



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

March 8, 2001

Mr. Luiz F. Kahl  
Chairman  
Niagara Frontier Transportation Authority  
181 Ellicott Street  
Buffalo, NY 14203

Re: Buffalo Niagara International Airport  
Selected Financial Management  
Practices  
Report 99-S-50

Dear Mr. Kahl:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution, we audited selected financial management practices of the Buffalo Niagara International Airport (BNIA), an entity operated by the Niagara Frontier Transportation Authority (NFTA), to determine if they were following accepted overtime and purchasing procedures for the period January 1, 1999 through May 1, 2000.

**A. Background**

NFTA was created in 1967 by the New York State Legislature to promote the development and improvement of transportation and related services within Erie and Niagara Counties. NFTA, operates BNIA, Niagara Falls International Airport (NFIA), the Port of Buffalo, the Metropolitan Transportation Center and the Niagara Frontier Transit Metro System Inc., and is governed by an 11-member Board of Commissioners. A NFTA Airport Manager manages operations at BNIA, and is acting manager at NFIA. For the eleven months ended February 29, 2000, BNIA had operating revenues totaling \$23.45 million and operating expenditures totaling \$15.46 million. As of February 29, 2000, BNIA had eight departments with a total of 142 employees.

**B. Audit Scope, Objectives and Methodology**

We reviewed selected payroll and purchasing transactions for the period January 1, 1999 through May 1, 2000. We also reviewed certain procedures for the same period. To accomplish our audit objectives, we reviewed work performed by BNIA managers in their review of complaints from employees regarding improper practices, examined documentation related to purchasing and payroll transactions, interviewed NFTA and BNIA officials, and reviewed purchasing and equipment control procedures. We also tested equipment inventories at the Niagara Falls International Airport.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those NFTA operations included within the audit scope. Further, these standards require that we understand NFTA's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We, therefore, focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

**C. Results of Audit**

In an audit at another NFTA entity (Report 97-S-9, issued May 14, 1998), we determined that overtime abuses had occurred because the entity's overtime and attendance controls were lax. In our current audit, we found that management needs to strengthen controls over operations at BNIA to properly account for assets and to prevent abuses from occurring. We make recommendations for these control improvements throughout this report.

1) Overtime Payments

Prior to our audit, BNIA managers had already reviewed the propriety of overtime payments. BNIA managers determined that the overtime was properly approved and documented, and that the reasons for the overtime were appropriate. We assessed the work performed by BNIA managers and found that their conclusions were appropriate for the period covered by their review.

Our review of employee overtime, totaling over 1,400 hours, compared supporting documentation authorizing overtime work to employee sign-in/sign-out sheets (the basis for payment) and found two instances in which the supporting documentation and time paid differed. The sign-in/sign-out sheets showed 20 hours less than did the authorization forms, but the employees involved were paid for the higher number of hours shown on the authorization form.

We also found reasonable explanations for periods where one employee had complained that he was not authorized to work overtime while other department employees were authorized to do so.

- One period was during snow removal operations. A BNIA requirement is that an employee possess a valid New York State Class B Chauffeur Drivers License (CDL) when operating snow removal equipment. The complainant did not have a NYS CDL.
- During the other period when the complainant claimed he was denied overtime he was out of work for three months on workers' compensation.

### **Recommendations**

1. *Verify that overtime hours are supported by source documents prior to payment.*
2. *Review the two occurrences mentioned in this report and recover any overpayments.*

(In response to the draft report, NFTA officials indicated that BNIA management found that the payments made were for overtime worked and were appropriate.)

#### 2) **Purchasing**

Our review showed that purchases of supplies and materials appeared reasonable. However, BNIA management needs to improve controls over inventories.

Prior to our audit, BNIA managers had reviewed the propriety of purchases by comparing current year's expenditures with the prior year's expenditures for certain categories of items. BNIA management concluded the amount of purchasing was reasonable.

