

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE

Investigation Greater Roanoke Transit Company Furniture Replacement Project

Report Number: 10003

Audit Plan Number: 09401

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EXECUTIVE SUMMARY

During Fiscal Year 2008 [FY2008], Valley Metro invested approximately \$223,301 in a furniture replacement project at its administrative and maintenance building located at 1108 Campbell Avenue, SE. In September 2008, as part of its annual audit test work, KPMG noted a payment to Holdren's Interiors related to the project. Valley Metro staff advised KPMG that the company was owned by Diane Holdren, the wife of Chip Holdren, Valley Metro's Assistant General Manager at the time. The Municipal Auditing Department initiated an investigation on October 27, 2008. The following summarizes our observations:

- Furniture replacement purchases totaling \$190,421 were effectively directed through Diane Holdren.
- Diane Holdren had a financial interest in the purchases.
- Project costs exceeded the original budget of \$100,074 by 123% [\$123,227].
- Purchases of art work, artificial plants, and ornamental decorations totaled \$23,555.
- Average furnishings costs per office were \$10,605 and exceeded our mean benchmark by \$7,605 or 254%.
- 142 pieces of retired furnishings in fair to good condition were sold to 19 employees for approximately \$1,018.
- New furnishings valued at \$2,005 could not be located.
- 16 of 16 quotes on file at Valley Metro were determined to have been fabricated.
- New furnishings were estimated to be at least \$55,625 [41%] above competitive market pricing.
- Grant reports contained inaccurate information.
- Adequate processes were not in place to support compliance with laws and regulations.
- Employees did not have an adequate awareness of procurement laws.

On November 20, 2008, we met with the Roanoke City Police Department to review procurement issues identified at Valley Metro. Federal, state, and local law enforcement agencies are currently conducting an investigation.

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BACKGROUND

General Information

The Greater Roanoke Transit Company [GRTC] is a private, nonprofit, public service organization wholly owned by the City of Roanoke. Section 2.2 of the City Charter authorizes the City of Roanoke [City] to provide for a transit system and transit facilities, to enter into agreements with private companies to operate such a system, and to make application for and to accept loans and grants from any federal or state agency. The GRTC was legally established in July 1974 for the purpose of developing an urban mass transit system to serve the residents of the Roanoke Valley.

The corporate structure of the GRTC is depicted in **Exhibit 1** of this report. As can be seen in the exhibit, the governance structure of the GRTC mirrors that of the City with members of City Council serving as the GRTC Board of Directors. Council-appointed officers hold similar offices in both organizations, but have limited responsibilities for GRTC day-to-day operations. GRTC has no paid employees.

Daily operations are managed by an independent company headquartered in Cincinnati and currently doing business as First Transit, Inc., a FirstGroup America Company. The GRTC has contracted with this company [originally ATE Management & Service Company, Inc.] to provide transit management services since 1975. The scope of services from the most recent contract, signed in 2004 and renewed in 2006, can be seen in **Exhibit 2**. The contract requires that First Transit employ a resident General Manager and Assistant General Manager. All other personnel, including bus drivers, mechanics, dispatchers, office staff and administration are employees of the Southwestern Virginia Transit Management Company [SVTMC], a subsidiary corporation owned by First Transit. See **Exhibit 3** for a full description of this subsidiary corporation. GRTC provides SVTMC with funds for expenses associated with the operation of the transit system. This corporate structure is similar to that used by other transit authorities in the state of Virginia. It provides for a clearer legal distinction between the locality and the transit authority and enables collective bargaining by transit employees.

Due to the level of financial and management control exerted by the City, GRTC is required to be reported as a component unit of the City and, as such, its financial

activity is included in the City's Comprehensive Annual Financial Report. When referring to the overall organization in this report, we will use its trade name, Valley Metro.

Valley Metro receives operating and capital grants from federal, state, and local agencies, including the Federal Transit Administration [FTA] and the Virginia Department of Rail and Public Transportation [DRPT]. The June 30, 2008, financial statements for Valley Metro indicate that nearly \$5.4 million or approximately 69% of its revenues were received from federal, state, or local grants and assistance. An additional \$1,013,644 in capital grant funding was also received.

Revenues	Federal	%	State	%	Local	%
Operating	\$2,675,930	34%	\$1,309,191	17%	\$1,540,123	20%
Capital	\$ 933,609	92%	\$ 80,035	8%	0	0%

Regulations governing the use of federal funding are issued under Section 49 of the Code of Federal Regulations - Part 18, FTA Circular C 4220.1E, and OMB Circulars A-87 and A-133. As a public service organization wholly owned by the City, the GRTC is also subject to the Code of Virginia, Section §2.2-4300, et seq., entitled the Virginia Public Procurement Act. In March 1989, the GRTC Board of Directors voted to comply with the requirements of the Roanoke City Procurement code in order to satisfy federal and state funding requirements.

Furniture Replacement Project

In 2006, Valley Metro embarked on a capital project to replace office furniture at its maintenance and administrative facility. The FTA grant application prepared by management stated the following:

- The existing furniture was purchased in March 1990 and was beyond economic repair.
- Approximately 91 pieces of furniture needed to be replaced based on an average of 7 pieces of furniture per office and a total of 13 offices.
- Project costs were estimated at \$100,074.
- FTA share was estimated at \$80,060.

The grant application was approved under FTA Project ID VA-90-X272-00 for the requested amount. Project milestones provided in the application were as follows:

1. April 1, 2006 – Issue Request for Proposal or Invitation to Bid
2. May 1, 2006 – Award Contract
3. September 30, 2006 – Project to be Completed

In its September 30, 2008, Quarterly Narrative Report to the FTA, Valley Metro reported that the project had been delayed due to other higher priority projects, but that Milestone 1 had been completed as of March 1, 2007 and Milestone 2 had been completed as of April 1, 2007.

Valley Metro also filed a grant application with the Virginia DRPT requesting that the state fund a portion of the furniture project. The DRPT application reported that 78 pieces of furniture were to be replaced at an estimated cost of \$100,074. The grant request was approved under state grant numbers 73006-35 and 73006-36 and covered approximately 13% of the estimated total project costs.

Furniture, artwork, and miscellaneous office decorations were purchased and installed at the location throughout FY2008. The final project budget totaled \$215,346. Actual expenditures for the project came to \$223,301. The following rooms were included in the renovation [See **Exhibit 4**]:

- Twelve Individual Offices
- General Manager's Adjoining Conference Room
- Outer Reception Area Including Receptionist's Workspace
- Inner Reception Area
- Dispatch Station
- Employee Lounge

Purchases, and their estimated associated costs, consisted of the following:

Category	Cost
Design Fee	\$ 600
Office furniture [desks, bookshelves, chairs, etc]	\$ 166,152
Sofas, loveseats, and tables	\$ 25,048
New carpet for inner reception area	\$ 7,688
Artificial plants and/or trees	\$ 5,607
Eight wood alloy blinds	\$ 897
New or reframed artwork	\$ 8,561
Novelty items and brick-a-brac	\$ 1,846
Clocks, mirrors, lamps, fabric, and other miscellaneous items	\$ 3,565
Miscellaneous construction [tile, wall resurfacing]	\$ 3,337
Total	\$ 223,301

The office furniture purchased was modular and customized to fit each office. It was ordered and delivered by piece and assembled on-site at the administrative facility. The project was substantially completed by September 30, 2007. The final invoice charged to the project was dated May 18, 2008.

