



OFFICE OF INTERNAL AUDIT

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October 14, 2020

Mr. Scott Avedisian
Chief Executive Officer
Rhode Island Public Transit Authority
705 Elmwood Avenue
Providence RI 02907

Dear Mr. Avedisian:

The Office of Internal Audit (OIA) has completed its audit of the Rhode Island Public Transit Authority (RIPTA) as mandated by the Quasi Transparency Act of the Rhode Island General Laws. OIA initiated this audit in response to the management comment 2019-04 contained in the Fiscal 2019 Financial Statements as issued by the Rhode Island Office of the Auditor General. This audit reviewed the RIPTA internal controls over: cash management, management to board reporting, and financial statements. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) §35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of RIPTA management, and we considered their comments during the preparation of this report.

RIGL §35-7.1-10 (d), entitled Annual and interim reports, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report.” Accordingly, management submitted its response to the audit findings and recommendations on October 7, 2020, and such management corrective action response is included in this report. Pursuant to this statute, the OIA may follow up regarding management corrective actions included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of RIPTA for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Dorothy Z. Pascale
Dorothy Z. Pascale, CPA, CFF
Chief

c-William J. Conley Chairperson, Senate Committee on Finance
Marvin L. Abney, Chairperson, House Finance Committee

Audit Executive Summary

Why the Office of Internal Audit Did This Review?

The Office of the Auditor General included a management comment in the Fiscal 2019 Financial Statements stating “Certain operating and long-term liability metrics for the Rhode Island Public Transit Authority warrant enhanced oversight by the State to ensure the sustainability and availability of public transit service within the State.” The Auditor General went on to recommend that the State “Enhance oversight of RIPTA and explore options to address the critical operating and long-term liability funding issues facing the Authority.” This audit was conducted as part of the State’s efforts to address the increased risks noted by the Auditor General’s comments and recommendations.

Background Information

RIPTA was created by the General Assembly in 1966 to operate public transit services throughout Rhode Island. From the RIPTA web page “RIPTA’s Mission is to provide safe, reliable and cost-effective transit service with a skilled team of professionals responsive to our customers, the environment, and committed to transit excellence. “

To Strengthen Controls, the Office of Internal Audit recommends:

- Establish a formal process for performing and deploying a comprehensive financial risk assessment, operational financial forecasts spanning more than one year, and a strategic plan, including annual updates.
- Present to the Board Finance Committee the results of the annual independent financial audit, including new Management Letter Comments and the remediation status about prior Management Letter Comments.
- Document policies and procedures for cash management, investment, and overtime pay processes. Review all policies at least annually to ensure they reflect current controls and processes.

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Introduction

The Rhode Island Public Transit Authority (RIPTA) is a quasi-public, independent authority. Established in 1966, RIPTA is authorized to operate public transit services throughout the State of Rhode Island. The RIPTA mission is to provide safe, reliable and cost-effective transit service with a skilled team of professionals responsive to its customers, the environment, and committed to transit excellence. RIPTA operates statewide fixed bus routes, ADA Paratransit Services, Ride program for seniors and people with disabilities, and Park n' Ride services.

Recommendations and Management Responses

Financial Budgeting, Forecasting, and Strategic Planning

Government Finance Officers Association recommends as a best practice that all governments regularly engage in long-term financial planning and forecasting that extends several years into the future, and that regular monitoring and periodic updating occurs. Government Finance Officers Association also recommends as a best practice that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting. RIPTA prepares and updates a Capital Budget, which includes a projection of anticipated capital spending based on authorized grants. While the Capital Budget includes spending and forecasting for capital projects for a span of five years, the Operational Budget only forecasts operational expenses and revenues over a one-year span. The five-year RIPTA strategic plan has not been updated since March of 2011. Additionally, a formal comprehensive financial risk assessment has not been performed to identify, assess, mitigate, develop an action plan, and monitor financial related risk. A lack of comprehensive financial budgeting, forecasting, and planning may increase the risk of financial challenges and the inability to support the organizations mission.

Recommendations:

1. Perform operational revenue and expense forecasting for a three to five-year span and revise/update the forecast each year.
2. Perform a comprehensive financial risk assessment that is modeled after an established framework.
3. Document a Strategic Plan for a three to five-year span that addresses risks and aligns with overall organizational goals.

Management's Response: A five year operating projection has not been done in recent years, but management agrees that this is a valuable tool. RIPTA will reestablish this practice and work with board for formal review each year.

RIPTA agrees and will use CLA's recommendations for a comprehensive financial risk assessment, as the starting point of a bid so that this can be performed.

RIPTA was working with board of directors in 2016 update the Strategic Plan. For some reason it was not completed. RIPTA management will restart this process and agrees on the importance of setting strategic goals to guide financial planning and overall operations.

