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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 27, 2004

Mr. John L. Buono
Chairman
New York State Thruway Authority
200 Southern Boulevard
Albany, NY 12209

Re: Titan Armored Car, Inc.
Contracts T00351 and T00331
Report 2003-R-6

Dear Mr. Buono:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution, and Section 2803 of the Public Authorities Law, we have audited the New York State Thruway Authority's (Authority) administration of Contracts T00351 and T00331 with Titan Armored Car, Inc. (Titan) for armed courier and toll revenue counting and depositing services. Our audit covered the period January 1, 2001 through September 30, 2003 and included Titan's compliance with contract terms.

A. Background

The Authority has two contracts with Titan to provide armed courier and toll revenue counting and depositing services for 11 toll plazas located on an 85-mile span of the Thruway. The first contract (Contract T00351) covers services provided to the Yonkers and New Rochelle toll plazas. The second contract (Contract T00331) covers services provided to toll plazas 22, 23, 24, 25, 25A, 26, 27, 28 and 29. The original contract period for both contracts was October 1, 2000 through September 30, 2002, and both contracts were renewed for another year. The contracts require Titan to pick up toll revenues from the above 11 toll plazas on a set schedule (7 days a week at Yonkers and New Rochelle, and weekdays at toll plazas 22 through 29), and to make additional pick-ups on weekends and holidays, as necessary. The 11 plazas served by Titan collectively account for about \$40 million in toll revenues annually.

The toll receipts Titan couriers pick up at individual plazas have already been bagged by the plaza's toll collectors. Each Authority toll collector counts the money collected during his or her shift, prepares a money bag report (which identifies the bag number) and a collector deposit slip listing total revenue collections, and then puts the locked money bag, containing the toll receipts and the related paperwork, in a vault at the plaza. Armed Titan couriers collect the bag from the vault and take it to Titan's money-counting facility (money room), where a Titan teller re-counts the bag's

receipts. When all the station's bags for that day are counted, the teller prepares station settlement tapes that list amounts and identifying data for each money bag. Tellers prepare two daily bank deposit tickets: one for stations 22 through 29, and another for Yonkers and New Rochelle. Other Titan employees deposit the counted funds in the Authority's designated bank account. The Authority gets copies of all money bag reports, collector deposit slips, settlement tapes and bank deposit slips. The Authority keeps money bag reports for one year. These are integral to reconciling toll collection revenues.

The contract specifies that Titan must count and deposit all toll receipts on the day receipts are picked up by the couriers. Contract terms also require Titan to maintain specific insurance coverage, to bond its employees, and to provide qualified personnel for each of the contracted services (transport, counting and deposit). The Authority is responsible for monitoring contractor operations. As such, the Authority has the right to make unannounced visits to contractor premises and to make "test" deposits to assess the integrity of Titan's money counting/depositing operations. Titan bills the Authority on a monthly basis for pick-up, counting and deposit services. According to Authority records, Titan was paid a total of \$485,621 on 132 vouchers submitted during our scope period.

B. Audit Scope, Objectives and Methodology

We audited Titan's compliance with the requirements of Contracts T00351 and T00331, as well as the Authority's administration of these contracts, for the period January 1, 2001 through September 30, 2003. The objectives of our performance audit were to assess Titan's compliance with contract requirements, including the support for, and appropriateness of, contractor billings, and to assess the extent and effectiveness of Authority oversight of contractor operations. Our audit testing for contract compliance pertained to only 2003. Relevant records for prior years were not retained by the Authority.

