish this recommendation. Monthly updates will be made to the County Manager and the Internal Audit Division.

Identify staffing resources necessary to develop and implement a process as well as provide ongoing financial management for CCT operations.

**Recommendation 2:** Determine what pre-formatted or customized reports are necessary for use in validations, reconciliations, daily operations, reporting, and decision-making, and periodically test the reports to ensure the data remains complete and accurate.

**Auditee Response:** **Concur** - Corrective action plan will require an in-depth review of all available reports that Cobb County currently has access to on the Hummingbird system to determine if pre-formatted reports are sufficient or if custom reports will need to be requested and/or developed. We are aware of over 150 pre-formatted reports that CCT currently has access to. Access to the Hummingbird system will need to be provided to the Administrative/Accounting Division Manager, or designated accounting staff, to allow identified reports to be run as needed. Currently, no one at Cobb County has access to view/run any reports from the Clearinghouse system. To properly validate information received from MARTA, it will be necessary to request access to this system as well to view Cobb County's information.

CCT is aware of one reporting issue that will need to be resolved. Some reports are populated using the transit date while other reports are populated using the financial date. Corrective action plan includes identification/customization of reports to resolve and/or alleviate this tracking variance.

Corrective action plan will include meeting with MARTA to thoroughly review and assess their internal reconciliation process to determine the most effective system reports available to facilitate CCT's validation process.

Corrective action plan may require additional staffing resources or hiring a consultant to assist with review/process development.

Implementation of corrective action plan will begin on June 5, 2013. Accounting/CCT staff is scheduled to meet at MARTA with the Manager of Revenue Settlement and Clearinghouse for an overview of MARTA's daily/monthly reconciliation process for Cobb County revenues.

This will serve as our basis to evaluating what reports will be beneficial to CCT for our internal validation process. If needed, follow up meetings will be scheduled with MARTA.

Concurrent to the meeting(s) with MARTA, access to both the Hummingbird and Clearinghouse systems will be requested for staff to be able to access reports identified as needed for the validation process.

Within six months of obtaining access to the necessary reports, a validation process will be fully implemented.

**Recommendation 3:** Consider the stated concerns during CCT's analysis of expanded Breeze Card use.

**Auditee Response:** Concur - Expansion of Breeze card use will be deferred until all program concerns including reconciliation, contracting, and administrative costs have been resolved by the regional partners.

### ***Contract Management Practices Need to be Improved***

We reviewed the Breeze Card Participation Agreement between Cobb County and MARTA to determine the roles and responsibilities of both parties. The contract was executed in May 2006 for an initial three-year term from the implementation date.<sup>15</sup> No written contract extension exists. Subsequent three-year extensions, not to exceed fifty years, were optional and were to include a review of the existing terms and conditions. Adjustments and amendments were also to be included as deemed necessary. During our review of the agreement, we noted a number of terms and conditions that were not being followed or relevant to current practices at the time of the audit.

#### **Revenue Recognition**

##### *Reconciliation settlement process*

Per the agreement, revenue should be recognized and settled each business day. All revenue recognized by CCT farebox activity should be transferred to the County's bank account within 72 hours of the revenue day. Currently, the reconciliation and wire transfers occur on a monthly basis. Neither CCT nor MARTA staff was able to explain the change in practice. Daily wire transfers would have a positive impact to the County's cash flow and interest earning potential but would likely result in increased CH cost.

##### *Reports*

MARTA is expected to provide reports to coincide with the processing of farebox transactions and provide additional pre-formatted reports as deemed necessary by CCT. We found that no CCT employee was provided, or had access to, MARTA's CH reports used in its monthly reconciliation. In addition, CCT's knowledge and use of HB reports were minimal.

---

<sup>15</sup> Implementation date was January 2007.

Only one CCT employee had access to the HB database and that access was only being used to capture ridership data. Additional reports were, and are, available to the County upon request, but no one identified the information needed to independently validate revenue received. Expanded access to HB reports can be requested using MARTA's Application Access Request Form.

### *Farebox probing*

CCT is required to probe fareboxes daily, download data, and report farebox activity to MARTA. CCT generally complies with this requirement as buses are probed on a daily basis in the evening and/or at the end of a shift. When buses pull into the fueling/probing station, an infrared probe is placed on the farebox which allows access to the cashbox, and downloads the farebox data simultaneously. Once the cashbox is removed, it is taken to the cash deposit window. The cashbox can only be opened when locked inside the cash deposit window system. Per Veolia and CCT staff, the only instance where a bus is not probed daily is when a bus has broken down and has to be towed in for repairs. In this situation, the bus is taken to the fueling/probing station and probed once the repair has been completed. CCT has a portable key to access the cashbox, but we were unable to determine the total functionality regarding probing. See section entitled 'Additional Issues that Need to be Addressed' for additional discussion about safeguarding concerns.

