TO: The Honorable Chairman and Members of the Board of County Commissioners

FROM: Ken Burke
Clerk of the Circuit Court
Ex Officio County Auditor

SUBJECT: Audit of Metropolitan Planning Organization

DATE: November 23, 2010

For your review and filing in the Official Records, I am enclosing a copy of the report dated November 23, 2010 on the above-referenced audit.

cc: Robert S. LaSala, County Administrator
Peter J. Yauch, P.E., Director, Public Works & Transportation
Brian K. Smith, Executive Director, Metropolitan Planning Organization
Jim Bennett, County Attorney
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young
AUDIT OF
METROPOLITAN PLANNING ORGANIZATION

Audit Services
Division of Inspector General

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor

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NOVEMBER 23, 2010
REPORT NO. 2010-18

*Regulated by the State of Florida
**Accredited Office of Inspector General
By the Commission for Florida Law Enforcement Accreditation
November 23, 2010

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted an audit of the Metropolitan Planning Organization (MPO). Our audit objectives were to determine that:

- The MPO is meeting its mission, goals and objectives required by the County and other State and Federal agencies.
- The Staff Services Agreement between the MPO and the County supports the services rendered to the MPO.
- The funds received and disbursed by the MPO are covered by adequate policies and procedures, and internal controls.
- The MPO selection of contractors and their deliverables are adequate.
- Any issues from the Federal Certification reviews and the independent audits are corrected.

We appreciate the cooperation shown by the staff of the Metropolitan Planning Organization during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,

Hector Collazo, Jr., Director
Audit Services, Division of Inspector General

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor

*Regulated by the State of Florida
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INTRODUCTION

Synopsis

The Pinellas County Metropolitan Planning Organization (MPO) meets the Federal and State requirements and criteria related to the grant funding for developing the County transportation planning and programs. However, the funding for the MPO operating costs are not being adequately presented by management.

- For the State’s Fiscal Years 2007 and 2008, $1.3 million of the support costs supplied by the County’s Planning Department were not reimbursed by Grant funding.
- Funding of MPO service costs are not addressed in the Staff Services Agreement between the MPO and the County.
- There are inadequate documented policies, procedures, and internal controls for areas of the MPO operations.
- MPO management is not implementing the recommendations of its independent auditor in a timely manner.

Scope and Methodology

We conducted an audit of the Pinellas County MPO. Our scope covered:

- The funds received by the MPO.
- The Staff Services Agreement that the MPO has with the County.
- An evaluation as to whether the MPO is meeting its mission, goals and objectives.
- MPO’s selection of contractors and their deliverables.
- To determine whether the MPO has corrected any issues raised in its Federal Certification review and the independent auditor’s review.

To meet the objectives of the audit, we interviewed management to obtain a clear understanding of the processes and procedures covering MPO operations, and how this relates to the Pinellas County Planning Department. We evaluated the adequacy of the policies and procedures, and internal controls for the MPO administration performed by the Planning Department. We tested the adequacy of the internal controls related to the MPO.

The audit objectives were to determine that:

1. The MPO is meeting its mission, goals and objectives required by the County and other State and Federal agencies.
2. The Staff Services Agreement between the MPO and the County supports the services rendered to the MPO.
3. The funds received and disbursed by the MPO are covered by adequate policies and procedures, and internal controls.
4. The MPO selection of contractors and their deliverables are adequate.
5. Any issues from the Federal Certification reviews and the independent audits are corrected.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Standards for Offices of Inspector General, and accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. The audit period was October 1, 2007 through March 31, 2009. However, transactions and processes reviewed were not limited by the audit period.

**Overall Conclusion**

The MPO is meeting its overall mission, goals and objectives, and the MPO's selection process of its contractors and deliverables is adequate. The support provided by the County's Planning Department to the MPO is justified by the Staff Services Agreement; however the:

- Cost of support provided *substantially exceeds* the amount of the allowable administration Grant funding and the MPO does not reimburse the County for this difference.
- Cost of MPO services funding is not addressed by the Staff Services Agreement.
- Pinellas County's MPO policies and procedures, and internal controls for the funds it receives and disburses are not adequate.
- Weak controls were found for monitoring contract compliance with the company utilized for its Transportation Disadvantaged Program.
- Improvement is needed in the MPO process for implementing audit recommendations from their independent auditor in a timely manner.

**Background**

The Pinellas County MPO was established in 1977 following the passage of the Federal Highway Act of 1974. The task of the MPO is to develop plans, policies, and priorities that guide local decision-making on transportation issues. Florida Statutes state that MPOs shall develop, in cooperation with the state and public transit operators, transportation plans and
programs for metropolitan areas. The plans and programs for each metropolitan area must provide for the development and integrated management and operation of transportation systems and facilities, including pedestrian walkways and bicycle transportation facilities that will function as an intermodal transportation system for the metropolitan area.

