

State of New York
Office of the State Comptroller
Division of Management Audit
and State Financial Services

**NIAGARA FRONTIER
TRANSPORTATION AUTHORITY**
PAYROLL PRACTICES

REPORT 97-S-9



H. Carl McCall

Comptroller



State of New York Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 97-S-9

Mr. Lawrence M. Meckler
Acting Executive Director
Niagara Frontier Transportation Authority
181 Ellicott Street
Buffalo, NY 14203

Dear Mr. Meckler:

The following is our report on selected payroll practices at the Niagara Frontier Transportation Authority.

This audit was done according to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution. We list major contributors to this report in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

May 14, 1998

Executive Summary

Niagara Frontier Transportation Authority Payroll Practices

Scope of Audit

The Niagara Frontier Transportation Authority (NFTA) is a public benefit corporation established to continue, develop, and improve transportation services within Erie and Niagara Counties. It operates the Greater Buffalo International Airport, the Niagara Falls International Airport, the Port of Buffalo, the Metropolitan Transportation Center, and the Niagara Frontier Transit Metro System, Inc. NFTA has two operating divisions: the Authority and the Metro. For the fiscal year ended March 31, 1997, NFTA reported that \$69.5 million, almost 80 percent of its total operating expenses, were for salaries and fringe benefits paid to about 1,500 employees. NFTA receives substantial Federal, State, and local government subsidies to cover its operating deficits.

Our financial-related audit addressed the following question about selected payroll practices at NFTA for the period April 1, 1996 through August 1, 1997:

- Does NFTA have adequate time and attendance controls, use its personnel resources effectively, and ensure that its overtime payments are necessary and valid?
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Audit Observations and Conclusions

We found that NFTA management has not established adequate time and attendance controls, acted to minimize employee downtime and enhance productivity or formally determined the reasons for high overtime at a number of its bus stations.

An organization's executive management is responsible for controlling employee time and attendance, managing personnel resources effectively and ensuring that overtime payments are necessary and valid. However, we found that management has not taken appropriate action to correct deficiencies related to employee time and attendance identified in our prior 1991 audit. Further, some of our current findings related to employee efficiency are similar to those in reports issued in July 1993 and July 1995 by an independent consultant, NFTA hired to review its bus maintenance operations. The consultant found substantial problems, including over staffing and high absenteeism. Among other things, the consultant recommended that NFTA establish productivity standards to evaluate activities, an action management decided was too difficult and expensive to do in a formal way. Similarly, our follow-up review, issued in August 1995, found that NFTA management had not implemented some of the recommendations in our prior audit. Consequently, management needs to

take further steps to correct these internal control weaknesses. (See pp. 3-4)

We reviewed six operating units with 507 employees and found weaknesses in time and attendance practices at each unit. The weaknesses included employees not signing or maintaining their own time records, supervisors not certifying time records and inadequate documentation supporting time paid. For example, at the Aircraft Fire Rescue Officers unit, we questioned 348 hours of paid time (\$5,743) because employees did not sign in or out for their scheduled shifts. We believe that there is a direct correlation between the weaknesses we identified in the internal control structure over time and attendance and the problems we identified in our review of these selected units. (See pp. 4-6)

We identified inefficient practices involving 26 employees during floor checks of 239 employees at 11 locations. We observed non-productivity attributable to employees waiting to receive job assignments, and waiting for buses to return to the station. We also observed employees who may have been taking unauthorized breaks and watching television. For example, during our 45-minute visit to one site, we observed three employees sitting in the same chairs not doing any visible work the entire time we were there. In addition, some unit supervisors did not know the location or activity of their employees, and could not find them, at the time of our site visits. (See pp. 6-7)

During 1996-97, the three bus stations had overtime costs of \$1.7 million, or over 43 percent of NFTA's total overtime costs for the year. NFTA has not fully analyzed the reasons for the high rate of overtime at their three bus stations. In addition, overtime payments to bus drivers is not always adequately documented. This occurs when the employee's claim is for hours spent instructing new bus drivers. There are no official records to support these hours. Time tickets, which do not have an employee or supervisor certification and are normally approved by a clerk, are used to document instructor overtime. (See pp. 8-9)

Finally, we reviewed the number of hours worked by five of the seven bus drivers with the highest overtime earnings. We found that all five employees worked, on average, more than 81 hours per week; one of whom worked an average of more than 93 hours per week. We believe that working this number of hours over extended periods can adversely affect a bus driver's ability to safely operate a vehicle. (See pp. 9-11)

Comments of NFTA Officials

NFTA officials agreed in general with our recommendations to improve internal controls. However, they disagree that there is a need for a study to determine the impact working extended periods of overtime has on employee effectiveness.

