



MTA BUS COMPANY REPORT

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INTRODUCTION

In June 2007, the President of MTA Bus and the MTA Auditor General requested that the Office of the MTA Inspector General (OIG) assist them in reviewing certain aspects of MTA Bus operations. Those requests were prompted by MTA Audit Services' (Audit Services) identification of overall control weaknesses, unusual transactions, and many management personnel vacancies creating potential fraud vulnerabilities.

The general areas we focused on were payroll, overtime, accounts payable, inventory and procurement. This report will discuss our investigative and audit efforts, and provide details with respect to specific findings and recommendations.

OIG conducted numerous tests to determine whether various control weakness cited by Audit Services were exploited to an extent that evidence of criminality might be found. As can be seen from the Miscellaneous Issues section, the majority of our tests revealed only minor problems. Some of the tests we performed in the areas of payroll, procurement/inventory and accounts payable did cause us to make certain recommendations for improvement. However, no evidence of criminality was found. The following is a summary of those findings.

- **Payroll** – MTA Audit Services found, and this Office verified, that employees at the College Point Maintenance Shop were not complying with a management directive that they electronically swipe in and out each day. MTA Bus management responded by issuing a memo directing that all employees were required to swipe and that employees would lose pay for failing to comply. Our study revealed that MTA Bus management at the College Point Depot never issued clear directives to the employee assigned to administer the program, and never verified that the sanctions were being imposed. This disconnect between policy and implementation resulted in at least \$26,000 in wages being paid that should not have been authorized during a four-month period at one depot. Once notified, MTA Bus management took steps to rectify the situation.
- **Procurement/Inventory** – Included in their prices for remanufactured bus parts, suppliers billed MTA Bus for core charges (i.e., refundable deposits for recyclable pieces of equipment) that increased the initial cost of the parts by more than 60 percent. It was not until this Office advised MTA Bus that its failure to track the return of these used pieces imperiled its recovery of at least \$143,000 (and possibly significantly more than that) in deposits, that it took positive steps to recover the money and implement procedures to track the equipment.
- **Accounts Payable** – MTA Audit Services determined that due to a lack of coordination between two Accounts Payable computer systems, some vendors were being paid twice for the same services or products. MTA Audit Services methodology revealed more than \$33,000 in duplicate

payments. OIG expanded the review and uncovered an additional \$25,862 in duplicate payments. MTA Bus responded by implementing procedures which it believes should address the problem. However, it must still identify and recover all remaining duplicate payments.

BACKGROUND

In April 2004, then Governor George Pataki, Mayor Michael Bloomberg and then MTA Chairman Peter Kalikow announced that the operations of seven private bus lines in Queens, Brooklyn and the Bronx would be transferred to the MTA. They stated that the transfer of the private bus companies would ensure that the service provided would be of higher quality and that their operations would be more efficient. New York City would continue to fully subsidize bus service as it has since 1974.

In September 2004, the MTA Board created the MTA Bus Company to take over the operations of these private companies and the eight depots that were the bases of their operations. Though the target date for the transition was July 1, 2004, as the following chart illustrates, the transfer was not completed until February 2006.

Private Bus Company	MTA Bus Depot	Transition Date
Liberty Lines Express, Inc.	Yonkers	January 3, 2005
Queens Surface Corp.	College Point	February 27, 2005
New York Bus Service	Eastchester	July 1, 2005
Command Bus Company, Inc.	Spring Creek	December 5, 2005
Green Bus Lines	JFK & Far Rockaway	January 9, 2006
Jamaica Buses, Inc.	Baisley Park	January 30, 2006
Triboro Coach Corp.	LaGuardia	February 20, 2006

MTA Bus was mandated to do the following:

- Transition the merger of these companies without service disruptions;
- Evaluate equipment acquired;
- Replace and upgrade equipment as needed (including vehicles and facilities);
- Analyze franchise and existing NYC Transit bus lines for parallel lines and make adjustments accordingly;
- Evaluate franchise lines for scheduling, efficiency and effectiveness;
- Institute NYC Transit standards (i.e., training, inspections, maintenance, safety, disability accessibility, etc.); and
- Provide job protection for bus line employees during the merger.

Given the complexity and scope of this merger, MTA Bus faced the challenge in the transition of continuing to provide the same level of service that the private entities had provided. At the point that the

transition was complete in February 2006, MTA Bus had approximately 3,000 employees and approximately 1,250 buses, serving approximately 335,000 riders each day.

The following details some of the issues encountered during the formation of MTA Bus that were effectively resolved and some issues which persist to the present.