Principal responsibilities of the MPO include the development of a 20-year Long Range Transportation Plan (LRTP), a five-year Transportation Improvement Program (TIP), and related transportation planning studies and projects. The MPO seeks to improve transportation in the County for all modes of travel, including mass transit, walking, as well as cars. The MPO prioritizes capital improvements to address the County’s travel needs and allocates federal funding to implement the projects as identified in the LRTP and the TIP. The Pinellas County MPO is governed by an 11-member board of elected officials representing municipal governments, the Pinellas County Board of County Commissioners, and the Pinellas Suncoast Transit Authority (PSTA). The Florida Department of Transportation (FDOT) District 7 Office is represented on the Board by the District Secretary who is a non-voting member. The MPO has ten advisory committees and the members provide input to the MPO to help identify and address transportation planning issues. To achieve a broad representation of ideas and perspectives, members are drawn from three categories: citizens, professionals (technical, social service, law enforcement, municipal agencies, etc.) and policy (elected officials).

One of the core agreements that provide the statutory framework for the operations of the MPO is the Interlocal Agreement for the Creation of the Metropolitan Planning Organization. The parties in this agreement include the MPO member governments:

- Tarpon Springs
- Oldsmar
- Safety Harbor
- Pinellas County
- St. Petersburg
- Clearwater
- Largo
- Dunedin
- Pinellas Park
- Florida Department of Transportation
- Pinellas Suncoast Transit Authority
The Agreement sets forth the MPO's functions, composition and membership, and responsibilities in accordance with Federal and State law. A Staff Services Agreement between the MPO and Pinellas County states that the County Planning Department shall furnish the MPO with the professional, technical, administrative and clerical services, and the supplies, equipment, office and other space, and such other incidental items as may be required and necessary to manage the business and affairs of the MPO and to carry on the transportation planning and programming process.

The MPO is required to develop unified planning work programs (UPWPs) for the Pinellas Area Transportation Study (PATS), which states:

"The UPWP for the Pinellas Area Transportation Study (PATS) is developed annually as part of the PATS Certification process and documents all major transportation planning and related activities within Pinellas County for the upcoming fiscal year. The document also serves as a basis for all United States Department of Transportation (DOT) and Florida DOT funding assistance."
OPPORTUNITIES FOR IMPROVEMENT

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. $1,282,243 Of Support Expenses Provided To The MPO For The Two Years Ending June 30, 2008 Were Not Reimbursed To The County.

$1,282,243, or 42.7%, of the support provided to the MPO by the County’s Planning Department for the two years ending June 30, 2008 were not reimbursed to the County. The MPO’s Fiscal Year 2009 Unified Planning Work Program (UPWP) was $994,280 of planned funding for the Planning Department staff services and other support to the MPO, which represents 29.5% of the Planning Department’s Fiscal Year 2009 overall budget. In the prior UPWP, the planned funding for the Planning Department was $1,060,274, or 34.3%, of the Fiscal Year 2008 Planning Department overall budget.

The actual costs of Planning Department staff services and other support provided to the MPO that are billed to grants are a component of the MPO’s total program expenditures, which amounted to $7,353,043 in Fiscal Year 2008. The County funds its Planning Department, which provides staff services and other support to the MPO. The MPO invoices the DOT for reimbursement of the County’s Planning Department services and support, up to the allowed limits of the current DOT grant. After receiving the DOT reimbursement, the MPO reimburses the County for their services and support.

The processes that document the expenses of the MPO do not provide County management, the MPO Board and the Board of County Commissioners (BCC) with the information to determine that the County’s Planning Department service costs provided to the MPO under the Staff Services Agreement are not totally reimbursed to the County by the DOT Grant funding (exceeded allowable administrative Grant percentage). However, the Staff Services Agreement is silent on how the services supplied by the County should be funded.

A. $1,282,243 of MPO support expenses were not reimbursed to the County for actual Planning Department staff services support expenses for State Fiscal Year 2007 and 2008.

- For the State Fiscal Year 2007, the Grant eligible staff services expenses provided to the MPO amounted to $1,430,628; however, only $725,000 was reimbursed, a difference of $705,628, which was absorbed by the County.
For the State Fiscal Year 2008, the Grant eligible staff services provided to the MPO amounted to $1,570,365; however, only $993,750 was reimbursed, a difference of $576,615, which was absorbed by the County.

