



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Management of Cash and Investments

Metropolitan Transportation Authority



Report 2009-S-102

February 2013

Executive Summary

Purpose

To determine whether the Metropolitan Transportation Authority effectively managed its cash and maximized its return on investments. Our audit scope period was January 1, 2008 through March 31, 2011.

Background

The Metropolitan Transportation Authority (MTA) is a public benefit corporation providing transportation services in and around the New York City metropolitan area. The MTA is governed by a Board of Directors, whose 23 members are appointed by the Governor and confirmed by the State Senate. The MTA includes seven constituent agencies, each led by a President who is appointed by the Board. The MTA also includes a Headquarters, which provides administrative support for the seven constituent agencies.

Key Findings

- MTA follows certain important practices to manage cash and to maximize return on its investment portfolio. However, improvements are needed to provide the best assurances that cash and investments are optimally managed and available sources of revenues are considered when preparing budgets to meet operating and capital needs.
- We identified \$92.1 million maintained in funds and bank accounts that could have been factored into the budgeting process. MTA officials did not have a written plan for meeting the objectives set forth in its investment guidelines.

Key Recommendations

- Routinely monitor the funds, document required balances and ensure that excess moneys are factored into the budgeting process for meeting MTA operational and/or capital needs.
- Monitor daily bank account balances to ensure that proper amounts are being turned over to the MTA Treasury Department.
- Establish a written investment plan which includes yield expectations and perform documented analysis demonstrating performance against the yield expectations.

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

February 13, 2013

Mr. Fernando Ferrer
Acting Chairman
Metropolitan Transportation Authority
347 Madison Avenue
New York, NY 10017

Dear Mr. Ferrer:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of *Management of Cash and Investments* at the Metropolitan Transportation Authority and related entities. This audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

The Metropolitan Transportation Authority (MTA) is a public benefit corporation providing transportation services in and around the New York City metropolitan area. The MTA is governed by a Board of Directors, whose 23 members are appointed by the Governor and confirmed by the State Senate. The Board's Chairman also serves as MTA's Chief Executive Officer. The MTA includes the following seven constituent agencies, each led by a President who is appointed by the Board:

- New York City Transit (Transit), which operates New York City's bus and subway systems,
- Long Island Rail Road, which operates a commuter railroad between New York City and Long Island,
- Metro-North Railroad (Metro-North), which operates a commuter railroad between New York City and upstate New York and Connecticut,
- MTA Bus Company, which provides services in certain parts of New York City,
- Long Island Bus, which provided bus service on Long Island through December 31, 2011,
- Tri-borough Bridge and Tunnel Authority (TBTA) which operates seven bridges and two traffic tunnels in New York City, and
- MTA Capital Construction, which manages certain MTA capital projects.

The MTA also has a Headquarters, which provides administrative support services for the seven constituent agencies. MTA's Treasury Department acts as an investment manager for all of the constituent agencies.

The MTA and its constituent agencies receive revenues from a variety of sources including fares and tolls collected from those using the transit system, bridges and tunnels system users; rentals of real estate to vendors; advertisements on buses, subway trains, and commuter railway cars; and interest earned on investments of certain operating funds. Each agency has bank accounts into which revenues are deposited and from which expenses are paid. Each business day the constituent agencies determine their cash needs and transfer excess cash to the Treasury Department for investment decisions. The Treasury Department also maintains funds set aside to accomplish specific purposes.

Audit Findings and Recommendations

MTA follows certain important practices to manage cash and to maximize return of its investment portfolio. However, improvements are needed to provide the best assurances that cash and investments are optimally managed and available sources of revenue are considered when preparing budgets to meet operating and capital needs. We found that \$92.1 million set aside in various investment funds and cash accounts could have been factored into the budgeting process. In addition, we concluded that MTA lacked sufficient documentation and written analysis to demonstrate that it was obtaining a maximum return on investment.