Buses and Depots

The 1,250 buses that were inherited from the private companies were, on average, between 14 and 16 years old. Considering that the NYC Transit standard is to retire buses once they are in service for twelve years, more than half of the inherited buses had to be replaced. As of July 2007 MTA Bus had replaced about 859 buses. Seven hundred fifty-nine were newly purchased through a joint procurement with NYC Transit. The other 100 were refurbished NYC Transit buses. By the end of 2007, the fleet had more than 1,400 buses with an average age of 4.7 years. The improvement of the fleet has increased the mean distance between failures (MDBF)¹ from an average of 2,369 miles in the last 10 months of 2006 to an average of 4,818 miles in January 2008.

The repair and retrofitting (new fare boxes, logos and signage) of the aged, worn-out buses, the refurbishment of the NYC Transit buses and the repair of wheel chair lifts and air conditioners all required significant overtime. Expediting this work was made more difficult by the fact that each of the eight depots has different work rules.

In addition, the repair facilities were inadequate. Fuel and hydraulic fluid leaks (from the old lifts) were extensive. Substantial asbestos and fuel oil remediation had to be completed immediately. The old lifts were inadequate, and portable lifts were put into service.

Collective Bargaining Agreements/Labor Issues

The seven companies have separate collective bargaining agreements. Five of the agreements are with TWU Local 100. The remaining are with ATU Locals 1179 and 1181. The collective bargaining agreements cover 85 to 90% of the workers, including all Bus Operators and Mechanics and some Road Dispatchers. Each contract has separate work rules. In large measure, the employees continue to work under the rules that existed under the old expired agreements.² Negotiations with the unions are ongoing. Another issue during this transition phase relates to the 13C Clause of the FTA Funding Act which mandates that if a transportation company accepts federal capital funds and uses those funds, regardless of any gain in efficiency, employees may not lose their jobs and must be guaranteed that they are in substantially the same positions that they were in prior to the expenditure of funds and acquisition of the new equipment.

Transition Triage

NYC Transit reportedly conducted a wall-to-wall inventory before the private bus companies were transferred to MTA Bus.³ In implementing the transition, NYC Transit would close on all contractual agreements with private bus companies on Fridays at 11:00 a.m. In order to avoid suspension of service

¹ The average number of miles buses traveled before a roadcall that resulted from a mechanical failure of a bus component or system.

² These agreements expired approximately two-and-a-half years ago.

³ As will be seen below, that inventory did not provide any data to be used as a starting point for an inventory study.

while requisite administrative functions were performed, the actual transfer to the MTA would occur on the following Monday. During that intervening two and one-half day period, MTA Bus would meet with every employee. In order to verify ID and eligibility for dependant benefits, all employees were required to produce birth certificates, social security cards, licenses (where applicable) and have their pictures taken for an MTA Bus ID card. Appropriate licensure and 19A⁴ certification were verified for all drivers.

Payroll and Payment Systems

Payroll has also posed a particular challenge given the fact that the seven companies had seven different timekeeping systems and two different payroll systems. Calculating time involves factoring in each of the collective bargaining agreements and the work rules applicable to each location. Three of the seven systems have now been consolidated using a computer program, the so-called "VAX" system. The four former "Cooper companies"⁵ still do their payrolls via a Cooper subsidiary under contract with MTA Bus, using a computer program called AS400. There are plans for MTA Metro-North Railroad to assist MTA Bus in converting all payroll systems to the PeopleSoft System which is widely used in the MTA.

In the area of Accounts Payable (A/P), MTA Bus inherited a system in which the A/P invoice review function was split between two separate computer payment systems (AS400 and MAS90) with minimum controls. This resulted in a number of undetected duplicate payments to vendors. By phasing out the AS400 system in September 2007 and instituting controls that flag identical payments for the same invoice, MTA Bus believes that it had corrected the previous weaknesses in the A/P system that allowed duplicate payments to occur.

INSPECTOR GENERAL FINDINGS AND RECOMMENDATIONS

The following three sections of this report will provide specific detail with respect to the Inspector General's findings.

SECTION 1 – Payroll/Overtime

OIG found that the process recently established for the review of electronic swipe times at the College Point maintenance shop, in response to an Audit Services recommendation, had not been implemented. In most instances, employees who swiped in late or left early were not being docked for the differences between their actual swipe times and their manually reported time on payroll deviation sheets.⁶ In addition, employees who failed to swipe in, out, or both, were faced with no consequences. Recognizing that the swiping discrepancies needed to be addressed, MTA Bus management at the College Point Depot initiated a process for comparing swipe times with hours paid in August 2007. However, it did not develop any written criteria establishing when and to what extent time differences should be docked from an employee's pay. Further, it did not adequately supervise the payroll and maintenance shop employees implementing the process. As a result, at least \$26,000 in undocked time has not been recovered from employees for the period August to December 2007.

⁴ New York State Vehicle and Traffic Law (VTL) Article 19A, VTL §509-b, 15 NYCRR §6.1, et seq.

⁵ So called because Jamaica Bus Inc., Triboro Coach Corporation, Command Bus Company, and Green Bus Lines were part of a consortium, Transit Alliance Companies, which was headed by Jerome Cooper.