To accomplish these objectives, we reviewed Contracts T00351 and T00331 and all relevant contract-related documents, and we discussed contract requirements with Authority and contractor officials. We tested a judgmentally selected sample comprising 10 of the 36 Titan vouchers the Authority paid in 2003. We reviewed these 10 vouchers, totaling \$41,843, as well as related supporting documentation (toll pick-up slips, bank deposit slips, employee qualifications, etc.), to determine whether Titan service billings were appropriate, and whether Titan delivered the level of services required under the contract. We also reviewed various supporting documents regarding Titan's insurance coverage and employee qualifications. Since the Authority does not keep certain supporting documentation related to reconciling toll revenue collections for more than one year, our sample was limited to vouchers from 2003.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and perform our audit to adequately assess those Authority operations that are within our audit scope. Further, these standards require that we understand the Authority's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the

circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under Generally Accepted Government Auditing Standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

Our audit of Contracts T00351 and T00331 concluded that Titan generally performs its courier pick-up and toll revenue counting and deposit services in compliance with the terms of its contracts with the Authority, and that Titan's service invoices were substantially correct. Titan's deposit services and Authority monitoring of Titan's performance were adequate overall, but could be improved in several respects.

We found that, with minor exceptions, Titan delivered adequate courier services, met or exceeded staff qualification and insurance requirements, and accurately counted toll receipts. However, we determined that Titan took an average of 2.8 days and 3.8 days, respectively, to deposit downstate and upstate funds in Authority bank accounts. When delays occur in depositing revenues, funds are at greater risk of misappropriation, and the Authority loses interest income. The Authority should ensure Titan deposits toll revenues on the day they are picked up, as the contracts require. We also found Authority collection/deposit documentation was sometimes incomplete or unavailable: in some cases, this support was simply missing; in the case of money bag reports more than one year old, this support had been discarded, in conformance with Authority policy. We suggest the Authority make a greater effort to maintain the support needed to ensure Titan billing accuracy.

1. Contractor Performance

Contracts T00351 and T00331 require Titan to make scheduled pick-ups (daily at Yonkers and New Rochelle and on weekdays at the remaining eight plazas), as well as any additional pick-ups, as requested. The contracts also specify certain staff requirements, such as the number of crew members, their training levels, and the amount of insurance and bonding Titan must carry. In addition, the contracts state that Titan must count and deposit toll receipts on the same day they are picked up by the courier. The objective of these contract stipulations is to reduce the risk of loss, theft or misappropriation of Authority toll receipts and to maximize Authority interest income.

To determine whether Titan complied with the terms of its contracts, we had initially planned to select a sample of vouchers from throughout our three-year scope period, which comprises the

terms of these two contracts. However, we had to limit our sample to vouchers from 2003 because Authority officials could not provide us with money bag reports for 2001 and 2002. Officials informed us that their policy is to dispose of money bag reports after one year because they have no room to store such reports from prior years.

Given these circumstances, we judgmentally selected for review 10 of the 36 vouchers the Authority approved and paid during 2003. We noted deposit slip errors of as much as \$810 between collector money bag counts and Titan cash counts. In addition, four of the ten vouchers were also reviewed to test for Titan's compliance with pick-up requirements. Two vouchers were for services to upstate stations, and covered 43 pick-up days during two months in 2003; the other two vouchers were for the downstate toll stations, and covered 61 pick-up days during another two months in 2003. We found that Titan made courier runs on all but two of the days covered by these vouchers, specifically New Year's Day and Easter Sunday at the downstate toll stations. Although Titan did not bill the Authority for either of these days, Titan should have made the pick-ups, since the terms of Contract T00351 require daily pick-up services. Since Titan did not make these pick-ups, as scheduled, the toll receipts in question were exposed to the risk of loss or misappropriation, and were not deposited - and earning interest income - in Authority bank accounts.

We also reviewed various supporting documents related to employee qualifications. The contracts require that courier vehicles be staffed by a minimum of two crew members, who are duly certified by the Department of State as armored guards. Courier guards must also hold appropriate driver's licenses and pistol permits. State law requires registration for pistol permits if guards must carry or have access to firearms while providing armored car services. We reviewed supporting documentation for the four sampled vouchers and found that vehicles on all runs were staffed by at least two persons. Our review of personnel files for selected courier guards determined that these staff held appropriate licenses, certifications and permits.

