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COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 23, 2015

Mr. Thomas F. Prendergast
Chairman and Chief Executive Officer
Metropolitan Transportation Authority
347 Madison Avenue
New York, NY 10017

Re: MTA Long Island Rail Road –
Selected Travel Expenses
Report 2013-S-77

Dear Mr. Prendergast:

According 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 audited selected travel expenses of the Metropolitan Transportation Authority (MTA) - Long Island Rail Road to determine whether such expenses were appropriate, adequately documented, and for MTA business purposes.

Background

The MTA is a public benefit corporation whose mission is to develop and improve public transportation and to implement a unified public transportation policy throughout the greater New York metropolitan area. One of the MTA's six constituent agencies is the Long Island Rail Road (LIRR), whose purpose and mission is to provide highly efficient commuter rail service between New York City and points throughout Long Island. Annually, the LIRR provides service to about 82 million customers in Nassau, Suffolk, Queens, Brooklyn, and Manhattan.

The MTA issues policies, procedures, and rules for its staff to follow. The MTA created the All-Agency Travel Policy Directive entitled "Travel and Business Expense" (travel policy directive) that applies to MTA Headquarters as well as MTA's six constituent agencies. The travel policy directive allows each constituent agency to create supplemental requirements, which may be more stringent than the overall travel policy directive itself. LIRR's Corporate Policy & Procedure AP-002 entitled "Travel Policy in Addition to the MTA Policy" (LIRR Travel Policy) addresses the use of cash advances, because the LIRR does not issue travel corporate cards and many LIRR employees use cash advances to pay for their travel expenses. The LIRR Travel Policy also addresses mileage when an employee is in official travel status (traveling outside 35 miles from his/her regular work location and outside Queens, Nassau, and Suffolk counties). The LIRR has a separate policy for

mileage reimbursement for a personal vehicle when the employee is not in official travel status.

Travel and entertainment expenses for LIRR from January 4, 2011 through September 30, 2013, totaled \$1,782,915. We examined 58 payments totaling \$139,675. Based on the documentation provided, we determined that just 38 of the 58 payments totaling \$40,440 were for actual travel expenses and the other 20 totaling \$99,235 were not travel-related.

Results of Audit

The MTA's travel policy directive does not clearly state all the requirements or procedures the staff should follow with regard to travel-related transactions. As a result, the LIRR incurred higher than necessary travel expenses, including \$8,466 identified by our sample tests. In addition, LIRR executives sometimes used Procurement Cards for travel-related items, contrary to the LIRR's Procurement Card Policy. Further, three employees did not return unused cash advance funds within the required time frame prescribed by the LIRR Travel Policy. Also, the LIRR likely incurred higher travel costs to reimburse employees for use of their personal cars as opposed to renting vehicles for local travel assignments.

Exceeding Lodging Per Diem

LIRR employees travel for multiple reasons, including testing of equipment LIRR purchased; conferences and trainings; and to attend meetings. To avoid over-spending on certain aspects of their travel, the LIRR requires employees to obtain the most cost-effective efficient pricing for transportation and lodging. Thus, the LIRR requires employees to use the MTA's official travel agent for all travel services. The MTA also requires the travel agent and its employees to obtain a lodging rate that is either equal to or more cost-efficient than the rate that the U.S. General Services Administration (GSA) establishes. The GSA rates are set for all 50 states, Puerto Rico, Guam, and American Samoa. The GSA's lodging rates are based upon the geographic area of travel and are established each federal fiscal year beginning October 1. The U.S. Department of State (DOS) establishes Foreign Per Diem rates on a monthly basis for government civilians traveling on official business in foreign areas.

Out of the 38 travel payments we examined, 26 included lodging totaling \$13,858. Based on GSA and DOS lodging rates in effect at the time of the trips, we determined that 18 (of the 26) transactions exceeded these rates by a total of \$3,787. For example, a LIRR employee exceeded the GSA maximum lodging rate by \$252 to attend a seminar in Baltimore. Another employee exceeded the maximum lodging rate by \$368 for equipment testing in Idaho.

LIRR officials stated that they do not review the documentation the travelers submit as required by the travel policy directive. Instead, officials stated that the MTA's Business Service Center (BSC) is responsible for detecting a traveler's noncompliance with the required documentation. However, they did not provide any official documentation that requires the BSC to ensure employee compliance with the travel policy directive. Nevertheless, the travel policy directive states that each agency's Comptroller is responsible for ensuring that the travelers comply with the policy.

