

MINUTES
MEETING OF THE BOARD OF DIRECTORS
SPECIAL AUDIT COMMITTEE
METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY

November 29, 2010

The Board of Directors Special Audit Committee met on November 29, 2010 at 10:17 a.m. in the Board Room on the 6th Floor of the MARTA Headquarters Building, 2424 Piedmont Road, Atlanta, Georgia.

Board Members Present

Juanita Jones Abernathy
Clara H. Axaam
Harold Buckley, Sr.
Frederick L. Daniels, Jr.
Jim Durrett
Barbara Babbit Kaufman
Walter L. Kimbrough
Gloria Leonard
JoAnn Godfrey McClinton
Michael W. Tyler
Michael Walls

MARTA officials in attendance were: General Manager/CEO Beverly A. Scott; Deputy General Manager/COO Dwight A. Ferrell; Chief Business Support Services Theodore Basta, Jr.; AGMs Davis Allen, Wanda Dunham, Johnny Dunning, Jr. (Acting), Ben Graham, Mary Ann Jackson, Jonnie Keith, Barbara Kirkland (Acting), Rich Krisak, Ryland McClendon, Elizabeth O'Neill, Gary Pritchett and Tim White (Acting); Directors Tara Balakrishnan, Rich Boullain (Acting), John Crocker, Lowell "Rip" Detamore, Reginald Diamond, Lyle Harris, Kevin Hurley (Acting), Donna Jennings, Walter Jones, Knox O'Callaghan and B.K. Trivedi; Managers Cynthia McCall, Roosevelt Stripling, Robert H. Thomas and Marvin Toliver; Finance Administrative Analyst Tracy Kincaid; Office Administrator II Tracie Roberson; Others in attendance Cathy Gesick, Sgt. Aston Greene, Phyllis Lee, Luis Matta, Anthony Pines, Srinath Remala, Shamara White and Beverly Williams.

Also in attendance Charles Pursley, Jr. of Pursley, Lowery and Meeks; Matt Pollack of MATC; Jim Brown of URS; Richard Marsh; Lori Geary and Tracy Reeves of WSB-TV.

Commentary – Dr. Beverly Scott

On the evening of August 20, 2010, I was advised by Dwight Ferrell, Deputy General Manager/COO (DGM) and Ted Basta Chief, Business Support Services (CBSS) of Purchase Card (P-Card) Policy and Procedure violations by MARTA's Manager of Executive Office Administration dating back to 2008 and 2009, including improper card usage.

The Manager of Executive Office Administration was hired on February 11, 2008. This position is a direct report to the General Manager/CEO. Later that month, MARTA's Chief Financial Officer (CFO) authorized issuance of a P-Card to the Manager. On the whole, the Authority's percentage of P-Card usage is very low. I don't particularly like them but it seems to be the reality of our world. On August 20th when I found out about the P-Card, I also discovered there was no record on file for an Approving Official. I provided no authorization for any MARTA official to act on my behalf to initially issue a P-Card to the Manager or to approve subsequent P-Card transactions. Ultimately, the Manager's P-Card was rescinded in August 2009 for repeated failure to submit required P-Card transaction reports.

I directed the CBSS to commence an immediate investigation. On August 24, 2010, the Manager of Executive Office Administration was terminated by me for improper use of the MARTA-issued P-Card and serious violation of the Authority's P-Card Policies and Procedures. The Manager's final payroll was placed on hold pending reconciliation of all P-Card transactions.

After we reported on said P-Card improprieties, the Chairman directed an independent investigation by Pricewaterhouse Coopers, LLC (PwC) into the matter. This review was expanded to include a limited sample of other Authority-issued P-Cards. It additionally called for a review of the corporate credit card that is assigned to me, that was also accessible to the Manager of Executive Office Administration. On November 18, 2010, PwC issued its final report, including recommendations for improvements in the P-Card policies and procedures which are the primary focus of this meeting.

Concurrent with the conduct of the independent audit, I implemented a review of existing MARTA P-Card Policies and Procedures by executive management to determine whether or not the serious internal control and reporting deficiencies evident in the this situation were localized or a major problem. This review was

coordinated with MARTA's Legal Counsel and directed by the CBSS. We did find that many were unaware of the P-Card processes and lack of internal controls was apparent in most cases. All findings and data were available to PwC. Pending finalization of PwC's Final Report, interim measures were implemented by MARTA Management to immediately strengthen P-Card controls.