⁶ Deviation Sheets are used by foremen in the Maintenance Department to record straight time, overtime, leave and any differences to the normal schedule of work for each maintenance employee. It is the primary record used by the Payroll Department to document overtime and pay adjustments.

Time & Attendance/Overtime at College Point's Maintenance Shop

In 2007 Audit Services completed an audit of the processing of payroll for overtime at the College Point Depot covering the period September 2006 to March 2007. In one of the report's key findings, Audit Services focused on the lack of timely swiping in and out by maintenance shop employees and the overtime pay employees received without supporting swipe data.

OIG elected to focus part of its work at MTA Bus on this finding because it involved an area where theft of time could occur. In addition, Audit Services had made several recommendations to correct the conditions that were agreed to by MTA Bus. We followed-up to assure that these recommendations were, in fact, implemented.

Swipes Are Being Reviewed, but Employees Are Not Being Docked

Our effort focused on the process initiated by MTA Bus to improve swiping in and out by its maintenance employees. In response to the Audit Services report, MTA Bus assigned an accounting supervisor in August 2007 to compare swipe report data for all maintenance employees to the daily time sheets or deviation sheets. Since the swiping system was not integrated with the payroll system, all discrepancies identified were to be reported, via a swipe report, to a secretary in the Maintenance Department who would then initiate the process to dock the employee for the unsupported time.

MTA Bus management issued a memo to all maintenance employees in July 2007 which stated "lateness will not be tolerated and if you swipe [out] prior to the actual end of your tour you will not be paid the time." The Assistant General Manager of the College Point Depot created an attendance form which the secretary in the Maintenance Department was to fill out each time an employee did not swipe in or out, or swiped in late or out early. This form contained a statement that employees would not be paid for lost time.

OIG's review of the process focused on two aspects of the swipe system set up by MTA Bus. Specifically:

- Whether maintenance employees were swiping in and out each day; and
- Whether pay adjustments were made for employees swiping in late or leaving early.

We reviewed all 114 daily exception reports submitted to the Maintenance Department between August 10, 2007 and December 22, 2007. As discussed above, because the swipe time keeping system at College Point was not tied into the payroll system, the accounting supervisor was charged with reviewing swipe data and comparing the time at work indicated by the swipes to the time indicated on each employee's deviation sheet.

We found that the accounting supervisor reported 3,320 instances of late swiping, swiping out early, no swiping in or out, as well as unusual or irregular swipe times to be checked. In particular, he identified 2,434 differences of 10 minutes or more between the swipe report and the deviation sheet that totaled over 1,200 hours. The accounting supervisor provided all the data to the secretary in the Maintenance Department who was charged with initiating action to adjust the employee's pay. The following table shows the exceptions reported and the potential recovery.

Range of Minutes Late	# of Instances Reported by Accounting Supervisor	Total Minutes Late	Recovered Minutes	Unrecovered Minutes	Potential Recovery @ \$22.76 Hour ⁷
1 – 9	25	88		88	
10 – 15	1,290	14,477		14,477	\$ 5,492
16 – 30	563	12,738	117	12,621	\$ 4,788
31 – 59	330	12,989	55	12,934	\$ 4,906
60 +	251	31,909	3,223	28,686	\$10,882
No Swipe	836	–	–	–	–
“Check Swipe” Noted	25	–	–	–	–
Totals	<u>3,320</u>	<u>72,201</u>	<u>3,395</u>	<u>68,806</u>	<u>\$26,067</u>

The Maintenance Department secretary was responsible for verifying the swipe differences reported by the accounting supervisor and initiating a pay adjustment for each employee. The secretary told us that, although all differences of 10 minutes or more were reported to her, she only initiated a deduction from the employee’s pay if the difference was one hour or more. She also stated that MTA Bus management never provided her with specific guidelines or criteria setting out how many minutes an employee could be late before a deduction should be made. When we initially brought this matter to the attention of MTA Bus officials, they were under the impression that deductions were being made for all deviations.

We subsequently reviewed the 3,320 swiping deviations and found that pay deductions were made in only 31 instances or less than 1%. Further, of the 251 instances that involved time differences over 1 hour – the criteria that the Secretary said she was using to make deductions – we found that only 20 deductions were made or less than 8%. She did dock pay in 6 instances where the difference was under one hour and, in 5 instances, where an employee did not swipe in or out. We also noted that 16 employees were cited over 40 times each by the accounting supervisor, yet no deductions were ever made from the employees’ pay. One employee failed to swipe in, out, or both 67 times during his scheduled 96 work days during our test period and never had a deduction made from his pay. Another employee was cited 62 times and was paid 28 hours more than documented by his swipes, yet his pay was also never docked.