We inquired whether the LIRR established a procedure that requires a traveler to obtain prior approval to exceed government rates when traveling. The agency's Comptroller informed us that no such policy or procedure exists. However, we noted that the travel policy for New York State employees (which does not cover the MTA or its constituent agencies) requires an employee to seek approval from his/her Finance Office to exceed the government lodging rate before the trip.

Although the MTA and the LIRR have established travel policies and directives for their employees and have a contract with an official travel agent, the specific procedures to determine the appropriate government rate for travel are not clearly delineated. In addition, the policies and directives do not clearly indicate when it is acceptable to exceed the government rate.

MTA's Travel Agent

MTA's travel agent arranged 53 lodging stays totaling \$25,136 on behalf of the LIRR for the period of January 4, 2011 through August 4, 2013. Of the 53 lodging stays, 5 totaling \$3,816 exceeded the lodging per diem and were included in the preceding report section "Exceeding Lodging Per Diem." For the remaining 48 lodging stays, 32 totaling \$15,168 exceeded the GSA rate by \$4,679. When we advised LIRR officials of these transactions, they responded that employees had complied with the travel policy directive by using the travel agent to obtain lodging. However, they also indicated that the LIRR should determine if additional cost savings controls should be established, including clearly requiring efforts to obtain GSA lodging rates.

Cost Benefit Analysis

LIRR Corporate Policy & Procedure PR-006 entitled "Use of Personal Vehicles" prescribes the process to review, approve, and reimburse employees for the reasonable and necessary use of their vehicles. We reviewed 55 transactions totaling \$49,778 for four LIRR employees paid to travel between work sites and to ride along the train tracks checking for damage for calendar year 2011 and the first quarter of 2012. We found that two of the four employees received 28 payments totaling \$30,139 in mileage reimbursement. LIRR Travel Policy states that a personal vehicle can be used when it is determined that it is in the best interest of the agency. We questioned whether allowing the employees to use their personal vehicle was in the best interest of the LIRR, since there can be more cost-effective modes of transportation, such as renting a vehicle.

The NYS Office of General Services (OGS) has a State contract with three major car rental companies, which can be used by State agencies and political subdivisions of the State. We determined that had LIRR done a cost benefit analysis and rented a vehicle for the two individuals under the OGS contract, the LIRR could have saved \$9,506 for the calendar year 2011 and the first quarter of 2012.

LIRR officials stated that they had not considered renting or leasing a vehicle as an alternative to using personal vehicles. Also, officials stated that they did not perform an analysis for personal vehicle usage (versus rental vehicles). They added that cost benefit analysis is performed to determine whether or not to purchase a new fleet vehicle. Moreover, LIRR officials

indicated that they will perform an annual review to determine whether an employee's expenses are 25 percent above the cost to rent or lease a vehicle. In such cases, officials will consider leasing a vehicle.

Cash Advances

LIRR Travel Policy on cash advances requires the traveler to complete a cash advance form. If a trip is postponed by 10 or more calendar days or canceled, the employee must return the cash advance within three days by personal check, money order, or cashier's check to the BSC's Accounts Payable Department.

We reviewed 25 transactions totaling \$23,209 for 20 LIRR employees. We found three employees received cash advances totaling \$1,655, but did not return unused cash advance monies within the required time frame. One employee kept an unused advance of \$292 for almost two and a half years before returning the money to the BSC. Another employee received a \$644 cash advance on October 12, 2012 and applied the cash advance against travel expenses on November 9, 2012, which resulted in an amount due to LIRR of \$30. Instead of immediately submitting the money with the travel voucher, the employee did not issue a check for the remaining money until January 29, 2013.

Due to a lack of adequate monitoring, LIRR officials allowed certain employees to retain funds longer than allowed by the LIRR's travel policy. Although the MTA and the LIRR have established travel policies, LIRR supervisors and employees may not clearly understand the requirements and their role in ensuring that cash advances are accounted for appropriately. In addition, LIRR did not have effective controls to match advances with expense reports and to determine if advances were accounted for or repaid.

Procurement Cards

LIRR Corporate Policy & Procedure PL-001 entitled "Procurement Cards" sets the guidelines for using the LIRR's Procurement Cards (P-Cards). The policy states the types of items that the agency can use the P-Cards for, as well as the items it should not be used for. Among the prohibited items were "Travel Related Expenses," including (but not limited to) airfare, taxi, gasoline, hotel accommodations, rental cars and other transportation and associated expenses."