We examined the propriety of a sample of 46 vendor payments and requested related payment documentation from NFTA, which pays vendors and maintains payment documentation for BNIA purchases. NFTA personnel could not find the supporting documentation for three of these payments. Our review of the 43 payments showed that the purchases appeared to be appropriate. However, BNIA has no central receiving center for purchases of supplies and materials, which increases the possibility that such items could be diverted for personal use.

### **Recommendations**

3. *Retain supporting documentation for all vendor payments.*

(NFTA replied to the draft report that the missing documentation was due to misfiling. They added that the clerical staff was instructed, in writing, as to the importance of maintaining files.)

4. *Establish a central receiving function for all supply and material purchases.*

(NFTA officials replied that BNIA management plans to establish a central receiving location for disposable supplies and materials for the terminal by July 1, 2001.)

3) **Fixed Asset and Equipment Controls**

We reviewed the system of internal control at BNIA and physically verified the existence and location of selected equipment items. While we found no unauthorized use of equipment, we concluded that equipment controls need to be improved.

BNIA conforms to inventory management policies established by NFTA. A property accountant at NFTA is responsible for maintaining all records for assets at all NFTA entities. NFTA policy calls for centrally recording and controlling individual equipment items that cost over \$1,000 and all computer equipment that costs over \$500. The BNIA uses NFTA's fixed asset control system to account for equipment items. NFTA lists equipment inventory for both airports it operates (BNIA and NFIA) on the fixed asset control system. We requested a download of a partial inventory listing excluding items that were fixed (such as runways) or so large (such as a bus) that did not belong on an inventory of assets that could be subject to personal use. This partial inventory contained 5,951 items at a cost of \$16.56 million.

NFTA and BNIA management are responsible for ensuring that equipment assets are properly accounted for and efficiently used. Our audit of equipment practices and control procedures shows that management needs to improve control practices and procedures. The following summarizes the weaknesses in existing control procedures and practices:

- \* NFTA has no functional equipment inventory list that can be used to control equipment inventories. The fixed asset list we obtained from NFTA's fixed asset control system is used for depreciation purposes. It includes all items that are fixed assets or that were paid for with capital funds. Large items, such as runways, and small items, such as stepladders, are all included on the same list. Since the list contains many items that are not equipment assets, it is difficult to use as an equipment control document.

- \* Management has not formally assigned responsibility for the custody and safeguarding of equipment at the local user level. The Office of the State Comptroller's Accounting System User Procedure Manual (OSC Manual) states that the supervisor of the unit where the equipment is assigned should be administratively responsible for the equipment. However, some of the BNIA department heads we interviewed told us they were not responsible for the equipment; they believed this responsibility rested with the NFTA Airport Manager. The Airport Manager told us that the department heads were responsible for the equipment. Management needs to clearly assign responsibility for equipment assets to specific job titles/positions. Management should also formally communicate this assignment to the individuals themselves, to their supervisors and to inventory users.
- \* Prudent management dictates that persons who manage inventories should be properly trained in implementing inventory management controls. However, neither the BNIA property manager nor local custodians have had any formal training in how to properly manage the equipment inventory. According to these individuals, they have had only minimal informal on-the-job training in equipment control procedures.
- \* The OSC Manual states that an inventory be conducted annually. However, NFTA procedures require a physical inventory only every three years. Further, although the last recorded inventory of NFTA properties was conducted in 1997, the new BNIA airport (which was finished in 1997) was not included in this inventory because some of the airport buildings were still under construction at the time the inventory was taken. The BNIA property manager could not tell us when BNIA assets were last inventoried.
- \* NFTA guidelines require that the NFTA Property Accountant be informed of equipment disposals. However, if BNIA disposes of equipment other than by auction, the NFTA property accountant is not informed of the disposal.
- \* The NFTA Property Accountant should also be informed about the acquisition of inventoried assets. However, NFTA does not have a formal procedure that requires local managers to inform the NFTA Property Accountant of an asset acquisition unless the asset is a capital purchase. As a result, local managers can acquire assets of sufficient value to be included on the asset inventory without the NFTA Property Accountant's knowledge.
- \* The OSC Manual requires that a record of lost or unaccounted for items be submitted to the agency head for approval before removing such items from the equipment records. However, NFTA does not have a policy requiring that physical inventory adjustments be reported to executive management.
- \* Managers should routinely review the work of subordinates to verify its accuracy and propriety. However, the NFTA Property Accountant told us that his work has never been checked by either a test of transactions or a review of the posting of assets to the inventory