We subsequently met with MTA Bus officials who agreed with our findings. They stated they have begun to change the process and have established new preliminary criteria for docking pay when employees swipe in late or leave early. Specifically, they made or are making the following changes:

- All MTA Bus employees were notified by a February 8, 2008 memo that swiping in late or swiping out early by more than 5 minutes will result in a deduction to the employee’s pay on a minute for minute basis.
- A new swipe system is being installed to help expedite the laborious process of comparing swipes to the deviation sheet data that is used to calculate pay for each employee.

⁷ The average annual hourly straight time rate paid to all College Point Maintenance shop employees in 2007 was at least \$22.76.

- A more experienced account clerk will be taking over the duties of the secretary for initiating pay deductions resulting from swiping differences.
- The accounting supervisor charged with checking daily swipes will be entering the data electronically into Excel and sending it to the Maintenance Department Assistant General Manager, as well as to the new account clerk.
- MTA Bus officials will be meeting with MTA Bus union officials in the next several weeks to inform them that all MTA Bus depots will be following NYC Transit rules regarding lateness. According to MTA Bus officials, the NYC Transit standard states that if an employee is more than 7 minutes late, 15 minutes will be deducted from pay, a lateness of 16 minutes to 30 minutes will result in a 30 minute deduction. Thereafter, any part of a quarter hour late will result in an additional 15 minute deduction.

OIG estimates that MTA Bus's failure to establish criteria and make appropriate deductions cost the agency at least \$26,000 for the 3,320 instances identified by the accounting supervisor during the period August 10, 2007 to December 2, 2007.⁸

PAYROLL RECOMMENDATIONS

1. MTA Bus should establish, document, and distribute criteria that specifies when employees will be docked for swiping in late, leaving early, and for failing to swipe in or out and assure that it is applied.
2. MTA Bus should attempt to recover the approximate \$26,000 in wages for the time reported by the MTA Bus accounting supervisor where employees swiped in late or left early during the period August to December 2007.

Response to Recommendation 1: In June 2008, MTA Bus Company senior management reported that in February 2008 MTA Bus began to consistently dock employees for instances of swiping in late or swiping out early. MTA Bus officials stated that between February and May 2008 approximately \$35,000 was withheld for swiping violations. They also asserted that detailed criteria for swiping in late, leaving early and failing to swipe in or out are being developed.

Response to Recommendations 1 and 2: In a September 5, 2008 letter submitted in response to the draft of this report, MTA Bus Company President Joseph J. Smith reported that MTA Bus had initiated the recommended corrective actions to improve the efficiency of its operations relating to payroll and to recoup the associated funds.

SECTION 2 – Procurement /Inventory

Core Charges for Remanufactured Bus Parts

One of the primary goals of the MTA Bus Procurement Department (Procurement) is to ensure the timely purchase of replacement bus parts that are essential to the agency's revenue vehicle maintenance

⁸ The \$26,000 is a conservative number because it was calculated using a straight time hourly wage rate of \$22.76 while many of the minutes not worked were actually paid at the overtime rate.

program. Between January 2005 and June 2007, the agency purchased more than \$27 million⁹ in bus parts from the following vendors:

**MTA Bus Payments to Bus Part Suppliers
January 2005 – June 2007**

Atlantic Detroit Diesel – Allison	\$12,237,757
Motor Coach Industries Service Parts	\$ 9,125,801
Orion Bus Industries	\$ 2,549,306
Superior Distributors	\$ 989,083
Gillig Corporation	\$ 807,078
The Brake Service Group	\$ 739,223
North American Bus Industries	\$ 341,872
Kirk's Automotive	\$ 299,798
	<u>\$27,089,918</u>

According to the MTA Bus Procurement Director, these vendors frequently supplied remanufactured transmissions, engines, fuel pumps, and other bus parts to the agency. Remanufactured parts contain recycled mechanical components from used bus parts and, as such, have a significantly lower unit cost than new equipment. MTA Bus is liable, however, for substantial replacement costs (called core charges) for any used parts that are not returned to the suppliers.

The Procurement Director could not identify how much of the \$27 million was paid for remanufactured items or whether the agency had incurred core charges for unreturned parts because neither of the two procurement computer systems (MAS90 nor AS400), which processed vendor payments during this period, had ever been programmed to capture such data.

To determine if MTA Bus had incurred any significant core charges, we sampled remanufactured part purchases from Atlantic Detroit Diesel – Allison (Atlantic), the largest parts supplier. Our examination focused on 1,549 parts that Atlantic shipped to College Point, Eastchester, and Yonkers Depots between January 2005 and June 2007. We also reviewed Atlantic's accounts receivable records pertaining to core charges owed by MTA Bus as of February 2008.