During Valley Metro's annual financial statement audit, KPMG noted a payment to Holdren's Interiors. It was determined that Holdren's Interiors was an interior-design firm owned and operated by the wife of Assistant General Manager, William "Chip" Holdren, Jr. Based on the close family relationship and dollar amounts involved, the Municipal Auditing department initiated an investigation.

-- End of Background --

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

1. To determine if furniture purchases were competitively procured in accordance with federal, state and local laws and regulations.
2. To verify that the furniture purchased was put in service and properly accounted for by Valley Metro.
3. To determine if retired furniture was disposed of in accordance with federal, state, and local laws and regulations.

Scope

The scope of this investigation was limited to procurement transactions and disbursements related to the Valley Metro furniture replacement project and the disposal of furniture retired as a result of the project.

Methodology

The following outlines the procedures performed in conducting this investigation:

- Interviewed Valley Metro's General Manager, Director of Finance, Director of Maintenance, Assistant Director of Maintenance, and Purchasing Clerk about their involvement with the project.
- Gained an understanding of capital budgeting, accounts payable, and procurement processes.
- Reviewed job descriptions of various personnel associated with the project.
- Reviewed grant applications and quarterly reports.
- Reviewed the contract with First Transit.

- Researched GRTC by-laws and Board minutes.
- Researched federal, state, and local laws and regulations related to procurement and grant administration.
- Reviewed GRTC and City of Roanoke procurement policies and procedures.
- Reviewed the records of all purchases related to the furniture replacement project.
- Performed a physical inventory of furniture paid for with project funds.
- Reviewed GRTC FY2008 employee credit card statements for project-related purchases.
- Tested invoices to verify each was approved and adequately supported.
- Contacted vendors to authenticate quotes on file.
- Evaluated furniture pricing for market competitiveness.
- Evaluated the reasonableness of project costs using 2007 Means data.
- Evaluated the surplus furniture disposal process.
- Verified proceeds from the sale of furniture were properly reported and deposited.

Our office worked closely with the City Attorney's Office, City Manager's Office, and the Department of Finance as we developed information. We coordinated our work with federal, state, and local law enforcement officials as the investigation progressed.

-- End of Objectives, Scope, Methodology --

OBSERVATION 1

COMPETITIVE PROCUREMENT

Criteria:

The FTA requires that purchases of goods exceeding \$100,000 must be competitively procured through a formal bidding process [FTA Circular C4220.1E]. Additionally, grantees must comply with state procurement requirements in those cases where state code is more stringent than FTA regulations.

In the Commonwealth of Virginia, localities must comply with the Virginia Public Procurement Act [VPPA] which establishes local government procurement regulations. Per the VPPA, a formal bidding process is required when the aggregate cost of goods is expected to exceed \$50,000. Localities are encouraged to establish policies for small purchases, below the \$50,000 threshold, to promote fair and competitive pricing.

The City of Roanoke requires a formal notice to be advertised on the City's website or a newspaper of general circulation for any purchase of goods that exceeds \$30,000. The policy also requires documented project estimates, a written scope of work and/or specifications, formal advertisement, and written bids or proposals.

Condition:

Project purchases of \$190,421 were effectively directed through Diane Holdren, owner and operator of Holdren's Interiors. We observed the following:

- No formal estimate of project costs was prepared.
- No invitation to bid or request for proposal was written or advertised.
- No formal proposals or bids were obtained.
- No contract or agreement was prepared or signed.

Testimony from Valley Metro employees and our review of the records indicate that the General Manager, in collaboration with the Assistant Director of Maintenance, made the decision to procure furnishings on a piecemeal basis. This approach would enable management to apply the procurement guidelines for small purchases which

did not include a formal bidding process. The following table lists the invoices controlled by Mrs. Holdren and highlights the piecemeal approach we have described:

Vendor	Invoice	Date	Amount
Holdren's Interiors	C-VM9307	6/21/07	2,146
Holdren's Interiors	C-VM9307	7/09/07	2,143
Holdren's Interiors	C-CC8227	8/22/07	49,837
Holdren's Interiors	C-CC9227*	8/31/07	246
Holdren's Interiors	C-VM1057*	10/05/07	1,094
OFS Brands	386340	9/04/07	13,761
OFS Brands	386358	9/04/07	10,331
OFS Brands	386359	9/04/07	2,348
OFS Brands	386360	9/04/07	3,960
OFS Brands	386361	9/04/07	3,090
OFS Brands	386398	9/04/07	8,444
OFS Brands	387426	9/11/07	151
OFS Brands	387576	9/11/07	679
OFS Brands	387577	9/11/07	5,374
OFS Brands	388576	9/15/07	33,870
OFS Brands	389224	9/20/07	50,648
OFS Brands	389233	9/20/07	93
OFS Brands	389278	9/20/07	1,048
OFS Brands	389835	9/24/07	1,103
OFS Brands	400596	12/03/07	27
			\$190,421

* Includes only the portion of the invoice related to furniture.

OBSERVATION 2

CONFLICT OF INTEREST

Criteria:

FTA regulations specify that neither an employee nor employee's spouse may participate in the selection, award, or administration of a contract supported by FTA funds if a conflict of interest, real or apparent, would be involved. The regulations state that such a conflict exists when an employee of the grantee or his/her spouse has a financial or other interest in the firm selected for award. [FTA Circular C4220.1E].

Condition:

Based on testimony from Valley Metro staff, employees of the furniture manufacturer, and the former sales and marketing representative for the manufacturer, Diane Holdren served as the furniture manufacturer's [OFS Brands] dealer-of-record for the Valley Metro project. Mrs. Holdren was primarily responsible for planning, ordering, and coordinating the installation of all furnishings. As the dealer-of-record, Mrs. Holdren would have received rebate checks from the manufacturer for the difference between the prices she set and the manufacturer's standard pricing.

OBSERVATION 3

PROCUREMENT RECORDS

Criteria:

FTA Circular C4220.1E requires grantees to maintain written records detailing the history of each procurement transaction to include at a minimum:

- The rationale for the method of procurement.
- Selection of contract type.
- Reason for the contractor selection or rejection.
- The basis for the contract price

Grantees must also perform a cost analysis in connection with every procurement action which includes creating independent cost estimates prior to receiving bids or proposals. These standards of documentation support fair and open competition, as well as achieving the most efficient and economical use of public funds.

Section 49 of the Code of Federal Regulations – Part 18 establishes guidelines for federal grantee required contractual provisions.

Condition:

Management did not prepare a formal cost analysis that estimated reasonable costs for the furniture replacement project. The Director of Finance at Valley Metro stated that the original estimate of \$100,074 used in the grant application was essentially derived by doubling the \$48,000 cost of the furniture previously purchased in 1990. In a separate interview, the General Manager advised that the original estimate was derived by taking one half of the costs DRPT had incurred for remodeling their Richmond offices, which involved approximately twice as many rooms. The General Manager stated that he had not anticipated the costs of remodeling the reception area, the common area, and the dispatch office.

