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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 19, 2005

Mr. Donald Grant
Chairman
Thousand Islands Bridge Authority
Collins Landing
PO Box 428
Alexandria Bay, NY 12307

Re: Internal Controls over Selected Financial Operations
Report 2004-S-50

Dear Mr. Grant:

According to the State Comptroller's authority, as set forth in Article IX, Section 5, of the State Constitution; and Article II, Section 2803 of the Public Authorities Law, we audited the internal controls established by the Thousand Islands Bridge Authority (Authority) over selected financial operations - specifically, governance by the Board of Directors (Board) and expenditure practices for the period of March 1, 2002, through August 26, 2004.

A. Background

The Thousand Islands Bridge Authority was created by State statute in 1933 and operates under Article 3, Title 4, of the Public Authorities Law. The Thousand Islands Bridge System (bridge system) for which the Authority is responsible extends from Collins Landing near Alexandria Bay, New York, to Ivy Lea near Gananoque, Ontario, covering a distance of 8.5 miles. The bridge system includes the seventh-busiest U.S./Canadian commercial crossing, used by approximately 483,000 commercial vehicles per year. In addition, the Authority owns, manages, and operates the Heart Island Boldt Castle tourist attraction (Boldt Castle) that was given to the Authority in 1977 by the E. J. Noble Foundation.

Operation of the bridge system is shared under a joint agreement between the Authority and the Federal Bridge Corporation Limited of Canada that assigns responsibility to the Authority for day-to-day operations and maintenance. The seven-member Board governing the Authority is also international, consisting of four U.S. and three Canadian citizens who are appointed by the Chairperson of the Jefferson County Board of Supervisors, subject to the approval of the entire Board of Supervisors. According to the Authority's by-laws, the Board is required to hold an annual meeting and to meet monthly.

According to its audited financial statements for the fiscal year that ended on February 28, 2004, the Authority had nearly $7.7 million in operating revenue, consisting of approximately $6.9 million in toll revenues and nearly $.8 million from the Boldt Castle facility. Employing a workforce of 60 full-time employees on both sides of the border, the Authority reported a payroll of approximately $2 million (in U.S. dollars) and $765,000 (in Canadian dollars). In addition, the Authority paid overtime of nearly $72,000 (in U.S. dollars) and $53,000 (in Canadian dollars).

B. Audit Scope, Objective, and Methodology

The New York State Governmental Accountability, Audit and Internal Control Act requires the Authority's management to be responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. We audited the Authority's system of internal controls over selected financial operations for the period of March 1, 2002, through August 26, 2004. The objective of our performance audit was to assess the adequacy of the Authority's system of internal controls over selected financial operations and to express an opinion of this system based on our audit. Specifically, our audit sought to determine whether the Authority's Board provides adequate oversight and fulfils its fiduciary responsibilities; and whether the Authority's current procurement and expenditure process is efficient. Our audit did not address the activities of Board members who are Canadian citizens.

To accomplish our objective, we reviewed the Public Authorities Law and the Authority by-laws, policies, and procedures; interviewed officials; and reviewed Authority records. We also used data analysis software to examine the Authority's expenditure practices. Using the results of our data analysis, we randomly selected 12 transactions out of a total of 2,665 transactions and reviewed them in detail to assess compliance with Authority procedures as well as the overall efficiency of the process followed. In addition, we reviewed Board minutes, attended a Board meeting, and examined the requirements of Board membership. We also examined Board activities and compared them with provisions of *Governance of Public Authorities (*guidelines that were issued in a memo to all State Authorities by the Executive Chamber of the Governor's Office on February 19, 2004). The purpose of our comparison was to determine whether current Board activities comply with the Governor's expectations.

We conducted our audit according to Generally Accepted Government Auditing Standards. Such standards require that we plan and do our audit to adequately assess those operations of the Authority included within the audit scope. Further, these standards require that we understand the Authority's internal control structure and 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 our audit provides a reasonable basis for our findings, conclusions, and recommendations.

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 done 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 who 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

Generally, we found that the Board is operating in a capacity that is both efficient and effective, and is fulfilling its fiduciary responsibilities to the State. Our audit found that Board members review detailed monthly financial statements at each of their meetings, as well as operational budget reports, investment and fund reports, routine and special expenses, and any project status reports. Our review of the Authority's financial statements also indicated that the Authority is operating in a sound financial environment. In fact, based on our financial ratio analysis and review of a comprehensive financial report from Dun & Bradstreet, we noted that it is operating above the averages for similar businesses in the same industry. Although the Division of Budget exempts the Authority from complying with provisions in *Governance of Public Authorities* because of its international governance structure, our audit determined that Board and Authority policies and procedures generally do comply with that policy memo. Authority officials have shown a willingness to cooperate with the memo, as demonstrated by their legal department's ongoing review to assess whether some of the requirements are already in place or should be implemented.