<table>
<thead>
<tr>
<th>COST OF SUPPORT SERVICES EXCEEDS AMOUNT REIMBURSED TO COUNTY</th>
<th>Year Ended 6/30/07</th>
<th>Year Ended 6/30/08</th>
<th>Total 2 Years Ended 6/30/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning Department Support Services Provided Which Are Grant Eligible Expenses</td>
<td>$1,430,628</td>
<td>$1,570,365</td>
<td>$3,000,993</td>
</tr>
<tr>
<td>MPO Reimbursements To The County Which Exceeded Allowable Grant Administrative Percentage</td>
<td>$725,000</td>
<td>$993,750</td>
<td>$1,718,750</td>
</tr>
<tr>
<td>Support Services Not Reimbursed To County</td>
<td>$705,628</td>
<td>$576,615</td>
<td>$1,282,243</td>
</tr>
<tr>
<td>Percent Of Support Services Not Reimbursed To County</td>
<td>49.3%</td>
<td>36.7%</td>
<td>42.7%</td>
</tr>
</tbody>
</table>

B. The following table highlights the actual eligible support costs such as base wages, fringe benefits and indirect costs incurred by the Planning Department during State Fiscal Year 2008. However, the Planning Department’s Management is knowledgeable with the DOT Grant requirements and that DOT Grants reimbursed are only at an appropriate level of costs for administrative related support and service expenditures. Therefore, the Planning Department routinely submits only the allowable expenditures and absorbs the non-reimbursable costs with General Fund dollars.

<table>
<thead>
<tr>
<th>PLANNING DEPARTMENT’S STAFF COSTS GRANT BILLING AND AMOUNT NOT REIMBURSABLE BY GRANTS</th>
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<tbody>
<tr>
<td>STATE FISCAL YEAR 2008</td>
</tr>
<tr>
<td>Staff Time Available To Be Billed To Grants</td>
</tr>
<tr>
<td>Staff Time Actually Billed &amp; Reimbursed By The Grants</td>
</tr>
<tr>
<td>Staff Time Not Billed To Grants</td>
</tr>
<tr>
<td>Eligible Fringe Costs Not Billed (related to staff time above)</td>
</tr>
<tr>
<td>Eligible Indirect Costs Not Billed (related to staff time above)</td>
</tr>
<tr>
<td>Total Amount Not Billed To Grants And Absorbed By the General Funds</td>
</tr>
</tbody>
</table>

Article 6 of the Interlocal Agreement between the Florida Department of Transportation and the County, St. Petersburg, Clearwater, Largo, Dunedin, Pinellas Park, Oldsmar, Safety Harbor, Tarpon Springs and the PSTA for the Creation of the MPO states:

"The Department shall allocate to the MPO for its performance of its transportation planning and programming duties, an appropriate amount of federal transportation planning funds."
C. For the State Fiscal Year 2008 Planned (budget), there was a $510,091, or 48.1%, increase between planned and actual MPO Staff Services expenses. MPO Planning Department Staff Services were planned as $1,060,274 in the MPO's Unified Planning Work Program, while the actual eligible support expense amount for calculated billing to Grants was $1,570,365.

<table>
<thead>
<tr>
<th>ELIGIBLE AMOUNTS IN EXCESS OF UPWP</th>
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</thead>
<tbody>
<tr>
<td>Year Ended June 30, 2008</td>
</tr>
<tr>
<td>MPO Unified Planning Work Program (UPWP)</td>
</tr>
<tr>
<td>Actual Eligible Support Services Incurred</td>
</tr>
<tr>
<td>Eligible Amounts In Excess Of UPWP</td>
</tr>
</tbody>
</table>

D. Based on the substantial differences between the actual expenses related to the support provided to the MPO and the amounts reimbursed to the County, there is a lack of financial independence between the MPO and the County Planning Department, and a lack of adequate documented controls over this process.

E. Prior to Fiscal Year 2010, the Planning Department support for the MPO had not been transparent in the County's Planning Department budgets. ThePlanning Department budget did not present:

1) How much was dedicated to supporting the MPO.
2) The amount of funds generated by Grants.
3) The amounts reimbursed to the County by the MPO.

Readily accessible information was not available for monitoring and controlling of MPO overall expenditures vs. budget, the Unified Planning Work Program, or anticipated Grants revenues.

Although the Planning Department has now started segregating MPO related expenditures in their Fiscal Year 2010 budgets, these budgets are misleading because they state that Planning Department expenditures are entirely funded by the County's General Fund. However, the Fiscal Year 2010 MPO budgeted expenditures of $1,296,180 are actually partly funded by Grants. In addition, there is no accounting presentation in the Fiscal Year 2010 budget for any MPO reimbursements to the County. The Grant funding is posted to a General Fund Revenue Account under an MPO Cost Center.