There were no records documenting the basis for using small purchase procedures, the development of specifications, the scope of work, negotiations with the vendor, or the responsibilities of the vendor. Additionally, there were no contracts on file to establish legal standing, terms, conditions, or warranties.

Effect:

Valley Metro is unable to demonstrate compliance with federal, state, and local requirements for purchasing and contracting. Legal protections normally established through written contracts were not in place. Project costs exceeded budgeted costs by \$123,227 or 123%. Had management followed federal guidelines and adequately researched their estimate of the project costs prior to purchasing goods, perhaps a portion of these costs could have been contained.

OBSERVATION 4

REASONABLE USE OF PUBLIC FUNDS

Criteria:

OMB Circular A-87 specifies that grant funds may only be used for allowable and reasonable costs. A cost is defined as reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under prevailing circumstances. Additionally, the use of surplus property in lieu of purchasing new equipment is encouraged whenever feasible.

The Government Accountability Office [GAO] characterizes abuse as procurement selections that are unnecessarily extravagant or expensive.

Condition:

Valley Metro maintains a *Physical Inventory List* of all furnishings that includes information on the location of the asset, a description of each asset and its condition as evaluated by staff during the most recent inventory. We reviewed the August 1, 2007 *List*, as amended on October 2, 2007, for the purchase of new furniture. The *List* reported the condition of furnishings as of 2007 as new, good, fair, or poor. We reviewed the records of 135 pieces we could identify as having been replaced with new furniture and noted the following:

Reported in "Good" condition – 77 pieces

Reported in "Fair" condition – 57 pieces

Reported in "Poor" condition – 1 piece

These ratings indicate that at least some furnishings were not in need of replacement and should have been retained in order to reduce overall project costs.

Based on our detailed review of the expenditures attributed to the furniture replacement project, we identified **\$23,555 in art work, artificial plants, and miscellaneous ornamental decorations**. As can be seen in **Exhibit 5**, large bookcases served as display cases for ornamental décor.

In the 2007 edition of *Means Square Foot Costs*, the total cost per person for deluxe office furnishings was estimated to be \$2,425; deluxe window treatments were estimated at \$198 per window. Based on these mean numbers, we used **\$3,000** as a benchmark average for furniture costs per assigned office. Valley Metro furnished 12 offices, one with a small adjoining conference room. Our analysis determined that the average cost of furnishings per office was **\$10,605 or 254% of the mean benchmark**. The following table summarizes this analysis:

Total Costs:	\$ 223,301
Less Costs of Furnishings for Common/Shared Spaces:	
- Outer Reception Area	8,987
- Inner Reception Area	22,342
- Dispatch Station	7,615
- Employee Lounge	9,280
- Unassigned Art Work & Décor	19,345
- Carpet & Labor for Inner Reception Area	7,688
- Proportional Shipping & Handling	6,836
- Tile and Wall Work in Maintenance Offices	3,337
Remaining Costs Associated with Assigned Offices:	\$ 137,871
Per Office [12 Offices and 1 Small Conference Room]:	\$ 10,605

OBSERVATION 5

SURPLUS PUBLIC ASSETS

Criteria:

The Code of Federal Regulations, Part 18 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” in section 18.32 requires organizations to establish procedures that ensure the highest possible return when selling equipment.

City of Roanoke Purchasing Policy, Chapter 13 “Surplus Property Disposal,” outlines the following incremental process for disposing of property:

- Reallocate to other City departments.
- Sell assets of significant value on the internet or by other means.
- Offer assets to the Roanoke City Public Schools.
- Send to Landfill.

Condition:

The furnishings retired as a result of the furniture replacement project were not offered to the City or City Schools. The retired furniture was sold through an internal bidding process open only to employees of Valley Metro. Employees made an offer in writing which they submitted to Finance for tabulation. Items were awarded to the high bidder. Valley Metro realized a total of \$1,018 for 143 pieces of retired furniture. Virtually all furniture was evaluated to be in “good” or “fair” condition on the 2007 *Physical Inventory List*.

There were 59 items that received bids and which were awarded to the high bidder. One employee received the remaining furniture for \$125. He resold the property to the general public. See **Exhibit 6** for a list of items awarded for \$125.

Effect:

The closed bidding process limited competition increasing the risk that true market values were not realized:

- Only 18 employees made bids.
- Only 59 items received bids.
- There was only one [1] bid received on 40 of the 59 items awarded.
- The highest number of bids received on any one item was three [3] bids.

Allowing employees to bid on retired property with very limited competition creates an incentive to dispose of property prematurely, is improper, and is in violation of the City’s policy.

An opportunity to defer capital costs in other City and School departments was lost when furniture was not offered for transfer. Quality commercial furniture such as desks and tables that are in good condition are typically in high demand within these organizations.

OBSERVATION 6

ASSET ACCOUNTABILITY

Condition:

Two open arm tandem seating sofas and one round end table for which Valley Metro was invoiced and for which payment was remitted, could not be located during our furniture inventory testing. The total cost for these items was \$2,005.

The invoices for approximately 127 pieces of artwork and décor were not adequately descriptive to enable verification [See **Exhibit 7** for a sample invoice]. These assets had not been catalogued in the *Physical Inventory List* when we initiated the investigation in November 2008. Art and décor accounted for \$23,555 in expenditures.

OBSERVATION 7

IRREGULARITIES WITH QUOTES

Condition:

The Assistant Director of Maintenance in November 2008, Mr. Matt Wynn, stated that the furniture replacement project was conducted in phases and that the procedures for small purchases under \$50,000 were followed. He stated that quotes were obtained to ensure pricing was competitive.

We reviewed the support for the following five [5] checks associated with the furniture replacement project:

Check #	Amount	Vendor	Check Date
1472	50,286.73	OFS Brands	10/18/2007
1472	50,648.44	OFS Brands	10/18/2007
1472	33,963.54	OFS Brands	10/18/2007
1281	49,836.71	Holdren's Interiors	8/30/2007
2679	7,688.35	Holdren's Interiors	6/13/2008
Total	\$192,423.77		

We noted a number of irregularities that we would expect to prompt questions from those responsible for reviewing and approving purchases. The following are examples of some of the irregularities noted:

- The dates of vendor invoices preceded the dates on Valley Metro purchase orders in some cases.
- Two separate quotes had the same quote number, date, and time stamp.
- Quotes were not signed by a vendor representative.
- A Holdren's Interiors purchase order and an OFS Brand's quote had the same wording, formatting and font, including the same misspelled words.
- None of the purchase orders awarded to OFS Brands matched with the associated OFS quotes.
- Several quotes utilized the same font and layout format.