(i) Pre-paid Core Charges

Although the vendor gave its customers 90 days to return used parts, Atlantic billed for core charges at the time of delivery. According to the Procurement Director, MTA Bus honored this billing arrangement and pre-paid core charges for remanufactured parts delivered to the three depots. Atlantic offered core charge refunds in the form of credit invoices only after MTA Bus' Stores Department (Stores) shipped the used parts back to the vendor. Stores employed a first-in, first-out replacement process for

⁹ Between January 2005 and June 2007, the total amount of purchase orders issued by MTA Bus to all vendors was \$74.6 million.

remanufactured parts (i.e., used parts previously removed from buses were returned to Atlantic in exchange for the newly remanufactured parts that had just been delivered) in order to obtain a quick refund of the core charges.

On average, pre-paid core charges added more than 63 percent to the initial cost of remanufactured parts, as shown:

**Unit Cost & Core Charges Related to
1,549 Sampled Remanufactured Parts**

Unit Cost	\$1,313,368	100%
Core Charge	\$ 831,600	63%
Total	<u>\$2,144,968</u>	163%

In February 2008, we contacted Atlantic and requested data on any credits it issued against the 1,549 remanufactured parts we sampled. Atlantic's records indicated that \$143,717 in pre-paid core charges had not been refunded. We identified two reasons for MTA Bus' inability to recover these funds.

Unreturned Parts

According to Atlantic's records, MTA Bus failed to return 322 used parts or 21 percent of the 1,549 items we sampled. As of February 2008, Atlantic had waited almost two years for the return of these items from the three depots involved. These unreturned parts, valued at \$100,571 in pre-paid core charges, fell into the following categories:

**Inventory of Remanufactured Parts
Listed as Unreturned by Atlantic Detroit Diesel - Allison**

Part Category	# of Parts	Prepaid Core Charge
Bus Transmissions	4	\$ 45,300
CNG Cylinder Liner Heads	34	\$ 8,635
Compressors	5	\$ 2,500
Fuel Injectors	28	\$ 9,326
Water Pump	45	\$ 8,447
Drive Assembly	23	\$ 2,875
Rocker Arms	160	\$ 18,000
Miscellaneous Part Categories	23	\$ 5,488
Total	<u>322</u>	<u>\$100,571</u>

The core charges related to the four unreturned bus transmissions were particularly costly for MTA Bus, as shown:

**Pre-Paid Core Charges
Pertaining to Four Unreturned Bus Transmissions**

Part #	Date Delivered	Unit Cost	Core Charge	Depot
29543264R	7/25/05	\$ 5,482.50	\$10,800.00	College Point
29543261R	2/27/06	\$ 5,537.33	\$12,100.00	Yonkers
29543264R	3/22/06	\$ 5,537.33	\$11,200.00	Yonkers
29543264R	3/28/06	<u>\$ 5,537.33</u>	<u>\$11,200.00</u>	Yonkers
		<u>\$22,094.49</u>	<u>\$45,300.00</u>	

When these four remanufactured transmissions were first delivered to MTA Bus (one to College Point Depot in July 2005 and three to Yonkers Depot in February and March 2006), MTA Bus paid Atlantic \$22,094.49 for the items and an additional \$45,300 for core charges. Atlantic's records indicate that none of the core charges has been refunded because the vendor has never received the four used bus transmissions from MTA Bus.

Unclaimed Core Charge Credits

While Atlantic issued credit invoices for 1,227 used parts that were returned by MTA Bus, the agency's Accounts Payable Department (A/P) failed to apply the credits for 140 of the returned items against the vendor's subsequent bills. As of February 2008, \$43,146 in core charge refunds remain unclaimed by MTA Bus.

(ii) Outstanding Core Charges

When we reported our findings to the Procurement Director in February 2008, he acknowledged that Procurement had not previously set up any mechanism for tracking the amount of remanufactured parts purchased by the agency or for ensuring that all used parts were returned to the vendors. The Procurement Director believed, however, that past core charge problems had been corrected by an MTA Bus policy change that stopped all pre-payment of core charges for remanufactured parts after April 2007.

While the agency's change in payment policy significantly lowered the initial cost of remanufactured goods, it was not accompanied by any improvements in Stores procedures for returning used parts. As of January 2008, Atlantic had submitted a printout to A/P claiming an additional \$256,378 in core charges for items sold after April 2007. According to the printout, \$25,323 of this amount represented parts that had been outstanding beyond Atlantic's 90-day return limit.

(iii) Remedial Actions Taken in Response to OIG Findings

Since our findings were first presented to the Procurement Director in February 2008, MTA Bus has undertaken the following steps to address our concerns regarding core charges:

- Stores has initiated a review to locate the 322 remanufactured parts that were not returned to Atlantic. As of March 12, 2008, this review had identified the four unreturned transmissions cited in this report. Atlantic has agreed to provide a \$45,300 credit upon the return of these parts.
- MTA Bus' Senior Director of Storerooms and Inventory has designated the College Point Depot as the centralized point of delivery for all remanufactured parts ordered by the agency and assigned a Stores manager to monitor such shipments to ensure that all core material is returned to the vendors.
- A/P has redeemed the \$43,146 in core charge credits previously granted by Atlantic but never utilized by the agency.