Regarding GM/Executive Office oversight enhancements, I would like to make the following recommendations:

- As a matter of policy, the MARTA Board of Directors, working through its Audit Committee, should establish the overall business card authorization limit for the GM/Executive Office. The current level is \$50,000 based on a former GM's decision to raise the limit from \$5,000. My personal experience is that a \$10,000 to \$15,000 monthly limit would be more sufficient for typical requirements and provide appropriate flexibility for the unexpected.
- The travel and expense policies related to the GM/CEO and Executive Office should be reviewed in coordination with the Board's Audit Committee
- Strengthen Internal Audit's oversight - timely and direct reporting responsibilities to both the Board and the GM/CEO for policy/procedural violations or irregularities of concern – I strongly recommend that the Internal Audit Department's annual work plan include a sampling of P-Card/credit card transactions to always include a spot check of the Executive Office, both the GM and Assistant Secretary to the Board
- Provide that any delegation of authority for the GM (Executive Office Transactions) as an "authorizing" or "approving" official be in writing

MARTA Management Responses to PwC's "Recommendations for Improvements in the P-Card Policies and Procedures"

Mr. Basta briefed the Committee on MARTA Management's specific responses to PwC's "Recommendations for Improvements in the P-Card Policies and Procedures". Over the next 60 to 90 days, a series of corrective actions will occur, including a comprehensive review and update of all P-Card Policies and

Special Audit Committee

11/29/10

Page 4

Procedures. The status of this corrective action plan will be reviewed with the MARTA Board Audit Committee. However, given the severity of current issues, the following actions will be taken immediately:

- Issue an executive memorandum to MARTA Management, P-Cardholders and Procurement Department personnel advising them of: (1) the comprehensive program update occurring over the next 60 to 90 days, (2) their requirement to fully and timely comply with all policies and procedures and (3) the seriousness of infractions for both card holders and reviewing officials
- Finalize the comprehensive review and update of all core documentation by P-Cardholders, authorizing and approving officials – provide general P-Card Policy informational sessions as needed
- Require strict adherence to all monthly reporting requirements by card holders and reviewing officials – failure to provide timely reporting will result in automatic rescission of P-Card privileges
- Require the Procurement Department to issue a monthly departmental executive management report identifying any P-Card compliance issues – a consolidated report will be provided to the AGM of Procurement, CBSS, DGM/COO and GM
- Conduct a review of adequacy of the Procurement Department resources dedicated to the P-Card program, with specific recommendations regarding improvements to be implemented in coordination with the comprehensive update of policies and procedures
 - Conduct a separate review regarding the handling of travel arrangements and food purchases, to include recommendations for incorporation in the revised P-Card policy and procedures – in both instances, there is a need to provide greater Authority-wide guidance and consistency and ensure overall cost effectiveness
- Request the Internal Audit to provide priority attention to finalizing its comprehensive P-Card Program review and revise its annual audit work plan for both 2011 and future years in coordination with the MARTA Board Audit Committee to incorporate a required audit of selected P-Card transactions, always including a sampling of Executive Office transactions both P-Card(s) and credit card(s)

PwC Recommendation #1

The Authority should continue to rationalize the number of P-Cards and types of purchases they can be used for.

Response: Management concurs. An organizational hierarchy of card usage has been established, by Executive Team Member Sponsor, which identifies the distribution and use of P-Cards by owner and approver on a cost center basis. A monthly usage report, by individual card and hierarchy matrix, is being prepared and will be provided to each of the Executive Team Member Sponsors for the review and necessary action(s). Authorizing officials will be required to pay much closer attention to the card transaction limit levels and authorization code restriction data elements. Additionally, all P-Card eligibility data by card holders and authorizing/approving officials will be required to be formally reviewed and updated annually, including all certifications and refresher training as needed.