Funds

The MTA maintained 170 funds set aside for particular purposes. As of March 31, 2010, there was \$1.8 billion in 126 such funds. We examined a judgmental sample of ten of these funds totaling \$881.2 million, (See Exhibit), and determined that MTA could only provide adequate written documentation and analysis to support the need for balances of \$7.8 million in three of the ten funds. Our further analysis of the remaining balance of \$873.4 million contained in seven of the funds indicated that there was \$64.5 million of excess monies that could have been factored into budgetary decision making as follows:

- The TBTA Necessary Reconstruction Reserve Fund was established to fund expenditures for up to four months for capital projects in the event that bonds cannot be sold to fund the projects. Although MTA estimated the four month funding requirement to be \$160 million, the Fund contained \$216.3 million; an excess of \$56.3 million.
- The Commuter Forward Energy Contract Fund was established to lessen the impact of increases in energy costs. The Fund had a balance of \$18.5 million, but the commuter portion of the contract was set for only \$15.7 million. Therefore, we concluded that the Fund had \$2.8 million more than required by contract.
- The MRT-2 Services Marketing Plan Fund was established in 2007 to support marketing activities. MTA Board-approved documents indicated that this Fund should have been closed in 2008. Nevertheless, the Fund still accounted for \$5.4 million.

On August 19, 2011, MTA provided documentation indicating that the Forward Energy Contract Fund and the MRT-2 Services Marketing Plan Fund were closed yielding \$18.5 million in monies available to the general fund. In the case of the TBTA Necessary Reconstruction Reserve Fund, MTA officials explained that there is no formula or required amount to be set aside for this fund. They added that the balance in the fund is left to management's discretion.

Another fund we reviewed was the 42nd Street Development Project Fund. This is essentially an escrow fund governed by an agreement with the New York State Empire State Development Corporation (ESDC) and New York City Economic Development Corporation for specific capital projects. MTA officials stated that this agreement will be closed out and the money in the fund (\$4.8 million as of March 31, 2010) will be used to reimburse MTA for its capital expenditures.

Subsequent to our inquiry, MTA officials told us that in the process of closing out the agreement, they determined there was an additional \$68.2 million due from ESDC to reimburse the MTA for eligible project costs. In response to our draft report, MTA officials reported that they received \$43.5 million from ESDC.

Recommendation

1. Routinely monitor the funds, document required balances and ensure that excess moneys are factored into the budgeting for meeting MTA operational and capital needs.

Bank Accounts and Balances

MTA Headquarters and each of the constituent agencies maintain bank accounts to help manage cash. We reviewed 101 such accounts that together had an average daily balance of \$27.6 million during the month of January 2010. We concluded that, with some revised procedures and processes, most of this money could have been freed up for operational or investment needs.

According to MTA officials, 45 of the 101 accounts should have balances of \$1,000 or less at the end of each day. Any amounts exceeding \$1,000 should be forwarded to the MTA Treasury Department for investment. However, when we examined the average daily closing balance in these 45 accounts for the month of January 2010, we determined that \$26.7 million was collectively on hand. For example, end of day balances in one account maintained by TBTA ranged from \$2.7 million to \$9.6 million and MTA Transit had 20 accounts with a collective average daily balance of \$5.38 million.

Regarding the remaining 56 accounts, MTA officials indicated that these should have a zero dollar balance at the end of each day. While we found this to be the case for 48 of the accounts during January 2010, we also noted that eight of the accounts in fact had a collective average daily balance of \$961,467. These monies should have been forwarded to the MTA Treasury Department for use in meeting daily cash needs.

MTA officials advised us that currently they have to make investment decisions by 10:30 a.m. each day. They added that later in 2013 they will implement new practices and processes that will allow them to monitor account balances throughout the day and invest optimal amounts later in the day.

In addition to questioning the excess daily balances in the funds, we question why so many accounts are necessary, particularly since many of the accounts appeared to have minimal activity. For example, we question why MTA Transit required 53 accounts including 19 that had fewer than 40 collective transactions over a one month period and 7 had no transactions at all.

We conclude that MTA should provide constituent agencies with guidelines on the use and purpose of bank accounts and should examine the opportunity for elimination and/or consolidation of bank accounts. Furthermore, MTA needs to improve its oversight of constituent agency bank

accounts to ensure that moneys are turned over to the MTA Treasury Department on a timely basis.

