● *Accountability*
● *Transparency*
● *Integrity*

Operational Review

Nassau County Bridge Authority

September 30, 2008

OR-2008-01

Table of Contents

Executive Summary

Purpose and Authority: The Authority Budget Office (ABO) is authorized by Section 27 of the Public Authorities Accountability Act (Act) to review and analyze the operations, practices and reports of public authorities and to assess compliance with various provisions of Public Authorities Law and other relevant State statutes. This includes rendering conclusions and opinions regarding the performance of public authorities and to assist these authorities improve management practices and the procedures by which their activities and financial practices are disclosed to the public. Our governance review of the Nassau County Bridge Authority was performed in June and July 2008 and was conducted in accordance with our statutory authority and compliance review protocols which are based on generally accepted professional standards. The purpose of our review was to provide an objective determination of the extent of the Authority's statutory compliance, and make necessary recommendations to improve their business practices.

Background Information: The Nassau County Bridge Authority (the Authority) was established in 1945 as a public benefit corporation pursuant to Title 7 of Public Authorities Law to operate and maintain the Atlantic Beach Bridge, spanning the Reynolds Channel in Nassau County. The Authority is governed by a five member Board of Commissioners and its daily operations are managed by the Authority's Bridge Manager/Executive Director. The primary source of revenue for the Authority is toll revenue. For the fiscal year ending December 31, 2007, the Authority generated $6.9 million in revenue (94 percent from tolls), while expenses of the Authority totaled $4.5 million. As of January 2008 the Authority had bonds outstanding of $6.69 million.

Results: Our review found that the Board appears to be active in the oversight of the Authority's operations. However, we found certain Authority practices are inconsistent with contractual agreements, limit the effectiveness of its internal control structure and do not provide assurance that the Authority is obtaining competitive prices and best value for its professional service contracts. The Board should adopt policies and practices to further improve bridge operations and take additional steps to enhance compliance with the provisions of the Act, its collective bargaining agreement and accepted principles of corporate governance.

We identified weaknesses with the Authority's internal control structure that should be addressed by management. These include a reliance on manual entries for specific instances rather than utilizing the automated system to monitor toll collections, inadequate separation of duties between the Board and management, and the lack of a formalized training program for staff. We found that the risks associated with these weaknesses could be reduced through assessing the effectiveness of the Authority's current functions and controls and maximizing the use of the controls inherent in the Authority's automated system.

Although our review identified the need for improvements in the Authority's operations and internal controls, we also acknowledge that the Authority has taken many steps to comply with the Act, and has recognized the need to adopt by-laws and operating policies and has begun to take appropriate corrective actions.

Introduction and Background of the Authority

The Nassau County Bridge Authority (the Authority) was established in 1945 by Title 7 of Public Authorities Law to operate and maintain the Atlantic Beach Bridge, which spans the Reynolds Channel between the Village of Lawrence and Atlantic Beach in Nassau County. The title and interest in the bridge structure and adjacent real estate are held in the name of Nassau County. Under the Authority's enabling legislation the Authority is to continue until all its liabilities have been met and its bonds are paid in full or discharged. Upon ceasing to exist the Authority's rights and properties are to pass to Nassau County.

The Authority is governed by a five-member Board of Commissioners, all of whom are appointed by the Nassau County Executive with the approval of the County Legislature. Members are appointed for a term of five years, or until the appointment and qualification of a successor. As of our review, the terms of four of the five sitting members have expired, but they continue to serve pending action by the County Executive.

The Authority's daily operations are managed by a Bridge Manager/Executive Director. As of June 2008 the Authority had 79 employees; 36 of which are full-time and 43 of which are part-time or seasonal. Of the 36 full-time employees: 8 hold administrative positions; 5 are Bridge Operators, 11 are maintenance staff, and 12 are full-time toll collectors. Personal service costs for the Authority totaled over $2 million for 2007.