Upon contacting the vendors associated with the 16 quotes provided to our office by Mr. Wynn, we discovered the quotes were not genuine and had not been prepared or submitted by the vendors. We also discovered that OFS Brands does not sell furniture directly to customers and that OFS Brands listed Mrs. Holdren as the dealer-of-record for the Valley Metro project. As the dealer, Mrs. Holdren could set the retail price for all of the furniture purchased by Valley Metro from OFS Brands. The margin above the standard government pricing schedule used by OFS would be rebated to Mrs. Holdren. See related issues in Observation 8.

Our office immediately contacted the Roanoke City Police department, which in conjunction with the Virginia State Police, initiated a formal investigation.

OBSERVATION 8

ABOVE MARKET PRICING

Condition:

Harris Office Furniture is a local authorized dealer for OFS Brands. We asked Harris Office Furniture to prepare a quote for the furniture purchased by Valley Metro using the 2007 pricing catalogue, government rate, and its normal markup. The item-by-item prices provided by Harris Office Furniture were all inclusive [freight, delivery, fuel surcharge and installation].

	Paid by Valley Metro	Market Quote	Above / (Below) Mkt	%
Quote #1	\$ 42,997	\$ 40,402	\$ 2,595	6.4%
Quote #2	43,456	38,379	5,077	13.2%
Quote #3	44,185	38,141	6,044	15.8%
Quote #4	13,867	12,320	1,547	12.6%
Quote #5	4,991	5,253	(262)	(5%)
Freight/Delivery/Fuel/Setup	40,624	Included	40,624	
Totals:	\$ 190,120	\$ 134,495	\$ 55,625	41.4%

This analysis did not include expenses for art work, décor, carpet, or wall lamination that were part of the \$223,301 total project costs.

A 2007 catalogue price for some items was not available and had to be estimated based on older or newer catalogues. The average annual price change applied by manufacturers was used to develop estimates in those cases. A price for a limited number of items could not be established due to being modified or custom items. In those cases we imputed the average price variance to establish an estimate.

It is not uncommon for manufacturers to provide dealers with additional discounts for large volume orders, on a case-by-case basis. Our estimated market price assumes no manufacturer discount and as a result the "Above Market" difference could have been greater than reflected in our analysis. Our market price estimate incorporates

normal dealer profit. Mrs. Holdren would have realized the normal dealer profit in addition to the \$55,625 in above market pricing identified in this analysis.

OBSERVATION 9

GRANT REPORTING IRREGULARITIES

Condition:

Costs totaling \$7,688 for replacing carpet in the inside reception area, as well as costs totaling \$3,337 for repairing tile and walls in three administrative offices were submitted for reimbursement under a grant for replacing garage bay doors [FTA Project ID VA-90-X253-00].

The application for the furniture replacement grant stated that the furniture was beyond economical repair. As was documented in the *Physical Inventory List* reviewed during our test work, much of the furniture was in good to fair condition and required no repairs.

For the quarter ended September 30, 2008, Valley Metro reported to the FTA that the Invitation to Bid [ITB] for the furniture replacement project was completed by March 1, 2007, and that a contract was awarded by April 1, 2007. In fact, an ITB was never published and no contracts were ever executed related to the project.

OBSERVATION 10

POLICIES AND PROCEDURES

Criteria:

FTA Circular C4220.1E requires that grantees use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law. FTA guidance states that the grantee's policies and procedures must direct its employees to perform the procurement function in a manner compatible with the federal standard.

Condition:

The Assistant Director of Maintenance, who was responsible for the procurement function, could not provide our auditors with any written guidance related to procurement policies or procedures.

Written procedures provided by Valley Metro's Finance department and by First Transit Management were very limited as to content, were missing forms and exhibits, and did not include any indication that the policies were regularly revised to reflect ongoing changes in laws and regulations.

Effect:

An adequate system of internal controls does not exist to ensure the integrity of the procurement process and the reasonableness of expenditures. Valley Metro is exposed to greater risk that purchases will be executed in violation of federal, state and local laws, as well as grant requirements.

OBSERVATION 11

OPERATION OF INTERNAL CONTROLS

Based on our review of the records associated with the furniture project, we noted several general concerns with the operation of internal controls:

1. Holdren's Interior invoice C-CC9227 for \$2,320 was not marked as being approved.
2. OFS Brands invoice #389224 for \$50,648 had white-out over the initials of the Director of Finance and was otherwise unapproved.
3. Check #1725 for \$27.00 was issued without having a signed purchase order or payment voucher on file.
4. The Assistant General Manager's credit card appears to have been used by his wife to pay for \$1,106 of picture framing services related to the furniture project. The receipts did not have adequate detail to enable us to verify the framed items were received by Valley Metro.

5. We noted that the dates on 25 of 28 invoices preceded or were the same as the date of the corresponding purchase orders. This creates a significant gap in the system of internal controls designed to help ensure purchases are necessary, reasonable, authorized, and comply with laws and regulations. Terms and conditions printed on the back of purchase orders provide legal protections to the organization, but may not be enforceable if purchase orders are not conveyed to the vendor.
6. Fair and Reasonable Price Determination forms used to document the basis for having followed a given procurement method were sometimes dated after the purchase had been completed. Information on the forms was inadequate to fulfill the purpose of the form.
7. Irregularities noted with the quotes should have been flagged by the Finance office when the documentation was presented for payment processing.
8. The cell phone information on one fabricated quote was the vendor's current phone number, which he did not have on the date shown on the fabricated quote. This indicates that quotes may not have been created at the time of the purchase and were not relied on by management to authorize purchases.

OBSERVATION 12

TRAINING

Condition:

The FTA provides procurement training and technical assistance at both regional and national levels. The agency offers instructional courses, conducts regional technical assistance conferences, provides third-party consultants on an as-needed basis, and publishes a "Best Practices Procurement Manual" that is regularly updated.

Valley Metro's Finance and Purchasing employees have not attended the FTA training or other procurement related training. Employees did not demonstrate a proficient knowledge of the procurement laws or the control concepts necessary to ensure compliance.

-- End of Observations --

RECOMMENDATIONS

In response to the issues raised during the audit, the City Administration developed a list of action items to improve oversight and compliance at GRTC. A copy of the letter communicating these action items can be seen in **Exhibit 8**. The action items are as follows:

1. First Transit to provide complete monthly financial statements.
2. GRTC Board Meetings to be held more frequently; possibly bi-monthly.
3. First Transit to provide annual report that includes an inventory of capital assets and a five year capital improvement plan.
4. First Transit to provide a summary of all contracts with employees of SVTMC.
5. First Transit to provide a list of all contracts with vendors.
6. First Transit to provide a list of all grants and the status of each.
7. First Transit to provide a list of all informal, verbal agreements.
8. First Transit to provide a list of all claims against it and against Valley Metro.
9. First Transit to provide information on training and oversight.

We have developed additional recommendations to address specific areas of control that we believe need strengthening.

Capital Project Administration: Assign overall project responsibility to a specific person. Require a capital project file to be maintained and to include:

- Detailed specifications of the project.
- Formal estimates of the costs of the project.
- A copy of any grant application related to the project.
- A log of all contact with prospective vendors [mailings, phone, email].
- Written justification for the type of procurement process utilized.
- A copy of the invitation to bid or request for proposal.
- A copy of the advertisement and associated expenditure receipts.
- Any notes from vendor selection process.
- A copy of the signed contract, required bonds, other certifications.
- Notes documenting project monitoring efforts.
- A copy of progress billings.
- Final punch lists and project closeout documents.