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Major Contributors to This Report

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Comments of NFTA Officials

Introduction

Background

The Niagara Frontier Transportation Authority (NFTA) is a public benefit corporation established to continue, develop, and improve transportation services within Erie and Niagara Counties. It operates the Greater Buffalo International Airport, the Niagara Falls International Airport, the Port of Buffalo, the Metropolitan Transportation Center, and the Niagara Frontier Transit Metro System, Inc. NFTA has two operating divisions: the Authority and the Metro. The Authority oversees the airports in Buffalo and Niagara Falls and the Port of Buffalo. The Metro oversees the bus networks for Erie and Niagara Counties and the light rail rapid system in Buffalo.

For the fiscal year ended March 31, 1997, NFTA reported total operating revenues of \$47.3 million and operating expenses of \$87.3 million, or a loss of \$40 million. NFTA spent \$69.5 million, almost 80 percent of its total operating expenses, for salaries and fringe benefits for about 1,500 employees. NFTA receives substantial Federal, State, and local government subsidies to cover its operating deficits.

Audit Scope, Objective and Methodology

We audited selected NFTA payroll practices for the period April 1, 1996 through August 1, 1997. The objective of our financial-related audit was to determine whether NFTA has adequate time and attendance controls, uses personnel resources effectively, and ensures that overtime payments are necessary and valid. To accomplish our objective, we reviewed NFTA time and attendance controls, procedures and related records and interviewed NFTA staff, supervisors and executive managers. We also analyzed overtime usage and conducted floor checks to observe operations at selected units within NFTA. In addition, we reviewed reports issued by an independent consultant under contract with NFTA on the performance of its bus maintenance operations. We examined both phases of this review, one published in July 1993 and the other published in July 1995.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those NFTA operations which are included within our audit scope. Further, these standards require that we understand NFTA's internal controls and compliance with those laws, rules and regulations that are relevant to 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 recommendations.

We use a risk-based audit approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest possibility for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

Our consideration of NFTA's internal control structure identified significant weaknesses in time and attendance controls that occurred because NFTA managers had not established adequate procedures to safeguard payroll funds from fraud, waste and abuse. The material control weaknesses that we identified are presented throughout this report.

Comments of NFTA Officials

The matters contained in this report were provided to NFTA officials for their review and comment. NFTA officials stated that they have taken a proactive role concerning the findings noted in the audit report and have implemented many of the recommendations made therein.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Executive Director of the Niagara Frontier 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 therefor.

NFTA Implementation of Internal Controls

In order for an internal control system to be effective, it must have a strong control environment. The control environment is defined as management's attitude about the importance of the internal control system in achieving an entity's objectives. It provides an atmosphere in which people conduct their activities and carry out their control responsibilities. To have a strong control environment throughout the organization, top management must provide a clear message to all personnel that control responsibilities must be taken seriously. All personnel must understand their role in the internal control system.

Management's attitude and receptiveness to improving the control environment can be illustrated by their reaction to our prior audit recommendations regarding time and attendance and their receptiveness to corrective action. Some of the payroll and timekeeping problems we identified during our current audit are the same ones we identified during our prior audit (Report 90-S-18, issued in April 1991) and in a follow-up review (Report 95-F-9, issued August 1995). We did note however, that management had fully or partially implemented 15 of 19 recommendations we made in 1991. Furthermore, NFTA obtained an outside consultant to review the bus maintenance operation in July 1993 and July 1995. We found that some of the consultant's findings relating to employee productivity, scheduling, time off and work habits, are similar to our observations as noted throughout this report. Among other things, the consultant recommended that NFTA establish productivity standards to evaluate activities. However, management cited difficulties in establishing time standards for bus garage maintenance as well as a lack of resources to make a formal effort in this area.

In NFTA's response to our 1995 follow-up report, management said that it would take corrective action. However, we found that appropriate corrective action has not been taken in all instances as required. The Authority's Chief Financial Officer (CFO) stated that he had instructed his managers to carry out our recommendations immediately after our follow-up review in August 1995. He further acknowledged that he had not monitored whether corrective actions were taken, or whether the deficiencies, such as the ones we found, continue to exist. Consequently, management needs to take further action to correct internal control weaknesses which they have known about since early 1991.

Through risk assessment, managers can identify, analyze and help limit the risks that can jeopardize accomplishing the agency's objectives. To

contain identified risks, management can develop control activities and procedures for employees to follow, train employees and solicit their feedback, and routinely monitor system operations. However, we found that NFTA management has not assessed the organization's risk in the areas we reviewed. For example, the Director of Internal Audit told us he has not audited or reviewed the payroll and timekeeping system, even though payroll represents about 80 percent of the total budget. This official informed us that he believed the Agency's Audit Committee was satisfied with his recent focus on contract audits.

