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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 17, 2000

Mr. E. Virgil Conway
Chairman
Metropolitan Transportation Authority
345 Madison Avenue
New York, NY 10017

Re: Report 99-F-32

Dear Mr. Conway:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution, we reviewed the actions taken by officials of the Metropolitan Transportation Authority - New York City Transit (Transit) as of December 23, 1999, to implement the recommendations contained in our audit report, *Controls Over Automated Fare Cards (Report 97-S-13)*. Our report, which was issued July 28, 1998, examined the controls over inventories of MetroCards.

Background

Transit serves more than 5 million customers each day. On January 6, 1994, the Metropolitan Transportation Authority (Authority) - New York City Transit introduced a computerized Automated Fare Collection (AFC) system. By October 31, 1999, 79.6 percent of the subway riders and 72.9 percent of the bus riders were using MetroCards (cards) to pay their fare. Adequate controls over the inventory of cards are essential to ensure the financial viability of the transit system.

Transit's Revenue Division staff use the high production encoding machine (HPEM) to encode cards with serial numbers, batch numbers and expiration dates. Cards that are also assigned a monetary value at this point are called "value cards." The remaining cards are referred to as "basic" cards; a token booth clerk will encode them later for a customer who specifies the amount he or she wants to purchase.

Summary Conclusions

Our prior audit found that improvements were needed in some components of the internal control system for card inventories and in reconciling sales with cash collections. For example,

incompatible duties had not been segregated. Card sales were not always reconciled with cash collections in a timely manner and cards assigned a monetary value that collectors determined not to be useable were not always properly controlled. Transit's Review/Accountability Unit (Accountability) staff did not determine the reasons for differences between the Electronic Fare Report (EFR) and the Manual Fare Report prepared by the token booth clerk (clerk) for cards encoded at the point of sale. In addition, Accountability's staff should reconcile information in the Passenger Revenue Audit System (PRAS) and the EFR to account for all cards delivered to and sold by the clerks.

In our follow-up review, we found that transit officials have taken steps to strengthen controls over card inventories and cash collections. For example, the perpetual inventory system and much of the reconciliation process have been automated. Transit has segregated the responsibility for maintaining perpetual inventory records of all MetroCards from the responsibility for processing and distributing the cards. Procedures for handling and accounting for misswiped MetroCards have also been improved.

Summary of Status of Prior Audit Recommendations

Of the nine prior audit recommendations, Transit officials have implemented two recommendations, have partially implemented five recommendations and have not implemented one recommendation. One recommendation is no longer applicable.

Follow-up Observations

Recommendation 1

Establish a fully-functional inventory and control system for MetroCards by taking the following steps:

- ! Automate the inventory and control system for MetroCards.*
- ! Segregate responsibilities for maintaining the perpetual inventory records of all MetroCards from the responsibility for processing and distributing the cards.*
- ! Take periodic physical inventory counts of all MetroCards maintained in inventory at the HPEM facility, at the Money Room, and in the token booths.*
- ! Reconcile differences between perpetual inventory records maintained for the HPEM facility, the Money Room, and all token booths. Investigate any of those records that are unreconcilable.*
- ! Require Accountability to inform Stations about any errors found on the reports prepared by token booth clerks.*

! Require Stations to monitor token booth clerks' adherence to the procedure for recording all MetroCards deliveries.

Status - Partially Implemented

Agency Action - Transit officials took action to address most of the items in our recommendation. For example, computer software to track MetroCard inventory and distribution systems was installed during the last quarter of 1999; incompatible duties have been segregated; the MTA's internal audit group now conducts unannounced inventory checks to make sure perpetual inventory records are accurate; perpetual inventory records are properly reconciled; and token booth clerks have been instructed and trained on the procedures for recording MetroCard deliveries. Transit officials have also advised us of plans to install software in calendar year 2000 that will provide Stations with the detail needed to improve the accuracy of reporting of station clerk transactions thereby eliminating errors that are complicating the reconciliation process.

Recommendation 2

Require Accountability staff to document all adjustments that were made to the Comparison Reports including those made to reconcile differences.

Status - Partially Implemented

Agency Action - Transit officials advised the process for reconciling sales reported by the clerks and the PRAS was changed. For example, the Comparison Report is no longer used for that purpose. As of January 19, 2000, Accountability staff only reconcile sales for a select number of token booth clerks, as a pilot, while they wait for the PRAS to be programmed for an expanded error code field. All clerks' sales are not reconciled because the PRAS currently does not identify all of the changes made to non-pre-encoded card amounts. Transit officials plan to reprogram PRAS and move to a process that will involve the reconciliation of sales for all clerks during calendar 2000.