In 2006, the Authority commissioned a Traffic and Revenue Study to review whether its projected revenues would be sufficient to meet its financial requirements, in particular its operating expenses, debt service obligations, and planned capital improvements. Revenue and expense (operating and capital) projections indicated that, due to flat operating revenues and continuously increasing operating costs, the bond covenant agreement would not be met in 2007 and the toll fee structure in place at that time was not sufficient to meet operating expenses in 2006. Subsequent to the study the Board approved a toll increase effective January 1, 2007.

The Authority's fiscal year begins on January 1 and as of December 31, 2007 the Authority's unaudited financial records show the Authority generating a $2.4 million surplus following the toll increase; with over $6.9 million in revenue, of which 94 percent is toll revenue, for the 2007 fiscal year, and operating costs totaling $4.5 million. The Authority's outstanding long-term debt as of December 2007 was $6.69 million.

Compliance Review Objectives

The Authority Budget Office (ABO) is authorized by Section 27 of the Public Authorities Accountability Act (Act) to conduct reviews and analyses of the operations, practices, and reports of public authorities to assess compliance with provisions of the Act, Public Authorities Law, and other statutes. Our operational review was conducted to provide an objective determination of the Authority's compliance with the Act, Public Authorities Law and other applicable statutes, as well as determine the effectiveness of the Authority's operations.

Compliance Review Scope and Methodology

Our compliance review was conducted in June and July of 2008, and covered selected Authority operations for the period January 1, 2007 through August 2008. Our review focused on the effectiveness of the governing Board and Authority management and the operations of the Authority. Specifically, we reviewed:

- Board duties, committee involvement, and independence
- Board member participation in State-approved training
- Policies and procedures required under the Act, Public Authorities Law, Public Officers Law, and State Finance Law
- Policies and procedures indicative of good governance practices
- Internal control structure of the Authority
- Procurement, cash and investments, and asset management practices
- Independent financial audits and other reporting
- Adherence with reporting requirements
- Transparency of Authority operations
- Review of revenues, expenditures and outstanding bond obligations
- Effectiveness of the Authority's operations

In addition to reviewing financial and organizational documents and records, we interviewed management, Authority staff and an independent contractor; attended a Board meeting; and performed other testing we considered necessary to achieve our objectives. Our report contains recommendations to ensure the Authority's compliance with the Public Authorities Law and other applicable laws, as well as improve the effectiveness of the operations of the Authority. In addition, we have included recommendations for improving corporate governance practices. The results and recommendations of our compliance review were discussed with Authority management and their comments have been considered and are reflected in this report where appropriate.

Compliance Review Results

Operational Results

Financial Condition

Section 654(13) of Public Authorities Law provides the Authority with the power to set and collect tolls, subject to the requirements of any bondholder agreements. The Authority's current bond covenant agreement requires the Authority's net revenues to exceed 125 percent of the debt service requirement each year. The Authority's current toll structure was implemented in January 2007, following the Board's decision that a toll increase was necessary to reverse the decline in revenues and rising operating costs and to satisfy bond covenants.

Based on the Authority's average rate of growth over the last ten years the Authority should be able to generate sufficient revenues to meet its bond covenant agreements for the near future.

Bridge Toll Structure

Typically, the purpose of using tolls to finance public projects is to allocate the costs of the project to the public that most uses the project, with the most frequent users of the project incurring the most costs, since the toll is only paid when the service is used. However, the Authority's toll structure subsidizes the cost otherwise borne by the heaviest users of the bridge and shifts the cost disproportionately to the more infrequent users of the bridge. For example, in 2007, cash paying motorists provided 54 percent of the Authority's revenue but accounted for 26 percent of the bridge traffic. Motorists who purchased discounted annual decals accounted for 16 percent of the revenue but 42 percent of the bridge traffic. While the ABO recognizes that offering discounts to frequent users is a sound business decision, the current toll structure appears more generous than discount plans adopted by other entities. Moreover, the Authority could not provide us with documentation in support of the methodology it followed in structuring its tolls.