From January 2, 2011 to August 29, 2013, LIRR officials made 17,871 P-Card transactions totaling almost \$5 million. Of these transactions, 1,459 were for travel and entertainment expenses totaling \$403,374. We reviewed 16 selected transactions totaling \$80,296 and determined that four totaling \$1,028 were travel-related purchases of Amtrak tickets, and the remaining 12 transactions were for appropriate purposes.

LIRR officials explained that by purchasing Amtrak tickets with P-Cards they receive discounts and can better control such expenditures. Moreover, LIRR officials agree that the ticket purchases were inconsistent with the prescribed P-Card use policy, and they stated they will revise such policy to better reflect actual and appropriate uses of it.

Recommendations

1. Revise the All-Agency Travel Policy Directive to require MTA's travel agent and MTA employees to obtain the GSA or DOS-established lodging rates and, when unsuccessful in obtaining those rates, to document those efforts.
2. Educate supervisors who approve employee travel to verify that the lodging rates are in compliance with GSA and DOS rates. Also, advise supervisors to ensure that unsuccessful efforts to obtain those rates are adequately documented.
3. Perform formal cost benefit analysis to ensure that personal vehicle use is in the best interest of the agency, as LIRR policy requires. Include rental or lease vehicles as an alternative option when preparing such analysis.
4. Develop a formal system to track employee travel advances. The system should include (but not be limited to): the date a travel advance is disbursed; the date of travel; the expected date of return; whether an expense report has been submitted; the amount of any balance that should be returned; and the date such balance was returned.
5. Instruct supervisors to carefully review each employee's Travel Expense Reports, familiarize themselves with the travel policy requirements, and advise their staff to do the same prior to traveling.
6. Revisit the LIRR Procurement Card Policy to ensure the policy and actual LIRR practices are consistent and revise the policy as necessary to accurately detail what constitutes appropriate card use.
7. Formally remind employees of the proper use of P-Cards, as prescribed by the revised LIRR Procurement Card Policy.

Audit Scope, Objective and Methodology

The objective of our audit was to determine whether the expenses incurred for travel and entertainment were adequately documented and appropriate for MTA business purposes. The audit covers the period January 4, 2011 through September 30, 2013.

To accomplish our objective, we reviewed the policies, procedures, and guidelines related to the submission and payment of claims for travel and entertainment expenses. We interviewed MTA and LIRR officials and employees to obtain an understanding of the internal controls related to travel and entertainment expenses. We identified two areas of expenditures that were at a higher risk for inappropriate or questionable payments. For each of these areas, we selected a judgmental sample of payments based on the nature and amount of the payment. We requested supporting documentation for 58 payments totaling \$139,675 in travel and entertainment and reviewed the documents provided.

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.

Reporting Requirements

We provided a draft copy of this report to MTA officials for their review and formal comment. We considered the MTA's comments in preparing this report and have included them at the end of it. In their response, MTA officials indicated that they have taken or will take actions to address most of our report's recommendations. Also, our rejoinders to certain MTA comments are included in the report's State Comptroller's Comments.

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

Contributors to This Report

Major contributors to this report were Robert C. Mehrhoff, Myron Goldmeer, James Eugene, Aurora Caamano, and Jasbinder Singh.

We wish to thank the management and staff of MTA-LIRR and MTA-BSC for the courtesies and cooperation they extended to our auditors during this audit.

Very truly yours,

Carmen Maldonado
Audit Director

cc: M. Fucilli, MTA Auditor General
D. Jurgens, Director, MTA Audit Services
NYS Division of the Budget

Agency Comments

2 Broadway
New York, NY 10004
212 878-7000 Tel

Thomas F. Prendergast
Chairman and Chief Executive Officer



Metropolitan Transportation Authority

State of New York

February 27, 2015

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

Re: Draft Report #2013-S-77 (Selected Travel Expenses)

Dear Ms. Maldonado:

This is in reply to your letter requesting a response to the above-referenced draft report.

I have attached for your information the comments of Patrick A. Nowakowski, President, LIRR, which address this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Prendergast', written over a horizontal line.

