

**Dutchess County Department of Planning and Community
Development – Division of Mass Transit
January 2007 – December 2008**

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Comptroller's Summary

Organization and Background

The Department of Planning and Community Development (The Planning Department) is responsible for the planning, development and delivery of Mass Transit services in Dutchess County. Dutchess County retained Professional Transit Management, Inc. (PTM) as a Resident Manager to manage and supervise the operation of the County transit system. The Planning Department has the fiduciary responsibility for the budget and all expenditures incurred. All personnel were employees of the manager- PTM.

Effective January 1, 2009, the County no longer contracts with PTM.

Audit Scope, Objective and Methodology

The Planning Department and PTM were jointly responsible for establishing and maintaining an effective system of internal controls for Mass Transit. We audited Mass Transit's system of internal controls over its financial operations for the period January 1, 2007 – December 31, 2008. Expenditures (as reported on the Budget Performance Report dated 04/10/09) totaled \$10,179,800.40 in 2007 and \$12,813,381.15 in 2008. Attached as Addendum I are the summary reports of expenses and revenue for Mass Transit for 2007 and 2008.

The objective of the audit was to review financial processes and assess the adequacy of internal controls over the financial operations. To accomplish this objective, we interviewed appropriate Mass Transit officials and reviewed policies and procedures governing the following significant financial operations: revenue and collections; payroll; procurement; equipment and parts management. We performed limited transaction tests to determine whether established policies and procedures provided an appropriate level of internal control over basic financial operations and to determine whether employees followed those policies and procedures.

Summary of Findings

Mass Transit's system of internal controls over its financial operations was inadequate in all material respects. As a result, expenditures incurred were not effectively and efficiently controlled and there was significant risk of fraud, theft, and or professional misconduct. Revenues and cash collections were not properly monitored.

Mass Transit did not have an effective system of internal controls including:

- Comprehensive written policies and procedures
- Oversight of all accounting processes
- Separation of duties for key accounting functions
- Complete and accurate records for payroll, purchasing, parts inventory and expenditure management
- Fully operational integrated software systems
- Risk assessment process
- Effective communication and monitoring

Detailed Findings

Internal controls protect a government's assets against the danger of loss or misuse, ensure the efficient and effective management of resources as well as compliance with applicable legal requirements. Our assessment of Mass Transit's internal control system based on the components listed follows:

1. Favorable control environment,
2. Effective communication,
3. Continuing risk assessment,
4. Control activities,
5. Monitoring.

Control Environment

Control environment is the attitude toward internal control and control consciousness established and maintained by both management and employees and supports compliance with laws, rules, regulations, and management directives. It is a product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's employees. Organization structure and accountability relationships are key factors in the control environment.

Findings

We determined that Mass Transit's control environment was insufficient:

- Procedure manuals governing day-to-day operations were incomplete or outdated. Operating procedures were not comprehensive and did not have appropriate controls in place to ensure accountability.
- There was no evidence of comprehensive use of available software tools to support the control environment.
- There was no evidence of ongoing review by management to ensure staff adherence to control-related policies and procedures.

Recommendations

- Develop comprehensive written procedure manuals and documents which comply with current state and federal rules, regulations, and guidelines. Operating procedures should be comprehensive and have appropriate controls in place to ensure accountability.
- Utilize available software tools to support and create a strong control environment.
- Implement management review of staff compliance with control-related policies and procedures.

Communication

Communication is the exchange of useful information between and among people within the organization to support decisions and coordinate activities. Communication can take various forms from policy memos and formally documented procedures, to highly informal oral updates. Good communication combines regularly scheduled exchanges of information with informal communication.

Findings

- There was no evidence of consistent, formal communication to employees on processes, procedures, and job assignments/responsibilities.
- There was no formal, current documentation of fiscal policies and responsibilities readily available to employees to assist them in performance of their duties.
- There were not clear lines of responsibility for Mass Transit personnel including Operations, Maintenance, Fiscal, the Assistant Manager, the Manager, and the Planning Department.

Recommendations

- Institute formal methods of communication to disseminate guidelines, policies and procedures, staff updates, and interdepartmental reports to all employees.
- Critical operating activities must be supported by comprehensive written policies, procedures and job descriptions.
- Clear lines of responsibility must be identified. Roles and responsibilities of all personnel including management must be clearly defined, documented and communicated.