GRTC Officer and Board Engagement: The appointed Officers and Board of Directors of GRTC should visit the Valley Metro administrative offices at least once each year. This would provide an opportunity to become familiar with the facilities, employees, and overall operations.

Policies and Procedures: Complete policies and procedures should be developed and documented. The following aspects should be addressed:

- Accounting
- Budget Development and Administration
- Capital Planning and Administration
- Procurement
- Accounts Payable
- Use of credit cards
- Contract administration
- Sale of fixed assets
- Grants management
- Payroll
- Human Resources
- Union Agreements
- Risk Management
- Financial and Operational Reporting
- Governance

GRTC is currently required to follow the City's procurement policies. These policies should be adapted by GRTC to fit its organizational structure while retaining the fundamental principles that ensure effective, ethical, and legal procurement.

Job Duties and Qualifications:

Director of Maintenance – The job description for the Director of Maintenance should be revised to explicitly acknowledge the position's oversight responsibility related to the purchasing functions performed by the Assistant Director of Maintenance.

Assistant Director of Maintenance – The job description for the Assistant Director of Maintenance should be revised to require the person to be knowledgeable of federal, state and local procurement laws and regulations. Responsibilities should include maintaining a purchasing policies and procedures manual in accordance with FTA requirements.

Director of Finance – The job description for the Director of Finance should be revised to clarify that the position has no responsibilities for purchasing functions. Duties that do not relate to finance, such as the responsibility for monitoring the safety program, should be reassigned to another position. The responsibility to maintain an adequate system of internal controls over finance and grant functions should be explicitly noted in this job description. The minimum qualifications should be revised to require an appropriate level of formal accounting education. Familiarity with grant writing and reporting, internal controls, and financial reporting should also be required. Attainment of relevant certifications should be highly encouraged.

Code of Conduct/Ethics Policy:

Per FTA Circular C4220.1E, grantees shall maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts.

The Government Finance Officers Association recommends that all governments formally approve, and widely distribute and publicize an ethics policy that can serve as a practical basis for identifying potential instance of fraud or abuse and questionable accounting or auditing practices.

We recommend that a written code of conduct be developed in accordance with FTA requirements and GFOA recommendations.

-- End of Recommendations --

CONCLUSIONS

Based on the evidence available to us, we do not believe purchases related to the Valley Metro furniture replacement project were procured in accordance with applicable laws and regulations. As a result, we believe project costs were excessive and overall prices paid by Valley Metro were significantly higher than they would have been in a competitive process.

While it appears that many of the art and décor items purchased for Valley Metro were received, they were not invoiced with adequate descriptive information to enable us to take a complete inventory. We were able to identify \$2,005 in furniture that was paid for but not received.

We do not believe the furniture that was retired as part of the replacement project was disposed of in accordance with applicable laws and regulations.

Overall, we conclude that the system of internal controls at Valley Metro were inadequate to ensure an effective and efficient operation.

ACKNOWLEDGEMENTS

We want to express our gratitude for the cooperation and assistance provided by all of the vendors whom we contacted. We are especially thankful to Harris Office Furniture Company for the assistance it provided our office in estimating furniture pricing.

We also want to thank the Roanoke City Police Department, the Virginia State Police, and the US Attorney's Office for their assistance and ongoing efforts to investigate the issues identified during the audit.

Finally, we want to thank the City Manager's Office, the City Attorney's Office, the Department of Finance, the City Engineering Division, and the City Purchasing Division for their cooperation and assistance during the audit.

This completes our investigation of the furniture replacement project. A copy of this report has been provided to the Roanoke City Police, the US Attorney's Office, Valley

Metro management, First Transit, Inc., and the Attorneys representing Mr. and Mrs. Holdren. The report is available to the public upon request and may be viewed on the City's website at www.roanokeva.gov.

Drew Harmon, CPA, CIA
Municipal Auditor

Dawn Hope Mullins, CPA
Assistant Municipal Auditor

Deborah B. Noble, CPA
Senior Auditor

Doris P. England, CPS, CAP
Administrative Assistant

EXHIBIT 1

Corporate Structure

Analysis of City of Roanoke Relationship with other Valley Metro Entities
Prepared by: Municipal Audit Department

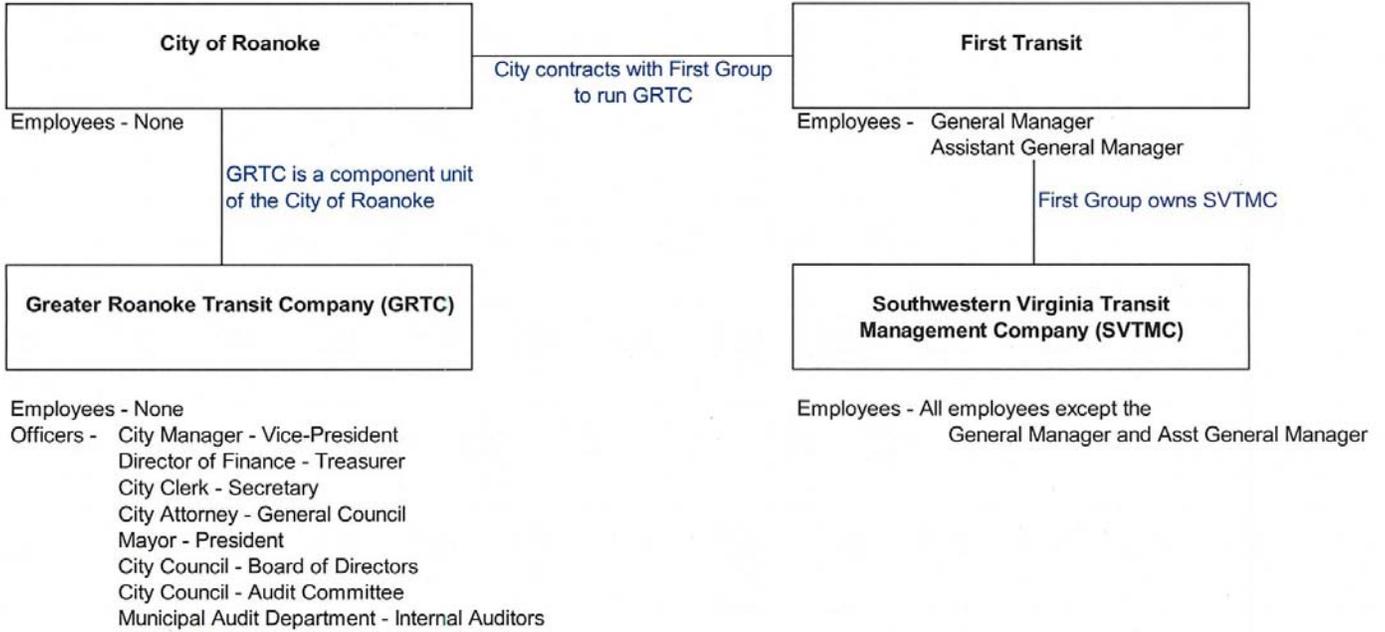


EXHIBIT 2

Contract – Scope of Services

SECTION 3. Scope of Services.