CORE CHARGE RECOMMENDATIONS

3. Stores should complete its search for unreturned remanufactured parts owed to Atlantic so that all 322 pre-paid core charges identified in this report are refunded.
4. Procurement and Stores should initiate a complete survey of the remaining \$10 million in bus part purchases from Atlantic between January 2005 and June 2007 as well as the \$15 million in purchases from the other seven bus part vendors to identify any additional pre-paid core charges yet to be refunded to the agency.
5. Procurement and Stores should review all remanufactured parts deliveries from the eight bus part vendors that were made after April 2007 to ensure that any outstanding materials are returned before additional core charges are assessed.

Response to Recommendation 3: In June 2008, MTA Bus Company senior management reported that the search for the 322 unreturned pre-paid core items had been successfully completed and refunds had been obtained.

Response to Recommendations 4 and 5: These recommendations called for identifying other parts from both Atlantic and other vendors that were unreturned. Bus company managers told us this survey is underway.

Response to Recommendations 3, 4 and 5: In a letter from MTA Bus Company President Joseph J. Smith dated September 5, 2008, submitted in response to the draft of this report, MTA Bus reported that it has initiated the recommended corrective actions to improve the efficiency of its operations relating to core charges and to recoup the associated funds.

SECTION 3 – Accounts Payable**Duplicate Payments for Vendors**

In a report released in November 2007,¹⁰ Audit Services examined MTA Bus Accounts Payable (A/P) data for 38,000 vendor invoices totaling \$78 million which were paid by the agency in 2006. Using automated software tools, Audit Services identified 17 invoices that were paid twice by the agency (i.e., two different checks with identical amounts issued per invoice). As a result, eight vendors received \$67,132 in payments when only \$33,566 was billed.

Audit Services noted that duplicate payments occurred without detection because the A/P invoice review function was split between two separate computer payment systems (AS400 and MAS90) and because minimum controls were in place during this period. After Audit Services reported the matter to MTA Bus, A/P was able to recover all of the duplicate payments in the form of credit invoices from the vendors.

Working together with Audit Services, we expanded the original 2006 review period to include all MAS90 and AS400 payments made since the inception of MTA Bus in 2005 through June 2007. After reviewing A/P payment files for possible duplicate payment cases,¹¹ we identified 12 additional duplicate payments totaling \$25,862 that were never refunded to the agency, as shown:

Duplicate Payments Examined by OIG

	Invoice #	Check # One		Check # Two	
		Check	Amount	Check	Amount
North Eastern Bus Rebuilders	108848	014567	\$ 8,137.50	1000211	\$ 8,137.50
North Eastern Bus Rebuilders	108837	014567	\$ 3,487.50	1000211	\$ 3,487.50
MCI Service Parts	1314621	006532	\$ 6,386.52	005147	\$ 6,386.52
MCI Service Parts	1290071	5147	\$ 723.20	6352	\$ 723.20
Arrow Office Furniture	1384	7500514	\$ 3,474.00	2500609	\$ 3,474.00
Metro Copier & Fax Inc.	5345	7500468	\$ 987.50	2500522	\$ 987.50
Transport Products Inc.	19272	013026	\$ 750.00	2500364	\$ 750.00
Bergen Auto Upholstery Co.	69608	010230	\$ 702.88	1000167	\$ 702.88
National Safety Council	1068655	014516	\$ 451.00	7500310	\$ 451.00
Universe Towing, Inc.	06654	002561	\$ 400.00	003609	\$ 400.00
Airweld, Inc.	372304	011044	\$ 183.70	1000253	\$ 183.70
Bakker Service, Inc.	C22725	002486	\$ 178.00	003403	\$ 178.00
			\$25,861.80		\$25,861.80

¹⁰ MTA Audit Services report #MTA-07-172 entitled “MTA Bus – Accounts Payable Duplicate Payments.”

¹¹ In total, our review examined 30 invoices totaling \$86,148 in which A/P payment data indicated that duplicate payments may have been made. Our review of A/P payment files concluded, however, that the checks related to 18 invoices worth \$60,286 had been subsequently voided by the agency or refunded by the vendor.

In one example, North Eastern Bus Rebuilders submitted two invoices totaling \$11,625 in December 2006 for the cost of repairs it had made to the agency's buses. Early in 2007, however, both the MAS90 and the AS400 payment systems issued checks for \$11,625, representing a total payment of \$23,250 to the vendor. After we notified A/P of this in February 2008, the vendor confirmed that it had received duplicate payments for these invoices and issued a credit memo dated February 4, 2008 for the full \$11,625 that it was overpaid.