Risk Assessment

Risks are events that threaten the accomplishment of objectives which ultimately impact an organization's ability to function effectively and efficiently. Risks are inherent in the organization's function or can arise from changes in the operating environment.

Findings

- Mass Transit failed to fully utilize the following available automation/software to mitigate risk:
 - Electronic fare boxes and associated software to maintain passenger counts and fare collections.
 - Fleet Management software for inventory, maintenance, operations, and billing.
- There was no evidence that Mass Transit initiated actions to review and improve internal processes and procedures when the following events occurred:
 - Fire at the location resulting in severe damage to the facility including the security controls governing cash handling.
 - Key staffing changes in Payroll, Maintenance and Operations; as well as, change(s) in staff at the Manager level by PTM.
 - NYS DOT inspections resulting in equipment being deemed unsafe.
 - Errors and theft of funds in payroll.
 - The proposed Medicaid Transportation software transition which had significant delays and eventually was discontinued.

Recommendations

- Available software tools should be used to strengthen internal controls and mitigate risk.
- Processes should be reviewed, updated and developed to manage changes to the operating environment. When a change occurs, the risk of the change should be assessed and a review of internal controls completed to identify any necessary changes to the controls.

Control Activities

Control activities are policies, procedures, and tools that help prevent or reduce risks, ensure data integrity, and allow the effective and efficient management of the transit system. Policies and procedures should include the following: authorization and oversight; properly designed records; appropriate security of assets and records; segregation of duties; periodic reconciliations and management verification.

Key areas of accounting reviewed for control activities included: Revenue and Collection (cash collections from fare boxes, revenue claims for state and federal funding, and billing to other County departments); Payroll; Procurement; and Equipment and Parts Management.

Findings

Revenue & Collection Deficiencies

Cash Collections from Fare boxes

(2007 - \$865,171.37; 2008 - \$912,465.09)

- Oversight of cash collections was deficient. Periodic reconciliations were not in place to ensure accuracy of cash collections.
- There was a lack of documented comprehensive policies and procedures defining employee roles and responsibilities, recordkeeping for cash counting, fare box collection processing and ridership reporting.
 - Recordkeeping processes were not properly designed to ensure all fare box collections were properly accounted for.
 - There was no segregation of duties for counting and reconciling cash.
 - There were no periodic reconciliations including daily reconciliations of ridership records to daily fare box collections and fare box cash counts to deposited funds.
 - Processes to identify and correct discrepancies were not in place.
 - Automated fare boxes were installed in October 2008 but the available automation was not utilized to improve controls over the cash collection process.
- The fare box collection room was not secure: cameras were inactive, keys were readily accessible, and broken fare boxes were in use.

Revenue Claims including State and Federal funding

(NY State – 2007 - \$2,279,218.97; 2008 - \$2,578,651.90)

(Federal – 2007 \$731,156.00; 2008 - \$820,867.00)

- Oversight of claiming processes was limited.
- Recordkeeping processes were incomplete for tracking of accounts receivables.
- There was a lack of written documentation for claiming processes and employee roles.
- There was no segregation of duties: one employee was responsible for the majority of claiming and reconciliations.
- While periodic reconciliations were done, they did not include complete accounts receivable data.
- Management verification of accounts receivable documentation was not evidenced.

Billing Claims and Collections-Office for the Aging Vehicle Maintenance

(2007 - \$22,622.55; 2008 - \$29,552.28)

- Oversight of billing and collection processes was limited.
- Recordkeeping processes were not properly designed to ensure all services and products provided were billed in a timely manner. A formal accounts receivable ledger for billing was not maintained. Policies and procedures including employee roles were not documented.
- There was no segregation of duties for the preparation of maintenance charges and the ordering, receipting and inventorying of parts.
- Periodic reconciliations were not done to ensure accuracy of all billings. Data was not entered into the fleet management software to ensure streamlined and accurate billing.
- Management verification of supporting documentation to billings was not done before and after invoice preparation.

Billing Claims and Collections- Non-Emergency Medical Transportation to DSS

(2007 - \$4,622,289.88; 2008 - \$5,874,649.34)

- Policies and procedures documenting billing and collection were not available.
- Oversight of billing and collection processes was limited.
- Recordkeeping processes were not properly designed to ensure all services provided were billed accurately and timely. A formal accounts receivable ledger for billing was not maintained.
- Periodic reconciliations were not done to ensure accuracy of billings. Data to support billings was not complete including allocation methodologies.
- Management verification of billing documentation for non-emergency medical transportation revenue was not evidenced.

