



REVIEW OF THE INTERNAL CONTROLS OF WIRED COMMUTE

Prepared by the Internal Audit & Review Division

September 1, 2011

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EXECUTIVE SUMMARY

The Internal Audit & Review Division (with the assistance of the Controller's Division) conducted a review in 2011 of the internal controls of Wired Commute, LLC (Wired Commute), the outside contractor retained by the RTA to perform the operational phases (order processing, check printing, and check distribution) of the RTA/CTA Transit Benefit Fare Program (Program). This Program, which is managed by the RTA's Administrative Services Department, allows employers and employees to take advantage of the Internal Revenue Service Code provisions to shelter transit commuting costs from taxes. The purpose of this review was to ensure that adequate internal controls are in place at Wired Commute to protect the RTA from unauthorized use or disposition of the fare checks and CTA and Metra fare media, and to ensure that transactions are executed with the proper authorizations and correctly recorded.

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INTRODUCTION

The Internal Audit & Review Division conducted a review in 2011 of the internal controls of Wired Commute, LLC (Wired Commute), the outside contractor retained by the RTA to perform the operational phases (order processing, fare check printing, and fare media distribution) of the RTA/CTA Transit Benefit Fare Program (Program). This Program, which is managed by the RTA's Administrative Services Department, allows employers and employees to take advantage of the Internal Revenue Service Code provisions to shelter transit commuting costs from taxes. The purpose of the review was to ensure that adequate internal controls are in place at Wired Commute to protect the RTA from unauthorized use or disposition of the fare checks and CTA and Metra fare media, and to ensure that transactions are executed with the proper authorizations and correctly recorded.

The genesis for this review was an earlier audit by the RTA's external auditors, McGladrey & Pullen, LLP (McGladrey) of the RTA's financial statements. McGladrey recommended that the RTA should obtain a SAS 70 Service Auditor's Report from Wired Commute, or in the absence of such a report, the RTA should conduct an audit of the firm's internal controls. The purpose of a SAS 70 audit is to provide assurance to the RTA that Wired Commute, as a service organization, which is responsible for processing and maintaining transactions that are material to the RTA's financial statements, has adequate internal controls in place to reduce the risk of loss due to fraud or misappropriation of assets.

To comply with this recommendation, the RTA's Internal Audit & Review Division (with the assistance of the Controller's Division) conducted an on-site audit of Wired Commute in Watertown, MA in 2011, reviewing the internal controls of their operation as it pertained to the RTA. The objectives of the 2011 review were to verify that the following controls continued in place to ensure that:

- Orders are processed accurately and timely.
- There is a proper segregation of duties.
- A physical inventory of fare checks and CTA fare media is taken each month and reported to the RTA for reconciliation with its perpetual or book inventory.
- Timely and accurate reports are forwarded to the RTA, which detail the monthly activity of orders placed and payments received.
- Wired Commute forwards to the RTA the funds it collects on the RTA's behalf in a timely and accurate manner.

BACKGROUND

Wired Commute's Staff

For the processing of RTA customer orders and the performance of customer service duties, three individuals are exclusively assigned to the RTA account. Customers are provided with a 1-800 number on the RTA/CTA Transit Benefit Fare Program Order Form. Any of the three staff members can handle calls generated from that number.

Wired Commute's Computer System

Wired Commute utilizes the TRI2 computerized system to process RTA customer orders. The TRI2 system is an interactive system, developed by Wired Commute's parent, Accor Services North America, Inc. (Accor Services), where the user follows screen prompts to enter the necessary information in the fields on the screen related to the customer and the fare media ordered by the customer as recorded on the order form. As the user enters the amount of fare media ordered by the customer, the TRI2 system has built in controls that track the serial numbers of CTA fare media and fare checks that should be issued from the inventory stock. Once all of the information from the order form has been entered into the system, the customer's order is filled with the necessary fare media that is maintained on hand at Wired Commute. Furthermore, reports that detail the activity of the customer orders processed during the month are forwarded to the RTA for review.

Fare Media Order Processing/Internal Controls

The Program utilizes several excellent checks and balances that protect the program from misappropriations. Customers can place their orders via an on-line ordering platform (see below) or mail their orders to a lockbox serviced by Northern Trust which then, in turn, deposits the checks into an RTA account and sends the order forms to Wired Commute via overnight messenger service. A few employers wire transfer their payments to Northern Trust and fax the order forms directly to the RTA in Chicago. After the RTA Manager, Customer Programs verifies that the funds have been received, she faxes the corresponding order form to Wired Commute.

Wired Commute typically fills the orders by the following day and sends the completed fare media orders to employers via two-day messenger service. Daily, Wired Commute transmits a list of the fare checks issued electronically to Northern Trust. The Controller's Division receives activity reports from Northern Trust on a monthly basis and reconciles the fare check bank account to ensure that the total dollar amount of the checks and fare cards issued agrees with deposits made to the account by the participating employers.

Every two to three years, the internal auditors of Accor Services perform an on-site audit at Wired Commute to ensure that controls are in place and company procedures are being followed. Also, Accor Services has its financial statements reviewed and certified by Deloitte & Touche. As part of that national audit, Deloitte & Touche assigns the audit of Wired Commute to Edelstein & Company, a local accounting firm in Boston, MA.

On-line Ordering System

The on-line ordering platform allows customers to place their fare media orders via a web based program developed and hosted by Wired Commute. This program allows customers to place their fare media orders more efficiently and accurately by eliminating the manual processes of completing ordering forms. Customers are able to pay for their fare media orders via ACH or credit card. The funds collected by ACH are transferred to the RTA's bank account on a monthly basis by Wired Commute and the funds collected by credit card are deposited directly into the RTA's bank account. Once the customer places their order through the on-line ordering system, and the payment is approved, Wired Commute processes the order in the same manner as discussed above.