Motorists may choose one of three payment options for bridge crossings: a $2.00 cash payment for each crossing, a $15.00 pass card good for 20 crossings, or an annual decal, which provides unlimited crossings at a cost of $130 or $175 (depending on county of residence). This structure results in a significant reduction in the amount paid per bridge crossing for the most frequent users. Motorists who purchase the $15 pass card realize a cost per crossing of $.75, a discount of 62 percent, while the cost per crossing for the annual decal is dependent upon how frequently it is used. For 2007, annual decal sales totaled about $1.05 million, and there were over 2.8 million bridge crossings by motorists using the annual decal. This translates into an average cost per crossing of $.37, or an 81 percent discount from the cash toll.

This 81 percent discount is significantly greater than the discounts provided to cross other toll bridges in the area. For example, the Metropolitan Transportation Authority (MTA) operates two similar bridges nearby: the Cross Bay and Marine Parkway toll bridges. Cash tolls on these bridges are $2.50 each way. EZ Pass users (who represent the more frequent users) pay $1.55 per bridge crossing, a discount of 38 percent. In addition, residents of Rockaway who use EZ Pass pay $1.03 per bridge crossing, a 59 percent discount. We recognize that no uniform standard is required by statute for determining the optimum cost differential between cash tolls and discounted commuter trips. However, the 62 percent subsidy provided to the pass card users and the 81 percent subsidy provided to decal holders by the Nassau County Bridge Authority is significantly greater than the 38 percent and 59 percent discounts offered by the MTA.

The Authority based its toll structure, to some extent, on the recommendations made in a 2006 traffic and toll study. This study recommended adopting a new toll structure that would enable the Authority to meet its operating costs, debt service, and capital project needs for the next five years. The Authority adopted the recommended toll structure for cash payments, pass books, and buses, but opted to implement lower fees than recommended for the resident and non-resident annual decal holders. However, there was no documented basis for the rate established by the Authority for the annual passes. We found that, although the Authority has the ability to compile information on the number of annual decals issued, this information was not used as a basis for determining the price of the annual pass.

The Authority indicated that the discount provided to motorists who frequently utilize the bridge is by design and the discount offered is an effort to move customers to a greater use of technology based services. Although the Authority indicated that the increased use of the annual pass is by design, it could not provide a documented plan for achieving this goal, while maintaining a sufficient revenue base.

<u>Operating Practices</u>

Based on our review it appears that the Authority is staffed appropriately for its operations, and Authority management provided support to show that staff has been reduced from previous years. However, we observed instances where the Authority's practices or lack of written policies may be contributing to additional operating costs, appear to be inconsistent with existing agreements, or may be incompatible with the public interest. The Authority argues that it has maintained a 3.4 percent rate of growth and that written policies would not significantly reduce this rate of spending.

Employee Benefits

The Authority has a collective bargaining agreement with the Authority's full time, non-management staff. This agreement provides the basis for employee compensation, time and attendance, leave accruals and use, benefits such as health insurance, and other labor issues.

It has been the practice of the Authority to pay uncredited leave time to employees who separate from the Authority. The collective bargaining agreement stipulates that vacation leave is not credited until the completion of each year of service and personal time is credited on the employee's anniversary date. In contrast, the agreement stipulates that sick leave accrues at the rate of one day per month worked. A reasonable interpretation of this language would suggest that employees, who separate from the Authority at any time during the year, are only entitled to be paid for unused vacation and personal days equal to the credited balances as of their anniversary date. Moreover, they would not be entitled to be paid for any time that they would otherwise have earned had they remained employed for the full year, since this time is credited only upon completion of a full year of service.

Our review found that separation payments paid to employees include a prorated amount of vacation and personal leave for that portion of the year that the employee was with the Authority, prior to their completion of a full year of service, at which time the leave would have been officially credited to the employee. This practice results in additional severance payments made that are inconsistent with the terms of the agreement.

We reviewed the payments made to four employees who received a total of $44,239 in separation payments during 2007. Of that amount, $14,500 was paid for vacation and personal leave that, according to the agreement, had not been credited to the employees at the time of payment. In response, the Authority indicated that time not yet credited has been earned and that they believe the employee is entitled to that time.