Management stated, "While the staff services to the MPO accounts for the majority of the work provided by the Transportation Division, during the period in question, the staff also provided substantial planning services to the County, including the development and maintenance of the Transportation Element of the County's Comprehensive Plan, development and implementation of the County's Transportation Concurrency policies, site plan review, administrative functions associated with the County's Transportation Impact Fee Ordinance, etc. In summary, much if not all, of the work that was not reimbursed by federal and state grants was done solely for the benefit of Pinellas County and was, therefore, not eligible to be billed
against the grants." The MPO present financial reporting does not supply the information to support the statement.

We recommend management:

A. Revise the Interlocal Agreement so that it describes how the MPO will be funded. If more feasible, amend the Staff Services Agreement to cover the funding issue.

B. Analyze and report to Management, the MPO Board, and the BCC the differences between MPO actual spending and its reimbursements to the County, with emphasis on reducing the General Fund cost of services and support to the MPO.

C. Analyze and report to Management, the MPO Board, and the BCC the differences between MPO actual spending and its reimbursements to the County.

D. Develop and implement formal written procedures that cover the recommendations stated in items A, B, and C.

Management Response:

A. Agree. The Staff Services Agreement will be modified to describe how the MPO will be funded.

B. Partially Agree. This has been remedied partially through the establishment of the MPO Cost Center.

C. Partially Agree. This has been remedied partially through the establishment of the MPO Cost Center.

D. Agree. We will implement the recommendations, as appropriate.

Audit Services Reply:

B/C. We agree that the change in the budget reporting more clearly states MPO expenses. However, as stated in the recommendation, “Analyze and report to Management, the MPO Board, and the BCC the differences between MPO actual spending and its reimbursements to the County, with emphasis on reducing the General Fund cost of services and support to the MPO,” it is not adequate reporting.
2. **The MPO Policies And Procedures And Internal Controls Related To The GPTMS Contract Oversight Are Inadequate.**

The MPO policies and procedures, and internal controls related to monitoring compliance of their contract with the Greater Pinellas Transportation Management Services, Inc. (GPTMS) are inadequate. The MPO has been designated as the Community Transportation Coordinator pursuant to Chapter 427 of the Florida Statutes to serve the Transportation Disadvantaged (TD).

The Transportation Disadvantaged are residents, who because of physical or mental disability, income status, or age, are unable to transport themselves or purchase transportation. The MPO has been subcontracting the administration of this function for more than 18 years to GPTMS. GPTMS is currently paid a $38,172 monthly fee, or $458,064 annually, to coordinate the delivery of Transportation Disadvantaged clients program services (bus, taxi cab and wheelchair vans) from service Providers valued at $3,644,814 in Fiscal Year 2009. GPTMS contract provisions include:

- GPTMS shall provide management services for the Pinellas County TD Program, including:
  - Coordination of delivery of services
  - Record keeping
  - Accounting and reporting
  - Billing
  - Quality assurance
  - Collection
  - Sharing and transfer of data to the MPO and Providers

- GPTMS shall provide:
  - Telephone call-intake
  - Client registration
  - Eligibility determination
  - Trip request processing
  - Trip scheduling
  - Assignment of clients to the bus pass program
  - Assignment of trips to Providers
A. Our review of the MPO contract with GPTMS determined, in our opinion, that a potential conflict of interest exists between GPTMS company officers and some of the service Providers used by GPTMS for the transportation of disadvantaged clients. Two officers of GPTMS are also officers of two service providers used by GPTMS. These two providers were paid a total of $2,488,099, or 36.5%, of the $6,823,679 total paid to the six providers during the two years, October 2007 through November 2009. The MPO professional services agreement, Section 21, prohibits inter-related interests, stating:

"Unless authorized in writing by the MPO, no officer of the management entity, or employee acting in his or her official capacity as a purchasing agent, shall either directly or indirectly purchase, rent, or lease any realty, goods, or services for the MANAGEMENT ENTITY from any business entity of which the officer or employee or the officer's or employee's business associate or spouse or child is an officer, partner, director, or proprietor or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them have a material interest."