PwC Recommendation #2

Many of the issues discussed in this report were not the result of inadequate policies; but rather that the policies were not followed. In addition, there was a lack of accountability for this failure to follow the policies – there needs to be more effective implantation of the policies

Response: Management concurs. As an interim measure, a new P-Card Application Form has been created that clearly identifies the Executive Team Member Sponsor, the Approver and the individual card holder. Furthermore, their individual signatures are required which attests to their acknowledgement of fully understanding their responsibilities and accountabilities with respect to the use and/or approval of P-Card activities. This new application process, along with enforcing the requirement to designate both the Executive Management Team Sponsor and the Approver in writing on the Purchases Cardholder Maintenance Form, will ensure the more effective monitoring of monthly expenditures and compliance with applicable P-Card procedures. The revised procedure will require annual recertification by all parties.

PwC Recommendation #3

The Authority should undertake a comprehensive review of the P-Card program to identify the Cardholders, their credit limits and the individual responsible for reviewing and approving the Cardholders' purchases.

Response: Management concurs. This measure is addressed in Management's response to PwC Recommendations #1 and #2.

PwC Recommendation #4

There exists widespread misunderstanding of the P-Card terminology for "Authorizing Official" and an "Approving Official". To avoid ambiguities and misunderstandings, PwC recommends updating the procedures and forms using more user-friendly nomenclature.

Response: Management concurs. In order to avoid the potential for confusion, as an immediate measure, the term "Executive Management Team Sponsor" is being substituted for the Approving Officials and the term "Approver" for the Authorizing Official.

PwC Recommendation #5

The current Purchase Card Maintenance Form does not require naming an Authorizing Official (monthly reviewer). PwC recommends the form be redesigned to formally designate the person responsible for reviewing and approving the monthly P-Card charges of each Cardholder.

Response: Management concurs. This measure is addressed in Management's response to PwC Recommendations #1 and #2.

PwC Recommendation #6

The Authority should consider consolidating the arrangement and purchase of all travel to a small number of individuals or an external travel agent. In addition, more detailed records should be maintained such as detailed hotel receipts and airline receipts, itineraries and boarding passes.

Response: Management to evaluate this recommendation. The Authority currently has a designated staff person responsible for booking air travel. MARTA will research the feasibility of consolidating the functions involved with booking hotel and conference related travel as well. A decision on further consolidation will be made within the next 60 to 90 days. Additionally, MARTA's current policy states that "...receipts should be obtained and submitted with Expense Reports for all hotel, plane, train and car rental; and for any other expenses where it is reasonable to provide supporting receipts."

PwC Recommendation #7

The Authority should consider redesigning and enhancing the way that P-Card purchases are monitored and audited. For example, ongoing analysis to identify trends and outliers such as spending patterns by person, recurring vendors,

categories of purchases, etc. This data analysis could identify opportunities for establishing contracts with preferred vendors, as well as, identify risk areas that should be subject to closer review or audit.

Response: Management concurs. Specific to the issue of monitoring, the related information needed to perform vigorous spending analysis will be gathered monthly by Contracts and Procurement staff using various tools. This information will then be used to determine if different procurement methods may be more appropriate. Relative to risk-based reviews, Contracts and Procurement staff will revise the current oversight of the program to a risk-based approach. This approach will focus primarily where the most risk resides and will be active within the next 60 to 90 days. Additionally, "no notice inspections" will occur on a random basis.

PwC Recommendation #8

Our interviews indicated the lack of a formal process to report Cardholder terminations and transfers to the Purchase Card Administrator (PCA), so that cards can be collected, cancelled or the spending limits and Authorizing Official updated as necessary. The P-Card procedure places this responsibility with the Authorizing Official, which should be more consistently followed; however, we also recommend that the Human Resources Department notify the PCA of terminations and transfers.

Response: Management concurs. The owning department has the primary obligation of notifying the Human Resources Department and other central staff departments of the permanent separation and/or transfer of staff assigned to their units. In turn, this information is shared with other areas: there is a process that was established by the IT Department which notifies a number of departments of permanent separations processed by HR on a daily basis. This process is set up under SharePoint. The current PCA is on the distribution list and has access to this listing on a daily basis. For internal transfers, the HR department initiates and enters the specific demographic information into HRIS which then electronically passes the updated information to the PCA. In addition to this manual process, HR is working with IT staff to identify an alternative electronic solution with less reliance on the manual process currently in place.

PwC Recommendation #9

For all meals, the business purpose and names of individuals in attendance should be recorded.