For internal controls over payroll to be effective, managers must establish adequate policies and procedures, provide training to employees on the importance and requirements of a timekeeping system and monitor and evaluate the payroll and timekeeping process on an ongoing basis. Top management must also ensure that unit managers effectively and efficiently manage personnel assigned to them. Efficient personnel management includes ensuring that overtime is authorized only when necessary and paid only when time is actually worked. We found that, overall, executive management at NFTA has not provided adequate guidance in establishing internal controls over these areas.

Time and Attendance Controls

NFTA managers must establish an effective system of internal control to ensure that payroll expenditures are bona fide, necessary and appropriate. An effective timekeeping system should include time records that accurately reflect employee hours worked and all leave charged. In some cases, we found that records are not complete or accurate. Employees should certify time worked and/or leave charged, and supervisors should verify and attest to the accuracy of these records. In most cases, we found that this is not occurring.

NFTA currently has two payroll systems in place for processing employee paychecks. The Authority system is computerized and relies solely on input from individual employee time sheets to generate the paychecks. The Metro system is not fully computerized and relies on many input documents. We reviewed the following six operational units, which employ a total of 507 staff: Buffalo Airport Division, Aircraft Fire Rescue, Frontier Station, Cold Spring Garage, Rail Maintenance and Rail Vehicle Maintenance. We found weaknesses in employee time and attendance controls, as follows:

- In each unit, certain employees did not sign their own time records.
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- In all but the Buffalo Airport Division, immediate supervisors were not certifying all employee time records.
 - In two units (Aircraft Fire Rescue and Buffalo Airport Division), employees were not filling in their own time records.
 - In three units (Cold Spring Garage, Rail Maintenance, and Rail Vehicle Maintenance), employees did not punch time cards for unpaid meal breaks.

We compared supporting documentation of time worked to employee time records (the basis for payment), and found differences between the supporting documentation and time paid at these two units in the Authority payroll system:

- In the Aircraft Fire Rescue Officers unit, employees did not sign in or out for scheduled shifts for 348 hours, at a total cost of \$5,743. For an additional 23 hours, sign-in/sign-out sheets showed that employees worked without any breaks in their shifts, even though these employees had charged leave credits on their time sheets during their shifts. We also found an instance in which overtime totaling \$284 was paid without any supporting entries on the sign-in/sign-out sheet, the lieutenant's log or the daily activity record.
- In the Buffalo Airport Division, we found that an employee's time card showed he was on sick leave for a full day. However, the employee's time sheet showed that the employee worked the entire eight-hour shift. According to clerical staff, this employee was, in fact, absent that day, and the eight hours sick leave should have been charged.

NFTA managers need to take a more active role in managing and controlling their payroll systems. They need to improve the control environment and establish effective communication, monitoring and feedback systems. At NFTA, the CFO, the General Manager of the Human Resources Unit and the Manager of Accounting Services were not aware of the control weaknesses we identified until our discussions with them. They were unaware that most employees do not keep and/or do not sign their own time records, and that supervisors do not sign many time records. The Manager of Accounting Services could not give us clear reasons why the payroll unit has been processing payroll checks based on time sheets that have not been signed by the employee, or sometimes, by

anyone at all. This manager did agree that it is important that employees and supervisors certify time worked.

NFTA executive management responded very positively to our preliminary report, and stated that NFTA would act immediately to improve time and attendance controls by establishing the policies listed below.

- All primary records representing the basis for time and attendance reporting will be signed by employees, with the exception of the bus operators.
 - All intermediate records prepared by a third party will be signed by the person preparing the record, the individual for whom the record is prepared, and (either individually or on a batch basis), by the supervisor or manager responsible for the personnel involved.
 - Where periodic pay is based on a uniform or average basis, underlying primary records will be signed by the individual employee, and (either individually or on a batch basis) by the supervisor or manager responsible for the personnel involved.
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Employee Efficiency

Many organizations have delegated the day-to-day responsibility for managing line personnel to unit managers. However, the ultimate responsibility rests with top management. When top management delegates responsibility, they must provide unit supervisors appropriate guidance. It is, therefore, imperative that supervisors receive adequate training and that management clearly communicates its expectations to them. We found that top managers have not established appropriate written policies or procedures or provided supervisors with adequate training in time and attendance controls.