### *Dormant value*

Dormant value represents revenue recognized and received by the CH that is incapable of being transferred to a regional partner due to non-use of all or a portion of a Breeze Card's value. A mutually accepted arrangement regarding the distribution of dormant funds was to be determined by the regional partners during the initial term of the agreement. MARTA staff initially indicated there was approximately \$150,000 in dormant value; however, during subsequent inquiries, he stated \$0 in dormancy. He further stated that Breeze Card dormancy goes into effect only after the card expires, which is 10 years or 2016 at the earliest. A process for distributing dormant value is needed to ensure the County receives all potential revenues in a timely manner.

## **Other Contract Issues**

### *Clearinghouse service fees*

Following the implementation date and continuing for six months, CCT agreed to pay \$3,000 per month for clearinghouse service fees. After that period, CCT was to pay its proportional share of the CH costs but these costs were not to exceed \$4,000 per month during the initial term. Subsequent to the initial term, the CH use and costs were to be audited and adjusted on a semi-annual basis. At no time shall the CH allocation exceed the actual expenses incurred by MARTA in the recognition and reconciliation of revenue and related reporting functions. Per our discussions with MARTA and CCT staff, no audit had been performed to evaluate CH usage and costs, and the County has paid \$3,000 per month since inception.

Subsequently, we noted a County agenda item<sup>16</sup> to approve a Subgrant Agreement with MARTA for Federal Transit Administration grant funding for Breeze Fare Collection System enhancements and improvements. This item indicated that the Breeze Card Regional Executive Steering Committee (BCRESC) evaluated the actual cost of clearinghouse functions for regional transit operators in 2011, and it resulted in an amount substantially higher than the \$36,000.00 annual fee currently paid by each agency. We have not seen this evaluation and provide no assurance to the computations or information contained therein. For our participation in the subgrant agreement, MARTA agreed to waive CCT's clearinghouse service fees for one year. CCT is required to resume payment of the \$3,000 per month CH fees starting with the thirteenth month of this agreement.

#### *Audits of clearinghouse functions*

CH functions are subject to audits and analyses annually with the costs to be shared equally by regional partners. Other than the evaluation performed by the BCRESC, we were unable to determine if any comprehensive audits or analyses were performed. Internal Audit was able to agree MARTA's November reconciliation of CCT revenue to its own supporting documentation and reports but was unsuccessful in retrieving the information independently. As such, our assurance is solely limited to the information MARTA provided. We are unable to attest to the overall functionality of the entire CH process.

#### *Breeze Card fare media costs*

The expired participation agreement references MARTA providing extended use and limited use Breeze Cards at a cost of \$2.47 and \$0.436, respectively. CCT currently purchases Breeze Cards at a cost of \$1.43. We were unable to substantiate the difference in cost.

Establishing effective contract management practices is essential to ensuring the provisions of the contract or agreement are met. Every department in the County is responsible for establishing effective contract management practices, including maintaining a copy of the contract, designating staff responsible for overseeing contract compliance, and maintaining a contract-tracking database.

We found that CCT staff were not familiar with participation agreement provisions and did not monitor the adherence to it. As a result, the agreement expired and many of the clauses were obsolete or no longer relevant to the current practices.

### ***Recommendations***

The Transit Division Manager should:

**Recommendation 4:** Coordinate with MARTA and execute an updated Breeze Card Participation Agreement. The terms and conditions should be reviewed and updated to reflect current practices being employed.

**Auditee Response:** **Concur** - Coordination with MARTA and the regional partners to address this recommendation will begin with the June 2013 meeting. After the planned June meetings with MARTA management, staff and regional partners, CCT/DOT will meet with the County Attorney's office to determine appropriate interim steps to the Participation Agreement.

---

<sup>16</sup> Cobb County Board of Commissioners' consent agenda item dated November 27, 2012.

For the first six months, or until the interim agreement is in place, monthly progress reports will be provided to the County Manager and the Internal Audit Division with completion of this recommendation action expected within one year or by June 30, 2014. After, quarterly updates will be included in DOT standing status meetings.

