

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

**CASH HANDLING/REVENUE PROCESSING
CONTROLS AUDIT**

Department of Public Transportation

AUGUST 2014

Alex J. McLaughlin, Comptroller



Broome County Department of Audit and Control

Alex J. McLaughlin, Comptroller . Jerry F. Marinich, Chairman of the Legislature

August 12, 2014

Greg Kilmer, Commissioner:

The Department of Audit and Control has completed an audit of the Department of Public Transportation. The principal objective was to examine the processes and controls employed by the Department of Public Transportation to charge and collect proper fares and to examine related cash handling procedures.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, except for the instances noted herein, it is our opinion that the Department of Public Transportation has proper processes and controls in place to assess, collect, deposit and record fares.

Sincerely,

Alex J. McLaughlin
Comptroller

cc: Jerry F. Marinich, Chairman of the Legislature
Members of the Legislature
Aaron M. Martin, Clerk of the Legislature
Debra A. Preston, County Executive

Background Information:

The purpose of our audit was to assess the processes and controls employed by the Department of Public Transportation to charge and collect proper fares and to examine related cash handling procedures.

Internal controls over cash are necessary to prevent mishandling of funds and to safeguard taxpayers against loss. By clearly defining responsibilities in the cash handling process, internal controls over cash handling functions also help employees to understand and execute their responsibilities.

For 2013, The Broome County Department of Public Transportation recognized revenue of \$1,420,786 from fixed route fares and fees. Another \$171,429 in revenue was recognized from para-transit (BC Lift and BC Country) routes. Another \$718,188 was recognized as a result of contracts with SUNY-OCC (Binghamton University), Binghamton School District, and SUNY Broome.

We examined activity, in detail, from the month of February 2014. During February, the Department of Transportation collected \$194,076 (\$86,260 in cash and currency and \$107,816 in checks) For February 2014, we compared the fare revenue collected to the fare revenue posted in the general ledger (PeopleSoft) and found no errors or irregularities.

We examined processes related to all revenue service (Transit ; urban para-transit ; rural para-transit). We examined processes beginning with the establishment and communication of all fares, assessment and collection of same on bus, safe removal, counting, deposit and related accounting entries.

In addition, we examined functional responsibilities to ensure adequate segregation of duties, reviewed all relevant written policies and procedures, ensured receipts were deposited intact and in a timely manner, and traced transactions from initial transaction point to the bank account and general ledger

Finally, we calculated the fare recovery ratio for the Broome County Department of Transportation and compared it to the fare recovery ratios for several New York State Transportation Systems.

We thank the Department of Transportation for their time and assistance during our audit.

FARE BOX RECOVERY RATIO COMPARISON

During the course of our audit, we calculated the fare box recovery ratio for Broome County. The fare box recovery ratio is the fraction of operating expenses which are met by fares. In other words, fare revenue expressed as a percentage of operating expenses. Most transportation systems in the United States have fare box recovery ratios between 25% and 35%.

For comparative purposes, we calculated the fare box recovery ratio for the following transportation systems:

- Capital District Transportation Authority (CDTA)
- Niagara Frontier Transportation Authority (NFTA)
- Central New York Regional Transportation Authority (CNYRTA) includes (CENTRO-Syracuse)
- Tompkins Consolidated Area Transit (TCAT)

BROOME COUNTY	CDTA	NFTA	CNYRTA	TCAT
23.4%	22.4%	29.3%	26.1%	32.7%

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES
- DEPARTMENT OF PUBLIC TRANSPORTATION -

FINDING 1: COMPARISON OF ACTUAL TO EXPECTED FARES NOT ROUTINELY DOCUMENTED

During the course of our audit, we examined the processes employed by management to ensure that all expected fare receipts were received. Transit has developed an excel spreadsheet that is designed to document the comparison of the actual fare receipts to the expected fare receipts. This determines if the variance between actual and expected revenue is within the acceptable industry standard. However, we noted that the comparison of the actual fares received to the expected fares is not, in practice, routinely documented on the spreadsheet, nor is the comparison required in the written procedures.

Comparing the actual fares received (based on the physical count) to the expected fare receipts and analyzing any significant variances is an effective internal control.

