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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 8, 2005

Mr. Frank Kobliski
Executive Director
Central New York Regional Transportation Authority
200 Cortland Avenue
Syracuse, NY 13205

Re: Internal Controls Over Financial Operations
Report 2004-S-69

Dear Mr. Kobliski:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution; Article II, Section 8, of the State Finance Law; and Section 2803 of the Public Authorities Law, we audited the Central New York Regional Transportation Authority's system of internal controls over its financial operations. Our audit covered the period of April 1, 2002 through February 25, 2005.

A. Background

The Central New York Regional Transportation Authority (Authority) is a public authority and a public benefit corporation created in 1970 by Title 11D of the Public Authorities Law. The Authority's mission is to be responsive to the transportation needs of the central New York community by providing services that are safe, convenient, reliable, and environmentally-responsible, with a goal of maximizing taxpayers' return on investment. To this end, the Authority has created six public benefit subsidiary corporations:

- CNY Centro, Inc., provides both fixed-route and on-demand public transit services mandated by the Americans with Disabilities Act (ADA), utilizing approximately 157 buses and several smaller vans in Syracuse and surrounding areas in Onondaga County. The largest of the Authority's subsidiaries, it provides support functions (maintenance, planning, scheduling, accounting, purchasing, etc.) for the others.
- Centro of Oswego, Inc., utilizes approximately 14 buses and several vans to provide Oswego County with ADA-mandated transit services as well as fixed-route public transit services.

- Centro of Cayuga, Inc., utilizes approximately 15 buses and several vans to provide disabled individuals with ADA-mandated services, as well as fixed-route transit services for the general public, in Cayuga County.
- Centro Call-A-Bus, Inc., employs a fleet of approximately 17 buses and vans to provide demand-responsive services that complement CNY Centro's fixed-route services, as required by the ADA.
- Under contract with Upstate Medical University, Centro Parking, Inc., manages a State-owned, two-level parking garage as well as a new five-story State-owned parking garage and nearby surface lots adjacent to the University's hospital. It also operates public parking lots located under Interstate Route 81 in Syracuse.
- Intermodal Transportation Center, Inc., is a subsidiary created to build, own, and operate the William F. Walsh Regional Transportation Center at P&C Parkway in Syracuse. This facility serves as a direct link among Centro's local and regional mass transit services, intercity bus carriers, and Amtrak.

The Authority is currently governed by a seven-member Board of Directors (Board) who are recommended by local legislative bodies, appointed by the Governor and confirmed by the State Senate. The Authority's workforce of about 550 full-time and part-time employees includes bus operators, bus mechanics, bus support staff, building maintenance personnel, and administrative staff.

B. Audit Scope, Objectives, and Methodology

We audited the Authority's system of internal controls over its financial operations for the period of April 1, 2002 through February 25, 2005. The objectives of our performance audit were to determine whether the Authority has established policies and procedures that provide an adequate level of internal control over its basic financial operations, and to determine whether Authority employees follow those policies and procedures. To accomplish our objectives, we interviewed Authority officials and reviewed Authority policies and procedures governing the following financial operations: Board of Directors oversight and governance; revenue collection and cash receipts; investments; procurement and contracting; payroll; equipment and asset management; accounting and information systems; and budgeting and expenditure control. We interviewed Authority staff responsible for these financial operations, and performed compliance testing to verify that Authority employees are following established policies and procedures. In the course of this testing, we reviewed certain financial records maintained by the Authority. We also reviewed the minutes of Board meetings and attended one such meeting.

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 procedures and operations included within the audit scope. Further, these standards require that we understand the Authority's internal control structure and its 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 that our audit provides a reasonable basis for our findings, conclusions, and recommendation.

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

We found that, overall, Authority management has established an effective system of internal controls over the Authority's financial operations, including Board of Directors oversight and governance; revenue collection and cash receipts; investments; procurement and contracting; payroll; equipment and asset management; accounting and information systems; and budgeting and expenditure control.

1. Board of Directors Oversight and Governance

The Board is actively involved in the Authority's operations. This is evident from the Board meeting we attended and our review of the minutes from three earlier ones. The Board met on a monthly basis during our audit period and a quorum of members was present at each meeting. One week in advance, Authority staff would provide Board members with a package of reports they could review in preparation for the meetings. When they met, the Board would approve or adopt motions and resolutions covering items such as financial reports, operating subsidies, labor contracts, revenue contracts, and purchases.

Public authorities are obligated to conduct their business activities in a transparent environment and to insist that their board members' stewardship of public funds be free of conflicting interests. Because each public authority should institute its own code of ethics that is above and beyond the financial disclosure requirements and other provisions imposed by the 1987 New York State Ethics in Government Act, the Authority has established a Code of Ethical Conduct that Board members are expected to follow. In their role as policymakers, the members are also required to file an annual disclosure statement with the State Ethics Commission. The conflict of interest issue is addressed specifically in the Authority's enabling legislation.