We developed a schedule of payments to the various Providers for Fiscal Years 2008 and 2009 in order to compare the amounts of payments between the Providers, as summarized below:

<table>
<thead>
<tr>
<th>GPTMS PAYMENTS TO PROVIDERS</th>
</tr>
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<tbody>
<tr>
<td>Total 2 Years October 2007–September 2009</td>
</tr>
<tr>
<td>Providers 1 and 2 Affiliated With GPTMS Officers</td>
</tr>
<tr>
<td>Provider #3</td>
</tr>
<tr>
<td>Provider #4</td>
</tr>
<tr>
<td>Provider #5</td>
</tr>
<tr>
<td>Provider #6</td>
</tr>
<tr>
<td>Total Payments To Providers (6)</td>
</tr>
</tbody>
</table>

Our analysis of the financial information did not indicate any clear conflict impact, but that potential is still present. A key compensating control relates to the fact that the disadvantaged clients are to select their own provider, but for the past two years, the External Auditor was not able to test and confirm that the selection control was adhered to and was in fact effective.

Conflicts of interest, either real or perceived by our citizens, can occur when the MPO's use of GPTMS places the MPO in a position of purchasing goods or services (management services) from a company, which has financial interests in TD Providers. Favoritism or advantage towards the affiliated Providers due to the relationship may exist or be perceived to exist. "Inside" information about TD program service procedures or needs may exist or be perceived to exist. Time spent promoting one's Providers, rather than providing independent management services, may occur or be perceived to occur. GPTMS holds a position of decision-making authority within the TD program; a genuine conflict between decisions made in the best interest of the MPO and/or TD program services or the affiliated...
Providers may exist or be perceived to exist.

B. GPTMS has been submitting their monthly invoices for vendor management fees prior to the beginning of each month and the MPO has been paying them at the beginning of that month in advance of performing the services. These practices do not comply with the contract terms, which state payments are due:

"Following fulfillment of the requirements described in this agreement..."

The MPO is not authorized to pay in advance for services, just as the County is not authorized to do so.

C. There are no written procedures, and internal controls are weak regarding:

1) The MPO payment processes of invoices submitted by GPTMS or Monitoring GPTMS operations and contract compliance. Fiscal Year 2009 invoices approved by GPTMS and submitted to the MPO for payment included approximately $458,000 for the GPTMS management fees and about $3,645,000 for Provider services for TD Residents.

2) There are no written MPO policies and procedures related to the GPTMS management and MPO payments for PSTA bus passes, which amounted to about $1,241,000 in Fiscal Year 2008. Our review revealed two examples of lack of controls over the payments for Providers' services:

   • An invoice sent to the MPO for payment was computed incorrectly in the amount of $32,656 by GPTMS and the MPO review/payment process had not determined that it was incorrect, resulting in two incorrect payments to TD Providers. The error was only detected after one of the Providers affected complained about an underpayment.

   • GPTMS requested a $7,226 reduction to one of the TD Provider's invoices because it was discovered that a taxi cab driver had continued billing for trips for a regular rider/client who in fact had previously stopped needing rides.

D. Our review also noted examples of weak controls related to GPTMS contract compliance:

1) GPTMS did not notify MPO, nor seek MPO's approval, to share the GPTMS facility, equipment, staff, and other administrative expenses with other entities that they owned, nor did they seek approval of the "execution of an affiliation agreement" for the allocation of these expenses between the firms. These other entities, TMS Management Group, Inc. and Transportation Management Services of Brevard, Inc., were providing similar TD services at that facility for other counties. MPO management did not request any information from GPTMS
related to these shared resources, nor did they project the financial benefit to GPTMS for purposes of a possible fee rebate or future fee renegotiations.

2) GPTMS has not provided evidence of the MPO's legal ability to utilize the scheduling software in the event of a GPTMS default or takeover of service by another vendor. More importantly, there does not appear to be any agreement between the MPO and GPTMS related to the transfer of client data in the event of default or takeover of service. Without both of these, the MPO would not be able to make a seamless transfer of responsibilities to a new vendor without suffering a duplication of costs for two vendors (old and new) during the transition, and less efficiency without the transfer of client data. The President of GPTMS has stated to the MPO that:

"Due to the sensitive nature of the services provided by GPTMS, Medical Transportation Management, an adequate time frame for achieving our mutual goals of working through the current situation and potentially transition to an alternate provider, a nine to twelve month time frame is necessary to minimize any negative impact on the Medicaid and Transportation Disadvantaged population being served."

3) A CPA firm issued its "Reports on Agreed-Upon Procedures" (contract provisions) with GPTMS for the two years ended June 30, 2007 and June 30, 2008. In both years’ reports, the independent auditor noted that GPTMS was unable to supply them with the recorded phone calls from TD clients, as required by the contract, that the auditor randomly selected for audit tests. GPTMS staff members are not permitted to pick Providers for TD clients, and saving and maintaining recorded phone conversations act as a form of control over that contract provision. MPO could not provide us with any evidence of what MPO management did about this issue each year.