To protect Authority assets against theft or contractor negligence, the contracts require that Titan maintain the following: a \$1 million bond to cover misappropriation by Titan employees; general liability and property damage insurance coverage of \$1 million (single limit) and \$2 million (aggregate); auto insurance coverage of \$1 million; and insurance coverage with the State Insurance Fund, as required by the Workers' Compensation Board. Our review found that Titan meets or exceeds the contracts' bonding and insurance coverage requirements.

Finally, we tested to determine whether Titan deposited Authority toll collections on the same day they were picked up from plazas. To do this, we reviewed a same sample of 11 deposits, judgmentally selected from among the approximately 300 deposits made by Titan during January 2003 through May 2003. Of the 11 sampled deposits, 6 deposits, totaling \$401,476, were from the downstate toll stations, and 5 deposits, totaling \$518,351, were from the upstate toll stations. Our tests of these sampled deposits showed that funds are sometimes counted and deposited on a date subsequent to the pick-up date. For the deposits we reviewed, Titan took an average of 3.8 days to deposit funds from upstate toll stations, and an average of 2.8 days to deposit funds from Yonkers and New Rochelle. Titan's noncompliance with the same-day deposit requirement regularly costs the Authority the interest income it could earn on the \$258,946 average undeposited daily receipts for 3.3 days (the average number of days both upstate and downstate deposits are held in Titan's vault prior to the bank deposit). Delays in making deposits also subjects Authority revenues to

greater risk of loss or misappropriation.

Authority officials told us they had complained to the contractor about late deposits, and had asked Titan to improve its performance. Given that deposit delays persist, however, we believe the Authority should consider including a provision in future contracts for corrective actions (e.g., penalty assessments) to enable the Authority to enforce Titan's compliance with a timely deposits provision. Authority officials informed us that in its next contract (Fall 2004), they will include a provision to assess penalties for late deposits.

2. Contractor Billing

Titan bills the Authority for courier services and for counting and deposit services based on fixed fee schedules specified for the stations covered by the contracts. The billing rate for courier services is \$75 per day for the 2 downstate toll stations and \$190 per day for the nine upstate toll stations. (Titan's courier service rate is higher for the upstate stations because these plazas are geographically farther apart, and pick-up duties consume more travel miles.) The billing rate for counting/depositing services is \$1.75 per bag of toll receipts for all 11 stations. Titan compiles separate monthly bills for upstate and downstate stations, and the bills are for both the courier services and counting/deposit services performed during the period.

To determine whether Titan billed the Authority for only those services it actually performed, we reviewed the ten vouchers (six upstate vouchers and four downstate vouchers) and related documentation submitted for services performed during January 2003 through May 2003. We traced these bills to Authority and to Titan documentation. We concluded the vouchers we examined were substantially correct. However, we did note a number of minor differences between billed amounts and Authority or Titan records. Our testing, as well as our review of reconciliation procedures performed by the Authority, concluded that these discrepancies were attributable to missing documentation or to end-of-month timing issues. We explain our tests, and the discrepancies we identified, below.

We traced the six upstate courier bills to Authority money bag reports to verify that the billed pick-ups took place. We determined that these Titan courier bills, which totaled \$20,390, were \$530 (2.6 percent) higher than was indicated by the supporting money bag reports. The majority of the \$530 difference was attributable to missing supporting documents. For example, Authority documentation for February 2003 at New Rochelle, where the average daily pick-up is 26 money bags, did not include money bag reports for four pick-up dates during the month, and incorrectly included a pick-up from March 2003. The remainder of the \$530 difference was due to end-of-month timing issues. For example, an Authority toll collector may list March 31 as the collection date on the money bag report, but the bag may not be picked up until April 1. The charge for this pick-up would be included on Titan's April bill for courier services.