Recommendation 3

Require Accountability staff to reconcile all differences between the EFR and PRAS, and to report any unreconcilable items in a timely manner to the appropriate Transit Divisions for review or investigation and corrective actions.

Status - Partially Implemented

Agency Action - Transit officials advised us that software to replace manual fare reports with electronic fare reports has been installed. However, as of January 19, 2000, the programming of the PRAS has not been completed and Accountability staff only reconcile sales for a select number of token booth clerks, as a pilot. They added that Accountability staff work with other Transit Divisions to investigate and act, where appropriate, on

differences between ERF and PRAS for the pilot group of clerks. Transit officials indicated that the rest of the software installation will be completed during calendar 2000.

Recommendation 4

Substitute the current process to reconcile value cards with procedures that will safeguard both the MetroCards and the associated revenue.

Status - Not Implemented

Agency Action - Transit officials claim that no action was necessary because they believe that adequate procedures to safeguard MetroCards were in use at the time of our prior audit.

Auditors' Comments - In our prior audit, we reported that at the beginning of their shifts token booth clerks were signing off for MetroCard transfers without counting the cards. We still believe safeguards to prevent this practice are needed. In addition, token booths were not subjected to periodic physical inventories that might detect discrepancies in figures on the fare report.

Recommendation 5

Assign a high priority to the correction of software problems that affect the reconciliation of MetroCard sales reports.

Status - Partially Implemented

Agency Action - Transit officials advised us that software to replace manual fare reports with electronic fare reports has been installed. However, the completion date, for modification of the PRAS, planned to permit a full reconciliation of differences between EFT and PRAS, has been pushed back from the fourth quarter of 1999 to the fourth quarter of 2000.

Recommendation 6

Require Accountability staff to perform timely reconciliations of the Comparison Reports.

Status - Partially Implemented

Agency Action - As of December 3, 1999, Accountability staff reconciled a day's transactions within about three months. At the time of our prior report, reconciliations were completed within about nine months. Transit officials expect to further reduce the time required to reconcile a day's transactions by integrating remittance report processes into PRAS and eliminating avoidable transaction processing errors.

Recommendation 7

Accountability should identify the token booth clerk(s) who did not return misswiped MetroCards claimed before February 1997. If a pattern of offense is established, Stations should be informed to take appropriate investigatory and/or corrective actions such as retraining.

Status - No Longer Applicable

Agency Action - Transit management believes that their limited staff hours are needed to closely scrutinize clerk accountability for current transactions. They also believe that token booth clerks could not be disciplined due to the amount of time that has transpired since January 1997. Therefore, they have not implemented this recommendation.

Auditors' Comments - All transactions in question are now almost three years old. Due to the amount of time that has now transpired, and the lack of appropriate action by Transit officials, it is doubtful that it would be beneficial to pursue implementation of this recommendation. Therefore, we have classified it as no longer applicable. However, Transit officials should take action to establish a system to eliminate conditions where improper actions are not acted on in a timely manner.

Recommendation 8

Require accountability to provide Stations with timely and informative reports on token booth clerks who are still not returning misswiped MetroCards.

Status - Implemented

Agency Action - The MetroCard Security Unit is now providing timely notification to the Office of Policy Compliance of those instances where misswiped farecards are not returned to the revenue room. Transit has also installed new software so that Station Clerks can now transfer any amount encoded on a misswiped card to a useable MetroCard. Thus, the misswiped cards become worthless once the value is transferred to a useable card and the financial risk associated with misswiped MetroCards is limited.

Recommendation 9

Stations should monitor and enforce the requirement that token booth clerks return all misswiped MetroCards.

Status - Implemented

Agency Action - Transit has taken actions to limit the financial risk associated with misswiped MetroCards and to reinforce its requirements that token booth clerks return all misswiped

MetroCards. Station Clerks now transfer any amount encoded on a misswiped card to a useable MetroCard. Thus, the misswiped MetroCards is made worthless. Transit has also issued instructions for handling misswiped Metro-Cards to all station clerks and provides training to reinforce these procedures.

Major contributors to this report were Abraham Markowitz, Santo Rendon, Ken Sifontes, Harry Maher, and John Lang.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Metropolitan Transportation Authority for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: C. Conaway, DOB
L. Reuter, Transit
N. DiMola, Auditor General