



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

Division of State Government Accountability

Selected Aspects of Discretionary Spending

Rochester - Genesee Regional Transportation Authority



Executive Summary

Purpose

To determine whether the Rochester-Genesee Regional Transportation Authority's discretionary spending complied with its guidelines and was reasonable, adequately supported and properly approved. Our audit period was April 1, 2010 to March 31, 2012.

Background

The Rochester-Genesee Regional Transportation Authority (Authority) was created in 1969. Its mission is to provide and continuously improve public transportation services in the greater Rochester area. The Authority provides public transportation services throughout the seven counties of Monroe, Genesee, Livingston, Orleans, Wayne, Wyoming and Seneca. To accomplish its mission, the Authority incurs direct costs for specific program purposes and it incurs indirect or "discretionary costs" that support overall objectives.

Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds, supporting documentation and formal approvals that are necessary to be accountable for such costs.

Key Findings

The Authority does not have policies to determine the appropriateness and reasonableness of many types of discretionary expenses, including meetings and other events, memberships in professional organizations, sponsorships, and training.

Key Recommendation

Examine written policies and procedures to determine if they adequately address potentially questionable discretionary spending, including definitions of costs and necessary justifications, dollar thresholds, formal approvals and supporting documentation.

Other Related Audits/Reports of Interest

[Battery Park City Authority: Selected Aspects of Discretionary Spending \(2012-S-158\)](#)

[State University Constuction Fund: Selected Aspects of Discretionary Spending \(2013-S-14\)](#)

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

Division of State Government Accountability

September 30, 2014

Mr. James H. Redmond
Chairman
Rochester-Genesee Regional Transportation Authority
1372 East Main Street
Rochester, NY 14609

Dear Mr. Redmond:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage their resources efficiently and effectively. By so doing, it provides 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 entitled *Selected Aspects of Discretionary Spending*. The audit was performed pursuant to the State Comptroller's authority as set forth in 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*

Table of Contents

Background	4
Audit Findings and Recommendations	5
No Formal Policies and Procedures	5
Incomplete Policies and Procedures	5
Other Matters	6
Recommendations	6
Audit Scope and Methodology	6
Authority	7
Reporting Requirements	7
Contributors to This Report	8
Agency Comments	9

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

Background

Certain public authority costs pertain directly to the operating purpose of the entity. For example, a transportation authority expense to pay for vehicle fleet maintenance is an operating cost. However, a public authority also incurs “discretionary” costs to pay for expenses that indirectly support the primary operating purpose. For example, discretionary costs include expenses for travel and entertainment, and employee professional development. Expenses must not be incurred for the personal benefit of the board of directors, management or staff. Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds, supporting documentation, and formal approvals that are necessary for such costs.

The Rochester-Genesee Regional Transportation Authority (Authority) was created in 1969. Its mission is to provide and continuously improve public transportation services in the greater Rochester area. The Authority provides public transportation services throughout the seven counties of Monroe, Genesee, Livingston, Orleans, Wayne, Wyoming and Seneca. To accomplish its mission, the Authority incurs direct costs for specific program purposes and it incurs indirect or “discretionary costs” that support overall objectives.

During the audit period, we identified approximately \$1.6 million of Authority spending which was discretionary in nature. To determine if the Authority’s discretionary spending complied with its guidelines and was reasonable, adequately supported and properly approved, we examined 54 payments for discretionary spending totaling \$99,610 for the period of April 1, 2010 through March 31, 2012.