Furthermore, the agreement provides that "the maximum vacation time which may be accumulated by an employee is fifty (50) days", including vacation earned in the current year. We found that the Authority is allowing employees to accumulate vacation leave balances in excess of the 50 day limit stipulated in the agreement. We identified five employees with excessive balances ranging from 1 day to 22 days; the excessive balances totaled 68 vacation days. Management explained that this has been a continuing practice of the Authority from prior years, and that certain employees have accumulated large balances of vacation time after many years of service. The Authority monitors these balances to ensure that employees' vacation time is reduced to no more than 50 days by the time of their anniversary date and then employees are credited for their accrued time after completion of a year of service, resulting in more than 50 days accumulated time. It should be noted that the State Comptroller was critical of this same practice in a 1999 audit of the Authority. Despite this audit finding, we found the Authority has continued this practice.

Finally, neither the statute nor the collective bargaining agreement authorizes employees to use the bridge at no charge. However, the Authority allows employees to pass through the tolls for free, regardless of whether the trip is related to official Authority business. In 2007, employees accounted for 7,000 passages, resulting in up to $14,000 in lost revenue to the Authority, based on $2.00 per trip.

Management defended these practices as not specifically prohibited by the contract or as accepted past practices of the Authority. At the same time they recognize the need for more clarity and indicated they will establish these practices in future collective bargaining agreements. We believe that the current interpretation is incompatible with the fiduciary duty of the Authority.

Legal Services

The Authority retains the services of two attorneys: one under a contract to provide various general legal services for the Authority, while the second attorney is designated as a part-time employee of the Authority for labor relation issues. However, we found that the current agreement with the contract attorney includes providing labor relation services, and we noted that this attorney is frequently involved in labor relation issues for the Authority. As such we question whether the Authority needs both attorneys.

Further, the Authority provides the contract attorney with two annual decals for two separate vehicles, allowing the attorney to travel the bridge with these two vehicles for free without restriction. We found no provision in the current agreement with this attorney that allows for this usage or compensation. The attorney's two vehicles crossed the bridge 1,292 times during 2007, at an annual cost to the Authority of $260 for the two decals. There is no documentation to indicate that all of these free bridge crossings were approved by the Authority Board.

The Authority maintains that the practice of retaining two attorneys with a small measure of duplication is cost effective, since it costs the Authority less than $50,000 annually.

Insurance Policies

The Authority carries several insurance policies covering general liability, property damage, casualty, automobile and public officer's liability, as well as certain umbrella policies. However, there is no documentation that identified the potential risks or liability to the Authority to support the amount of insurance coverage obtained. For example, the Authority's Public Officials Liability Policy provides $5 million of coverage for the five Board members and three management positions at a cost $14,700. In contrast, another public authority has a $1 million Directors and Officers Liability policy for ten Board members and 34 management positions. The Authority indicated that the additional cost beyond the initial $1 million of coverage was relatively minor, but did not provide any justification for why the $5 million of coverage was necessary.

The Authority has a $10 million umbrella policy which provides coverage for claims that exceed the coverage provided by its other insurance policies. However, the Authority also has excess umbrella coverage of $5 million, at a cost of $15,000, above and beyond the existing umbrella policy. The Authority explained the justification for obtaining this additional coverage was determined by reviewing the insurance coverage held by the New York State Bridge Authority (NYSBA), which operates five bridges spanning the Hudson River. However, it does not appear that this comparison is appropriate since the Authority operates a single draw bridge with outstanding long term debt of $6.9 million, while the NYSBA operates multiple bridges with total debt outstanding of $63 million.

Governance and Oversight

Board Duties

Section 2824 of Public Authorities Law stipulates that public authority board members should execute direct oversight of senior management in the administration of the authority and understand, review, and monitor the implementation of fundamental financial and management controls and operational decisions of the authority. Good governance principles also dictate that public authority board members act in good faith and in the authority's best interest, and perform their oversight function consistent with the mission of the public authority and the public's interests. In addition, authorities should conduct business in an environment that fosters transparency and enhanced public disclosure, focuses on accountability, and supports external oversight.