- A. In consideration of the Management Fee, the Operator shall furnish GRTC the management services reasonably required and necessary for the proper, efficient and effective operation of the transit system and provision of transit services set forth in this Contract, under policies, standards and procedures established by GRTC. Transit Services shall include, but not be limited to, the day to day management and operations of the transit system, the services and items set forth in the RFP and as set forth hereinafter, the operation of fixed route bus service to include proper maintenance of all equipment; complementary disabled demand response service; rideshare matching service; and the operation (to include maintenance) of GRTC's downtown transportation center, known as Campbell Court, located at 17 Campbell Avenue, SW, which includes the leasing of retail and office space and the operation of a 105 space parking deck) and the operation (to include maintenance) of the Operations, Maintenance and Administrative Facility which is located at 1108 Campbell Avenue, SE.
- B. Operator shall also furnish such non-resident executive, consulting and technical assistance personnel, in Roanoke, or elsewhere, as may be reasonably required, to assist the General Manager in the operation of the transit system and to carry out fully the responsibilities of the Operator under this Contract, including assistance to GRTC in the formulation of its policies, standards, and procedures, at no additional cost beyond travel and living expenses as set forth in Section 6 (C). The executive, consulting and technical assistance services provided shall include, but not be limited to the areas set forth below.
- C. The transit management services to be furnished also include, but shall not be limited to the following:
1. Establish or assume control of a subsidiary corporation for daily operations, maintenance and employment purposes in order to operate the transit system.
 2. Operate the transit system in compliance with all applicable federal, state and local regulations.
 3. Select, employ and properly train all employees needed to operate the transit system, including labor relations and labor contract negotiations.
 4. Ensure safety of personnel, prevent losses and arrange all appropriate insurance coverages.
 5. Ensure compliance with existing labor agreement(s) and negotiate future labor agreements.
 6. Maintain positive employee relations.
 7. Ensure compliance with applicable environmental and occupational safety and health laws and regulations.
 8. Seek state, federal and local operating and capital grants to benefit GRTC and the City of Roanoke and properly complete all necessary documents for such grants.
 9. Perform all budgeting, accounting and financial functions.
 10. Prepare and administer all federal, state or local grants.
 11. Establish and maintain the accounting controls necessary to ensure protection of all funds and assets and compliance with GRTC and City of Roanoke audit requirements.

EXHIBIT 2 (page 2)

Contract - Scope of Services

12. Develop and execute marketing analysis and plans to increase ridership.
 13. Monitor and evaluate all current operations and institute internal procedures to improve operations and create economies to reduce costs.
 14. Develop and implement management techniques and operational improvements to ensure an environmentally sound transit system.
 15. Prepare and execute a strategic plan for the transit system and to work with GRTC to help implement specific goals identified in the City of Roanoke's Comprehensive Plan and City Council's Vision.
 16. Demonstrate success and experience in marketing and leasing retail, office and parking spaces such as those located within GRTC's current facilities.
 17. Perform all marketing and promotional functions for all operations including advertising.
 18. Prepare and administer the budget for GRTC and City of Roanoke Transportation fund.
 19. Participate on local and/or state transportation committees as needed.
 20. Provide management personnel development, training continuity and recruitments as necessary.
 21. Provide overall management and policy recommendations.
 22. Maintain all facilities, equipment and rolling stock and make recommendations for future purchases of each category as may be required by the transit system.
 23. Administer contracts for special transit services.
- D. At the request of GRTC and by separate contract, Operator will supply special project assistance which is defined as the performance of special transit projects which are not within the scope of the day- to- day management services provided herein. For each "special project", the parties will mutually agree upon the costs, the work task plan, the deliverables plan, assignment of responsibility, the phasing plan, the special project budget and the special project tracking-reporting plan. Provided, however, such special project assistance does not restrict the services to be furnished under this Contract.

EXHIBIT 3

Southwestern Virginia Transit Management Company

SECTION 4. Subsidiary Corporation.

- A. Operator, subject to the laws of the Commonwealth of Virginia, has caused to be formed and/or has purchased from GRTC, or prior Operator, a separate corporation, named Southwestern Virginia Transit Management Company, Inc., hereinafter called "SVTMC," which by assignment shall assume the rights and obligations of Operator under this Contract relating to the operation and management of the transit system and all transit services; provided however, that upon any such assignment made by Operator, Operator shall remain guarantor of each and every one of the obligations to GRTC provided herein; and any breach or violation thereof by its assignee shall be deemed a breach or violation by Operator. SVTMC shall be the employer of all employees necessary for the operation of the transit system and provision of needed transit services; provided however, that the number of personnel employed by SVTMC shall at all times be subject to the approval of GRTC.
- B. Any contractual obligations entered into or liabilities assumed by SVTMC in connection with the operation of the transit system and provision of services will be binding upon SVTMC only for the term of this Contract or as same may be extended. In the event this Contract is terminated or expires, GRTC shall thenceforth assume all future obligations and liabilities under such contracts either on behalf of itself or of any successor to SVTMC. Unless otherwise provided in this Contract, GRTC agrees to provide SVTMC and Operator with funds for the expenses and costs arising out of the operation of the transit system and services, provided management of such operation is carried out in a reasonably prudent manner, with the exception of salaries and benefits of Operator's resident and non-resident personnel referred to in Sections 1 and 3 (B) above, and also excluding claims based upon torts caused by the acts or omissions of the Operator or its management to perform in a reasonably prudent manner (but excluding claims caused by any requirement by GRTC that Operator adhere to policies and procedures adopted by GRTC unless those policies and procedures are adopted pursuant to recommendation(s) of the Operator or its resident team), and excluding the cost of the fidelity security covering Operator resident and nonresident personnel.
- C. Amendments, modifications, changes, extensions, and renewals of existing contracts and any new Contracts or other contractual arrangements proposed to be entered into by SVTMC shall require the prior approval of GRTC.
- D. In the event this Contract is terminated or expires, GRTC may, at its sole option, purchase all of the stock of SVTMC, the purchase price being the exact cost expended by Operator in causing the formation or assumption of SVTMC and all of such stock shall be forthwith transferred, assigned and conveyed to GRTC, its assignee or designee.
- E. GRTC acknowledges that the philosophies of transit services may conflict. SVTMC will work in the best interest of transit operations, but opportunities for mutually beneficial collaboration will be explored for the benefit of GRTC and its owner, the City of Roanoke.
- F. The provisions concerning SVTMC as set forth in this Section shall be without effect until a written assignment approved by GRTC comes into being.