As of March 2008, A/P had recovered \$22,208.72 of the duplicate payments through refunds and credit memos and was working to obtain the remaining \$3,653.08 from the vendors. In addition, MTA Bus' Controller noted that by phasing out the AS400 system in September 2007 and instituting controls that flag identical payments for the same invoice, the agency has corrected previous weaknesses in the A/P system that allowed duplicate payments to occur.

DUPLICATE PAYMENTS RECOMMENDATION

6. MTA Bus should identify and recover any additional duplicate payments that may have occurred after June 2007.

Response to Recommendation 6: In June 2008, MTA Bus Company senior management reported that after being alerted to our findings of duplicate payments, they conducted further reviews and identified an additional \$47,000 in duplicate payments which have been recovered through offsets or payment. They also stated that the conversion to a new computer system has been completed. This system has specific controls to identify duplicate payments and therefore, they stated the problem should not re-occur.

In a letter from MTA Bus Company President Joseph J. Smith dated September 5, 2008, submitted in response to the draft of this report, MTA Bus reports that it has initiated the recommended corrective actions to improve the efficiency of its operations relating duplicate payments and to recoup the associated funds.

CONCLUSION

Given that the primary goal of the formation of MTA Bus was to provide higher quality and more efficient operations, the overarching focus of MTA Bus management during the initial stages of the transition was to provide reliable bus service to the hundreds of thousands of riders that it transports each day. The improvements in bus condition and reliability, percentage of trips completed and a dramatic increase in ridership are strong indicators that service has improved since its creation. Considering the scope of the task and some of the inherent problems and entrenched archaic, arcane work rules, equipment and systems inherited, it is not surprising that certain administrative issues remained unaddressed.

MTA Bus has been receptive to our suggestions and has given this Office its full cooperation in this study and has attempted to quickly rectify any identified problems. We expect that MTA Bus will correct the identified deficiencies and embark on plans to identify and address areas in which its systems might be vulnerable.

OIG will follow up to determine the efficacy of the actions of MTA Bus after a reasonable period of time has elapsed.

MISCELLANEOUS ISSUES

PAYROLL/OVERTIME

(i) Pinballs Are Now Being Completed

In 2007 Audit Services completed an audit of overtime processing at the College Point Depot covering the period September 2006 to March 2007. In one of the report's key findings, Audit Services focused on the fact that overtime being paid to maintenance employees was not adequately documented on Work Assignment Sheets – also referred to as “Pinball Sheets.”

Our review for the week of September 23-29, 2007 showed that the situation had improved to the point where at least 79 percent of maintenance department overtime was being reported. Review of a one-day sample from January 2008 revealed essentially all pinballs are being completed.

(ii) Test for Duplicate Overtime and Straight Time Earned on the Same Day

We analyzed payroll data to identify instances of duplicate straight time pay and overtime being given to employees. We identified 3 duplicate payments made to 3 different maintenance employees totaling \$733. We informed College Point's Payroll Manager of the overpayments and she has initiated action to recover the payments.

(iii) Bank Reconciliation Analyses and Testing

A major deficiency reported by CPA firms auditing MTA Bus was the failure of MTA Bus to prepare bank reconciliations for 2006 and 2007. We subsequently reviewed the bank reconciliations prepared for the College Point payroll account – which included the payroll for College Point, Yonkers, and Eastchester employees, and the JFK payroll account for any indications of fraud. During this process, we identified one red flag item in which a check for a bus operator was cashed by another without authorization from either the payee or MTA Bus.¹² We also found other errors and overpayments, and referred them to MTA Bus management.

Payroll checks for the College Point, Eastchester, and Yonkers Depots of MTA Bus are processed at College Point and paid through a Chase Bank account. OIG reviewed databases of MTA Bus payroll check registers for all 2007 pay checks issued for the depots – over 95,000 records. We compared these databases to identify potentially fraudulently issued checks, that is, checks cleared through Chase, but not on MTA Bus payroll records. Our methodology allowed us to identify three checks that cleared through Chase, but were not entered on payroll records. One of the three unrecorded checks was the ‘lost’ paycheck that was cashed by another employee. In addition to that check, our database comparison identified two other cleared checks, totaling \$2,034.02 that were unrecorded on MTA Bus check registers. Both errors were caused by payroll personnel's failure to enter manual replacement checks into the check register. We discussed the errors with the MTA Bus Treasurer. Additional controls were established late in 2007 for all MTA Bus depots to ensure that manual checks are now entered.

¹² That subject is addressed in a separate report, MTA/OIG #2008-5.

(iv) Testing for Ghost Employees by Comparing Databases

Various databases were compared to determine whether there were any indications of ghost employees or evidence that employees who had retired from the privately owned predecessor bus companies were still on the MTA Bus payroll. No evidence of either was detected.

(v) Tests of Net Pay

We obtained a database of 38,000 records of weekly pay and deductions for all College Point employees from January 1, 2007 to September 22, 2007 and ultimately verified that the Net Pay was calculated correctly for all employees. We also verified that FICA calculations were correct.