Responsible Party: Chris Durand/Paul Dilorio/Greg Nordin

Anticipated Completion Date: 6/30/2021 (Strategic plan may take more time so management is setting this date as 6/30/22)

Board Reporting and Auditor Communication

Government Finance Officers Association recommends as a best practice that an audit committee or equivalent (i.e. Finance Committee) discuss the financial statements with the independent auditors in private, and to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors. The RIPTA Independent Financial Auditor's Report is presented to the RIPTA Board, but is not presented to the Finance Committee each year. The last presentation of the Independent Financial Auditor's Report occurred for the Fiscal Year 2018 report. Additionally, the related Management Letter Comments from Fiscal Year 2019 were not included in the financial auditor's presentation to the Board, despite being addressed to the Board. The Management Letter Comments included several comments from the prior year that did not appear to be remediated or have progress towards remediation. Incomplete and inconsistent communication between the Finance Committee and the Independent Auditors increases the risk that RIPTA governance may not be aware of all findings and conclusions of the independent audit process. It is important for the Finance Committee to be able to meet privately in executive session to ensure a full and candid discussion.

Recommendations:

1. The Finance Committee of the Board to schedule a presentation from the Independent Auditors with all conclusions from the audit, including the Management Letter Comments addressed to the Board, either during public session or the executive session if sensitive matters are presented.
2. The progress of remediation for reoccurring Management Letter Comments be presented to the Finance Committee of the Board either by management or the auditors at least annually.

Management's Response: RIPTA will present the audit to the finance committee ahead of the board meeting going forward. Given the timelines of when the audit is done and when it needs to get to the state there is a narrow window to present to the finance committee with time to make changes ahead of the board meeting if required. This is why historically the audit was not brought before the finance committee. It also should be noted that typically only full board members are appointed to the finance committee. RIPTA's interpretation of R.I.G.L. 42-46-5 is that discussion of the financial statements is not a qualifying event to enter into a closed meeting/executive session.

Responsible Party: Chris Durand/Paul Dilorio

Anticipated Completion Date: 10/1/21

Overtime Pay Policies and Procedures

Government Finance Officers Association recommends as a best practice for policy and procedure development including documenting critical functions and internal controls with an organization. The RIPTA payroll and time entry policies do not define the process for requesting and approving overtime pay. The process is included within the various Union contracts. However, there are a number of different overtime pay scenarios within each department of RIPTA and the processes are not documented in a policy or procedure. Requesting and approving overtime pay maybe performed inconsistently. In the event of turnover, there may be processes that are not performed in accordance with current practices and standards.

Recommendations:

1. Document and approve specific policies and procedures for employees to request and supervisors to approve overtime pay.

Management's Response: The transportation department recently received a new software for tracking time. Prior to this new system all overtime slips, if one was needed, was approved by the supervisors of transportation. This process is still being filled out and approved prior to being entered into the new system. We will be documenting the procedure as we finalize the system implementation. We will also review and document the overtime approval process for all other departments if such documentation is lacking.

Responsible Party: Chris Durand/Paul Dilorio/Paul Harrington

Anticipated Completion Date: 6/30/21

Financial Management Policies and Procedures

Government Finance Officers Association recommends as a best practice for policy and procedure development including documenting critical functions and internal controls with an organization, and reviewing and approving the policies and procedures periodically or as changes occur. Financial management policies and procedures were last revised and approved at inconsistent frequencies between 2015 and 2018. They may not accurately reflect RIPTA's current financial framework and environment. Limited policies and procedures for cash management and investment processes and controls have not been formally documented. In the event of turnover, there may be processes that are not performed in accordance with current practices and standards.

Recommendations:

1. Review and approve policies and procedures on an annual basis to determine whether revisions or changes are necessary to accurately reflect the current financial framework and environment.
2. Document and approve specific cash management and investment policies and procedures.

Management's Response: RIPTA does review polices and ensures they are updated whenever a change is made. However, if there is no change there is no update to the policy. RIPTA will sign each policy annually to provide record they have been reviewed and updated.

With the implementation of the Ocean State Investment Pool RIPTA will be working to update and formalize an investment policy to reflect current investment options and to get definite guidance on

allowable investment instruments from the board of directors given the organization's risk tolerance. We will work to build out and document current treasury practices and seek to make improvements where opportunities exist.

Responsible Party: Chris Durand/Paul Dilorio

Anticipated Completion Date: 6/30/21

Objective and Scope

The Office of Internal Audit (OIA) conducted an audit of the RIPTA internal controls over financial reporting, management board reporting, and cash or investment management as a result of increased risk assessment direct noted in the management comment from the Auditor General's Fiscal 2019 report. The purpose of the engagement was to determine if adequate internal controls exist for cash or investment management, management to board reporting, and financial statement preparation.

Methodology

As part of our audit, we gained an understanding of the existing controls over financial reporting requirements, identified best practices related to board /or committee reporting, and operational and strategic planning. To address our audit objective, we performed the following:

- Interviewed personnel, including management and staff
- Reviewed established policies and procedures
- Reviewed relevant board meeting minutes
- Reviewed financial statements
- Compared financial reporting to Governmental Accounting Standards Board Standards

The results of this audit are communicated within this report. The OIA engaged an external audit firm, CliftonLarsonAllen, LLP (CLA), to supplement its staff during the Performance of this audit. CLA performed the detailed audit work and was selected using a competitive bidding process.