However, although we found that the Authority has established strong controls over its governing functions, we found improvement opportunities in its expenditure practices. For example, for our scope period, the Authority had approximately 6,000 expenditures totaling almost $10.3 million. We reviewed a sample of 12 transactions, randomly selected from 2,665 of the 6,000 expenditures. We determined these 12 transactions were processed according to the Authority's procedures. However, of the 6,000 transactions, nearly 73 percent were for individual purchases that cost less than $500 and accounted for just 6.5 percent of the total amount spent during the period. We also found that the Authority's current purchasing process relies heavily on the use of paper and is time consuming and inefficient. We recommend that the Authority use procurement cards for small purchases.

1. Board Governance

Duties and Responsibilities

According to Authority by-laws, the Chairman is the Chief Executive Officer and is responsible for general supervision, direction, and control of Authority affairs. The Chairman presides at all meetings of the Board and is expected to see that all orders and resolutions are carried out. The Public Authorities Law requires the Authority to provide the Chairman of the Board with the following reports:

- An annual report covering its operations and accomplishments, revenues and expenses, and assets and liabilities; as well as its schedule of bonds and notes that were outstanding at the end of the fiscal year.
- Condensed monthly financial statements

- Budget information on operations and capital construction
- Certified Public Accountant's audit report

Our review of the reporting process followed by the Authority's Executive Director and Board found that the process operated efficiently and effectively. For example, we found that the Executive Director presents the Board with condensed and detailed monthly financial statements at the beginning of every Board meeting. The group also receives and reviews reports on operational budget items, investment and fund management, and both routine and special expenses. In addition to reviewing project status reports, members review and approve routine and special expenses by way of resolutions. When we reviewed the minutes and agendas for all of the Board meetings held during our scope period, we found adequate documentation of each event. During our attendance at one of these meetings, we noted that members were actively involved in overseeing Authority operations.

Board Oversight

The memo, *Governance of Public Authorities,* outlined specific Principles of Model Governance that Authorities are expected to follow. For example, it requires all public authorities to develop an action plan for implementing the Principles, including:

- Training
- Separating oversight and executive functions
- Establishing a coordinated committee structure
- Renewed focus on governance and ethics
- Stronger internal control through audits and accountability

When we reviewed the Board members' activities and Authority policies and procedures and compared them with the Principles, we found that the Authority is generally meeting the Governor's standards. Although it is exempt from compliance, the Authority has shown a willingness to honor the Governor's expectations. According to the Executive Director, a report regarding the Authority's legal review of *Governance of Public Authorities* is expected by the end of calendar year 2004.

Because the Authority's executive management and Board members perform clearly defined roles and duties within the organization, we believe the Authority is generally achieving the standards advocated in the Governor's memo.

2. Financial Position

When we reviewed the Authority's most-current audited financial statements for the fiscal year that ended on February 29, 2004, we found that the Authority is operating in a sound financial condition. To support our position, we conducted various financial ratio analyses and compared the results with general financial standards as well as a copy of the most recent comprehensive financial report from Dun & Bradstreet, Inc. As a result of our analyses and comparisons, we came to the following conclusions:

- **Current ratio - 11.4** The current ratio, which indicates whether the Authority has enough working capital to meet short-term financial obligations, exceeds the industry standard of 1.6 by a wide margin.

- **Quick ratio - 11.1** The quick ratio, also known as the "acid test," helps gauge an entity's immediate ability to pay its financial obligations. Generally, a quick ratio below .50 indicates a risk that the entity will run out of working capital and not meet current obligations. Standards for different industries and businesses vary widely; the industry standard for the Authority would be 1.1. Again, the Authority's quick ratio of 11.1 indicates a strong financial position.

Our review of the comprehensive report from Dun & Bradstreet revealed that, in general, the Authority's financial condition is above the averages reported in similar industries. For example, the report utilizes two major components when comparing Authority and industry standards: financial stress and credit score. The financial stress indicator is significant because it seeks to predict the likelihood that a firm will cease operations without paying all of its creditors. Financial stress is weighted on a scale of one to five, with one signifying low-risk and five indicating high-risk. The credit score class is significant because it predicts the likelihood that a firm will pay its bills in a severely delinquent manner (90-plus days past terms).

The Dun & Bradstreet report classified the Authority's financial stress as a Class One, signifying that other firms in the same industry had an average failure rate of .49 percent, which is below the national average of 1.40 percent. It also reported on the national percentile of financial stress, which reflects the relative ranking of a company among all companies within the Dunn & Bradstreet's files. This percentile can range from one, reflecting the highest risk, to the lowest risk of 100. The Authority's ranking for this category was 100. The financial stress score can range from 1,001 (high-risk) to 1,850 (low-risk); in this category, the Authority scored well again - 1,642. The report also showed that the Authority's credit score was three, signifying that 12.3 percent of the companies had paid one or more of their obligations late and - reflecting again the soundness of the Authority's financial position in its above-average credit score.