**Recommendation 5:** Initiate discussions with the regional partners to establish guidelines and methodologies for disbursing dormant value. The partners should also develop a mechanism for reporting and tracking stale cards.

**Auditee Response:** **Concur** - CCT and Cobb DOT staff will meet with MARTA on June 5, 2013 to get an overview of their tracking system related to these topics and develop a policy/plan to address. This will include a clear definition of dormant value and the associated timeframes which will be included in any agreements developed.

**Recommendation 6:** Coordinate with the regional partners to conduct an independent audit of all the Clearinghouse functions and costs. Consult with Cubic Systems or other vendors regarding any clearinghouse functions available and compare to MARTA's clearinghouse process to determine the most cost effective and efficient way of providing the service.

**Auditee Response:** **Concur** - The Atlanta Regional Commission is currently coordinating the date for a June meeting to discuss audit and clearinghouse functions and cost. As the cost to accomplish such a regional audit is likely to be substantial, coordination and completion of this task as a shared cost should be accomplished through the ongoing Breeze efficiency study. This audit is not currently included in the scope of the existing study but will be discussed in the upcoming June meetings of the regional partners for inclusion and funding. The target date for completion is March 31, 2014.

Interim agreements as needed will also be addressed resulting from meetings with the County Attorney.

**Recommendation 7:** Develop written contract management procedures and ensure that designated contract administrators follow best practices in contract administration to include:

- Understanding the mutual obligations of the contract.
- Ensuring the proper implementation of all contract specifications.
- Amending the contract as required or deemed necessary.
- Extending or canceling the contract in a timely manner.
- Maintaining contract documentation including:
  - Copies of contracts;
  - Copies of all amendments;
  - Copies of correspondence (i.e. notes from meetings and phone conversations);
  - A log of problems, proposed solutions and results.

**Auditee Response:** **Concur** - CCT will develop a contract administration process by November 1, 2013 that ensures contracts are issued in adherence to the Cobb County's Policy on Contract Management and are monitored to ensure contractors perform in accordance with the terms, conditions, and specifications of contracts awarded.

The contract administration process will include:

- Identification of CCT staff training and staff resources necessary for proper management and oversight of all contract components, including, but not limited to, quality assurance, performance measurements, and quality checks.
- Evaluate the need for creation of a dedicated position to effectuate proper management of established contract management processes/procedures and associated CCT audit/analysis functions.
- Implement procedures to monitor all contracts, from issuance to closeout, to ensure proper authorizations/signatures are secured and that files are properly documented for internal/federal audit reviews.
- Establish a process for monitoring and documenting the progress/performance of all contractors to ensure that goods and services provided conform to the contract requirements and/or deliverables.
- Develop written procedures to monitor issuance, amendments and expiration dates of all contracts by accessing the web-based Public Contract Management system utilized by other Cobb County departments.

### ***Additional Issues that Need to be Addressed***

#### *Portable key security*

When a bus is out of service due to repairs, it may bypass the fueling/probing process. In this case, CCT has a portable key that enables access to fareboxes away from the fueling/probing station. Once the farebox is opened, the cash box can be removed and delivered to the cash deposit window. The physical location and access of the portable key should be secured and limited to only authorized personnel. It is our understanding that the key is kept in a locked desk drawer inside one of CCT's offices and accessible to the Transit Operations Specialist only. Any additional access and security levels are unknown because we did not specifically test this area.

We also discovered that the key is rarely used. When buses are being repaired, the probing process does not occur until after the bus is returned to operations. Data download is delayed and cash receipts are not timely accounted for and deposited. This scenario increases CCT's risk of loss of both critical data and cash.

#### *Ridership Reports*

CCT's Transit Operations Specialist, who is responsible for preparing GRTA and JARC<sup>17</sup> billing, found significant drops in the detailed ridership data from October to December 2012. According to CCT's reports, the total ridership numbers were accurate but the detailed ridership by route differed by as much as 101,000 during this three-month period. We did not analyze these reports but participated in discussions where MARTA staff acknowledged that other regional partners were having the same issues. It is our understanding that Cubic Systems has identified the issue and worked with the regional partners to make the correction moving forward.

---

<sup>17</sup> Job Access and Reverse Commute Program addresses the unique transportation challenges faced by low-income persons seeking to obtain and maintain employment.

GRTA and JARC billings for October through December 2012 were prepared using alternative methods. CCT should continue to include this reconciliation process as part of its billing preparation procedures.

Reports need to be reliable in order to ensure correct billings to outside entities and for other reporting requirements. Inaccurate or inconsistent data can also affect CCT's decision-making ability.