2. Revenue Collection and Cash Receipts

In the fiscal year that ended on March 31, 2004, the Authority received a total of \$37.9 million in operating revenue, including \$24.9 million in Federal, State, and local operating

assistance and \$4.2 million in mortgage taxes. Authority management has little discretionary control over the financial assistance from other entities. In contrast, it can exercise control over passenger revenue - e.g., fare box cash, the sale of tokens and pass cards, and contract payments for shuttle services - which totaled about \$7.7 million during the same period. Thus, our audit concentrated on internal controls over passenger revenue and generally found them to be adequate.

Fare boxes installed on all of the Authority's buses contain electronic meters that account for all monies, tokens, and pass cards used by customers. Fare boxes are emptied daily into a large safe deposit container at the Authority's central office and the electronic meter data is recorded simultaneously in its information system. Consequently, a fare cannot be accessed between the time the customer places it in the fare box on the bus and the time it is removed from the safe deposit container at the central office, where it is counted in a controlled environment.

We reviewed procedures for pricing shuttle contracts and found them adequate for ensuring that the Authority will recover at least the direct cost of providing the service. When we reviewed the accounts receivable procedures followed in the implementation of various sales and contracts, we also found them to be generally adequate for ensuring that bills are accurate and are issued in a timely manner. We also noted that account activity is monitored to verify prompt payment.

We judgmentally selected a sample of 50 cash receipts totaling \$302,537 from a universe of 10,008 cash receipts totaling \$30 million that had been received during the period of April 1, 2002, through October 31, 2004. We sampled the 50 cash receipts from 10 months of our 31-month audit period, identifying the sample months with random numbers generated by a statistical sampling audit program. The sample was distributed proportionately among the operating companies according to their relative activity during the audit period. We examined relevant documents and determined that the payments had been recorded accurately in the accounting records and deposited in the appropriate accounts.

The Authority sells three types of pass cards that are priced to allow the user an unlimited number of rides for a specific period: 7-day (\$10), 30-day (\$40), and 30-day/multi-zone (\$60). The cards are imprinted with an individual identification number readable by the fare box software. By tracking the number and the date of first use, the software sets the period for which the card is valid. The identification number can also be used to disable the card if the Authority knows it has been stolen or lost - an important feature, as the cards can be used on a bus without being activated. Thus the Authority uses the identification number as its primary control over pass card inventories. Un-issued cards are secured in a vault in the cash office.

The Authority sells pass cards directly to individual customers and to private and public entities in its operating area. It also places them on consignment with various agents who sell them to the general public. Each consignment agent handles a specific inventory of numbered cards and signs a receipt agreeing to take responsibility for the batch left in his or her care. Authority cash management staff reconcile the agent's inventory each time they replenish the agent's stock.

We noted a control weakness in the sale of pass cards to the Onondaga County Department of Social Services (DSS). DSS purchases pass cards from the Authority and issues them to clients in several programs. Most of these issuances take place within the Jobs Plus program. During the 31

months from April 1, 2002 through October 31, 2004, the Authority delivered \$765,000 in pass cards to Jobs Plus. This sales activity is handled on a consignment basis. However, DSS pays for the cards as they are used rather than when the cards are received from the Authority. In addition, the inventory level at Jobs Plus fluctuates throughout the year. Upon request from Jobs Plus, the Authority ships pass cards in lots ranging from 100 to 800 cards. Prior to our audit, the Authority was not effectively monitoring its consignment sales activity to Jobs Plus.

During our audit, we compared the dollar value of shipments to DSS with receipts for the period April 1, 2002 through October 31, 2004 and found that the outstanding balance of pass cards held at Jobs Plus had grown from \$3,624 to \$64,365. Based on average billings, the amount outstanding on October 31, 2004 represents a two month's supply of pass cards. We discussed the results of our analysis with Authority officials and they responded by developing a procedure whereby accounts receivable staff routinely compare Jobs Plus sales order shipments to the amounts from the DSS issuance report, and provide a report on the inventory balance to the Authority's Controller. The Controller stated he will monitor the outstanding balance against a standard of two months activity. In addition, the Authority has begun efforts to improve other controls over pass cards such as, requesting Jobs Plus officials establish a master inventory for pass cards received and to provide written documentation of their internal controls over pass cards. We believe these steps should establish adequate control over pass cards issued to Jobs Plus.

3. Investments

We reviewed the investments made by the Authority. As of September 30, 2004, the Authority had \$10.2 million in unrestricted funds, \$3.5 million in designated insurance reserve, and \$102,765 in restricted investment funds (primarily short-term certificates of deposits). We reviewed available interest rates and determined that the Authority was earning a competitive rate of return on the certificates, and that the Authority had made the investments in compliance with its investment policy.