Audit Findings and Recommendations

No Formal Policies and Procedures

The Authority does not have policies to determine the appropriateness and reasonableness of many types of discretionary expenses, including meetings and other events, memberships in professional organizations, sponsorships, and training. Such policies would address not only what constitutes a proper discretionary expenditure related to the mission and public purpose of the authority, but also what would be considered an improper use of those funds. They also should: provide guidance as to reasonable amounts for such expenses; require prior approval of or authorization by an appropriate individual to ensure that the expense is reasonable; and identify the required documentation to justify the nature and purpose of such expenses. Without such policies, it is difficult to determine the appropriateness and reasonableness of certain discretionary expenses. Examples of the Authority's discretionary expenses include:

- Two payments totaling \$10,222 for food and site rentals for two separate employee recognition events;
- Five payments totaling \$7,154 for food and site rentals for Board and other meetings held off site because the Authority's main office is not large enough for the number of attendees. One of these meetings had only 20 attendees;
- One payment of \$6,899 for a family fun day at an amusement park where Authority money was used to subsidize a portion of the ticket price. According to Authority officials, only about \$940 of Authority money was spent on this event. The remainder was paid for by the employees;
- Three payments totaling \$6,280 for membership in professional organizations and sponsorship of events. These payments include \$5,780 (two payments) for the CEO of the Authority to belong to the international Young Presidents Organization, and \$500 for sponsorship of an event recognizing local attorneys;
- Four payments totaling \$4,839 for employee recognition and wellness programs without formal policies and procedures or a set budget for such programs; and
- Two payments totaling \$1,760 for Christmas gifts to Board members.

It is unclear how the appropriateness and reasonableness of these expenses were determined.

Incomplete Policies and Procedures

We reviewed 24 payments totaling \$37,915 for travel, training and conferences, and found that 11 of these payments totaling \$21,345 had no justification of the business need for the costs incurred by the employees. Most of the travel was out-of-State, including two trips to other countries. The Authority also sent several people to the same event without justifying the need for the number of attendees. They sent 10 employees to Texas for software training and 17 people (including six contractors) to Montreal to visit transit centers.

The Authority's travel procedures do not require an employee or manager to identify why attending training or a conference is necessary or require documentation to warrant such expenses. Authority officials stated that such justification is not required because all training and conferences are identified during the annual budget process. Each department head submits a training budget listing the training and conferences and an estimated cost based on the number of people they want to send. However, it does not require justification as to why the training or conference is necessary and the benefit to the Authority.

Other Matters

The Authority does not require its employees to obtain the government rate set by the U.S. General Services Administration (GSA) for lodging. Of the 16 trips in our sample that involved a hotel stay, 12 exceeded those government rates. Had the Authority exercised due diligence and required its employees to obtain the government rate, they would have saved \$1,486.

For meals, the Authority does not follow the GSA per diem amounts which New York State agencies generally use. As a result, the Authority may be paying more than it would if it followed GSA requirements. For example, the Authority pays a meal per diem for lunch and GSA does not. The Authority has not analyzed the flat rates to determine whether its rates are more cost-effective than using the GSA rates.

Recommendations

1. Examine written policies and procedures to determine if they adequately address potentially questionable discretionary spending, including definitions of such costs and the necessary justifications, dollar thresholds, formal approvals and supporting documentation.
2. Require employees to obtain the government rate for lodging or provide a justification and prior approval for lodging costs over the government rate.
3. Assess the impact of using the GSA per diem rates for meals rather than the \$60 flat rate currently used to reimburse employees for meals.

Audit Scope and Methodology

We audited to determine whether discretionary spending of the Authority complied with its procedures and was reasonable, adequately supported and properly approved. The audit covers the period April 1, 2010 through March 31, 2012.

To accomplish our audit objective, we reviewed policies, procedures and guidelines related to submitting of and paying for discretionary spending. We also interviewed Authority officials and employees to obtain an understanding of internal controls relevant to discretionary spending. We selected a judgmental sample of payments, based on the nature and amount of the payment. We reviewed the supporting documentation for 54 payments totaling \$99,610.

We conducted our performance 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

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

Reporting Requirements

A draft copy of this report was provided to Authority officials for their review and comments. Their comments were considered in preparing this final report and are attached in their entirety at the end of this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Rochester-Genesee Regional 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.