## ***Recommendations***

The Transit Division Manager should:

**Recommendation 8:** Evaluate the current physical security and access over the portable key and ensure adequate security exists.

**Auditee Response:** **Concur** - The portable electronic key is an emergency device used to unlock the farebox. It is a hand-held portable probe with a 9V battery. The electronic key is used to open the farebox so the cashbox can be removed in a situation where regular probing is not an option. The key does not extract any data when used, but the farebox will retain a record that the electronic key was used to possibly remove the cashbox. CCT will be purchasing a safe and create a documented tracking process for portable key security by July 30, 2013.

**Recommendation 9:** Develop, document, and implement a process for using the portable key to access buses that bypass the fueling/probing station. In addition, consult with MARTA to assess the data download capabilities needed when using the portable key. Include the results in the documented procedures.

**Auditee Response:** **Concur** - CCT will work with the Cobb DOT and MARTA to identify resources necessary to assess the data download capabilities for the use of the portable electronic key and a documented process for authorized use of the portable electronic key by October 30, 2013.

**Recommendation 10:** Continue to monitor and compare monthly ridership reports to ensure they provide accurate data for invoicing and other reporting requirements. Include this process in the documented procedures.

**Auditee Response:** **Concur** - Corrective action will require development of a document that details the current process used to request the Hummingbird monthly reports, list of reports used, monitoring performed to ensure accuracy of the data, how the reports are used for invoicing, monitoring, and reporting requirements.

Implementation of corrective action will begin on June 10, 2013 with development of the process document for Hummingbird monthly ridership reports.

**Auditee Overall Comment:** In addition to the specific responses as provided, quarterly updates on the progress made on all recommendations and responses contained herein will be provided to the County Manager and Internal Audit Division until all have been completed with a goal of one year from the completion of the internal audit.

### *Detailed Objectives, Scope, and Methodology*

We conducted our review as part of our annual audit plan. Our review period covered the current fiscal year transactions, with direct focus on the revenue reconciliation activities of November 2012. Our overall objective was to determine if controls were in place to validate the completeness and accuracy of the revenue recognized through the Breeze Card system and that Cobb County (the County) was receiving the correct amount of funds due.

We performed our preliminary survey work to obtain a sufficient understanding of the Breeze Card revenue recognition process. Our survey included research, interviews, observations, and preliminary testing. Preliminary survey work resulted in the identification of significant deficiencies. No audit fieldwork was deemed necessary due to insufficient information available and no additional value would be gained. As such, we judgmentally elected to summarize our findings and recommendations as presented.

*Abbreviations and Glossary*

ARC	Atlanta Regional Commission
BCRESC	Breeze Card Regional Executive Steering Committee
BVM	Breeze Vending Machine
CCT	Cobb Community Transit
CH	Clearinghouse
CSC	Contactless Smart Card
DOT	Department of Transportation
GRTA	Georgia Regional Transportation Authority
HB	Hummingbird
JARC	Job Access and Reverse Commute
MARTA	Metropolitan Atlanta Rapid Transit Authority
MTC	Marietta Transfer Center
SV	Stored Value
TOM	Ticket Office Machine (CCT Administrative offices)

*Major Contributors to the Report*

Latona Thomas, CPA, Internal Audit Division Manager  
Steven Harper, Auditor-in-Charge

*Final Report Distribution List*

Faye DiMassimo, Transportation Director  
Gail Franklin, Transit Division Manager  
Vicki Gardener, Transportation Administrative Division Manager  
Jim Pehrson, CPA, Finance Director/Comptroller  
Internal Audit Division File

*Outcome Measure*

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. This benefit will be incorporated into our annual report to the County Manager and Board of Commissioners.

**Type and Value of Outcome Measure:**

- Reliability of Information – Recommendations, when implemented, will provide assurance of the completeness and accuracy of Breeze Card revenue. (See pages 5-13).

**Methodology Used to Measure the Reported Benefit:**

Based on MARTA's FY2012 Breeze Card monthly reconciliations, total Breeze Card revenue was approximately \$2.2 million.

## Auditee Response



### DEPARTMENT OF TRANSPORTATION

1890 County Services Parkway  
Marietta, Georgia 30008-4014  
(770) 528-1600 • fax: (770) 528-1601

**DATE:** June 3, 2013

**TO:** Latona Thomas, CPA, Manager, Internal Audit

**FROM:** Faye DiMassimo, Director, Department of Transportation  
Gail Franklin, Transit Division Manager 

**SUBJECT:** Response to the Internal Audit Division's Draft Report – Review of the Controls Over the Revenue Recognition of the Breeze Card Program

This memo is in response to the subject report dated May 7, 2013. The review determined there was not a process to independently validate the accuracy of funds received for the Breeze Card Program and that contract management practices need to be established.