Recommendations

2. Provide constituent agencies with guidelines on the purpose and use of bank accounts.
3. Follow up on the accounts identified during the audit to determine the opportunity for elimination and/or consolidation of the accounts.
4. Monitor daily bank account balances to ensure that proper amounts are being turned over to the MTA Treasury Department.

Investments

The value of MTA's Treasury Department investments ranged from \$4.7 billion in April 2008 to \$2.4 billion in April 2009. Investment yields ranged from 5.91 percent in December 2008 to 0.52 percent in March 2010. During six months (May 2008, October 2008, June 2009, August 2009, January 2010 and March 2010) the MTA made 174 security sales totaling \$2.03 billion and made 240 security purchases totaling \$4.4 billion. MTA also made 959 Repurchase agreements valued at \$50.3 billion. To ensure effective management of this substantial investment portfolio, MTA investment guidelines state that investment decisions must safeguard principal amounts, meet expected cash flow requirements and maximize yield.

Treasury Department officials indicated that MTA used to have a written return on investment goal that attained between the one year US Treasury bill rate and the two year US Treasury rate. They added that in the current market their objective is simply to attain the best return without losing any principal. This objective is not formalized in writing and we were not provided records on alternatives that were considered for each investment decision. Given the lack of a written plan and supporting documentation and analysis, we are unable to conclude whether or not the MTA is meeting the expectations set forth in the investment guidelines.

The MTA maintains seven debt service funds which are used to make interest and principal payments on MTA capital debt. In November 2009, the total average daily balance in these funds was \$540.3 million. MTA officials advised us that the Treasury Department develops a schedule to purchase securities which are timed to mature when principal and interest payments on debt must be met. However, MTA officials did not provide us with schedules and related documentation supporting each investment in relation to the need to make debt service payments. Consequently, we could not determine how effectively MTA is managing this aspect of its finances.

Recommendations

5. Establish a written investment plan which includes yield expectations and perform documented analysis demonstrating performance against the expectations.

6. Maintain documentation supporting the effective timing of the purchase of investments to correspond to necessary debt service payments.

Audit Scope and Methodology

We audited the MTA to determine whether it effectively managed its cash and maximized its return on investments. Our audit scope period was January 1, 2008 through March 31, 2011.

To accomplish our objective, we reviewed Board minutes as well as regulations and law affecting the MTA. We interviewed officials from the MTA Treasury Department and Controller's Department, as well as financial management employees of the Long Island Rail Road, Tri-borough Bridge and Tunnel Authority, Transit and MTA Bus. We reviewed constituent agency records used to manage cash and investments. We selected a judgmental sample of ten funds maintained by MTA Headquarters to determine the justification for the balances in the funds. We reviewed investment guidelines and the designation of various investment pools. We analyzed investment reports to assess portfolio management.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. 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 whom 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 functions do not affect our ability to conduct independent audits of program performance.

Authority

We performed this audit pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution and Section 2803 of Public Authorities Law.

Reporting Requirements

We provided a draft copy of this report to MTA officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Metropolitan Transportation 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 recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

Ten Funds Selected for Review

Fund	Balance on March 30, 2010	Excess Funds
MRT-2 Corporate Purpose Account (1)	\$608,489,471	
TBTA (Bridges & Tunnels) - Necessary Reconstruction Reserve (1)	216,274,206	\$56,274,206
Forward Energy Contract - Commuter (2)	18,499,627	2,826,527
Capital Security - Commuter (1)	15,169,880	
MRT-2 Service Marketing FY07 Plan (2)	5,419,009	5,419,009
42nd St. Development Project (3)	4,780,675	
MTA Bus Company - Environmental Remediation Reserve (1)	4,778,067	
Sub-Total of Undocumented Balances		\$873,410,935
NYC Transit - Custodial Account	3,700,000	
MTA NYC Transit - R-46 Settlement	2,873,588	
NYC Transit - South Brooklyn Railway	1,198,000	
Sub-Total of Documented Balances		\$7,771,588
Total		\$881,182,523
		\$64,519,742

- (1) Information provided by MTA was not sufficient to support the amount in this fund.
- (2) MTA advised that after reviewing the fund, a determination was made to close the fund.
- (3) MTA advised that after reviewing the fund, it found that an additional \$68.2 million in reimbursable expenses had been incurred by MTA and are being sought from the ESDC, sponsor of the 42nd Street Development Project.