Agency Comments



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September 25, 2014

Ms. Carmen Maldonado
Audit Director
State of New York
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236

Dear Ms. Maldonado:

On August 14, 2014 we received the New York State Comptroller's draft audit report, "Selected Aspects of Discretionary Spending," Report 2012-S-152 (the "Report"), which reviewed the Rochester Genesee Regional Transportation Authority's discretionary spending for two fiscal years ended March 31, 2012. We have carefully reviewed the report and each of your three recommendations, and submit the following response:

- The first recommendation suggests a review of our written policies and procedures surrounding discretionary spending to include how each discretionary expense is related to the mission and public purpose of the Authority, what would be considered an improper expense, what a reasonable amount for such an expense would be, a statement that the expense is reasonable, and a statement justifying the nature and purpose of the expense.

The Authority takes seriously its responsibilities to protect all revenues entrusted to it, and has extensive internal controls in place to insure that all of our expenses are proper, reasonable, and justified. We are confident that our discretionary expenses do comply with our mission and public purpose. The Board of Commissioners and its Audit Committee is actively engaged in reviewing and approving the operating and capital budgets on a yearly basis, and in monitoring financial results monthly. Therefore, we believe that the necessary guidance is provided to Authority employees when it comes to expending funds entrusted to us.

It appears that your office -- by its own policy regarding employee expense reimbursement, non-travel related and employee awards -- agrees that it is impossible to create a policy or procedure that is as all-inclusive as your recommendation is suggesting.

- The second recommendation is to require all of our employees to obtain the government rate for lodging. This has been a standard practice of the Authority and is now referenced in our Travel Policy and Procedure, which became effective February 1, 2013. This Policy requires that employees request a government rate. As you are likely aware, hotels allocate a limited number of rooms on a nightly basis at the "government rate." Our Policy also references that the federal government's per diem rates are the maximum rate allowed. In fact, our Policy mirrors the guidance in the Office of the State Comptroller's

Travel Manual with one exception – your own Travel Manual doesn't require that your employees request or document their inability to obtain such a government rate when traveling on behalf of the Comptroller.

- The third recommendation is to review our meal reimbursement policy for traveling employees. (As a point of clarification, we are unsure of where the reference to a \$60 per day reimbursement comes from, as there was no such policy regarding meal reimbursement in place by the Authority in our recent past.) As referenced above, on February 1, 2013, the Authority adopted a Travel Policy and Procedure which allows for meals and incidental expenses to be reimbursed using the federal government's meal and incidental expenses per diem rate by location. Our Travel Policy and Procedure uses a similar method of reimbursement as outlined in the Office of State Comptroller's Travel Manual (revised October 21, 2013) prepared for your office employees.

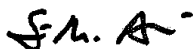
Our Authority continues to have the lowest customer fare of all transit systems in New York State. We are able to do this based on our foundation of operating with a private sector mindset within the public sector framework. Our entire team consistently seeks solutions to balance increasing cost structure against revenue sources from both the private and public sector that don't grow at the same pace as the expense.

While I assure you that we have reviewed the results and recommendations of this Audit with the utmost respect for the job of the auditor, we must point out our disappointment with the span of time involved in this audit process. As with any audit – to reap full value – we believe it is imperative for there to be timely two-way communication and closure. This audit has been anything but that, from our perspective.

I point to our original notification of the audit via an entrance letter dated September 28, 2012. On December 27, 2012, the Authority signed our engagement representation letter, a step in the audit that by professional standards signifies that "pencils are down." On August 14, 2014, some 19 months after the audit concluded, we were issued a draft report. This lengthy delay is a poor reflection of how effective we should all be as stewards of taxpayer funds.

In closing, I do wish to thank the audit team for their professionalism shown to our staff during their time spent at the Authority.

Sincerely,



Scott M. Adair
Chief Financial Officer

cc: Jim Redmond, Chairman
Bill Carpenter, Chief Executive Officer