You made several recommendations and our response to those recommendations are provided below.

**The Transit Division Manager will lead the following corrective actions:**

Recommendation 1: Develop and implement a process to validate Breeze Card revenue on a monthly basis. Coordination with MARTA, DOT Accounting, Finance and other regional partners will be essential. This process should be documented as developed and require management level review and approval.

*Concur:*

*Corrective action plan will require completion/implementation of Recommendation 2(see below). Once Cobb County has obtained access to the Hummingbird and Clearinghouse systems and required reports, a validation process will be established to include verification of Clearinghouse information received from MARTA on a monthly basis for Breeze Card revenues due to Cobb County by reconciling with daily activity from the Hummingbird report system.*

*Implementation of the corrective action plan will be initiated following the meeting scheduled with MARTA on June 5, 2013. Written procedures will be fully developed for Cobb County's internal validation process within 6 months of required reporting system access. Coordination with regional partners will follow according to completion of the Regional Transit Study.*

*Cobb DOT and CCT have initiated communication with MARTA General Manager including ARC and other regional transit providers to accomplish this recommendation. Monthly updates will be made to the County Manager and the Internal Audit Division.*

*Identify staffing resources necessary to develop and implement a process as well as provide ongoing financial management for CCT operations.*

**Recommendation 2:** Determine what pre-formatted or customized reports are necessary for use in validations, reconciliations, daily operations, reporting, and decision-making, and periodically test the reports to ensure the data remains complete and accurate.

*Concur:*

*Corrective action plan will require an in-depth review of all available reports that Cobb County currently has access to on the Hummingbird system to determine if pre-formatted reports are sufficient or if custom reports will need to be requested and/or developed. We are aware of over 150 pre-formatted reports that CCT currently has access to. Access to the Hummingbird system will need to be provided to the Administrative/Accounting Division Manager, or designated accounting staff, to allow identified reports to be run as needed. Currently, no one at Cobb County has access to view/run any reports from the Clearinghouse system. To properly validate information received from MARTA, it will be necessary to request access to this system as well to view Cobb County's information.*

*CCT is aware of one reporting issue that will need to be resolved. Some reports are populated using the transit date while other reports are populated using the financial date. Corrective action plan includes identification/customization of reports to resolve and/or alleviate this tracking variance.*

*Corrective action plan will include meeting with MARTA to thoroughly review and assess their internal reconciliation process to determine the most effective system reports available to facilitate CCT's validation process.*

*Corrective action plan may require additional staffing resources or hiring a consultant to assist with review/process development.*

*Implementation of corrective action plan will begin on June 5, 2013. Accounting/CCT staff is scheduled to meet at MARTA with the Manager of Revenue Settlement and Clearinghouse for an overview of MARTA's daily/monthly reconciliation process for Cobb County revenues. This will serve as our basis to evaluating what reports will be beneficial to CCT for our internal validation process. If needed, follow up meetings will be scheduled with MARTA.*

*Concurrent to the meeting(s) with MARTA, access to both the Hummingbird and Clearinghouse systems will be requested for staff to be able to access reports identified as needed for the validation process.*

*Within 6 months of obtaining access to the necessary reports, a validation process will be fully implemented.*

Recommendation 3: Consider the stated concerns during CCT's analysis of expanded Breeze Card use.

*Concur:*

*Expansion of Breeze card use will be deferred until all program concerns, including reconciliation, contracting, and administrative costs, have been resolved by the regional partners.*

Recommendation 4: Coordinate with MARTA and execute an updated Breeze Card Participation Agreement. The terms and conditions should be reviewed and updated to reflect current practices being employed.

*Concur:*

*Coordination with MARTA and the regional partners to address this recommendation will begin with the June 2013 meeting. After the planned June meetings with MARTA management, staff and regional partners, CCT/DOT will meet with the County Attorney's office to determine appropriate interim steps to the Participation Agreement. For the first six months or until the interim agreement is in place, monthly progress reports will be provided to the County Manager and the Internal Audit Division with completion of this recommendation action expected within one year or, by June 30, 2014. After, quarterly updates will be included in DOT standing status meetings.*

Recommendation 5: Initiate the discussion with the regional partners to establish guidelines and methodologies for disbursing dormant value. The partners should also develop a mechanism for reporting and tracking stale cards.