Payroll Deficiencies

(Professional Services - Program only 2007 – \$3,220,596.41; 2008 - \$3,613,027.41)

- Oversight was severely deficient. Authorizations were not in place to provide proper checks and balances. As noted under risk assessment, a theft occurred during the audited period in part due to the lack of oversight. Additional oversight was not put in place to prevent further theft or defalcations.
- Recordkeeping processes were not properly designed to account for time worked, time used and time paid. There was a lack of documented policies and procedures defining record keeping and employee responsibilities. Records were incomplete or insufficient for overtime, benefit time, raises, manual checks, payroll ledgers and bank records. As a result, there is no assurance all payment disbursements were valid.
- Security was deficient. Manual checks were indiscriminately issued by the payroll person without sufficient documentation. Payroll records were incomplete to ensure an adequate audit trail.
- There was no segregation of duties: One individual had sole responsibility for maintaining payroll records and authorizing payment.
- Periodic reconciliations were not completed for individual payroll records and bank records. Errors were noted in the calculations and disbursements of selected payments.
- Management verifications of payroll records did not ensure accuracy of data resulting in inaccurate payroll disbursements.

Procurement/ Contract Management Deficiencies

- Oversight of procurement and contract management was deficient. Authorization for expenditures was limited.
- Recordkeeping processes for procurement and contract management were not properly designed. There was a lack of comprehensive procurement policies and procedures including defining employee roles and responsibilities. Records were incomplete including missing contracts, missing bid and pricing documentation, and written justification for expenditures.
- There was no segregation of duties: in most cases, individuals had sole responsibilities for both ordering and receiving.
- There was no reconciliation of contract payments and billing records to ensure payments were accurate and not duplicated.
- There were no evidence of management verifications to ensure accuracy of cost; receipt of product; necessity and justification of expenditure.

Equipment & Parts Management Deficiencies

- Oversight of equipment and parts management was deficient.
- Recordkeeping did not include the comprehensive use of the fleet management software system for vehicle inventory, fuel inventory, parts inventory, tire inventory, work orders, mechanic hours and reports and equipment inventory. Processes were not in place to account for the purchase and use of equipment and parts. There was a lack of comprehensive policies and procedures defining roles of employees for equipment and parts management.
- Security of equipment and parts was deficient: all items were not inventoried, storage areas were not locked, cameras were not operational, personal items were intermingled with stock.
- There was no segregation of duties for purchasing, disbursing and inventorying items.
- Periodic reports were not available from the computerized software for fleet costs including tires, vehicles, parts, work orders and fuel usage.
- Management verifications were not in place to ensure fiscal accountability for equipment and parts management.

Recommendation

- All areas of accounting must be thoroughly reviewed and control activities implemented to promote accurate records, appropriate oversight, and fiscal accountability.

Monitoring

Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Monitoring is most effective, when all employees understand the organization's mission, objectives, responsibilities, and levels of risk tolerance.

Findings

- Management did not ensure controls were effective. Management did not perform ongoing monitoring activities and evaluations to assess quality of performance of control activities.

- Training was insufficient and assessment of training needs was not continuously conducted by management. New software tool training was limited and not attended by all appropriate personnel.
- Effective policies and procedures were not in place to monitor all major control activities.
- Managers and supervisors did not exhibit an awareness of their responsibilities for internal control.

Recommendations

- Management must undertake ongoing monitoring activities and evaluations including verifications for key activities.
- Training must be offered for key control activities to ensure improved operations. Management must ensure all appropriate personnel are trained in policies and procedures and software tools. In addition, management must ensure all appropriate personnel attend scheduled training.
- Effective policies and procedures to monitor control activities must be implemented.
- Managers and supervisors must be informed of their responsibilities regarding internal control.

Addendum I

Department: 5680 Mass Transportation

As of Budget Performance Report dated April 29, 2009.