4) GPTMS does not submit monthly narrative reports, together with its statistical report to the MPO, as required in its contract. These could provide regular performance information that would assist MPO in monitoring GPTMS's compliance with the contract requirements.

5) There were no MPO controls related to verifying that the GPTMS contract insurance requirements are being met after the initial year of the contract. The MPO is the contract oversight and is responsible to obtain proof of insurance after the first year of the contract.

E. The MPO's inadequate policies and procedures and internal controls related to the GPTMS contract represent a significant weakness and potential risk. The GPTMS contract represented about $5,296,000, or 72%, of the $7,353,000 MPO's total Fiscal Year 2008 Federal awards and State financial assistance expenditures. The MPO cannot afford to place more reliance on its 18-year association with GPTMS, rather
than on the development and utilization of written policies and procedures and other internal controls, to minimize those risks.

<table>
<thead>
<tr>
<th>FY 2008 MPO FEDERAL AND STATE AWARD EXPENDITURES</th>
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<tbody>
<tr>
<td>GPTMS Managed</td>
</tr>
<tr>
<td>All Other</td>
</tr>
<tr>
<td>Total Federal Award and State Assistance</td>
</tr>
</tbody>
</table>

Written policies and procedures are always considered an important tool utilized to ensure adequate internal controls. Policies and procedures not only describe what the objectives are, they usually describe in detail how the functions should be performed. Policies and procedures also describe the various levels of management approval for the various steps of the process. The lack of documented policies and procedures can result in functions not being consistently performed in compliance with best practices, MPO objectives, and/or compliance with contract provisions.

The MPO, as contract oversight, is responsible to ensure compliance with the GPTMS contract deliverables and that includes documentation of the procedures followed to confirm compliance.

We recommend management:

A. Request GPTMS to make the required changes in their structure to eliminate the conflict of interest issue.

B. Discontinue the practice of paying the monthly management fee in advance, but instead, only pay this fee at the end of the month after the services have been rendered.

C. Develop written procedures and internal controls related to the review and approval of the monthly GPTMS invoice to include PSTA bus passes and their collection of cash co-pays from TD participants.

D. Strengthen the GPTMS contract oversight/compliance process and resolve pending issues to include, but not limited to:

1) Investigate whether GPTMS’s sharing of its facility, equipment, staff, and other administrative expenses with other entities that they owned warrants a rebate on the fees paid to GPTMS, to date, during this period and/or a reduction in subsequent management fees.

2) Develop plans for an effective and efficient transition of the scheduling software if a change of contractors that provide the management services, currently provided by GPTMS, occurs. This plan should include addressing any potential legal issues that might be raised by the incumbent firm.
3) Ensure that GPTMS has the ability to supply the External Auditors the recorded phone calls from the TD clients as required by the contract covering the proper time frame.

4) Meet with GPTMS and develop written procedures that describe what should be included in the monthly narrative and what performance statistics should be submitted monthly to the MPO. Both items should support the MPO contract oversight responsibility.

5) The MPO put in place a process to obtain documentation that the contract insurance requirements are in place (Yearly Process).

E. In addition to the recommendation made in paragraph D above for GPTMS oversight controls, MPO must ensure the procedures will support the compliance risk to the Grants that fund the service contract.

Management Response:

A. Disagree. This set-up has been accepted by the Commission for the Transportation Disadvantaged and found to be acceptable by the MPO's Attorney.

B. Partially Agree. We will meet with GPTMS to negotiate this change.

C. Agree. Written procedure and internal controls are being implemented.

D/E.

1) Disagree. GPTMS did obtain approval from the MPO staff for this office arrangement.

2) Partially Agree. What is needed is the client database, not the scheduling software. This issue will be addressed in the next contract.

3) Agree. Calls are being recorded and staff periodically reviews the recorded calls.

4) Agree. Staff is working with GPTMS to develop written procedures for what is to be included in monthly report narrative and performance statistics.

5) Agree. This is being done currently.

Audit Services Reply:

A. The acceptance of the "set-up" does not address the conflicts of interest risk, either real or perceived by our citizens, which can occur when the MPO's use of GPTMS places the MPO in a position of purchasing goods or services from a company, which has financial interests in Transportation Disadvantaged Providers. As we noted in our report, the key compensating control that the disadvantaged clients are allowed to select their own Transportation Disadvantaged Providers does not exist as determined by the MPO's External Auditor who was not able to test and confirm that the selection control was being adhered to and was in fact effective. The MPO needs to formally accept the
conflict of interest risk per the MPO professional services agreement, Section 21, and
document the compensating controls that mitigated the conflict of interest risk.

