



November 10, 2015

Mayor Nelda Martinez and
Members of the City Council
City of Corpus Christi, Texas
1207 Leopard Street
Corpus Christi, Texas 78401

Re: RTA Audits



Dear Mayor Martinez and Members of the City Council:

We reviewed the item on your "Future Agenda" on Tuesday, November 10, 2015, concerning the request for a "forensic audit" of the Corpus Christi RTA. As you are aware, the RTA was the victim of a fraud perpetuated by a former employee and his supervisor who set up a bogus company and charged CNG supply parts to the RTA. Although the RTA has a three-part check and balance system in place to deter thefts of this nature, the complicity by the supervisor and the supervisor's direction to the Parts Department not to provide the third step in the verification thwarted those safeguards. The lost funds were identified immediately, and CCPD is working on the case and developing it for prosecution. As part of that process, the RTA engaged an outside consultant to confirm that none of the claimed parts actually were delivered or installed in the system in order to address initial questions raised on this issue by CCPD.

A separate incident arose concerning the theft of certain employee scholarship funds, and that matter also has been thoroughly investigated. In both of these cases, the RTA financial systems in place were able to identify where the funds were expended and the employment of the responsible employees has been separated from the RTA.

As you are aware, the City of Corpus Christi has been the victim of employee fraud from time to time in the past as have other governmental entities. The internal control procedures largely are the same and are designed to require a minimum of two and often three steps in verification on expenditures. Regardless of which governmental entity is involved, however, on some occasions those internal controls can be thwarted temporarily resulting in a loss. In this case, the managing director of that area was reviewing expenses and noticed something unusual that prompted the investigation.

As mentioned above, the RTA already has engaged and obtained the report of an outside consultant on the equipment that supposedly was being maintained with the bogus parts in order to have verification for CCPD of the loss. The RTA Board also has engaged its outside auditors, Collier, Johnson & Woods, to perform a special audit of several functions within the RTA including where these recent funds were lost. This auditing firm also has performed the outside audit for the City of Corpus Christi.



In your proposed letter, you specifically are requesting that a “forensic audit” be done at the RTA. A forensic audit is a type of audit designed to develop evidence for a prosecution or litigation. It typically involves taking limited information available and extrapolating financial statements or other financial information to fill in the gaps based on the expert opinions of the auditor. Based on the expert advice we have received from our outside auditors, a “forensic audit” doesn’t make sense in the present situation for the following reasons:

1. The RTA’s financial information is complete – no financial information is missing. All of the missing funds have been identified and confirmed as to exactly what was taken and how it was taken. The RTA’s transparency in financial records is unprecedented in that a running check register disclosing every dollar the RTA spends is published on the RTA’s website and available for inspection. The expenditures are audited and reconciled with revenues and the financial statements, so all of the financial records are complete.
2. The information requested by CCPD for development of the prosecution already has been provided. Investigators did not require any additional financial information in order to prepare a case for prosecution, but they did need confirmation that the purportedly purchased CNG parts in fact did not exist and never were acquired. To resolve that issue, the RTA engaged an outside consultant to examine the RTA’s CNG equipment and confirm that none of the purportedly purchased replacement parts had been installed in the equipment or were maintained in inventory.
3. The RTA’s situation does not require a forensic auditor to provide an opinion as to financial conditions based on limited information but an outside auditor to examine the financial systems in place to determine any material weaknesses. The RTA staff and Board have consulted with their outside auditors and a forensic audit is not recommended. Since the financial records are complete and clearly show where the losses occurred, a forensic audit is not required to fill in the gaps of limited information. Instead, the audit professionals have recommended a special audit to examine the RTA’s financial management systems to determine if any material weaknesses exist that could put funds at risk in the future.

Unless you have available a different professional opinion on what a forensic audit would provide in the present situation that is different from the above, the expert advisors for the RTA are confirming that a forensic audit is not needed at this point.

Perhaps it is easier to understand by the following comparison: If the missing funds had been the case of \$50,000 being lost and unaccounted for, a forensic auditor’s services would be needed to determine actually where the \$50,000 went. In this situation, the RTA knew from the beginning exactly how much money, in what checks, on what dates, and to whom the funds were paid. Our public financial records confirm to the penny what money was taken and where it went. This is not a case of missing information that requires an expert to assist in determining where the money actually went.

Based on these findings, the outside auditors recommended, and the RTA Board unanimously approved, obtaining a special audit from the outside firm to determine if any material weaknesses exist in the RTA's financial management systems. The outside firm will investigate all departments that regularly expend funds for goods and services to make sure that the best system of checks and balances is in place in order to help avoid any future losses.

While the outside auditors will report their findings to the Board, those findings will be immediately made public and shared with the City, the County and other interested local officials. The laws governing the RTA, Chapter 451 of the Texas Transportation Code, already provide that copies of audits are provided to the County Judge and the Mayor, and those copies can be provided to each County Commissioner, the City Manager and the members of the City Council. The RTA will continue to be completely transparent in this investigation, and if any of the other public officials in the community have questions or comments on the audit's findings, those can be addressed.

As for the creation of a special committee of the County Judge, the City Manager and an RTA Board member to control the audit, the RTA bylaws and procedures provide for the creation of ad hoc advisory committees that may include non-RTA board members to advise the Board. The RTA has an Audit Committee comprised of several Board members similar to the organization of the City Council and other entities. As noted above, the RTA already has engaged the auditors and the auditing work is underway, and the findings will be released immediately to the County Judge and Commissioners and the Mayor and City Council. It would be fine if the County Judge and the Mayor or City Manager would like to get together to discuss the findings and recommendations, but the RTA does not want to delay the auditing process already underway.

Based on the above concerns, the RTA respectfully disagrees with the call for a forensic audit at the RTA or to delay the audit currently underway with the formation of an outside committee. The RTA remains resolved to prosecute the responsible parties to the fullest extent possible and examine its financial systems to make every effort to avoid future losses. All financial activities at the RTA will remain fully transparent and available for public inspection and comment by any interested parties.

Very truly yours,



Evangelina Chapa
Board Chair

Copies to: City Secretary
City Manager
City Attorney