For Metra orders, all online orders must be placed by the 10th of the month. Wired Commute's Bulk Operations Manager forwards to Metra a file of the orders received. Metra requires that payment is received for the orders placed before the tickets are forwarded to Wired Commute for order fulfillment. The goal is that Metra forwards the tickets to Wired Commute by the 22nd of each month. The tickets are shipped to Wired Commute via FedEx. Wired Commute sorts the tickets received to agree with the company that placed the order and the ticket quantity/type ordered. The fare media is sent to the company by FedEx to issue to their employees.

Third Party Administrator (TPA) Ordering Process

Wired Commute acts as a TPA for certain companies who are customers of the Program. In this role, Wired Commute places an order for RTA fare media for distribution to its TPA customers. For those TPA orders that are placed directly by the employee, the employee is given access to an ordering system through their employer so that they can place their fare media order. The system that the employee is accessing is called the Flex Commute Network (FCN) system, but it is actually a part of the TRI2 system that Wired Commute utilizes to process customer fare media orders. Because of this, Wired Commute is able to track all TPA fare media orders placed on the FCN system. The system then compiles the totals of the orders placed by the employees so that Wired Commute can place their order from the RTA for the fare media that is needed to fill the TPA orders. Wired Commute can not process the orders until the RTA Manager, Customer Programs has received the appropriate payment. RTA Manager, Customer Programs faxes a copy of the check to the Wired Commute Bulk Operations Manager as the verification the payment was received and that the order can be fulfilled. Wired Commute forwards the orders directly to the employees' residences.

Wired Commute also places TPA orders for RTA fare media based on customer orders made via an on-line ordering system called the FC+ system. Although the TPA order is placed via the FC+ system, the process followed to fulfill the order is the same as for all other customer fare media orders that Wired Commute processes on the behalf of the Program. The TPA fare media order placed is distributed and tracked through the TRI2 system. Wired Commute is to forward the payment for the TPA orders placed through the FC+ system to the RTA Manager, Customer Programs along with the monthly reports that detail the orders processed.

SCOPE OF REVIEW

The scope of the review included the following activities:

- Performed an on-site review of the controls in place at Wired Commute (with the assistance of the Controller's Division) to ensure that RTA assets are properly safeguarded and that transactions are processed and recorded properly.
- Reviewed the on-line ordering system.
- Discussed issues provided by the RTA staff with Wired Commute.
- Verified that the segregation of duties at Wired Commute continues in place.
- Reviewed Wired Commute written procedures and policies for any changes from the previous year.
- Reviewed job descriptions on file at Wired Commute for any changes from the previous year.
- Ensured that Wired Commute is taking a physical inventory of the fare checks and the CTA fare media, and that it is reconciled by the RTA to its perpetual or book inventory.
- Compared Wired Commute's monthly billings with the corresponding production reports.
- Verified that Wired Commute is making accurate and timely payments for the Third Party Administrator orders placed.
- Verified that Wired Commute is making accurate and timely payments to the RTA for the funds it collects on the RTA's behalf.
- Analyzed the current workflow to determine if there are further improvements that could be made to the system of internal controls at Wired Commute.

OBSERVATIONS AND RECOMMENDATIONS

Overall, we found that sound internal control practices were in place in the processes that we examined at Wired Commute. The following issues were noted during the 2011 internal control review.

1. Incorrect Assessment of Shipping Fees

Observation: The fee the RTA is to be assessed for shipping charges is not explicitly stated in its new contract with Wired Commute, but it is reasonable to assume the RTA is to pay the actual shipping charges incurred by Wired Commute for the orders processed. While the new contract was being finalized, Wired Commute charged the RTA for shipping customer orders based on the old rate system which includes a 9.50% and 12.35% markup for each order processed. The RTA received a credit for the months of October 2010 and November 2010 for the 12.35% markup and is no longer being assessed that fee. However, upon reviewing the invoices Wired Commute submitted to the RTA from the period of December 2010 through March 2011, we found that Wired Commute continued to bill the RTA shipping charges based on the old contractual rate of 9.50%.

Recommendation: We recommend that Wired Commute provide the RTA with the actual shipping charges incurred from the period of December 2010 to March 2011 so the RTA can determine if any credit is due for overpayment in shipping fees.

We noted that beginning in April 2011, Wired Commute is providing the RTA with the actual shipping costs incurred.

Management's Response (To Be Provided by Wired Commute management): As discussed with RTA staff, beginning with April 2011 we are billing shipping fees based on actual costs and also providing the necessary details of those shipping fees. We are unable to go back to the prior months as our courier company was not set up to be able to bill based on actual shipping fees incurred. We understand the need for accuracy and would not want to have overbilled the RTA in shipping fees from December 2010 to March 2011. We performed a review of the number of orders processed in April 2011 and what we would have billed the RTA under the old system and compared that to the actual shipping fees incurred. We billed around about \$500.00 more based on the actual shipping fees incurred. We feel that during the period of December 2010 to March 2011, the difference in the amount billed versus what the actual shipping fees totaled would have been no more than \$500.00 (plus or minus).

2. Provide DBE Compliance Plan Report

Observation: DBE participation is not being reported to the RTA.

Recommendation: To ensure compliance with the terms of the contractual agreement in regards to DBE participation, Wired Commute should develop a plan that documents its approach to achieve the DBE goal. Wired Commute should report to the RTA on at least an annual basis detailing its utilization of the DBE firms and whether the goal was achieved.

Management's Response (To Be Provided by Wired Commute management): Wired Commute will send a plan to the RTA by the end of the 3rd Quarter of 2011. We will be able to provide a DBE plan for 2010 and 2011.

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