D. 1) During the audit fieldwork, Management informed us that GPTMS did not notify the
MPO, nor seek MPO's approval, to share the GPTMS facility, equipment, staff, and
other administrative expenses with other entities that they owned, nor did they seek
approval of the "execution of an affiliation agreement" for the allocation of these
expenses between the firms. Furthermore, MPO management did not request any
information from GPTMS related to these shared resources, nor did they project the
financial benefit to GPTMS for purposes of a possible fee rebate or future fee
renegotiations. Therefore, we reiterate our recommendation to investigate whether
GPTMS's sharing of its facility, equipment, staff and other administrative expenses with
other entities that they owned warrants a rebate on the fees paid to GPTMS to date,
during this period and/or a reduction in subsequent management fees.

3. The MPO Policies, Procedures, And Internal Controls
Related To Cash Receipts And Disbursements Are
Inadequate.

The MPO current policies, procedures and internal controls related to cash receipts and
disbursements are not adequate. These processes, including credit card purchase
transactions, are not covered by formal written procedures. The weaknesses in the processes
become an even greater issue because there is a lack of separation of duties related to
internal controls, currently only one person is assigned the responsibility of:

- Receiving and recording the MPO cash receipts.
- Preparing and recording the MPO cash disbursements.
- Preparing the MPO bank statement reconciliations.
- Generating the MPO financial reports.

In addition, separate cash receipt and disbursement journals are not maintained and the
information is not readily available for control purposes. Cash receipt and disbursement
journals are standard accounting records for this type of accounting function. In Fiscal Year
2008, receipts and disbursements for the MPO amounted to approximately $15 million in
transactions.

The risks related to separation of duties' weaknesses, policies and procedures, and internal
controls are impacted since the MPO financial processes do not utilize the County
Finance/General Ledger functions, but use a purchased application (QuickBooks) for financial
records and reporting. The standard County financial internal controls are not present in cash
receipts and disbursements; however, annually an independent financial review is conducted
by a public accounting firm on the MPO financial operations.
MPO management stated that they follow the State MPO Handbook procedures for a number of functions. We reviewed this handbook and determined that it is not sufficient to meet the needed accounting controls for the local MPO. The handbook describes itself as "used to provide MPOs with guidance on federal and state transportation planning requirements."

During our review of the MPO cash disbursement files that contained the supporting documentation for the MPO transactions, the following items were noted:

- The documentation only contained the payment approvals of the Planning Department/MPO Director, but not any documented approvals of lower level staff members who might have a better knowledge and understanding if an invoice was justified for payment at that time. An appropriate internal control process would have the MPO Director as the second and/or final approver for most transactions. There is a two-signature requirement for MPO checks; however, $4,606,000 (63%) of MPO payments were disbursed by Automated Clearing House (ACH), which overrides the dual signature internal control process.

- The monthly MPO payments for PSTA bus passes do not conform to their purchase order terms. The MPO purchase orders issued for PSTA bus passes had terms of net payments due in 60 days; however, in Fiscal Year 2008, monthly payments of $1,240,569 were usually paid in 30 days or less. There was no documentation supporting the reason for the advance payments (per the purchase order terms) and management had knowledge and approved this process.

- There were no receipts for three disbursements made to the MPO Director for $80 each for "office supplies/coffee for meetings and other miscellaneous items needed for meetings."

- The MPO Fiscal Year 2008 interest earned as reported was understated by $16,315.07, or 33.3%, of the interest revenue for that year. The accountant stated that the item was incorrectly posted in the Quick Books’ general ledger to year 2000 instead of year 2008.

- Two MPO credit card statements for the MPO indicated fees for late payments and/or finance charges. There was no reason stated for the late payments. Our review of the other statements for the time period found no additional late payments for the credit card billing.

Following the completion of our review, MPO management developed their initial set of documented policies and procedures for MPO cash receipts and disbursements, as well as for their credit card purchase transactions. These appeared adequate, but since the policies and procedures were new, we could not evaluate their performance in the current process.

Management, to date, has focused more on tasks related to complying with MPO objectives and grant funding requirements than their responsibility to establish written internal policies and procedures covering key department processes of cash receipts and disbursements. The
MPO's lack of control functions noted above for its cash receipts and disbursements has lead to deficiencies. Their independent auditors reported deficiencies in internal controls over financial reporting. See Opportunity for Improvement No. 4 for additional information.

Written policies and procedures are necessary to serve as a basis for planning, control, and evaluation of organizational functions. Written procedures also serve as a guide to employees in their performance of operations to answer questions about procedures or tasks and resolve problems that may arise. They also provide an internal control structure for established tasks requiring management approval. The establishment of the procedures provides the opportunity for management to ensure that adequate processes and internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. Procedures also support the cross-training and backup for key staff functions.