We conducted floor checks of 239 employees at 11 locations. We identified 26 employees who were not working. Some of the employees we observed were waiting for job assignments, or waiting for buses to return to the station for repairs. Other employees may have been taking unauthorized breaks or wash-up periods, and watching television. In addition, two unit supervisors could not find three employees because the supervisors did not know where the employees were or what they were doing. Given the high frequency of these occurrences while it was generally known that the audit was ongoing, we believe that these instances are not isolated or may be more widespread throughout NFTA.

In fact, several employees continued to remain unproductive and/or watch television while we were observing them.

We discussed our observations with management. Overall, executive managers agree with our recommendations about the need for tighter controls. However, they did not adequately address the issue of supervisors' lack of knowledge regarding the location of certain employees. In only one case did they agree that employee inactivity was not justified, and indicate they had taken appropriate personnel action. For other cases they generally relied on employee statements without proper verification.

For example, at the Cold Spring Garage, we first reported that we had observed three employees sitting in the Garage entrance during our visit. Management responded that the employees were on break when we first arrived, but that they had serviced two buses (by "pulling" fare boxes) during our visit. However, the function of pulling fare boxes is included in the job description for only one of these employees. While we do not know whether these employees were actually on break when we first arrived at the Garage, we observed these employees sitting in the same chairs at least six different times during the 45 minutes that we were at the location. They were still there when we left.

Some explanations provided by management were factually incorrect. For example, at the Babcock Garage, we observed one employee (job title, "Helper," working 5:30 p.m. to 2:00 a.m.) watching television during our visit. Management responded that the employee (job title, "Booker") was not on duty at the time of the visit. However, this was not the same employee.

NFTA's response to our observations further stated that supervisors are responsible for monitoring staff activity and productivity. While we agree that the unit supervisors must be responsible for monitoring and controlling daily activity within their units, we believe executive management has the responsibility for providing guidance about work expectations. Developing work expectations normally includes establishing written policies and procedures, providing adequate training for unit supervisors, and using a monitoring system to assess whether expectations are met. We found that NFTA's executive managers have not acted to minimize employee idleness and enhance productivity by establishing such work expectations. Unless they do so, we believe the problems we identified could become more commonplace and could seriously jeopardize productivity.

Monitoring Bus Driver Overtime

Management must take prudent steps to manage its resources and promote operating efficiency. To control overtime, management needs to examine, in detail, the reasons why they incur this expense, and then act accordingly to contain it. However, we found that NFTA management has not always followed this course of action to control overtime at the three bus stations we visited: Frontier Station, Cold Spring Station and Babcock Station. We found that these bus stations had the highest percentage of overtime at NFTA. During the fiscal year 1996-97, overtime costs at Frontier Station, Cold Spring Station and Babcock Station totaled \$1.7 million, and accounted for about 20 percent, 12 percent, and 11 percent, respectively, of NFTA's total overtime costs of \$3.9 million.

NFTA management stated they have identified reasons for the high rate of overtime at these three bus stations. The NFTA Executive General Manager of Bus and Rail (Executive General Manager) said that he believes three major reasons for bus driver overtime are absenteeism (which includes paid sick leave, workers' compensation and disability), extra bus runs to pick up students going to and from school, and instruction time for trainee bus drivers. While we do not dispute that these factors have a significant impact on overtime, management needs to do a formal analysis of overtime usage, both to verify that the Executive General Manager's perceptions are accurate, and to effectively control overtime cost. Management agreed to perform such an analysis once the new payroll system is fully implemented.

When we attempted to determine the reasons for overtime of five bus drivers at these three stations, we found that there were no summary records that showed the reasons for the overtime. Consequently, we had to rely on two payroll records that support overtime payments and include the reason for the overtime. These records also include window sheets, which summarize overtime associated with revenue service, and time tickets, which document overtime primarily for bus changes (buses sent to replace disabled buses) and for instruction. A window sheet is a daily record of all revenue service overtime, but a time ticket is filled out each time non-revenue service overtime occurs. We found that reviewing both the window sheets and all the individual time tickets was very time consuming: our review of one employee's overtime for a three-month period took more than two days.

Therefore, we concentrated our efforts on reviewing window sheets for two of the three bus stations. We reviewed this record at the Babcock Station for the period June 1 through 24, 1997 and at the Cold Spring Station for the period June 1 through 30, 1997. This review indicated that the major reasons for overtime at both stations were sick leave usage

and bus runs to pick up students. At the Babcock Station, sick leave caused 258 of the 546 overtime hours (or 47 percent) we reviewed; 157 hours (or 29 percent) were the result of unscheduled bus runs. At the Cold Spring Station, sick leave caused 220 of the 500 overtime hours (or 44 percent) we reviewed, while another 127 hours (25 percent) resulted from unscheduled bus runs. All the other categories combined accounted for less than 24 percent of overtime at Babcock and 31 percent at Cold Spring. This review suggests that management should evaluate the impact of sick leave usage and bus scheduling on overtime. However, the record keeping system in place, particularly the lack of summary records for all kinds of overtime incurred, does not allow management to easily identify and analyze these or other causes of overtime. Without establishing a better record keeping system, management will find it difficult to control overtime or to mitigate the reasons for it.

