



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Selected Aspects of Discretionary Spending

Capital District Transportation Authority



Report 2013-S-10

September 2014

Executive Summary

Purpose

To determine whether the Capital District Transportation Authority's discretionary spending complied with its guidelines and was reasonable, adequately supported, and properly approved. Our audit period was April 1, 2011 to March 31, 2013.

Background

The Capital District Transportation Authority (Authority) was created in 1970 as a public benefit corporation, to provide transportation services in the Capital District and surrounding areas. The Authority's mission statement is to provide "transit services that are safe, efficient and at a reasonable cost." To accomplish its mission, the Authority incurs direct costs for specific program purposes and it incurs indirect or "discretionary costs" that support overall objectives.

The audit identified a total of \$543,400 of Authority spending that was discretionary in nature. Each public authority should have formal policies and procedures specifying which types of discretionary spending are appropriate and the dollar thresholds for each. In addition, the policies should state what type of supporting documentation and formal approvals are necessary for such costs.

Key Findings

- The Authority did not have formal policies that explicitly outlined whether certain types of discretionary expenses were proper, what would be considered reasonable amounts for such expenditures, and what documentation would be required to demonstrate that employees used due diligence to obtain the lowest reasonable cost.
- We questioned the propriety of certain discretionary expenditures totaling about \$60,000. Among the items, questionable expenses included the costs for special events, memberships, and sponsorships.
- Although the nature of certain other discretionary expenditures appeared reasonable, we questioned whether the Authority paid the lowest reasonable costs to obtain the benefits intended from such expenditures.

Key Recommendation

- Examine written policies and procedures to determine if they adequately address potentially questionable discretionary spending, including definitions of costs and necessary justifications, dollar thresholds, formal approvals, and supporting documentation.

Other Related Audit/Report of Interest

[Battery Park City Authority: Selected Aspects of Discretionary Spending \(2012-S-158\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

September 29, 2014

Mr. David M. Stackrow
Chairman
Capital District Transportation Authority
110 Watervliet Avenue
Albany, NY 12206

Dear Mr. Stackrow:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Selected Aspects of Discretionary Spending*. The audit was performed 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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State Government Accountability Contact Information:

Audit Director: Carmen Maldonado

Phone: (212) 417-5200

Email: StateGovernmentAccountability@osc.state.ny.us

Address:

Office of the State Comptroller
 Division of State Government Accountability
 110 State Street, 11th Floor
 Albany, NY 12236

This report is also available on our website at: www.osc.state.ny.us

Background

Certain public authority costs pertain directly to the operating purpose of the entity. For example, a transportation authority's expense to pay for vehicle fleet maintenance is an operating cost. However, a public authority also incurs "discretionary" costs to pay for expenses that indirectly support the primary operating purpose. For example, discretionary costs include expenses for travel and entertainment, employee professional development, sponsorship of community events, and charitable contributions. As with operating costs, discretionary costs must be related to the mission of the public authority and be reasonable. Also, costs must not be incurred for the personal benefit of the board of directors, management, or staff. Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds for each. In addition, the policies should state what type of supporting documentation and formal approvals are necessary for such costs and should require employees to perform due diligence to obtain the lowest reasonable cost.

This guidance is affirmed by the New York State Authorities Budget Office (ABO) in its November 2012 Recommended Practices, which states that boards of directors and authority management have an obligation to authorize the expenditure of funds only for purposes that relate to and support the mission of the authority. The fiduciary duty of the board includes adopting policies that safeguard the assets and resources of the authority and protect against the use of funds for purposes that do not advance its core purpose and objectives. It is particularly important for the board to develop a policy on the proper use of authority funds that clarifies for all employees what would and would not be considered appropriate discretionary spending.

The Capital District Transportation Authority (Authority) was created in 1970 as a public benefit corporation, to provide transportation services in the Capital District and surrounding areas. The Authority's mission statement is to provide "transit services that are safe, efficient and at a reasonable cost." To accomplish its mission, the Authority incurs direct costs for specific program purposes and it incurs indirect or "discretionary costs" that support overall objectives.