Thomas F. Prendergast
Chairman and Chief Executive Officer

Attachment

The agencies of the MTA

MTA New York City Transit
MTA Long Island Rail Road

MTA Metro-North Railroad
MTA Bridges and Tunnels

MTA Capital Construction
MTA Bus Company

Jamaica Station
Jamaica, NY 11435-4380
718 558-9252 Tel
718 657-9047 Fax

Patrick A. Nowakowski
President



February 18, 2015

Mr. Thomas F. Prendergast
Chairman and Chief Executive Officer
Metropolitan Transportation Authority
347 Madison Avenue
New York, NY 10018

**RE: MTA Long Island Rail Road –
Selected Travel Expenses
Report 2013-S-77**

Dear Chairman Prendergast:

As required by Section 170 of the Executive Law, detailed below are the updated actions that have been taken to address the recommendations contained in the State Comptroller's Audit of MTA LIRR Selected Travel Expenses Report.

Careful management and control of travel-related expenses is an important function, and the LIRR has in place a corporate policy and procedure to complement the MTA's all-agency policy directive to accomplish this task. Most travel requires senior level approval at the LIRR and in some cases it also requires approval of the MTA Chief of Staff. Compliance with these procedures was a contributing factor in the LIRR's success at reducing travel-related expenses by 11% between 2013 and 2014. Nevertheless, the LIRR welcomes recommendations to further strengthen its management oversight as it relates to employee Travel Expenses.

Recommendation No. 1

- Revise the All-Agency Travel Policy Directive to require MTA's travel agent and MTA employees to obtain the GSA or DOS-established lodging rates and, when unsuccessful in obtaining those rates, to document those efforts.

LIRR Response:

LIRR adheres to MTA's All-Agency Travel Policy governed by the MTA Office of Compliance. That having been said, MTA's Policy does not specifically require an employee to obtain the GSA or DOS per diem lodging rate. Instead it encourages employees, whenever possible, to obtain a State or Government discount rate (which may not be the GSA or DOS rate). In addition, the MTA Policy states that lodging costs will be reimbursed at an actual but reasonable cost.

MTA Long Island Rail Road is an agency of the Metropolitan Transportation Authority, State of New York.
Thomas F. Prendergast, Chairman and Chief Executive Officer

The LIRR reviewed the lodging-related transactions cited in the report and determined that while some of them exceeded the GSA rate, many were permissible and consistent with MTA policy. Specifically, the MTA directive permits employees to make lodging reservations at or near a conference location if the LIRR's travel agent was unable to book alternative lodging that is cost effective (after taking into account the cost of travel to and from the conference). Thus, in some of the cases cited in the report, the employee's lodging selection was cost-effective because it avoided transportation-related expenses that would have been necessary had he/she had to hire a taxi service to travel from an alternative lodging location.

Further on page 2, 2nd paragraph under "Exceeding Lodging Per Diem" the dollar amounts cited, \$3,976 and \$396 should be corrected as follows \$3,787 and \$252 as it appears that the incorrect GSA per diem rate was used by the Comptroller's Office in its calculations.

* Comment 1

Implementation Status: *Implemented*

Recommendation No. 2

- Educate supervisors who approve employee travel to verify that the lodging rates are in compliance with GSA and DOS rates. Also, advise supervisors to ensure that unsuccessful efforts to obtain those rates are adequately documented.

LIRR Response:

As noted above, the MTA All-Agency Policy does not require employees to obtain GSA or DOS rates but to secure State or Government discount rates whenever possible. Additionally, the MTA previously rejected this State Comptroller recommendation indicating that it would place an unreasonable administrative burden on the MTA Business Service Center staff when no significant internal control risk exists. That being said, the LIRR will remind supervisors that they should encourage employees to choose the most cost-effective lodging option.

Implementation Status: *Implemented*

Recommendation No. 3

- Perform formal cost benefit analysis to ensure that personal vehicle use is in the best interest of the agency, as LIRR policy requires. Include rental or lease vehicles as an alternative option when preparing such analysis.

*See State Comptroller's Comments, page 13.

LIRR Response:

The LIRR conducts analyses on an annual basis to review the cost of leasing a vehicle, the cost of purchasing/maintaining a vehicle and of the cost of reimbursing employees on an individual basis for using their own personal vehicles. The results of this analysis allow the LIRR to determine which of these approaches is the most cost-effective.

The average cost to purchase and maintain a vehicle over a nine-year lifespan is \$45,000. The average cost to lease and operate a vehicle over that same nine-year period is \$71,000. Hence, in cases where a vehicle is required for an extended period of time, it is more cost-effective to purchase. However, if the need is for a limited duration, a lease is preferable.