3. Expenditure Practices

Economic and Efficient

The approval of a transaction confirms a decision that was based on a review. For example, an Authority supervisor reviews an employee's purchase requisition to determine whether the item

being purchased is needed. Upon confirming the need, the supervisor indicates approval of the purchase by signing the request and a purchase order is completed to authorize the expenditure. With the exception of expenditures such as utility payments, health care payments, and fuel purchases, a purchase order is completed for each transaction.

Using data analysis software, we reviewed a download of expenditure transactions for the period of March 1, 2002, through February 29, 2004, and found that the Authority had made 5,946 expenditures amounting to approximately $10.3 million. We also observed that the process currently in place is primarily paper-based and time-consuming.

Our further analysis of these expenditures revealed that 3,281 did not require a purchase order because they involved utility or health care payments or fuel purchases. With a total value of nearly $1.5 million, the remaining 2,665 expenditures included the following:

- 1,183 (44 percent) that were valued individually at less than $100 and, in total, at approximately $57,000 (4 percent)

- 2,232 (84 percent) that were valued individually at less than $500 and, in total, at approximately $292,000 (20 percent)

- 2,447 (92 percent) that were valued individually at less than $1,000 and, in total, at approximately $443,000 (30 percent)

Upon further review of these expenditures, we found that requisitions, purchase orders, and a check had occasionally been completed for the following supplies:

- Spark plug - $1.58

- Shelves and lock set - $42.95

- Bulbs, stabilizer, and spark plugs - $35.07

Employees responsible for procurement indicated that the current process is meeting their needs. However, our testing indicated that the Authority's current expenditure procedures are inefficient and time-consuming, and rely too much on a paper process. Whether the purchases were made with or without a purchase order, approximately 73 percent involved individual expenditures with values of less than $500 but altogether they totaled just 6.5 percent of the total amount expended. It is clear that too much staff time is spent on the processing of low-dollar purchases.

Authority officials agreed with our finding and responded that they were undertaking a review of their current purchasing procedures to identify efficiencies that could be imposed on the process of making low-dollar purchases. Officials also indicated that they were discussing the possibility of obtaining procurement cards from the Authority's financial institutions and were also reviewing other options that might streamline the purchasing process.

Recommendation

Improve the efficiency of the procurement process by eliminating the need for a formal purchase order, using a procurement card instead for a majority of purchases. Develop specific thresholds for the card's use with the objective of reducing the excessive use of paper that is burdening the current system.

We provided draft copies of the matters contained in this report to Authority officials for their review and comment. We considered their comments in preparing this report. Authority officials agreed with the report's recommendation and identified actions taken or planned to implement the recommendation. A complete copy of the Authority's response is included as Appendix A.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Board of the Thousand Islands Bridge 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 recommendation contained herein; and, if the recommendation was not implemented, the reasons why.

Major contributors to this report were Sheila Emminger, Kevin Kissane, Richard Podagrosi, Peter Pagliaro, Abe Fish, Mike Farrar, Kim Bott, and Marticia Madory.

We wish to thank the management and staff of the Thousand Islands Bridge Authority for the courtesies and cooperation extended to our auditors during this audit.

Yours truly,

David R. Hancox
Audit Director

cc: Robert Barnes, Division of the Budget
Robert G. Horr III, Executive Director TIBA

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November 22, 2004

David R. Hancox, Director
State Audit Bureau
NYS Office of the State Comptroller
110 State Street
Albany, NY 12236

RE: Report 2004-S-50
Internal Controls over Selected Financial Operations

Dear Mr. Hancox:

This letter is to acknowledge the receipt of the "Working Draft" report issued by the State Comptroller's Office of internal controls over selected financial operations of this Authority.

As stated in the report with respect to the recommendation to improve the efficiency of the procurement process by eliminating the need for a formal purchase orders by using a procurement card for a majority of small dollar value purchases, we are currently reviewing the Authority's purchasing policies, which include upgrade of a computerized accounting system that may allow for such a procurement process. It is expected that the accounting system upgrade will be implemented March 1, 2006, baring any unforeseen problems.

On behalf of the Authority Chairman and Board of Directors, we wish to thank the comptroller management and staff for their professionalism and cooperation with respect to this audit.

Sincerely,

Robert G. Horr, III
Executive Director

RGH/jt
CC: Donald J. Grant, Chairman, TIBA
TIBA Board of Directors
Jeffrey Timerman, TIBA, Manager, Finance & Business Administration

Appendix A