4. Procurement and Contracting

The Authority has developed adequate procurement guidelines for its purchasing and contracting activities. Our tests showed that all of the selected purchases complied fully with those guidelines. All the purchases had been authorized properly and receipt of the goods or services had been verified before payment was made.

In one of our tests, we selected a sample of 50 check payments (totaling \$39,472) from 15,561 check payments (totaling \$50.1 million) made during our audit period. The 50 payments were sampled from the 10 months identified in the previous section of this report. We included in this test an examination of 15 bus part purchases to verify that they had been entered into inventory. We traced the purchases to inventory records in the Storeroom and found that all of the items purchased had been entered. We also reviewed five purchases by the Human Resources Office, because our prior follow-up review at the Authority, *Selected Financial Management and Operating Practices* (Report 02-F-33), found that purchase orders had not been prepared for six purchases made by Human Resources personnel, as required by the procurement guidelines. We selected the remainder of the purchases judgmentally from those made during the ten months. When we

compared the checks with the purchasing documentation, we found that all of the purchases complied fully with the procurement guidelines.

The Authority's procurement guidelines indicate that certain procedures should be followed when contracts are awarded. For example, the acquisition of goods or services costing between \$2,501 and \$14,999 (for non-bus parts) is considered "Small Procurement" and requires a minimum of three written quotes and two authorized signatures on the requisition form. Procurement of goods and services in an amount of \$15,000 or more is considered "Formal Bidding" (bidding that involves public advertising and sealed bids). In addition, all purchases valued at more than \$10,000 require Board approval.

To determine whether the Authority had complied with the procurement guidelines in its awarding of contracts, we judgmentally selected a sample of 10 contracts from a population of 82. Of this population, 12 were sole source contracts. Our sample contained six competitive contracts and four sole source contracts. Five of the first group were valued at more than \$15,000 each and required formal bidding; the sixth was for \$5,616 and required only written quotes. We found that the Authority had complied with its procurement guidelines for all of the contracts in our sample. Each of the five contracts that exceeded \$15,000, which had been approved by the Board, had been properly advertised, bid, and awarded to the lowest responsible bidder. The sixth contract, for less than \$15,000, received the proper number of written quotes and the proper authorizing signatures. We also determined that each of the four sole source contracts were available from just one responsible source.

5. Payroll

The Authority has developed adequate payroll policies and procedures for paying employees correctly, processing payroll additions and terminations properly, and maintaining accurate leave balances. To determine whether payroll changes had been processed appropriately, we used random numbers to sample 20 instances that had occurred during our audit period: 10 from a population of 262 additions and 10 from a population of 264 deletions. We found that all 20 of these payroll changes had been processed accurately and timely.

We also sampled three different groups of employees to determine whether they were being paid for the correct number of hours worked. We sampled the total number of hours for which 10 bus drivers (out of a population of 224) and 10 mechanics (out of a population of 89) had been paid, as well as the number of overtime hours for which 10 salaried employees (out of a population of 45 who worked overtime) had been paid. For each employee group, we randomly selected the ten individuals we reviewed. We also randomly selected the months we would review from a 30-month test period. For each employee sampled, we reviewed four consecutive one-week pay periods. In each of the transactions we reviewed, we found that the hours paid to the sampled employees agreed with the supporting documentation and had been approved by management. All of the employees we sampled had been paid correctly for the recorded number of hours they worked during the sampled months.

In addition, to verify that the reported leave time used had been entered on the system and deducted properly from accruals, we traced employee leave used from the Authority's leave accrual

system to the supporting documentation. Selecting systematically from employee rosters, we sampled 10 individuals from the same three groups (5 from a population of 84 salaried employees, 3 from a population of 224 bus drivers, and 2 from a population of 89 mechanics). When we reviewed each of the sampled employees' leave usage for four consecutive pay periods, we found that the amounts charged on the leave accrual system for all ten were adequately supported and that the amounts used had been deducted properly from their leave accruals.

6. Equipment and Asset Management

The Authority has developed adequate policies and procedures for the inventory and control of office and garage equipment. We found that equipment items are identified with equipment identification tags and that physical inventories are performed every two years.

We judgmentally sampled 50 equipment items from the Authority's inventory listing (15 office equipment items and 35 garage equipment items) and attempted to verify their presence at the Authority. The inventory list indicated that 393 office equipment items were located in Syracuse (390) and Oswego (3), while 167 garage equipment items were located in Syracuse, Oswego, and Cayuga. We were able to locate and verify all 50 sampled items. In addition, from an inventory of 28 "paratransit" vehicles designed to transport persons with disabilities, we judgmentally sampled and physically located six vehicles. We also selected seven equipment items (five office and two garage items) that were located at the Authority and verified that they were included on the inventory listing. The results of our tests indicated that the inventory records for these assets were accurate.