By not routinely documenting the comparison of the actual to the expected fare receipts, the control is weakened.

RECOMMENDATION:

We recommend that the comparison of actual to expected fare receipts be routinely documented on the spreadsheet. We also recommend that Transit update their written procedure to require the documentation of the comparison on the daily spreadsheet.

MANAGEMENT RESPONSE:

As of May 1st, 2014, a new Clerk position was filled and updated Cash Room procedure put in place. Each morning, the Clerk conducts a comparison between fare box data (expected receipts) and actual receipts (physical count). The daily comparison is notated on the spreadsheet with variances greater than 1% being investigated. The Clerk's duties and daily reports are overseen by either the Sr. Account Clerk and/or the Mobility Manager. These positions act as back-up in event of the Clerks absence. This procedure has been updated in the department Policy Manual.

FINDING 2: DELAY BETWEEN DEPOSITS AND POSTING OF TRANSACTIONS

During the course of our audit, we compared the transit bank deposit slip dates to the dates that the fare revenue was posted in the general ledger during the month of February 2014. We noted 20 instances when the lag time between the deposit date and the recording of the transaction was 8 days or more.

Good internal controls include minimizing the time between depositing monies in the bank and recording the revenue in the accounting records.

Promptly recording transactions increases their relevance, value, and usefulness to management.

RECOMMENDATION:

We recommend that Transit reduce the time between depositing transit fares in the bank and recording the transaction in the accounting records.

MANAGEMENT RESPONSE:

Effective August 1st, 2014, the Principle Account Clerk will complete the bank transmittal (deposit) and record the entry into the accounting record on a daily basis. This process will be reviewed by the direct supervisor.

FINDING 3: OPERATOR MANIFEST NOTATIONS SHOULD BE STANDARDIZED

During the course of our audit, as previously noted, we examined fare collection for para-transit (BC Lift & BC Country) operations. Para-transit bus operators are provided with schedules known as operator manifests. The operator manifest details the client name, address, and fares to be paid. We noted that the bus operators used a variety of different notations to indicate whether a client had prepaid the fare, paid the fare when picked up, were not required to pay the fare (billed to someone else), or canceled.

Transit would be better served if the notations used to indicate the results for para-transit bus routes were standardized (used by all drivers).

Standardizing the operator manifest notations facilitates the comparison of expected fares (per the operator manifest) to the actual fares received.

RECOMMENDATION:

We recommend that, for para-transit bus runs, Transit develop and implement standardized notations.

MANAGEMENT RESPONSE:

Standardized notations have been created and consistently applied to the driver's manifest daily. The notations as follows:

- “B” – Billed. For fares paid by an organization and billed monthly.
- “PD” – Paid. For fares paid in cash per boarding.
- “OP” – Over Pay. For fares paid during the morning outbound trip to cover the additional afternoon inbound (return) trip.
- “PP” – Prepaid. When the afternoon inbound (return) trip fare has been paid during the morning outbound trip (see OP).
- “NP” - No pay.

FINDING 4: BACKGROUND CHECKS SHOULD BE ROUTINELY PERFORMED

During our examination, we inquired about whether or not background checks, as a policy, were done for potential employees with cash handling responsibility. Of the nine employees with cash handling responsibility that we inquired about, we noted that two employees had not had a background check performed. One of these employees was hired prior to the County's establishment of such background checks as a standard procedure.

Background checks for sensitive positions are a best practice.

Proper background checks can be an effective internal control that can, to the extent that prior history can be a predictor of future behavior, reduce the risk of dishonesty losses.

RECOMMENDATION:

We recommend that the Department of Public Transportation, as a policy, request background checks for all prospective employees that will have responsibility for cash handling.

MANAGEMENT RESPONSE:

As a matter of policy, Transit performs pre-employment background checks on all employees. The two employees noted in the report had been screened but their reports were not on file. Ron Hirst was screened on 7/9/2002 (copy available) and Lori Cooke was screened upon initial hire but her record had been deleted. She was screened again July of 2014. Copies of all employee background checks will be kept onsite in locked department personnel files.