We recommend management:

A. Continue the development and implementation of adequate policies and procedures with the appropriate internal controls to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The corrective action should include, but not be limited to:

- Change the current procedure to have the MPO Director to be the second person approving the invoices.
- Require two persons to approve ACH transactions.
- Amend the Purchase Order to refer to County compliance with the Payment Act.
- Set a lower limit for expenses that do not require supporting documentation.
- Establish an internal control that will detect and correct general ledger posting errors in an adequate time frame.
- Put in place a procedure that requires an explanation for the reason that an invoice is being paid late.

B. Address the separation of duties' issue related to the MPO financial process caused by limited staff structure for the department.

C. These recommendations should be completed before the next year-end financial review conducted by the independent auditor.

Management Response:

A. Policies and Procedures
• Partially Agree. The current procedure is to have the staff person directly responsible for a consultant-supported project to approve an invoice before it is submitted to the MPO for approval. The Director merely authorizes the payment once the staff and MPO approvals are done. The staff person now initials that the work associated with the invoice has been performed and the invoice is ready for MPO approval.

• Partially Agree. The staff person responsible for preparing or reviewing the invoice for payment is one person reviewing the invoice in addition to the Executive Director authorizing payment. In addition, all consultant invoices are paid after the full MPO Board has approved invoices for payment.

• Agree. The expenses in question are for meeting and other incidentals where a separate ledger is kept of a breakdown of the expenses.

• Agree. Staff now has the Executive Director review the monthly reconciliation statement and a monthly journal report, and then signs his initials that he has reviewed them.

• Agree. Staff will make sure invoices are paid in a timely manner and take into account the required two signatures.

B. Agree. Staff is now preparing quarterly reports that another staff person is reviewing.

C. Agree. Staff will implement recommendations as appropriate if not already implemented.

4. **The MPO Corrective Action On Independent Auditor Recommendations Has Not Taken Place In A Timely Manner.**

The MPO is not implementing its independent auditor's recommendations in a timely manner, leading to subsequent significant control deficiencies being reported. Two recommendations from the MPO independent auditor's Fiscal Year 2006 Audit Report had not been implemented by the time of the issuance of the Fiscal Year 2008 Audit Report. In addition, one recommendation from the 2007 Audit Report is only partially implemented, resulting in "subsequent significant control deficiencies." The 2008 Audit Report notes that the prior year observation, Recommendation No. Two (2007), was only partially implemented and this also relates to the current year Recommendation No. One (2008). Both recommendations are related to Adequate Internal Controls over Accounting Processes. The independent auditors described this issue as a deficiency in internal controls over financial reporting and they considered it to be a significant deficiency.
The independent auditors described a “significant deficiency” as a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of financial statements is more than inconsequential will not be prevented or detected by the entity's internal controls. The auditors stated that a “significant deficiency” affects the entity's ability to administer a Federal program and State financial assistance project. They stated that they considered Finding No. 1 in the 2008 Audit Report to be a “significant deficiency” in internal control over financial reporting.

Outstanding Independent Auditor’s Recommendations:

A. Finding No. 2006-01: Clerical Accuracy of Grant Invoicing Process; Recommendation not implemented at the time of the issuance of the 2008 Audit Report. Opportunity for Improvement No. 1 reported similar issues.

B. Finding No. 2006-02: Contract issues with Transportation Coordinator (GPTMS vendor); Recommendation not implemented at the time of the issuance of the 2008 Audit Report. Opportunity for Improvement No. 2 reported similar issues.

C. Finding No. 2007-02: Adequate internal control over the accounting processes; Recommendation partially implemented at the time of the issuance of the 2008 Audit Report. Opportunity for Improvement No. 1 reported similar issues.

The independent auditor stated in its Management Letter that the audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits. These rules require the auditors to determine whether or not corrective actions have been taken to address significant findings and recommendations in the preceding financial audit reports. Audit recommendations are made for important reasons, and it is necessary to implement these in a timely manner.

We recommend management implement the remaining independent audit recommendations:


B. Finding No. 2006-02: Contract issues with Transportation Coordinator (GPTMS vendor).

C. Finding No. 2007-02: Adequate internal control over the accounting processes.

The corrective action should be completed in conjunction with Opportunity for Improvement Nos. 1 and 2. We also recommend that the MPO set a high priority on addressing any subsequent External Audit recommendations.
Management Response:

Agree. All independent Auditor recommendations have been implemented.
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