Agency Comments

347 Madison Avenue
New York, NY 10017-3739
212 878-7000 Tel



Metropolitan Transportation Authority

State of New York

January 30, 2013

Ms. Carmen Maldonado
Audit Director
The Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Re: Draft Report #2009-S-102 (Management of Cash and Investments)

Dear Ms. Maldonado:

This is in reply to your letter requesting a response to the above-referenced draft report.

I have attached for your information the comments of Robert E. Foran, Chief Financial Officer, MTA Headquarters, which address this report.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Prendergast", written over a horizontal line.

Thomas F. Prendergast
Interim Executive Director

Attachment


Memorandum

**Metropolitan Transportation Authority**

State of New York

Date January 30, 2013

To Thomas F. Prendergast, Interim Executive Director

From Robert E. Foran, Chief Financial Officer Re New York State Comptroller's Report #2009-S-102
Management of Cash and Investments

MTA Headquarters has received and reviewed the above-referenced draft report. Attached is our written response.

If there are further questions or issues, please call Vinay Dayal, Director of Treasury at (212) 878-7433.

Attachment

Cc: M. Fucilli, Auditor General
L. Kearse, Chief Compliance Officer

New York State Office of the State Comptroller Report 2009-S-102
Management of Cash and Investments

MTA Response: We would like to thank the State Auditors for their review and comments related to our investments program. We accept the recommendations put forth by the OSC and our specific response to each recommendation is as follows:

Funds:

Recommendation 1: Routinely monitor the funds, document required balances and ensure that excess moneys are factored into the budgeting process for meeting MTA operational and capital needs.

MTA Response:

The MTA will continue to monitor the funds, document required balances, and will move excess funds back into the general funds to meet MTA operational and capital needs as the funds are closed, or when excess funds are identified.

Bank Accounts and Balances:

Recommendation 2: Provide constituent agencies with guidelines on the purpose and use of bank accounts.

MTA Response: MTA is in the process of consolidating its Treasury operations, and will provide specific guidelines for the purpose and use of bank accounts when this review is complete in the end of 2013.

Recommendation 3: Follow up on the accounts identified during the audit to determine the opportunity for elimination and/or consolidation of the accounts.

MTA Response: MTA will work with the agencies to evaluate the number and use of all bank accounts and will reduce the number of bank accounts where warranted.

Recommendation 4: Monitor daily bank account balances to ensure that proper amounts are being turned over to the MTA Treasury Department.

MTA Response: MTA Treasury will continue to monitor bank accounts on a daily basis to ensure that proper amounts are turned over to the MTA Treasury Department. We believe the effectiveness of this process will improve with the consolidation of Treasury operations in 2013.

Investments:

Recommendation 5: Establish a written investment plan which includes yield expectations and perform documented analysis demonstrating performance against the expectations.

MTA Response: Due to the volatility of the market, specific investment goals have not been established, however MTA Treasury does compare their investment results with the rates associated with the 6 month Treasury bills. This comparison will be documented.

Recommendation 6: Maintain documentation supporting the effective timing of the purchase of investments to correspond to necessary debt service payments.

MTA Response: Daily Cash Flow analysis is performed to determine our cash need or cash surplus. Buy/Sell decisions are analyzed by our Senior Portfolio Manager based on comparable securities available in the market and in our portfolio. MTA's investment professionals are guided by Bloomberg pricing data and frequent inquiry with brokers. All analysis is, and will continue to be documented and retained for review by the internal and external auditors, other MTA departments, third party advisors, and the IRS. In regards to the debt service funds, monthly analysis is performed to determine the additional accrued debt service requirement to be funded to meet the respective debt service requirements. Documentation of this analysis will also continue to be retained.