We tested the accuracy of counting/deposit service bills by tracing six upstate bills to Authority documentation, including collector deposit slips. The contracts do not clearly state when Titan should bill for counting and deposit services (when the bags are collected or when the money is actually counted), but Titan bills these services based on the number of bags its records show were collected during the month. Our test showed Titan billed for processing 3,526 bags, whereas

Authority documentation showed that only 3,446 bags were counted for the periods billed. The 80-bag difference represents \$140 (2 percent) of the \$6,171 Titan charged on these six bills. Again, missing supporting documents and timing differences accounted for the discrepancies.

When we traced the four downstate bills to documentation maintained by Titan, for courier services and the four bills for counting/deposit services totaling \$12,595 and \$14,890, respectively, our tests found only minor differences. We found a difference of \$75 for courier services and a difference of \$164 for counting/deposit services. Here too, missing supporting documents and timing differences, accounted for these discrepancies. From these results we concluded that Titan billings were substantially correct, and that no further testing was needed.

3. Monitoring

Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective in helping the organization achieve its objectives. To effectively monitor the contracts with Titan, the Authority should ensure that collections are deposited timely and intact and that bills from Titan are accurate and only for services provided. Our audit found that the Authority's monitoring practices are generally adequate. However, we also detected several control weaknesses that need to be corrected to provide greater assurance of Titan's satisfactory performance.

Authority officials told us their monitoring practices have identified over-billings, which resulted in Titan making appropriate adjustments to its invoices. For example, officials showed us evidence that the Authority had identified a \$17,222 over-billing that occurred because of conflicting interpretations of certain contract specifications. The Authority recouped this amount from Titan. We also confirmed that Authority budget staff prepare an estimate at the beginning of the year of the total number of monthly pick-ups that should be made, and then track each Titan billing against the estimate. We also verified that Authority staff record any missed courier pick-ups on a daily exception report, and then make adjustments based on these reports.

The Authority also has control procedures in place to monitor the accuracy and completeness of bank deposits made by Titan. When the bags from each toll station are counted in Titan's money-room, Titan tellers produce station settlement tapes that record the toll collector number, the bag number, the collector's shift date and Titan's money count. Tellers also prepare a recap sheet that shows the composition of the daily deposit for both upstate and downstate stations by denomination and by toll station source. Titan mails the station settlement tapes, recap sheet, toll collector deposit slips and the corresponding bank deposit slips to the Authority's Cash and Investments Unit, where they are reconciled to monthly bank statements. According to Authority officials, there should also be a final monthly reconciliation of all bank deposits.

To determine whether these control measures are consistently followed, we reviewed ten randomly selected deposits. Titan made these deposits in January 2003 and in May 2003. We found that Authority staff had traced all ten bank deposits to the toll collectors' deposit slips and to station settlement tapes, and had confirmed the accuracy of all the deposits. However, Authority officials acknowledged that a final monthly reconciliation of final revenue for the month to audited toll collector revenue deposits had not been done since January 2003.

To assess the effectiveness of the Authority's control measures, we then tested the same sample of 11 deposits (6 downstate deposits from January 2003 and 5 upstate deposits from May 2003) that we had tested earlier for deposit timeliness. During our review of Authority deposit documentation, we detected a \$20,000 discrepancy on a Titan recap report from a deposit made in January 2003. The recap report indicated that \$133,464 had been counted from the upstate toll stations, but only \$113,464 was deposited. When we asked Authority officials about this discrepancy, they could not explain it, or why it was not detected. Officials concluded that Authority calculation clerks had ignored this discrepancy during the reconciliation process. We determined, after reviewing both Authority and Titan copies of the recap report, that this discrepancy was actually a typographical error on the Authority's copy of the report. Nonetheless, the fact that Authority staff did not detect a \$20,000 discrepancy indicates the Authority is not adequately reviewing Titan's documentation during the reconciliation process.