To determine if the Authority's discretionary spending complied with Authority guidelines and was reasonable, adequately supported, and properly approved, we examined 75 payments for discretionary spending totaling \$228,649 for the period of April 1, 2011 through March 31, 2013.

Audit Findings and Recommendations

The Authority did not have formal policies that explicitly outlined whether certain types of discretionary expenses were proper, what would be considered reasonable amounts for such expenditures, and what documentation would be required to demonstrate that employees used due diligence to obtain the lowest cost. We questioned the propriety of certain discretionary expenditures. Also, while the general nature of certain discretionary expenses appeared reasonable, we questioned whether the Authority paid the lowest reasonable cost in those instances.

Questionable Nature of Discretionary Expenses

We questioned the propriety of certain discretionary expenditures totaling about \$60,000. Among the items, questionable expenses included the costs for special events, memberships, and sponsorships.

Special Events

The Authority does not have clear policy regarding what types of expenses for special events are allowable and how it determines and documents costs are reasonable. For example, the Authority had nine payments totaling \$7,122 for participation in a Roadeo competition. The Roadeo is a transit industry competition for bus drivers and mechanics. The Authority paid to host its own Roadeo (including 100 dinners), provide cash prizes to its winners, and send one winner and his guest to a national competition. It is unclear under the Authority policy if, for example, paying for non-employees to attend a national competition is allowable. It is also unclear how the determination was made that these costs were reasonable.

Additionally, the Authority made 18 payments totaling \$29,375 for employee award and recognition programs. The Authority has several such programs. The Authority also holds two events for retirees: one when an employee leaves CDTA service and an annual event for all retired employees. According to Authority officials, these programs promote safer work practices, better customer service, and increased job attendance, and they boost employee morale. Most include a luncheon, and many include gifts (such as money, cameras, movie tickets, and gift certificates) for the employees being recognized. For example, the Authority holds an annual Safety Awards Dinner for employees. The dinner is free for award recipients and their guests (one per recipient) and open to any Authority employee for a nominal charge. The cost of the 2012 Safety Awards Dinner was \$17,338, which does not include the monetary gift given to each winner. In the absence of formal policy and related supporting documentation, it was unclear how the Authority determined that all event-related expenses were appropriate and if the events were held at the lowest reasonable cost.

Memberships and Sponsorships

The Authority had eight payments totaling \$23,622 for memberships and sponsorships. It is

unclear if these membership expenses were appropriate as the Authority's policy regarding memberships did not clearly state what types of memberships were eligible. The policy did not address sponsorships. These expenses included:

- A total of five payments totaling \$17,022 for membership in local chambers of commerce and in a local economic development organization, the Center for Economic Growth. Although the Authority has a policy regarding memberships, it is limited to professional memberships.
- A total of three payments totaling \$6,600 for sponsorships of events held by local charities, including \$5,000 for a series of social events held by a local senior center, where the CEO of the Authority serves as a Board member.

Other Discretionary Expenses

The Authority made a payment of \$113 to send flowers to a funeral for a relative of a Board member. The Authority does not have a policy regarding these types of expenditures. In addition, Authority employees paid sales tax (\$130 total on 10 separate payments), which as a governmental entity it is not required to. Also, the Authority sold discounted tickets to the Great Escape amusement park at cost to its employees, but collected \$218 less from its employees than the tickets cost, and had to use Authority funds to cover the difference.

Costs of Discretionary Expenses

Although the nature of certain other discretionary expenditures (totaling about \$87,000) appeared reasonable, we questioned whether the Authority paid the lowest reasonable costs to obtain the benefits intended from such expenditures.

Training

We questioned four payments totaling \$68,125 for training provided to the CEO of the Authority. The Authority made these payments pursuant to two sole source contracts. The first contract was for 30 hours at a cost of \$35,000 from May 2, 2011 to April 27, 2012. The second contract was for 144 hours at a cost of \$65,000 from May 1, 2012 to April 30, 2013. The purpose of this training was to provide customized leadership coaching and advice to the Authority's CEO. However, based on the available documentation, it was unclear if these training programs were procured at the lowest reasonable cost, consistent with the Authority's procurement manual.