We found that the Board meets on a monthly basis to review and oversee the operations of the Authority. In an 18 month period the Board held 17 meetings; a quorum was present at each meeting.

We found for most aspects of Authority operations the Board appears to be involved in the oversight of the Authority, including working towards compliance with the Act. Management provides the Board with various information prior to the Board meeting such as traffic statistics, vendor payments, and overtime reports, and we found the Board appropriately reviews this information. Additionally, we found instances where Board members would request additional information before voting on an item and where agenda items would be tabled until sufficient information was available to make a decision. As indicated, the Board also reviews and approves insurance policies and premium rates for the Authority. From the meeting attended, it appears that there is discussion of relevant issues regarding the Authority's performance data and capital projects.

However, current financial and bridge traffic information is not always provided to the Board in a timely manner to allow for thorough discussion and review. During 2007-08, we found six meetings in which the Board was not provided with financial and/or traffic statistic reports, while for eight other meetings the information provided to the Board was not timely. For example, traffic information for October 2006 was not provided to the Board until the March 2007 meeting, while traffic information and financial information for July 2007 was not provided to the Board until the November 2007 meeting. Further, for the first three Board meetings held in 2008, management did not provide the Board with any updated monthly traffic statistics; instead only an annual traffic report for 2007 was provided to the Board in May 2008. The Authority responded that while this is correct the delays were due to staff shortages and that the situation has since improved.

Section 2824(3) of Public Authorities Law states that no board member, including the chairperson, shall serve as a public authority's chief executive office, executive director, or hold any other equivalent position while serving as a member of the board. Good governance practices suggest that public authority board member's duties and responsibilities should be clearly defined, so that board members understand their roles and are better able to effectively perform their governance responsibilities consistent with the mission of the public authority.

We found the Authority has not established by-laws that outline the public purpose and powers of the Authority, the duties and responsibilities of the members and officers, and procedures for scheduling and holding Board meetings. By-laws establish the rules and procedures that should govern the actions of an authority, define the responsibilities of the chair, the board and the executive director, and create an environment and organizational framework that assures proper oversight and adherence to established policies. We believe that an authority cannot operate effectively and responsibly in the absence of adequate by-laws nor can it sustain public support if its actions ignore adopted policies. As a result of our review, the Board adopted by-laws at the September 2008 Board meeting.

In addition, the absence of clear policies governing the execution and approval of contracts has resulted in no apparent delineation between the role and responsibilities of the Board and executive management. It is the proper role of management to negotiate and execute contracts on behalf of the Authority. It is an accepted good governance practice for management to bring contracts that exceed a pre-established dollar value or are for a particular purpose to the Board for its review and approval. Contract execution and oversight should not be the sole responsibility of the Board Chair. Of the six contracts available for our review, however, we found that the Board Chair executed four of them on behalf of the Authority while executive management signed the others.

Section 105 of Public Officers Law requires a majority vote of its total membership, taken in an open meeting pursuant to a motion identifying the general area or areas of the subject to be considered in executive session, based on the limited purposes for which a public body may conduct an executive session. The Authority Board went into executive session in every Board meeting held during our review. For nine of the meetings the Board did not state the reason for entering executive session, while for the remaining eight meetings the Board stated that it was going to enter executive session to discuss personnel matters. According to the Committee on Open Government, the practice of using "personnel or personnel matters" as the justification for entering executive session, without additional explanatory information, is not valid under the Public Officers Law. The Authority indicated that they are working to address this and have begun providing more explanatory information to the public, prior to entering into executive session.

Board Member Compensation

Section 653 of the Public Authorities Law states Nassau County Bridge Authority's Board members are entitled to reimbursement for actual and necessary expenses incurred in the performance of their official duties, and other compensation as established by the county legislature. The only compensation identified in the Nassau County Charter is per diem compensation to members for each day spent in the performance of their duties and reimbursement for actual travel and other expenses incurred in the performance of their duties. We could find no indication that the legislature authorized any other form of compensation for Board members.