records to ensure accurate postings. At the closing audit conference, NFTA managers told us that the Manager of Financial Planning and Analysis does review the work of the Property Accountant.

- \* The OSC Manual requires that no item of equipment should be permitted to leave the premises without a pass signed by the proper authority. Such a policy would discourage employees' use of NFTA assets for personal use. However, NFTA has no such requirement as part of its equipment control procedures.

In addition to evaluating equipment control procedures and practices, we selected a judgmental sample of items at each of the two airports under NFTA control. Our list contained both older inventory items (purchased prior to 1990) and more recently purchased items at each location for a total of 67 items. Of that number, we could not locate 20 items - 17 at BNIA, and 3 at NFIA. Sixty percent of the items we could not find were new items, and the remaining 40 percent were old items. Although many of these missing items did not fit the current definition of controllable items, each was shown on the asset list and had a control tag number assigned to it.

### **Recommendation**

5. *Implement changes to correct the weaknesses identified in the equipment control area, including but not limited to:*
  - *developing a functional equipment inventory list;*
  - *formally assigning administrative responsibility for equipment control to specific individuals at the location unit level;*
  - *providing training to the property manager and local custodians in proper asset management;*
  - *conducting annual physical inventories;*
  - *reinforcing the NFTA guidelines that the property manager is to be notified of all asset disposals;*
  - *revising the current procedures to ensure that the property accountant is notified of all asset purchases that require control under equipment guidelines;*
  - *revising the guidelines to ensure that inventory adjustments are reported to executive management;*
  - *requiring periodic management review of the work of the NFTA property accountant;*  
*and*

- *instituting a policy addressing the use of NFTA assets for personal use.*

(In responding to the draft report, NFTA officials indicated they concurred with the recommendation. However, they indicated that certain parts of the equipment control process in the report were incorrect.

Auditors' Comment: We edited the report to reflect the change regarding the Property Accountant's role for equipment at the facilities. The report was not changed for the airport manager's responsibilities because as stated in the report, BNIA management needs to formally communicate the assignments to BNIA employees. We believe the lack of such formal communication is part of the reason there are differences in who management and the employees identify as responsible for equipment control.)

#### 4) Inventory Control

We identified a control weakness in inventory controls in BNIA's Electrical Department. The department does not have a functioning work order system in place. A work order system would include, at a minimum, a description of the task performed; the name and title of the individual(s) who performed the task; the amount of time spent on the task by each individual; and materials and supplies requisitioned and used for the task. Without such a system, there is minimal if any accountability for materials and supplies this department uses. NFTA officials recognized this shortcoming and have included the work order system in an NFTA-wide Request for Proposal (RFP). The RFP is for the development of a work order system that will allow managers to control the amount of items used for each project, and to control inventory use in general.

### **Recommendation**

6. *Expedite the development and implementation of a work order system for all BNIA departments currently without such a system.*

(NFTA officials responded that based on the RFP a company was selected and approved by the Board of Commissioners. They expect to go live with the system May 1, 2001.)

A draft copy of this report was provided to NFTA officials for their review and comment. Their comments will be considered in preparing the final report and are included as Appendix A. NFTA officials generally agreed with our recommendations and indicated that they either have been or are in the process of being implemented.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Niagara Frontier 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 therein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Gerald Tysiak, Thomas A. Nowinski, Joanne Kavich, Todd Seeberger, David Pleeter and Nancy Varley.