Response: Management concurs. MARTA's revised P-Card procedures will be updated to include this information as a requirement.

PwC Recommendation #10

Procedures should be implemented that ensure that all travel related expenses are included in the Expense Reports.

Response: Management concurs. However, as cited in response to PwC Recommendation #6, management will re-evaluate the need to update and/or re-circulate the current Reimbursement Travel and Other Travel Policy Instructions over the next 60 to 90 days.

PwC Recommendation #11

Internal Audit should not approve the GM's credit card spending unless all transactions are supported by original receipts and explanations of the business purpose.

Response: Management concurs. The head of Internal Audit will be reinstructed to ensure that all original receipts are attached to the General Managers' credit card statements; and direct communication provided to the GM/CEO in the event of any questioned items. Additionally, copies of the original receipts from credit card purchases related to travel will be attached to the travel expense report.

PwC Recommendation #12

The GM's credit card (\$50,000) should be lowered.

Response: The GM's authorized credit card limit of \$50,000 was offered by the approving bank and was not asked for by the current GM. The GM/CEO's recommendation is that while not current MARTA practice, this level of authorization be periodically reviewed, modified and approved by MARTA's Board of Directors.

PwC Recommendation #13

The Authority should consider whether it is appropriate for the person who is directing his or her subordinate to purchase items on a P-Card to also be charged with reviewing and approving the monthly expenditures.

Response: Management to evaluate this recommendation. Given the differing needs of the various departments within MARTA, staff from the corporate Contracts and Procurement office will coordinate an Authority-wide review of this

issue with all the Executive Management Team Sponsors. Within the next 60 to 90 day period, a final recommendation and implementation plan will be developed and initiated Authority-wide.

PwC Recommendation #14

When capital assets such as computer hardware and other electronics are purchased, the Cardholder and Authorizing Official should maintain comprehensive, auditable records of the transaction, including business purpose, serial number of the item and to whom the asset was assigned. This information should also be formally communicated to the appropriate Accounting Department staff, so that the assets can be properly tracked and accounted for.

Response: Management concurs. The Authority currently has auditable records to track purchases that are required to be transferred as Capital Assets. Additionally, the IT Department is finalizing a Technology Asset Management Policy which, upon final approval, will be strictly adhered to.

PwC Recommendation #15

The Authority should closely monitor the growth in portable devices (i.e., laptops, iPads, iPhones and smart pens) and institute appropriate control measures; such as a way to track to whom the device was assigned: asset tagging, periodic physical inventories and an Authority-established password protection system. The Authority should also ensure that it has adequate policies and training concerning the safeguarding of sensitive electronic equipment.

Response: Management concurs. This measure is addressed in Management's response to PwC Recommendation #14 – in reference to the IT Department's soon to be released Technology Asset Management Policy.

Dr. Kimbrough asked Counsel if the Authority has brought closure to the incident involving the former Manager of Executive Office Administration.

Mrs. O'Neill answered not at this point.

Mr. Basta added that staff intended to wait until the Board received the presentation of the PwC Final Report and MARTA Management's responses to it.

Mr. Walls said that while he realizes this may ultimately be staff's decision, he would like for MARTA to fully recover what it is entitled to.

Mr. Durrett commended MARTA Management on their responses to the PwC recommendations. He said that the responses were both thorough and thoughtful showing that staff is taking this issue very seriously.

Chairman Tyler made a motion that a resolution come before the Board at its next meeting regarding the reduction of the General Manager/CEO's credit card to \$15,000.

Mr. Durrett seconded the motion.

The Board unanimously agreed by a vote of 11 to 0, with 11 members present.

Chairman Tyler said that he appreciated staff's timeliness in preparing MARTA's responses to the PwC Final Report.

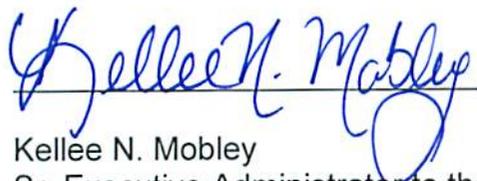
Other Matters

No other matters came before the Special Audit Committee.

Adjournment

The meeting of the Business Management Committee adjourned at 11:26 a.m.

Respectfully submitted,



Kellee N. Mobley
Sr. Executive Administrator to the Board