We found that the Authority does not pay its Board members per diem compensation when they are performing their official duties. However, the Authority provides each Board member with decals that entitle members to travel for free across the bridge without restriction. In 2007, Board members crossed the bridge 913 times. We reviewed this travel data and found that much of this travel did not correspond with scheduled Board meetings. For example, in February 2007 there was no Board meeting; however, there were 45 bridge crossings by Board members for that month. This practice allows for compensation beyond what is authorized by the Authority's enabling legislation and the County Charter. The Authority responded that they believe it is reasonable and more cost effective to provide free bridge crossings in lieu of per diem expenses.

Policies of the Board

Section 2824(1) of Public Authorities Law requires Board members to establish policies regarding the salary and compensation of senior management, adopt a code of ethics, establish a whistleblower protection policy, and adopt a defense and indemnification policy. The Board has adopted a code of ethics for the Authority, but had not established policies and procedures for whistleblower protection, salary and compensation of senior management, and defense and indemnification. Although the Board does approve management salaries and increases, and carries Public Officers Liability Insurance, the Act requires that the Board establish and adopt formal policies outlining the procedures. As a result of our review, the Board adopted policies related to management compensation, defense and indemnification and whistleblower protection at its September 2008 Board meeting.

Committees

Section 2824(4) of Public Authorities Law requires authorities to establish an audit and governance committee, and these committees are to be comprised of independent members. The audit committee is responsible for recommending the independent auditing firm, establishing the independent auditor's compensation and providing direct oversight of the authority's independent audit. The governance committee is responsible for reviewing corporate governance trends, keeping the Board informed of best practices in governance and advising appointing authorities on the skills and experiences required of potential board members. The audit and governance committees help a public authority perform its oversight and fiduciary functions, and assist the Board of Directors in making more informed decisions.

We found that the Board has created both an Audit and a Governance committee, appointed members to both, and adopted charters that adequately address their responsibilities. However, these committees are not functioning as they should, since they have not taken any actions or performed any of the duties outlined in the respective charters. Instead, the Board, acting as a whole, appears to have taken on these duties, but without devoting sufficient time and attention to the important role of the committees.

For example, although the Board established the Audit Committee in April 2007, the Committee has not been involved in discussing the scope of services for the 2007 independent audit or determining the independent auditor's compensation. As a result, there was no formal contract negotiated with the independent auditor for the 2007 audit. Rather, the Authority assumed that the auditor would continue providing services as outlined in a 2005 agreement. Further, although the independent auditor indicated during 2007 that it was requesting an increase in fees, the Audit Committee was not involved in any discussions with the auditor on this issue. As of the date of our review, the 2007 audit of the Authority's financial statements had still not been completed.

<u>Independent Audit</u>

Section 2802(4) of Public Authorities Law states that the certified independent public accounting firm performing the Authority's audit shall be prohibited from providing audit services if the lead audit partner has been the lead auditor in each of the five previous years for the authority. The Authority's current independent audit firm has been conducting the annual financial audit for the Authority since 2003, and the 2007 audit would be the fifth consecutive year with the same lead auditor. The Board has determined that it will not retain the same audit firm, and will competitively bid these services for its 2008 audit (commencing in 2009).

Section 2804(5) of Public Authorities Law states that the firm performing the authority's independent audit is prohibited from performing any non-auditing services, unless receiving prior written approval from the audit committee. As indicated, there is no current contract with the independent audit firm, but the Authority assumes that the firm will continue to provide services as outlined in a 2005 agreement. This agreement includes services to be provided by the audit firm that are non-audit related, such as assistance with and review of annual operating budgets, review of payroll reconciliation, and issuance of tax forms. The Authority should ensure that only audit related services are provided by the independent audit firm or that non-auditing services are approved in advance by the Audit Committee.

Financial Disclosure

Section 2825(3) of the Public Authorities Law requires board members, officers, and employees of local public authorities to follow financial disclosure policies established by the county board of ethics for the county in which the local public authority has its primary offices. Since the Authority is located in Nassau County, it is subject to Nassau County Local Law No.4, which requires appointed officials of the county to file financial disclosure statements with the County Board of Ethics on or before June 30th of each year.