(vi) Direct Deposit

We analyzed a database of 960 employee direct deposit account numbers for College Point for potential duplicate accounts and for multiple accounts for one employee. We did not identify any unusual accounts.

INVENTORY

MTA Audit Services performed two inventory audits in early 2007, MTA-06-093 (completed in March 2007) and MTA-07-043 (completed in May 2007).

The audits reported that:

- The inventory obtained at the start-up of MTA Bus was never verified;
- Inventory counts listed in the MTA Bus Inventory Control System did not match physical counts of inventory on-hand;
- The inventory management process lacked sufficient controls; and
- MTA Bus computerized systems (AS400 and MAS90 [VAX]) included a number of duplicate vendors.

Given these findings, OIG had two objectives during this project. They were:

- A review of inventory management procedures to ensure that inventory was appropriately purchased and delivered; and
- An analysis of MTA Bus computerized vendor records and vendor payment files to ensure vendor integrity.

Inventory Management

In an effort to obtain a starting accurate count, in 2007 MTA Bus hired The Inventory Company (TIC) to conduct a comprehensive physical count of inventory in all depots. MTA Bus began to transition its inventory files from AS400 to the VAX system in July 2007. Prior to migrating the data, MTA Bus management decided to disregard the original inventory counts purportedly provided by New York City during the initial transition and adjust them so that they matched the first report from TIC. In addition, approximately 60,000 inventory items were renamed and re-cataloged in an effort to “flatten” the numerous inventories in the AS 400 and VAX systems into a single file for the new system. Changes

were also made to the control environment in VAX and risks that MTA Audit Services identified in March and May 2007 were addressed.

By December 2007, MTA Bus had hired an outside vendor, Cherry Road, to complete the process of migrating inventory data for all eight depots from their interim destination in VAX to their final destination in PeopleSoft.

As a result of these changes, we determined that reviewing and testing historical inventory discrepancies and risks at MTA Bus with a view toward tracking the current disposition of questionable inventory or disparate information was impractical after July 2007 for the following reasons:

- Inventory counts in the AS400 and MAS90 (VAX) systems at the depots were adjusted after the first counts by TIC. Original physical counts were disregarded and eliminated and new counts, based on the TIC report, were uploaded into VAX.
- Risks identified by MTA Audit Services, including system access concerns and issues regarding the segregation of duties, were addressed by MTA Bus and files related to these issues were adjusted.
- Controls were established in VAX and PeopleSoft to mitigate these risks in the future.

VENDOR INTEGRITY

One objective of our review was to identify any potential red flags giving rise to concerns regarding the integrity of the vendors listed in the MTA Bus Company's computerized accounts payable systems. In an effort to accomplish this objective, OIG conducted a number of preliminary tests on MTA Bus computerized vendor files containing the 2,018 vendors who had received checks from MTA Bus during the period from January 2005 to June 2007. These vendors were checked for debarment against the New York State Department of Labor List of Debarred Contractors and Subcontractors; the NYCT Debarred Vendor List as well as Vendor Information and Transit Advisory List (VITAL) Report. None of the vendors were found to have been debarred. Each firm's prior business history was also verified.

A review of each MTA Bus employee was conducted to determine any dual employment. That list was cross referenced against the vendor list. There were no matches.

A sampling of 161 vendors who had done business with MTA Bus and had checks processed through the College Point Depot and had Post Office Box addresses were analyzed to determine whether any of the names associated with the Post Office Boxes were MTA Bus employees. There were no matches.

Forty-seven vendors who had duplicate checks sent to them were reviewed to determine whether any MTA Bus employee or relative was connected with those vendors. No wrongdoing was discovered.

In short, our review did not uncover any red flags concerning the integrity of the vendors listed in the MTA Bus Company's computerized accounts payable systems.

LIST OF ALL RECOMMENDATIONS IN THIS REPORT

1. MTA Bus should establish, document, and distribute criteria that specifies when employees will be docked for swiping in late, leaving early, and for failing to swipe in or out and assure that it is applied.
2. MTA Bus should attempt to recover the approximate \$26,000 in wages for the time reported by the MTA Bus accounting supervisor where employees swiped in late or left early during the period August to December 2007.
3. Stores should complete its search for unreturned remanufactured parts owed to Atlantic so that all 322 pre-paid core charges identified in this report are refunded.
4. Procurement and Stores should initiate a complete survey of the remaining \$10 million in bus part purchases from Atlantic between January 2005 and June 2007 as well as the \$15 million in purchases from the other seven bus part vendors to identify any additional pre-paid core charges yet to be refunded to the agency.
5. Procurement and Stores should review all remanufactured parts deliveries from the eight bus part vendors that were made after April 2007 to ensure that any outstanding materials are returned before additional core charges are assessed.
6. MTA Bus should identify and recover any additional duplicate payments that may have occurred after June 2007.