Travel and Conferences

We questioned six payments totaling \$19,017 for travel to and attendance at various professional conferences. The Authority sent four Board members to the 2012 American Public Transportation Association Legislative Conference (in Washington, D.C.), three Board members to the 2012 APTA Annual Meeting (in New Orleans), three Board members and four employees to the 2013 APTA Legislative Conference (in Washington, D.C.), and seven employees to a labor arbitration seminar

(in New York City). According to Authority officials, they encourage Board members to attend APTA conferences to listen to industry leaders and meet with congressional delegations. However, none of these payments had any written justification for why the Authority needed to send as many as seven people to the events.

Recommendations

1. Examine written policies and procedures to determine if they adequately address potentially questionable discretionary spending, including definitions of such costs and necessary justifications, dollar thresholds, formal approvals, and supporting documentation.
2. Ensure employees exercise due diligence to obtain goods and services at the lowest reasonable cost to the Authority.
3. Document in detail the business need when sending multiple Board members and/or employees to conferences or seminars outside of the Capital District.

Audit Scope and Methodology

We audited to determine whether discretionary spending of the Authority complied with Authority guidelines and was reasonable, adequately supported, and properly approved. The audit covers the period April 1, 2011 through March 31, 2013.

To accomplish our audit objective, we reviewed policies, procedures, and guidelines related to submitting of and paying for discretionary spending. We also interviewed Authority officials and employees to obtain an understanding of internal controls relevant to discretionary spending. We selected a judgmental sample of payments, based on the nature and amount of the payment. We reviewed the supporting documentation for 75 payments totaling \$228,649.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. 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 functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed 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.

Reporting Requirements

A draft copy of this report was provided to Authority officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report.

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

Contributors to This Report

Carmen Maldonado, Audit Director
Robert Mehrhoff, Audit Manager
Jennifer Paperman, Audit Supervisor
Kathleen Hotaling, Examiner-in-Charge
Bruce Brimmer, Staff Examiner
Joseph Robilotto, Staff Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller
518-474-4593, asanfilippo@osc.state.ny.us

Tina Kim, Deputy Comptroller
518-473-3596, tkim@osc.state.ny.us

Brian Mason, Assistant Comptroller
518-473-0334, bmason@osc.state.ny.us

Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



Carm Basile
Chief Executive Officer
518-437-6840
carm@cdta.org

September 3, 2014

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038-0001

Dear Ms. Maldonado:

On behalf of the CDTA Board of Directors and staff, I appreciate the recommendations provided by the Office of the State Comptroller for the audit, "Selected Aspects of Discretionary Spending". These recommendations and spirit of the audit will enhance our ability to better manage our services, operations and programs.

While most of the reviewed expenses were considered and rated as reasonable according to the draft report, there were a few discretionary expenses that require additional attention and oversight. As such, we are strengthening our written policies and procedures for Special Events, Memberships and Sponsorships to address discretionary expenditures and recommendations under these categories.

We are also re-examining the costs of training programs to ensure that we receive the lowest reasonable cost that meets the needs of the Authority. We will also improve our written justification for travel to conferences or seminars outside our transit district when it involves multiple people.

We want to thank your audit team who were extremely professional and thoughtful during their stay at CDTA. We appreciate their time and effort, and we will work to implement the recommendations to improve our business practices.

Sincerely,

David M. Stackrow
Chairman

Copy: Chief Executive Officer
Vice President of Finance and Administration

David M. Stackrow
Chairman
Rensselaer County

Georgeanna N. Lussier
Vice Chairwoman
Saratoga County

Joseph M. Spairana, Jr.
Secretary
Rensselaer County

Arthur F. Young, Jr.
Treasurer
Albany County

Lisa A. Ballout
Saratoga County

Corey L. Bixby
Labor Representative

Denise A. Figueroa
Albany County

Norman L. Miller
Schenectady County

Thomas M. Owens
Albany County

Carm Basile
Chief Executive Officer

CAPITAL DISTRICT TRANSPORTATION AUTHORITY
110 Watervliet Avenue Albany, N.Y. 12206