	Fiscal Year	12/31/2007	12/31/2008
Revenue			
Operation			
Fare Box Revenue		\$865,171.37	\$912,465.09
Bus Operations - C/O POK		8,250.00	8,500.00
Bus Operations - SS - Medicaid		4,622,289.88	5,256,920.99
Bus Operations - Transportation Tourism		19,125.00	0.00
Bus Operations total:		\$5,514,836.25	\$6,177,886.08
 Other Revenue			
Interest earned:		\$36,188.74	\$15,600.93
Sales		969.80	1,446.15
Insurance Recoveries		0.00	1,157,510.71
Other Comp for Loss		2,621.24	0.00
Refund of Pr. Yr's Exp		15,903.50	15,575.83
Unclassified Rev. totals:		3,318.63	1,154.61
Inter-fund Revenues		22,622.55	29,552.28
Other Revenue total:		\$81,624.46	\$1,220,840.51
 NY State Revenues			
Preventative Maint.		\$150,000.00	\$80,000.00
Planning Assist		8,000.00	4,000.00
Renovation Assist		750.00	114.02
STOA Revenue		2,110,536.97	2,478,009.78
Elderly Bus Trans		10,000.00	10,000.00
Equipment		(68.00)	6,528.10
New York State totals:		\$2,279,218.97	\$2,578,651.90
 Federal Revenues			
Rural OA Sec 18		\$55,700.00	\$58,400.00
Equipment		(544.00)	53,480.00
Preventive Maint		640,000.00	640,000.00
Planning Assist		32,000.00	32,000.00
Elderly Bus Trans		4,000.00	4,444.00
Federal totals:		\$731,156.00	\$788,324.00
 Inter-fund Transfers		 \$2,133,505.00	 \$2,895,257.00
Revenue Totals		\$10,740,340.68	\$13,660,959.49

Department: 5680 Mass Transportation

As of Budget Performance Report dated April 29, 2009.

Expense	Fiscal Year	12/31/2007	12/31/2008
Equipment		\$0.00	\$10,466.10
Computer Software		5,000.00	9,850.00
Parts & Supplies - Auto, Equip		298,820.82	486,901.28
Miscellaneous Supplies		4,430.07	4,889.69
Gasoline/Propane Gas		549,394.03	770,560.84
Office Supplies		12,252.53	14,234.61
Uniforms, Badges & Access		11,234.19	15,459.89
Gas/Electric/Water		85,671.95	92,605.68
Telephone – Land/Data Lines, Cable Svc		12,205.28	13,411.90
Insurance – Vehicle, Property, Liability		66,659.94	62,290.35
Professional Services – Legal/Consultant		436,747.16	237,794.54
Professional Services – Program		3,220,596.41	3,613,027.47
Educational Programs		6,335.00	1,108.00
Transportation		7,498.72	10,400.00
Medicaid Transportation		3,795,638.30	4,338,454.55
Commercial Printing		3,731.00	6,447.00
Rental/Lease – Equip/Real Property		6,965.61	10,875.65
Data Proc Svcs		23,878.82	26,679.04
Maintenance -Service Contracts		37,967.31	43,535.04
Advertising		10,092.24	1,643.26
Refuse Removal/Pest Control		6,897.00	27,518.19
Repairs/Alt to Equip		109,300.03	280,997.00
Repairs/Alt to Real Prop		12,871.38	878,677.88
Employee Physicals		7,255.00	5,270.00
Service Fees		351,661.15	418,240.88
Misc Interdepartmental Expenses		20,924.83	48,826.00
External Postage		4,071.53	8,663.89
Reimb of Exp-Non-Employee		2,356.71	11,600.00
Subscr & Dues		898.03	820.79
Taxes on Property		32,738.66	29,322.74
Other Equipment-ND		2,085.00	13,654.54
Non-Employee Benefits		904,348.30	1,225,366.11
Principal-Serial Bonds		56,960.00	62,500.00
Bond Interest - Ent Funds		22,563.40	19,375.00
Reserve for Claims		50,000.00	50,000.00
Expense Totals		\$10,180,050.40	\$12,851,467.91
Revenue Grand Totals		\$10,740,340.68	\$13,660,959.49
Expenditure Grand Totals		\$10,180,050.40	\$12,851,467.91
Revenue over Expense		\$560,290.28	\$809,491.58
Less Depreciation		\$0.00	(\$691,364.80)
Grand Totals		\$560,290.28	\$118,126.78

1 - County support shown as "Interfund Transfer" was in excess of the need for support.

2 - Depreciation was not reported in the 2007 Budget Performance Report.