We found that the Board passed a resolution to comply with the financial disclosure requirements at its May 2007 meeting, but has not established a written policy or procedure for how this will be implemented. Authority management told us that they are responsible each year for providing the County Board of Ethics with the names of those required to file a financial disclosure form. The County Board of Ethics is to provide Authority management with the forms to distribute to these individuals, and the individual is responsible for submitting the completed form to the County Board of Ethics. We received confirmation from the County Board of Ethics that all required Authority Board members and management had filed a financial disclosure form in 2007, although all of them were submitted after the June 30th due date. However, at the time of our review, financial disclosure forms had not yet been submitted by Authority Board members or management for 2008, since Authority management had not provided the County Board of Ethics with a list of who was required to file.

Training

Section 2824(2) of Public Authorities requires all individuals appointed to the board of a public authority to participate in State-approved training regarding their legal, fiduciary, financial and ethical responsibilities as directors of an authority within one year of appointment to the Board. At the time of our review all five members had served on the Board for over a year, but only four of the members have attended the required State-approved training.

Management Practices

Internal Control Assessment

Section 2800(2) of Public Authorities Law requires authorities to assess and report on the effectiveness of their internal control structure and procedures. An effective system of internal control is necessary so that the Board has reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded. Failure to establish proper controls could expose the Authority's resources to loss or improper use.

The Authority has not documented the basic internal control procedures or developed a formal process for evaluating the effectiveness and reliability of its controls to ensure that they are working as intended. The Authority's system provides effective controls over revenue associated with the annual decals and pass cards, and management relies on the system to monitor its operations. However, we found that the Authority has reduced assurance that all cash tolls are collected, accounted for and deposited. The Authority relies extensively on toll revenues and a significant portion of tolls are paid in cash. As a result, it is imperative that the Authority formally monitor and assess the effectiveness of their cash management controls.

The Authority has invested heavily in a combined mechanical/automated system to record, monitor and control the toll collection process. The number of vehicles crossing the bridge is recorded by treadles, and toll revenue is collected by one of three methods: cash payments at the time of the crossing, a reduced fee pre-paid pass card, or an annual discount pass decal.

The pass card is presented to the toll collector who records the passage, and the automated system tracks the remaining number of pre-paid crossings. The annual decal is affixed to the vehicle, and each bridge crossing is recorded against the specific decal. For cash transactions the collector records the type of vehicle crossing, which is then reconciled to the treadle records and the amount of cash collected. However, toll collectors have the ability to waive the cash toll, and allow free passage in certain situations that are recorded as 'special occurrences'. When this occurs, the toll collector is to make a manual entry which identifies the reason the toll is being waived, such as the need for an employee or an emergency vehicle to cross the bridge. This waiver and manual entry represents a weakness in the control structure since it is dependent on the reliability of the toll collector. In addition, this option increases the difficulty of monitoring and reconciling toll collections, and does not allow the Authority to routinely verify each of its cash transactions or the legitimacy of the toll waiver. As a result the Authority should minimize the transactions where manual entries are needed.

Authority management indicated that they have electronic and videotape controls in place which they feel are adequate controls over manual entries made by toll collectors. However, according to the Authority's traffic statistics, there were more than 32,000 'special occurrences' during 2007; this volume makes it impractical to review each transaction on videotape. As a result, the reliance on manual procedures provides reduced assurance of the appropriateness of the transaction. The Authority should expand the use of the existing automated control system and limit the need for toll collectors to make manual entries or waive tolls. This could be accomplished by establishing clear policies, such as issuing decals for free bridge passes to specifically authorized vehicles and monitoring their use, rather than giving toll collectors the latitude to determine what constitutes a "special occurrence".

In addition, the current automated system has a height sensor that could be used to identify overweight vehicles which should pay a higher toll. However, this control is not routinely used by the Authority but only utilized to investigate questionable transactions. Authority management stated that the use of these controls is a work in progress.