The Authority has developed a comprehensive preventive maintenance scheduling system for its buses that includes 15 different maintenance procedures, each of which is to be performed at a specific point in the life of the equipment. Authority officials stated that they have set a self-imposed high standard of meeting their maintenance services schedule 93 percent of the time, and have developed a system for monitoring their success in achieving this goal.

From the fleet maintenance computer system, we obtained the History Work Order Listing for six judgmentally-selected buses and sought to determine whether they had received the 15 required maintenance procedures within the desired timeframe during our audit period. For 13 maintenance procedures, the Authority exceeded its goal by meeting the preventive maintenance time schedule 94 percent of the time (252 out of 268 inspections). The remaining two maintenance procedures pertained to wheelchair lift inspections, which met the scheduled timeframe 40 percent of the time (37 out of 92 inspections), and fire suppression inspections, which met the scheduled timeframe 50 percent of the time (12 out of 24 inspections). Overall, late maintenance procedures were performed an average of 23 days later than scheduled.

Even though the expectations are being met for most procedures, Authority officials noted that they were aware of the two procedures that need some attention. To increase their ability to meet all of the maintenance schedules, officials stated that they have hired another maintenance person to perform inspections. We believe this step should allow the Authority to achieve its goal of meeting maintenance schedules 93 percent of the time.

7. Accounting and Information Systems

The Authority has performed internal control reviews on key portions of its accounting and information systems. Duties appear to be segregated adequately, and monitoring reports and related activities also appear adequate.

The Authority has a local area network of approximately 90 personal computers. The accounting and operating systems are on five software packages that support accounting; payroll and human resources; bus scheduling; maintenance activities; parts and equipment inventories; and fare box data. A Management Information Systems Manager, a Network Administrator, and a Network Application Programmer maintain these systems.

When we reviewed the general and application controls over the Authority's network, we found the controls to be adequate. For example, the Authority maintains access security through user IDs, passwords, limited log-in attempts, application segregation, and physical separation of key assets such as servers and check printers. In addition, the Authority uses its web page only to distribute information, it does not conduct e-business on it; allows limited dial-up remote access to a few key employees; backs-up data on a nightly basis; and stores the data off-premises. The Authority also has a crisis management plan for maintaining operations at an alternative site.

We reviewed the access rights for the check writing, accounting, and payroll system as well as the access rights for 13 employees and managers with direct involvement in daily administrative duties. Access rights generally appear to be compatible with segregation of duties. For example, although both Payroll and Human Resources employees use the same system, Payroll personnel cannot make changes to Human Resources data and Human Resources staff cannot change Payroll data.

8. Budgeting and Expenditure Control

We found that the Authority's budgeting and expenditure control process is adequate. Performance against budget is communicated to the Board in narrative and financial statement format. Both executive management and the Board have access to the performance information they need to determine whether action should be taken when significant variances occur. Top executive management and the finance committee of the Board review the budget proposals before they are submitted for approval.

According to the process, all department heads are to receive a monthly general ledger report detailing actual versus budgeted results; the Controller is to review and investigate variances and discuss them with the Vice President of Finance and Administration; and the Vice President of Finance and Administration is to report any financial variances to the Board every month.

Recommendation

Maintain and monitor the newly established two-month inventory of the fare cards at Jobs Plus.

A draft copy of this report was provided to Authority officials for their review and comment. Their comments have been considered in preparing this report, and are included as Appendix A. Authority officials concurred with our recommendation.

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

Major contributors to the report include Richard Sturm, Brian Lotz, Michael Cantwell, Mark Radley, Michael Filippone, Jackie Keeys-Holston, and Marticia Madory. We wish to thank the management and staff of the Authority 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



THE CENTRAL NEW YORK REGIONAL TRANSPORTATION AUTHORITY
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Frank Kobliski, Executive Director

June 6, 2005

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

Dear Mr. Challice:

On May 25, 2005, we received your May 18 transmittal of the draft audit report 2004-S-69 on the Central New York Regional Transportation Authority's system of internal controls over financial operations. As requested in your letter, we are hereby providing a response to the report, which we understand will be included as an appendix to the final report.

With regard to the single recommendation, the CNYRTA will maintain and continue to monitor the newly established standard of a two-month outstanding balance for the fare cards delivered to and held by the Jobs Plus program at the Onondaga County Department of Social Services (DSS).

We are pleased that our attention to the internal control environment, and especially internal controls over financial operations, has been validated.

The professionalism and constructive attitude exhibited by your staff during the period of this audit was greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Frank Kobliski".

Frank Kobliski
Executive Director