In addition to identifying the reasons overtime occurs, management should also control overtime cost by ensuring that employees are paid only for time worked, and that overtime worked does not significantly affect an employee's ability to perform job duties. However, we found that the system for controlling overtime payments to NFTA bus drivers does not always provide adequate documentation of time worked. We found there were no official records to support the overtime hours employees claim for instructing new bus drivers. Time tickets, the only record of this kind of overtime, were normally approved by a clerk, and were not signed by the employee or supervisor. After we brought this issue to management's attention, NFTA officials implemented measures to ensure that employees sign time records, and that supervisors certify them. In addition, a supervisor is now required to sign off on all instruction-related time tickets.

We reviewed the overtime worked by five of the seven bus drivers with the highest overtime earnings for the first quarter of the 1997-98 fiscal year. All five bus drivers earned most of their overtime providing instruction. We found that these five employees worked, on average, more than 81 hours per week. One of these employees worked an average of more than 93 hours per week. Since the number of hours paid often exceeded twice the hours of a normal 40-hour workweek, we question whether employees worked all the overtime hours they claimed. In fact, the Executive General Manager informed us that three bus instructors had recently been found not to have worked all the overtime hours claimed. A street supervisor was suspicious that instructors were not working their entire shifts. Therefore, on the evening of June 12, 1997, this supervisor visited two stations where instruction was occurring to conduct floor checks. At the first station, the trainees were leaving

early, and returned to class only on seeing the supervisor. At the second station, neither the instructors nor the trainees were present more than one and one-quarter hours before the end of the shift. NFTA took no action against the instructor at the first station, but required instructors at the second station to pay back the overtime that they had claimed inappropriately. NFTA also removed these employees from their instructor positions and eliminated the night instruction program. All instruction is now done during daytime shifts when there is more supervision.

We also believe that working very significant amounts of overtime over extended periods of time may adversely affect bus drivers' ability to safely operate vehicles. As noted above, all five of the highest overtime earners worked, on average, more than 81 hours every week, and one worked an average of over 93 hours weekly. NFTA officials agree that working extended periods of time may affect an employee's effectiveness. However, they believe that the benefits of performing a study to determine the extent to which this is true would not justify the cost of doing it.

Recommendations

1. Establish an effective system of internal control to ensure that payroll expenditures are bona fide, necessary and appropriate. At a minimum:
 - perform a risk assessment for the time and attendance cycle to identify existing risks and critical control points;
 - design control procedures that ensure time records accurately reflect employee time worked and leave used and that address all critical control points identified in the risk assessment;
 - instruct all employees about the importance and requirements of the timekeeping system; and
 - monitor and evaluate the system through appropriate communication and feedback to ensure it is working to control and limit risk identified in the risk assessment.
2. Establish work expectations and standards for employee productivity during work shifts.
3. Instruct supervisors about their responsibilities for ensuring work expectations are met.
4. Establish a monitoring system to minimize employee non-productivity and to ensure that unit supervisors are aware of employee locations and work status. Ensure employees are assigned work for the entire shift to help minimize idleness.
5. Analyze the reasons for overtime at the bus stations and act accordingly to contain these costs.
6. Analyze whether working extended periods of time adversely affects an employee's ability to perform job duties.

Major Contributors to This Report

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NIAGARA FRONTIER TRANSPORTATION AUTHORITY

April 13, 1998

William P. Challice
Audit Director
Office of the State Comptroller
Division of Management Audit & State Financial Services
270 Broadway, 19th floor
New York N.Y. 10007

Dear Mr. Challice:

We have received your draft report 97-S-9 on selected payroll practices of the Niagara Frontier Transportation Authority (NFTA). The NFTA has taken a proactive role concerning the findings noted in the audit report and has also implemented many of the recommendations made therein. In fact, some of the recommendations had been implemented at the time the findings were first noted in July 1997.

Again, thank you for the opportunity to review the draft and the revisions made thereto. We appreciate the courtesy and cooperation demonstrated by your office. If you have any questions or comments, please don't hesitate to call me at 716-855-7369.

Sincerely,

Lawrence M. Meckler
Acting Executive Director

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