The Authority also has a process for tracking the incidence of deposit slip errors and investigating how the errors occurred. Authority officials indicated that memos are prepared each month detailing the number of deposits prepared that month and the number of confirmed errors that occurred at each station, with errors shown as a percent of the total deposits made by station. This monthly error reporting can identify where errors occur most frequently so Authority management can correct the problem. While we found that the memos generated in 2001 and 2002 were prepared within a month or two after the deposits took place, the memos for 2003 deposits were prepared late. For example, the memos for August and September 2003 were not prepared until February 2004. To be effective for monitoring purposes, the review of errors should be completed in a timely manner so that management can take necessary corrective action. At the exit conference, Authority officials advised us that they have made improvements which have resulted in the error report now being prepared in a timely manner.

Recommendations

1. *Ensure that Titan complies with all the terms of its contracts, including:*
 - *performing courier pick-ups on all the days required; and*
 - *depositing toll receipts in Authority bank accounts in a timely manner.*
2. *Ensure that all Titan bills are supported by appropriate documentation.*
3. *Regularly perform the final monthly reconciliations between toll receipts and bank deposits.*
4. *Review the mathematical accuracy of the reconciliation reports that Titan submits with the daily bank deposit slips.*
5. *Prepare deposit slip error reports in a timely manner.*

We provided a draft copy of this report to Authority officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix A. In general, Authority officials agreed with our recommendations and note that some of them have already been implemented. Appendix B contains State Comptroller's Notes, which address matters

related to the Authority's response.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the New York State Thruway Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and its fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Frank Patone, Barry Mordowitz, Dick Gerard, Peter Schmidt, Legendre Ambrose, Kathleen Garceau and Nancy Varley.

We wish to thank Authority management and staff for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice
Audit Director

cc: Robert Barnes, Division of the Budget
Timothy Peloso, Titan Armored Car, Inc.



John L. Buono
Chairman

New York State Thruway Authority
New York State Canal Corporation

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Michael R. Fleischer
Executive Director
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October 5, 2004

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division State Services
State Audit Bureau
123 William Street – 21st Floor
New York, NY 10038

Re: Preliminary Findings on Thruway
Authority's Administration of Contracts
T00351 and T00331 with Titan Armored
Car, Inc.

Dear Mr. Challice:

Relating to your August 24, 2004 letter, the Thruway Authority is providing the attached information as comments on the preliminary observations and conclusions drawn by your staff concerning your review of the administration of contracts T00351 and T00331 with Titan Armored Car, Inc.

With respect to the recommendations made in the report, the following are the Authority's comments and responses:

- **Recommendation #1a** – The contract requires 7 day a week courier service at the Yonkers and New Rochelle barriers. The Thruway understands, however, that on rare occasions a pick-up may not be possible due to circumstances beyond the control of the courier (e.g. disabled courier vehicle). The Thruway has a system in place where the toll plaza manager e-mails the designated Senior Administrative Assistant in the Department of Operations advising of any days where courier service did not occur. When the billing is received from the courier service, these e-mails are cross-checked against the billing to insure that the Thruway is not billed for the service.

Mr. William P. Challice

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October 5, 2004

- **Recommendation #1b** – Steps have been taken to monitor the timeliness of deposits to Authority accounts. The contract that is currently in the process of being awarded contains a monetary penalty for the late deposit of funds. The procedures that we are currently using to monitor the timeliness of deposits will be used as the basis for the assessment of the penalty.
- **Recommendation #2** – The Thruway keeps all appropriate documentation to support the Titan bills. As explained to the OSC auditors, the money bag reports are not the primary documentation used to verify either the counting or courier billings. For counting services, validated deposit slips, which are retained for three years, are used to verify the billings each month. For courier services, the contract states exactly which days pickups are to be made. The Thruway has a system in place where the toll plaza manager e-mails the designated Senior Administrative Assistant in the Department of Operations advising of any days where courier service did not occur. When the billing is received from the courier service, these e-mails are cross-checked against the billing to insure that the Thruway is not billed for the service.
- **Recommendation #3** – The reconciliation between toll audit and the Cash and Investments Unit generally involves the movement of money between days and/or collectors and/or stations. Since this reconciliation does not affect the toll revenue reported on our financial statements, they often lag behind. They will be brought up to date as soon as possible taking into consideration staffing limitations and the materiality of adjustments. Currently, the reconciliations have been completed through March 2003.

