Regional Transportation District

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RTD

October 21, 2011

Monica Bowers
Deputy State Auditor
Office of the State Auditor
200 E 14th Ave.
Denver, CO 80203

Dear Ms. Bowers:

Attached you will find our updated status report on the District's Bus Cost Allocation Model audit. We believe it addresses all the issues and clearly identifies RTD's efforts to improve and better utilize this measurement tool. We appreciate the input from the State Auditor's Office and will continue, as always, to provide the best possible public transportation services throughout the District.

We look forward to meeting with the Legislative Audit Committee next month to answer any questions or concerns that may still exist. We do believe we have instituted the necessary changes recommended by the audit and believe they will help us to continue to update and improve our cost modeling.

Sincerely,

Phillip Washington
General Manager

cc   Terry Howerter, Chief Financial Officer
        Scott Reed, Assistant General Manager, Communications

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AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: RTD Bus Cost Allocation Model Evaluation
AUDIT NUMBER: 2057
DEPARTMENT/AGENCY/ENTITY: Regional Transportation District
DATE: October, 2011

SUMMARY INFORMATION

Please complete the table below with summary information for all audit recommendations. ***For multi-part recommendations, list each part of the recommendation SEPARATELY.*** *(For example, if Recommendation 1 has three parts, list each part separately in the table.)*

Recommendation Number *(e.g., 1a, 1b, 2, etc.)*	Agency's Response *(i.e., agree, partially agree, disagree)*	Original Implementation Date *(as listed in the audit report)*	Implementation Status *(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)* Please refer to the attached sheet for definitions of each implementation status option.	Revised Implementation Date *(Complete only if agency is revising the original implementation date.)*
1a	Agree	August 2011	Implemented and Ongoing	n/a
1b	Agree	As resources allow	Implemented and Ongoing	n/a
1c	Disagree	n/a	n/a	n/a
1d	Agree	August 2011	Implemented and Ongoing	n/a
1e	Agree	August 2011	Partially Implemented	November, 2011
2	Agree	August 2011	Implemented and Ongoing	n/a
3	Partially Agree	August 2011	Partially Implemented	November, 2011

Recommendation #: 1

Agency Addressed: Regional Transportation District

Recommendation Text in Audit Report:

The Regional Transportation District should ensure that the bus cost model produces accurate and reliable information by adhering to core principles in cost model design and execution. Specifically, the District should:

a. Ensure that all source data used in the model are valid and complete. At a minimum, all data used in the model should pertain to the same time period, and financial cost data should be pulled from the District's general ledger.

b. Develop new automated reports within its electronic data systems to routinely compile the financial and operational data used by the cost model. Source data and related cost drivers should be reviewed and updated on a routine basis to reflect the availability of new data and recent operational and system changes.

c. Ensure that cost drivers used in the model most closely approximate how costs are being consumed and for which source data are available. At a minimum, the District should develop a more appropriate cost driver to allocate administrative costs across the District's service modes, including FasTracks, and replace cost drivers currently based on scheduled service miles with cost drivers based on actual service miles.

d. Develop and implement procedures to validate the cost model's output. At a minimum, the District should reconcile total costs input into the model with total costs output from the model, review the automated formulas and functions in the model's core spreadsheets to ensure that they retain their integrity, and review and seek explanations for any significant differences in the cost model's output from one year to the next.

e. Review and update the procedural documentation for executing the cost model on an annual basis.

Agency's Response *(i.e., Agree, Partially Agree, or Disagree)***:**

a. Agree. Implementation date: August 2011.
b. Agree. Implementation date: As resources allow.

c. Disagree.
d. Agree. Implementation date: August 2011.
e. Agree. Implementation date: August 2011.