EXHIBIT 4
Renovation Floor Plan

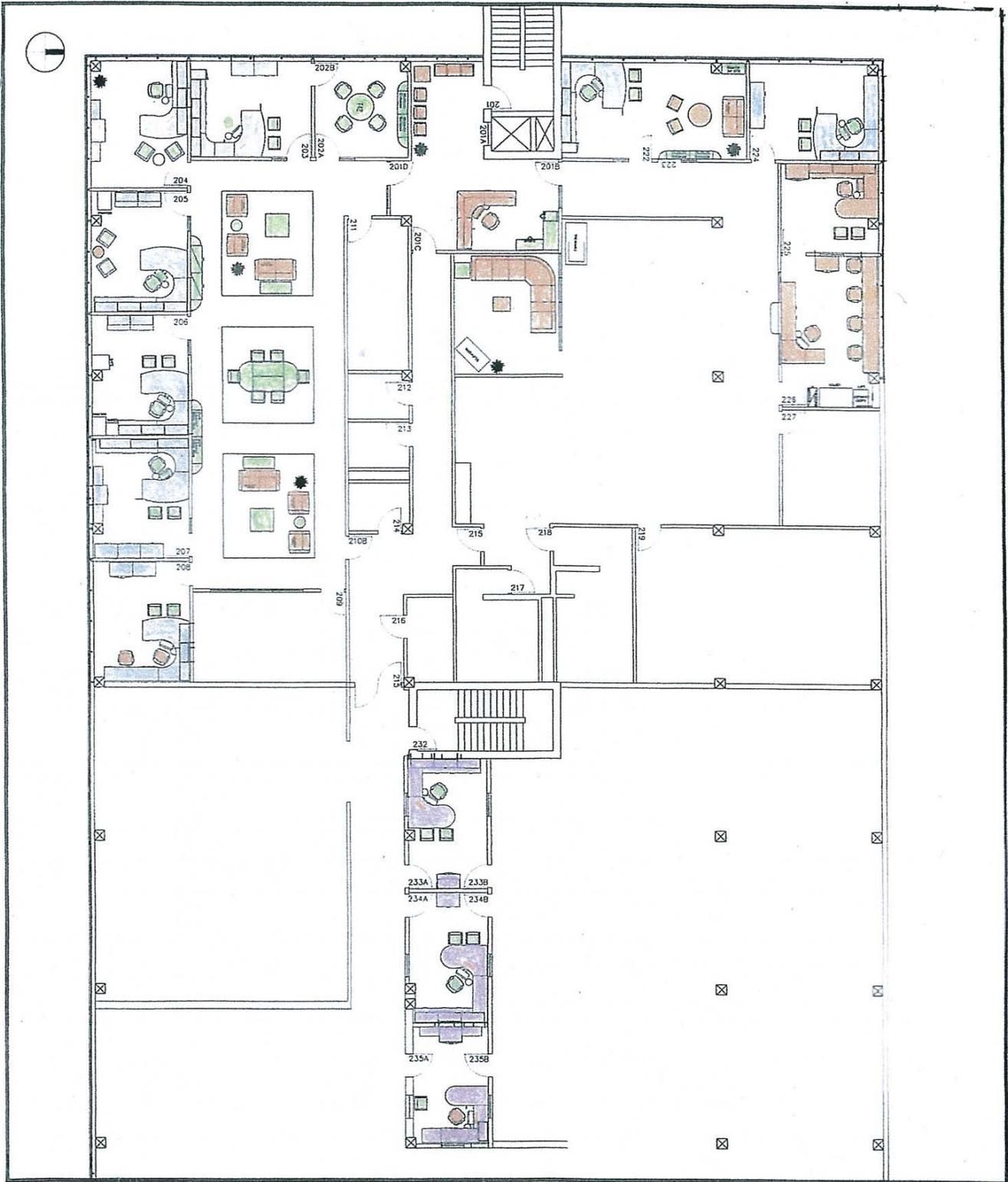
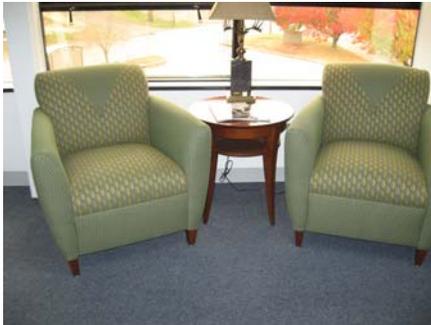


EXHIBIT 5
Pictures - Sample of Items



Sectional Sofa - Driver's Lounge



Seating Arrangement - Office



Seating Arrangement - Office



Coffee Table - Inner Lobby



Sofa - Inner Lobby



Bookcase & Décor -
Small Conference Room



Chair - Office

EXHIBIT 5 (page 2)
Pictures - Sample of Items



Artwork - Office



Table & Chairs - Inner Lobby



Table & Chairs - Small Conference Room



Cabinets & Bookcases - Office



Seating Arrangement - Office



Bookcase and Décor - Office



Plate & Stand - Inner Lobby

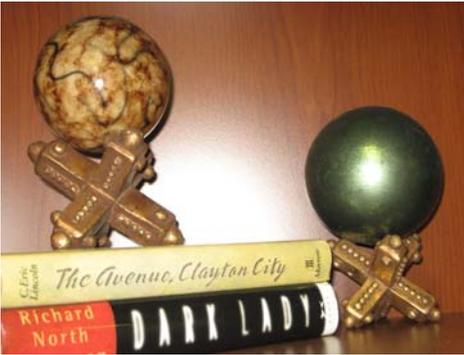


Figurines - Office



Décor - Small Conference Room

EXHIBIT 5 (page 3)
Pictures - Sample of Items



Décor - Office



Bookends (set) - Office



Wooden Blinds - Office



Desk, Office Chair, Cabinets, File Cabinets,
Guest Chairs - Office



Bookcase - Office



Credenza & Décor - Inner Lobby



Tandem Seating - Reception Area

EXHIBIT 6
Surplus Items

September 20, 2007

RE: OFFICE BID

TO:

You have been awarded the following items:

#1, 7, 13, 16, 18, 19, 22, 23, 25, 27, 29-35, 38-41, 43, 45, 47-54, 57, 59, 60, 63-65, 68, 69, 70, 72-74, 77-81, 83-86, 91, 92, 96-99, 101, 102, 104, 106-108, 111, 116, 118-122, 125, 128-130, 132-135, 137-141, treadmill

1 computer table
33 chairs
19 credenza's (upper & lower)
19 oak desk
8 file cabinets
2 oak end tables
1 dry erase board
4 sofas
1 art cabinet
1 glass top table

Total \$125.00

10/10/07

Please see Sarah Godsey for payment.

If you have any questions please contact Tiffany Ollie

All items must be picked up by October 5, 2007 and no later.