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Note
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It should be noted that the final monthly reconciliation between toll receipts and bank deposits is being completed on a timely basis. The bank statements are reconciled each month prior to preparation of journal entries to record toll revenue.

- **Recommendation #4** – The Cash and Investments Unit did not previously use Titan's reconciliation report during the reconciliation of the toll collectors' deposit slips with the bank deposits and bank statements. We have now changed the procedure so that as a final check, the totals from Titan's reconciliation reports are compared with the daily bank deposit totals. This check is being performed to ensure that no deposit slips are missing from the package of deposit slips received. The Cash and Investments Unit will only be required to review the mathematical accuracy of Titan's report when there is a difference found during this final check.

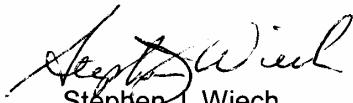
Mr. William P. Challice

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October 5, 2004

- **Recommendation #5** – Deposit slip error reports are normally prepared within 1-2 months of the end of the month being reported. In 2003, however, a new deposit slip error program was designed and implemented which delayed the processing of the deposit slip error memos. We are now processing these memos on a timely basis.

Sincerely,



Stephen J. Wiech
Acting Director of
Thruway Finance

SJW:aw
cc: Michael Fleischer
Michael Flynn

**New York State Thruway Authority
Comments on the Preliminary Observations and Conclusions
Related to OSC Audit of Armored Courier Service Contracts**

The following represents Thruway Authority staff comments concerning the preliminary observations of OSC audit staff in connection with the audit conducted on the Authority's Armored Courier contracts between January 1, 2001 and September 30, 2003:

1. Page1 – Background – Second Paragraph

The second sentence "Each Authority toll collector counts the money collected during his or her shift, prepares a money bag report (which identifies the bag number and total toll revenues) and a collector deposit slip, and then puts the locked money bag, containing the toll receipts and the related paperwork, in a vault at the plaza." is incorrect. The money bag report lists the station, date, collector signature, collector number and money bag number but not total toll revenues. The collector deposit slip lists the total revenue the collector is depositing in the money bag.

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Note
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2. Page 3 – Results of Audit – Second Paragraph

We disagree with the second to last sentence "Retaining collection documentation for only one year hinders the Authority's ability to audit toll collections from the relatively recent past." The collection documentation mentioned refers to the money bag reports which are retained for only one year. The money bag reports are used when performing an audit if a question arises about when a money bag was picked up from a toll station but are not the primary documentation used to audit toll collections. The audit of toll collectors shifts is completed within one to two months of the date worked and is in no way hindered by any of our retention periods.

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Note
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3. Page 4 – Results of Audit, Contractor Performance – Second Paragraph

The second sentence infers that there were shortages in the sample deposits chosen ranging up to \$810. These variances are never referenced again elsewhere in the audit report. Deposit slip errors do occur when a collector makes a mistake preparing his/her deposit slip. This does not mean there is a shortage in the collector's work. After the bank adjusts the deposit slip to reflect the correct revenue in the money bag, the collector's deposit for the day usually matches the total of the cash toll transactions collected.

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Note
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4. Page 5 – Results of Audit, Contractor Billing – First Paragraph – Last Sentence

We have included a provision to assess penalties for late deposits in our latest contract for courier and counting services, which will be awarded this fall.

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Note
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5. Page 6 – Results of Audit, Contractor Billing – First Paragraph – First Sentence

The first sentence in the first paragraph should not have “treadle reports” at the end of the sentence. Treadle reports have nothing to do with verifying counting service invoices.

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Note
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State Comptroller's Notes

1. We acknowledge the Thruway's current billing verification procedures. However, the deposit slips themselves, do not provide accurate documentation of the number of bags picked up, nor the date of the pickup. Retaining these reports would thus enhance the Thruway's current billing verification procedures.
2. We modified our report to reflect this information.