Agency's Written Response in Audit Report:

a. Much of the timing issue with the source data was an isolated exception related to the one-time computer conversion. The District constantly strives to identify and use accurate and complete information with regard to the source data used in the cost model, as with all decisions throughout the District. The District will continue to ensure accurate data is identified and used.

b. The District has reorganized the IT staff to better utilize the capabilities of the new Enterprise Resource Planning (ERP) system. In addition, consultants have been contracted to review best practices as related to Oracle and to define user needs, prioritize those needs, and recommend solutions. New reports will be developed to better identify and quantify data to be used for the cost modeling process. These process changes will be reviewed periodically to ensure they continue to meet the needs of the District.

c. The District believes all the cost drivers currently associated with this cost allocation model are generally appropriate. Drivers relating to scheduled versus actual service miles, as well as the allocation of administrative costs, have been reviewed and are believed to be appropriate to the model at this time. District management will periodically review these issues and will continue to make decisions in the best interests of the District.

d. The District will review its policies and develop procedures to improve the validation methodology. This will include a reconciliation of the model to ensure the cost allocation formulas and functions are operating correctly. Any significant differences will be researched and explained or corrected.

e. In conjunction with Recommendation No. 1d, the District will update and review the training and procedural documentation on an ongoing basis.

Agency's Current Comments on Implementation Status of Recommendation:

1a.   Implemented and Ongoing. All data are current and complete. The District will continue to ensure accurate data is identified and used. To further transparency and allow all parties to provide input, management will apprise the Board of Directors of the status of all open audit items on an annual basis.

1b.   Implemented and Ongoing. Source data and related cost drivers are reviewed and updated on a routine basis. Automated reporting will be developed as resources become available. Current economic conditions preclude a specific timetable.

1c.   N/A

1d.   Implemented and Ongoing. All formulas and functions have been reviewed to insure integrity. Procedures have been implemented to periodically reconcile the model to prior years. Significant variations are identified and researched.

1e.   Partially Implemented. The District is reviewing procedures with an outside consultant and new manuals are expected by November, 2011.

Recommendation #: 2

Agency Addressed: Regional Transportation District

Original Recommendation in Audit Report:

The Regional Transportation District should ensure that cost projections used for evaluating bids from private contractors are based on a well-defined and consistently applied methodology. Specifically, the District should formalize the application of its cost projection methodology into a management tool, such as a decision tree or checklist, to explicitly identify and verify the assumptions underlying the analysis and ensure that costs are accounted for properly and in a consistent manner, based on the nature of the sourcing decision being considered. Once the management tool is developed, the District's senior managers should review and update the tool on a routine basis.

Agency's Response *(i.e., agree, partially agree, disagree)***:** Agree. Implementation date: August 2011.

Agency's Written Response in Audit Report:

The District will review and identify the cost projections used in the cost allocation model. The District will develop a reasonable tool to more formally document the various cost projections. These projections, as well as the associated assumptions, will be reviewed and analyzed on a periodic basis by the appropriate management to ensure their continued accuracy and viability.

Agency's Comments on Implementation Status of Recommendation:

Implemented and Ongoing. The District has developed a checklist as a methodology to review and validate all cost projections and assumptions used to evaluate the validity and accuracy of bids from private contractors.

Recommendation #: 3

Agency Addressed: Regional Transportation District

Original Recommendation in Audit Report:

The Regional Transportation District should consider a comprehensive redesign of its cost allocation model to support the level of cost reporting, tracking, and analysis needed for ongoing cost reduction efforts in bus operations and to make the model more inclusive of the different transportation services provided by the District.

Agency's Response *(i.e., agree, partially agree, disagree)***:** Partially Agree. Implementation date: August 2011.

Agency's Written Response in Audit Report:

The scope of this review was to evaluate the bus cost model. The District utilizes other cost allocation methods for other transportation services that were not reviewed which better meet the needs of the District. The District will investigate the potential to more fully use the existing cost allocation model after it has been reviewed and updated. The District will leverage the cost allocation model as a tool to support decision making and will consider redesigning the model as resources become available.

Agency's Comments on Implementation Status of Recommendation:

Partially Implemented. In conjunction with item 'e' in recommendation '1' above, the District is validating the model and evaluating its use as a decision-making tool. The District will continue to explore ways to redesign and improve the cost modeling as resources become available.