With respect to leasing/purchasing versus providing employee reimbursement, the primary factor in the decision is the frequency with which an employee utilizes his/her personal vehicle for business related purposes. If the level of annual reimbursement is less than the annual cost of a lease or purchase, it is the most cost-effective approach. It is therefore important that the LIRR regularly review actual reimbursement levels.

In order to ensure it is choosing the most cost-effective approach, the LIRR has recently revised its practice. If an employee's reimbursement exceeds the annual lease cost by 25% for two consecutive years, the LIRR will consider a vehicle lease instead. Of the 353 employees who were reimbursed for the use of their personal vehicle in 2014 only one received reimbursement that was greater than 25% of the lease cost. However, this employee did not meet this threshold in 2013. The LIRR will revisit this case at the end of 2015.

Implementation Status: *Implemented*

Recommendation No. 4

- Develop a formal system to track employee travel advances. The system should include (but not be limited to): the date a travel advance is disbursed; the date of travel; the expected date of return; whether an expense report has been submitted; the amount of any balance that should be returned; and the date such balance was returned.

LIRR Response:

Working jointly with MTA's Business Service Center (BSC) LIRR will implement a formal process and strengthen controls to ensure that employees provide reimbursement within the time limits set-forth in the policy, as applicable. The BSC tracks outstanding cash advances and will make the initial contact with the employee when he/she has not remitted an unused cash advance in a timely manner. If the employee fails to respond to the BSC after 30 days LIRR's Controller's Office will

contact the employee seeking reimbursement. If the employee fails to respond to the Controller's Office after 90 days, LIRR Payroll will deduct the outstanding amount from the employee's check.

Implementation Status: *Implemented*

Recommendation No. 5

- Instruct supervisors to carefully review each employee's Travel Expense Reports, familiarize themselves with the travel policy requirements, and advise their staff do the same prior to traveling.

LIRR Response:

LIRR agrees and will reinforce with staff the requirements of the Policy and will monitor that proper documentation is submitted.

Implementation Status: *Ongoing*

Recommendation No. 6

- Revisit the LIRR Procurement Card Policy to ensure the policy and actual LIRR practices are consistent and revise the policy as necessary to accurately detail what constitutes appropriate card use.

LIRR Response:

The LIRR agrees with this recommendation and will take action to revise the P-Card Policy to note that the Controller's P-Card is the only card that will have a merchant code open for Amtrak related travel.

Page 4 of the State Comptroller's report incorrectly states that LIRR only receives a discounted rate from Amtrak when it uses its P-Card to purchase tickets. As a state authority LIRR is eligible for a discounted government rate regardless of how payment is made. Still, the LIRR has designated the Controller's Office Procurement Card as the only mode of payment so as to apply more effective corporate controls over these expenditures. When an employee is traveling via Amtrak, he/she is required to contact the Controller's Office to purchase the ticket. The Controller's Office only purchases the ticket after receiving, reviewing and validating the following:

- a. BSC form AP-062 *Travel Authorization Request Form* showing appropriate signature approvals.

*
Comment
2

Chairman Thomas Prendergast
February 18, 2015
Page 5

- b. The email the traveling employee received from the BSC providing him/her with an Authorization Code.

Implementation Status: *Ongoing*

Recommendation No. 7

- Formally remind employees of the proper use of P-Cards, as prescribed by the revised LIRR Procurement Policy.

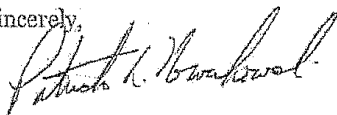
LIRR Response:

The LIRR agrees with this recommendation and once the P-Card Policy has been updated to reflect the changes noted in recommendation No. 6, above, a message will be issued via corporate communications noting this revision.

Implementation Status: *Ongoing*

The LIRR would like to extend its gratitude to the Office of the State Comptroller for conducting this audit. We recognize that audits can provide important recommendations and insights for strengthening controls at the LIRR. The LIRR's action plan addresses the recommendations of the State Comptroller's Office. Please contact me should you require additional information.

Sincerely,



Patrick A. Nowakowski
President

cc: M. Young
K. Meilick
D. Mahon
M. Reilly
J. Rosado
H. Cutler
L. Kearse
M. Fucilli
D. Jurgens

State Comptroller's Comments

1. Based on the information provided by the MTA, we revised our report to note the correct dollar amounts in question.
2. In fact, our report did not (and does not) state "that LIRR only receives a discounted rate from Amtrak when it uses its P-Card to purchase tickets." Our report accurately portrays the rationale provided to us by MTA LIRR officials during the course of the audit fieldwork.