We wish to thank the management and staff of NFTA and the BNIA for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Carmen Maldonado  
Audit Director

cc: Charles Conaway



Niagara Frontier Transportation Authority

February 2, 2001

Ms. Carmen Maldonado  
Audit Director  
New York State Comptroller's Office  
A.E. Smith State Office Building  
Albany, New York 12236

**Re: NYS Draft Audit Report (99-5-50)**

Dear Ms. Maldonado:

The NFTA appreciates the efforts of the Office of the State Comptroller in assisting us in improving the financial management practices of the Buffalo Niagara International Airport (BNIA).

With specific reference to the recommendations contained in the report draft, we have the following management responses and clarifications on the facts presented:

**1.) Overtime Payments**

1. *Verify that overtime hours are supported by source documents prior to payment.*

We agree with the recommendation and will continue to reinforce this procedure as well as continue random management reviews.

2. *Review the two occurrences mentioned in this report and recover any overpayments.*

Prior to the audit, BNIA management reviewed the two documentation discrepancies and found that payments made to the employee were for overtime worked and were appropriate.

**2.) Purchasing**

3. *Retain supporting documentation for all vendor payments.*

The official source documentation for all vendor payments is maintained in the NFTA accounting department. Payments cannot be made without complete documentation. The missing documentation is a result of misfiling. The clerical staff has been instructed in writing of the importance of accuracy in maintaining files.

4. *Establish a central receiving function for all supply and material purchases.*

BNIA management plans to establish a central receiving location for disposable supplies and materials for the terminal by July 1, 2001. The BNIA's maintenance garage has a central receiving location for items to be used at that department. There are very few supply and material purchases from other departments at BNIA. The new Computerized Maintenance Management System (CMMS) will assure that all purchasing and receiving are carried out consistently throughout the NFTA.

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3.) **Fixed Asset and Equipment Controls**

5. *Implement changes to correct weaknesses identified in the equipment control area, including but not limited to .....*

We concur with the recommendation with the following exceptions:

The report draft states that property managers at each entity handle local record keeping for the entity's assets. This is factually incorrect. The NFTA has a Property Accountant who maintains all records.

We also conducted interviews with the airport managers and they all have stated that they are responsible for their equipment. This is a contradiction to what is in the report and to what we know as an essential part of the managers' duties.

As stated, the Authority's procedures require that an inventory be conducted every three years. This practice is a positive variance from the Government Finance Officer Association's (GFOA) best practices recommendation of every 5 years. While we are not bound by statute to comply with the OSC Manual, we will, as suggested by the NYS auditors, perform an annual inventory of a sample selection of items.

All fixed asset purchases are capital purchases. The Property Accountant is therefore notified of all asset purchases. In addition, the Accounting Managers of both NFTA and NFT Metro review the paid operating invoice reports to ensure that no capital items were purchased outside the fixed asset/capital procedures.

As stated in the report, there is management review of the NFTA Property Accountant's work which is further tested by the independent accountants at fiscal year end.

4.) **Inventory Control**

6. *Expedite the development and implementation of a work order system for all departments currently without such a system.*

In August 1999, a development team was organized to investigate our Authority-wide maintenance needs and requirements. Based on an in-depth evaluation, an RFP for a Computerized Maintenance Management Systems (CMMS) was sent out in November 1999 with responses received in January 2000. Mincom was selected and approved by the Board of Commissioners in July with implementation beginning in August. We expect to go live with the system May 1, 2001 including BNIA.

If you have any questions, please call me at (716) 855-7250.

Sincerely,

  
Deborah C. Leous  
Chief Financial Officer

DCL/gd

cc: Luiz F. Kahl  
Lawrence M. Meckler  
William Vanecek  
Patrick Dalton  
Patrick Ellis