*Concur:*

*CCT and Cobb DOT staff will meet with MARTA on June 5, 2013 to get an overview of their tracking system related to these topics and develop a policy/plan to address. This will include a clear definition of dormant value and the associated timeframes, which will be included in any agreements developed.*

Recommendation 6: Coordinate with the regional partners to conduct an independent audit of all the Clearinghouse functions and costs. Consult with Cubic Systems or other vendors regarding any clearinghouse functions available and compare to MARTA's clearinghouse process to determine the most cost effective and efficient way of providing the service.

*Concur:*

*The Atlanta Regional Commission is currently coordinating the date for a June meeting to discuss audit and clearinghouse functions and cost. As the cost to accomplish such a regional*

*audit is likely to be substantial, coordination and completion of this task as a shared cost should be accomplished through the ongoing Breeze efficiency study. This audit is not currently included in the scope of the existing study but will be discussed in the upcoming June meetings of the regional partners for inclusion and funding. The target date for completion is March 31, 2014.*

*Interim agreements as needed will also be addressed, resulting from meetings with the County Attorney.*

**Recommendation 7:** Develop written contract management procedures and ensure that designated contract administrators follow best practices in contract administration to include:

- Understanding the mutual obligations of the contract.
- Ensuring the proper implementation of all contract specifications.
- Amending the contract as required or deemed necessary.
- Extending or canceling the contract in a timely manner.
- Maintaining contract documentation including:
  - Copies of contracts;
  - Copies of all amendments;
  - Copies of correspondence (i.e. notes from meetings and phone conversations);
  - A log of problems, proposed solutions and results.

*Concur*

*CCT will develop a contract administration process by November 1, 2013 that ensures contracts are issued in adherence to Cobb County's Policy on Contract Management and are monitored to ensure contractors perform in accordance with the terms, conditions, and specifications of contracts awarded.*

*The contract administration process will include:*

- *Identification of CCT staff training and staff resources necessary for proper management and oversight of all contract components, including, but not limited to, quality assurance, performance measurements, and quality checks.*
- *Evaluate the need for creation of a dedicated position to effectuate proper management of established contract management processes/procedures and associated CCT audit/analysis functions.*
- *Implement procedures to monitor all contracts, from issuance to closeout, to ensure proper authorizations/signatures are secured and that files are properly documented for internal/federal audit reviews.*
- *Establish a process for monitoring and documenting the progress/performance of all contractors to ensure that goods and services provided conform to the contract requirements and/or deliverables.*

- *Develop written procedures to monitor issuance, amendments and expiration dates of all contracts by accessing the web based Public Contract Management system utilized by other Cobb County departments.*

Recommendation 8: Evaluate the current physical security and access over the portable key and ensure adequate security exist.

*Concur:*

*The portable electronic key is an emergency device used to unlock the farebox. It is a hand-held portable probe with a 9V battery. The electronic key is used to open the farebox so the cashbox can be removed in a situation where regular probing is not an option. The key does not extract any data when used, but the farebox will retain a record that the electronic key was used to possibly remove the cashbox. CCT will be purchasing a safe and will create a documented tracking process for portable key security by July 30, 2013.*

Recommendation 9: Develop, document, and implement a process for using the portable key to access buses that by-pass the fueling/probing station. In addition, consult with MARTA to assess the data download capabilities needed when using the portable key. Include the results in the documented procedures.

*Concur:*

*CCT will work with the Cobb DOT and MARTA to identify resources necessary to assess the data download capabilities for the use of the portable electronic key and a documented process for authorized use of the portable electronic key by October 30, 2013.*

Recommendation 10: Continue to monitor and compare monthly ridership reports to ensure they provide accurate data for invoicing and other reporting requirements. Include this process in the documented procedures.

*Concur:*

*Corrective action will require development of a document that details the current process used to request the Hummingbird monthly reports, list of reports used, monitoring performed to ensure accuracy of the data, how the reports are used for invoicing, monitoring, and reporting requirements.*

*Implementation of corrective action will begin on June 10, 2013, with development of the process document for Hummingbird monthly ridership reports.*

*Overall Comments:*

*In addition to the specific responses as provided, quarterly updates on the progress made on all recommendations and responses contained herein will be provided to the County Manager and*

*Internal Audit Division until all have been completed with a goal of one year from the completion of the internal audit.*