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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 4, 2006

Mr. Gregory Stamm
Chairman
Niagara Frontier Transportation Authority
181 Ellicott Street
Buffalo, NY 14203

Re: Report 2006-F-23

Dear Mr. Stamm:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Niagara Frontier Transportation Authority (Authority) to implement the recommendations contained in our audit report, *Niagara Frontier Transportation Authority - Internal Controls Over Financial Operations* (Report 2004-S-24).

Background, Scope and Objective

The Authority operates rail, bus, marine and air transportation systems in western New York State. The Authority was created to develop and improve transportation and other services within the Niagara Frontier Transportation District. The Authority is governed by an 11 member board which consists of a chairman and 10 other members appointed by the Governor with the advice and consent of the New York State Senate.

Our initial audit report, which was issued on January 19, 2005, examined the adequacy of the Authority's system of internal controls over financial operations. We found that it was adequate in all material respects. However, we noted some areas in which the Authority could either improve its system of internal controls or strengthen its adherence to existing policies and procedures. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of September 20, 2006 of the seven recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Authority officials have made progress in correcting the problems we identified. Of the seven audit recommendations, six recommendations have been implemented, and one recommendation has been partially implemented.

Follow-up Observations

Recommendation 1

Conduct periodic risk assessment of the Authority's financial operations and audit those areas of highest risk.

Status - Implemented

Authority Action - The Authority's Internal Audit has conducted risk assessments of all operations and audited all significant financial operations as part of the model governance principles. In addition, they had their external auditors further audit and certify the same.

Recommendation 2

Ensure that funds assigned to the Cash Management Office are accounted for accurately by assigning responsibility to a specific unit for conducting periodic reconciliations of the funds assigned to the first-floor information booth.

Status - Implemented

Authority Action - The Authority has directed the Manager of Customer Care to perform periodic reconciliations of the information booth cash drawers. Our current review found that 72 cash counts were completed between the period of January 7, 2005 and July 24, 2006.

Recommendation 3

Provide added assurance that funds are accounted for accurately in the booth by directing Internal Audit to continue its surprise cash counts on a routine basis.

Status - Implemented

Authority Action - The Authority's Internal Audit group has conducted two surprise cash counts on the first floor information booth since July 8, 2004 when they indicated they would continue performing random audits. We reviewed copies of both surprise cash counts as well as a memo sent to the Manager of Customer Care indicating the results of the second cash count. We feel Internal Audit has met the intent of the recommendation, even though there has only been two surprise cash counts performed, because the risk has been decreased significantly since the original audit. First, for a six month span, there was no cash at the information booth due to automated ticket vending machines being installed. Second, when cash was again stocked at the information booth, it was stocked at a significant amount less.

Recommendation 4

Consider the use of a procurement card for making smaller dollar purchases.

Status - Implemented

Authority Action - The Authority has implemented the use of a purchasing card for smaller purchases effective January 1, 2006. Authorized users have individual limits per transaction, and may be assigned daily and monthly credit limits. Some examples of acceptable purchases under the policy include office supplies, building maintenance items, and newspaper advertising.

Recommendation 5

Develop formal policies and procedures regarding the personal use of Authority equipment and/or ensure all departments develop such formal procedures.

Status - Implemented

Authority Action - The Authority developed a formal policy regarding the personal use of Authority equipment effective July 12, 2005. It states that employees may only use Authority assets and the Internet to conduct Authority-related business and not for personal gain. It states that any violations of the policy will subject the employee to disciplinary action, up to and including termination.

Recommendation 6

Consider taking the following steps to improve internal controls over Authority accounting and information systems:

- *Program the accounting information systems to require users to construct strong passwords, to prompt users to change their passwords at periodic intervals and to limit the use of the same password for a specified period (time or number of changes).*
- *Program the accounting information systems to automatically log off users if the account has been idle for a certain period of time.*
- *Establish a means to monitor internet usage on an on-going basis.*
- *Require new and current employees who have access to confidential information to sign confidentiality agreements.*
- *Conduct periodic tests of the Business Continuity/Disaster Recovery plan as stated in the MIS Policies and Procedures Manual.*

Status - Partially Implemented

Authority Action - The Authority took the following steps to improve internal controls over Authority accounting and information systems:

- programmed the accounting information system to require users to construct strong passwords, to change their passwords at periodic intervals, and to limit the use of the same password,
- purchased a computer program to monitor internet usage of its employees,
- tested the disaster recovery plan periodically.

The Authority still needs to:

- Program the accounting information systems to automatically log off users if they have been idle for a certain period of time. Discussions with Authority personnel indicated that this will be included in the next system upgrade, which they are currently negotiating. Authority officials expect to have the upgrade complete by January 2007.
- Require all employees, whether new or current, who have access to confidential information sign confidentiality agreements. The Authority has a confidentiality policy and has required employees who are not represented by a union to sign confidentiality agreements. The Authority is currently negotiating with the unions that represent employees at the Authority to make signing confidentiality agreements mandatory.

Recommendation 7

Ensure that the Authority complies with pertinent Articles 5 and 9 of the Public Authorities Law.

Status - Implemented

Authority Action - The Authority has a comprehensive listing of reports that are required under Public Authorities Law Articles 5 and 9. It includes the parties that the report should be sent to, due dates of the respective report, required reporting criteria, and the unit who is responsible for the report.

Major contributors to this report were Todd Seeberger and Nicholas Angel.

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

Very truly yours,

Richard K. Sturm
Audit Manager

cc: Lisa Ng, Division of the Budget
Pat Dalton NFTA Internal Audit