Thank you,

Tiffany Ollie

EXHIBIT 7
Sample Invoice - Page 1



HOLDREN'S INTERIORS

Design and Fine Furnishings

6391 HOMEWOOD CIRCLE
 ROANOKE, VA 24018
 P: 772-4591 • F: 774-4067

Invoice No. C-VM10167

INVOICE

Customer

Name Greater Roanoke Transit Company
 Address 1108 Campbell Ave., SE
 City Roanoke State VA ZIP 24013
 Phone 540-982-0305

Date 10/16/2007
 Order No. _____
 Rep Holdren
 FOB _____

Qty	Description	Unit Price	TOTAL
1	Misc. Office Lamps, Pictures, Botanicals, Accessories, Clocks, Urns, etc. Date Serv. & Mdse. Rec'd _____ Checked by _____ Price _____ Ext _____ Account Distribution: <u>000-0172-111</u> \$ <u>7862.95</u> _____ _____ Approved by _____ Audited by <u>CS</u> Date <u>10/29</u> Amount of Discount _____ State Sales Tax Exempt: #0003396444	\$7,500.00	\$7,500.00

Payment Terms:

TERMS: Net 10 days. A finance charge of 2% per month, which is an annual % rate of 24%, will be added to all balances over 30 days old.

SubTotal	\$7,500.00
Shipping & Handling	\$362.95
Taxes Virginia	\$0.00
TOTAL	\$7,862.95

For Office Use Only:

Tax Exempt!!!

7862.95
 2406.31
2462.50
 12731.79 ✓

Our business continues to grow based upon your referrals!
Thank you for your business and for recommending us !

(362.95)
12368.84

EXHIBIT 7 (page 2)
Sample Invoice - Page 2

Bread Basket Topper	1	55	55
Full View Topper	2	60	120
Green Foliage Toppers	4	64	256
Pictures	23	200	4600
Clocks	3	148	444
Lamps	9	225	2025
			7500

EXHIBIT 8
Action Items



OFFICE OF THE CITY MANAGER

Noel C. Taylor Municipal Building
215 Church Avenue, SW, Room 364
Roanoke, Virginia 24011
540.853.2333
www.roanokegov.com

April 10, 2009

Mr. William R. Williamson
Region Vice President
First Transit, Inc.
600 Vine Street, Suite 1400
Cincinnati, Ohio 45202

RE: ^{Bill} Contract dated February 5, 2004, between GRTC and First Transit, Inc.

Dear Mr. Williamson:

As I previously informed you, GRTC and City of Roanoke personnel are reviewing the City's audit findings of First Transit's operations of GRTC under the above contract. The audit indicates that First Transit should provide more oversight of First Transit's day to day operations of GRTC's public bus system, better training for First Transit's personnel along with the personnel First Transit controls through First Transit's subsidiary corporation of Southwestern Virginia Transit Management Company, Inc. (SVTMC) and more detailed and frequent reports to the GRTC Board, officers, and also to the City Manager. The comments in this letter apply to both First Transit and SVTMC.

The following are the items First Transit and SVTMC need to address:

1. The need for First Transit/SVTMC to provide monthly financial statements. These should include a balance sheet with current and prior year comparative data, an income statements portraying current and prior year YTD data as well as budget accompanied by a brief narrative explaining any significant variances. Such report should be submitted no later than 10 calendar days after the first of each month. These reports should be sent to the Treasurer of GRTC (Director of Finance), and GRTC's liaison officer (Assistant City Manager for Operations).
2. Currently the GRTC Board meets yearly on the third Monday of June, and as necessary at other times of the year, which usually requires a meeting in January of each year to authorize the requesting of federal and state grant funds. We believe that the frequency of GRTC Board meetings should be increased and we would like First Transit/SVTMC input into how frequently such meetings should be held, together with the reason behind such recommendations. It appears that perhaps a bi-monthly meeting of the GRTC Board should be considered. This matter will be presented to the GRTC Board at its meeting in June 2009 for the Board's further consideration.

EXHIBIT 8 (page 2)

Action Items

Mr. William R. Williamson

Page 2

April 10, 2009

3. First Transit/SVTMC should provide to the Treasurer, the City's liaison to GRTC, and the City Manager, annual reports which shall contain an inventory of capital assets (with a notation of any major additions or deletions), together with any capital improvement plan (CIP) with a five year planning horizon that should be developed and updated annually.
4. First Transit/SVTMC should provide to the Treasurer and the City's liaison to GRTC a summary of all union and other contracts for the bus drivers and employees of SVTMC, which should include a summary of the terms of such contracts, the status of all of such contracts, any important milestone dates involved with such contracts, the persons from First Transit/SVTMC who handle the negotiations of such contracts, and any issues that might be involved with such contracts or the bus drivers or employees of SVTMC that might impact on the day to day operations of the bus system. Such reports should be submitted every six months and updates and notices of any significant events involving such contracts more frequently, if needed. The reports should also detail any contract negotiations and give at least six months notice of any new contract negotiations that may need to take place.
5. A list of all contracts (which includes leases of GRTC property) that GRTC and First Transit/SVTMC have in connection with the bus system and GRTC property. This list should include with regard to each such contract the following:
 - A. The names of the parties to the contract.
 - B. The term and any renewals for each contract and when due.
 - C. A brief summary of the subject of the contract and any special terms or items in the contract.
 - D. The amount and value of the contract.
 - E. Any issues or complaints with services or items provided and, if so, what the issues are in details.
 - F. Is the contract up to date and payment up to date for services or items received or due (such as from leases)?
 - G. The name of the First Transit/SVTMC employee who is overseeing each such contract.
 - H. Whether any required bonds or insurance certificates for each such contract are current and up to date.
6. A list of all grants and funds that GRTC is due from FTA, the State, and other entities as well as any agreements concerning such grants and funds. This list should include the status of all such items together with a summary of each such grant and the other information as requested in Item 5 above. The list should also indicate which reports or documents are needed to comply with each grant or grant agreement and if such items are current.

EXHIBIT 8 (page 3)

Action Items

Mr. William R. Williamson
Page 3
April 10, 2009

7. If not included above, a listing of any informal or oral agreements concerning other localities, etc., like for the Smartway bus, the college buses, the trolley service, and all other items of this nature.
8. A listing of all claims and/or suits against GRTC, Valley Metro, First Transit, and SVTMC regarding the Valley Metro System and the amount and status of all such claims.
9. An indication from First Transit what training First Transit and SVTMC plan for their employees in connection with the day to day operations of Valley Metro in order to avoid issues such as the ones that have arisen in the past. Also, what type of oversight First Transit plans to have on the day to day operations of its employees and those of SVTMC to ensure that they are complying with First Transit's, GRTC's, and the City's procedures for operating the bus system on a day to day basis and for complying with applicable federal, state, and local laws, rules, and regulations.

While some of the above items may take more time than others to provide, we would like to have the above items provided as soon as possible. GRTC and City personnel believe that the provision of these items will help to show that First Transit/SVTMC have sufficient knowledge and control of the day to day operations of GRTC's public bus system and that First Transit/SVTMC are keeping up to date on the day to day operations of the bus system. This will also enable First Transit/SVTMC to provide the GRTC Board, GRTC personnel, and City Council with any appropriate information that may be requested from time to time.

If you need any clarification or wish to discuss any of the above items, please call me at 540-853-2333.

Respectfully,



James Grigsby
GRTC liaison and
Assistant City Manager for Operations

- c: Darlene L. Burcham, Vice President of Operations
Ann H. Shawver, Treasurer
Drew Harmon, Municipal Auditor
William M. Hackworth, General Counsel