Another internal control weakness exists in the verification of cash remitted by toll collectors. As the toll collectors finish their shifts and remit the cash collected, Authority cashiers count the cash remitted and record this amount. Good internal controls separate the verification of the cash remitted from the reconciliation function. Counting the cash collected should be performed independently of any knowledge about the number of cash paying bridge crossings. However, the cashiers are provided with the traffic information at the time cash is remitted, and the cashiers reconcile the amount remitted to the traffic statistics. Since the cashiers are aware of the amount of cash that should be remitted per the traffic statistics, the effectiveness of this control is reduced. Authority management indicated they have adequate separation of duties, but recognize the need to constantly improve in this area.

Further, we believe that the internal control structure does not provide adequate management oversight of the Authority's IT Manager. This individual is solely responsible for maintenance of the toll collection system, and appears to be the only person that understands the controls in place and how to review the data and generate reports from this system, which is the basis for all controls over toll collections. As a result, management is unable to verify the accuracy or reliability of the traffic statistics, verify that all revenues are properly recorded or generate necessary control or management reports in the event this individual was unavailable.

Written procedures are a key component of an effective internal control structure. Written procedures provide guidance for employees to follow, reference, and utilize to effectively carry out their appropriate job duties and the mission of the authority. Authority management does not have formally documented guidelines and procedures regarding toll collections that can be used to train new staff or that can be referred to by other staff. When the Authority hires a new employee, they generally are given three days of on the job training, which normally consists of shadowing an experienced collector. While shadowing is an accepted training practice, it does not assure consistency as to what constitutes official or 'proper' procedures. For example, we identified inconsistencies in how the amount charged to two axle vehicles in excess of ten thousand pounds is determined. The Authority's toll structure requires that vehicles weighing over ten thousand pounds pay a higher toll, but the Authority's toll system does not measure the weight of the vehicles. Determining the proper toll is at the discretion of the individual toll collector. When questioning management and staff we received different responses when asked how to determine the amount that is owed if the toll collector is unsure of the vehicle's weight or if there is a disagreement on the payment between the toll collector and the customer. Authority management indicated that a formal written manual has been drafted.

<u>Procurement Guidelines</u>

Section 2824(1) of Public Authorities Law requires board members to establish written policies and procedures for the procurement of goods and services. In addition, General Municipal Law Section 103(1) requires competitive bidding for public works contracts over $20,000 and all other purchases over $10,000. Section 104(b) requires that goods and services not subject to competitive bidding requirements be obtained in a manner that assures the prudent and economical use of public moneys, such as through verbal or written quotations.

We found that the Authority has adopted procurement guidelines addressing the selection, awarding and monitoring of construction contracts. The guidelines are consistent with the public bidding requirements of General Municipal Law and include additional provisions for determining the method of selection for those purchases and services that do not require competitive bidding. Although not reviewed annually, the Authority appears to be following its guidelines and competitively bidding for construction contracts, providing some assurance that it is obtaining reasonable value on these procurements.

However, the procurement policy specifically exempts professional service contracts from a competitive selection process. The guidelines allow the Authority to contract for professional services without any formal or informal solicitation for quotations or obtaining the lowest price and best quality. This deficiency was identified in the State Comptroller's 1999 audit, but the Authority has failed to update its procurement guidelines. We found four professional service contracts for which the Authority did not request formal or informal price quotes. Adopting written procurement guidelines that subject professional service contracts to a transparent and competitive bidding process will assure the public that the Authority is obtaining the best value for its dollar and that the public's funds are being spent properly. The Authority indicated that they believe their current method of procuring professional services provides the Authority with the necessary flexibility to receive good value and exceptional service from contractors.

Section 2824 of Public Authorities Law requires the Board to review and monitor the financial and management controls of the authority. An inventory of Authority contracts and agreements is an essential management control for monitoring expenses paid to outside vendors, organizations and businesses. Effective internal control over expenditures for professional services requires the use of written agreements to describe the scope of services to be provided. The agreements provide the authority and the vendor with a clearly defined and mutually agreed upon basis for determining payments and the value and quality of the services being provided.

We found that the Authority does not have written agreements with all of the professional service providers with whom it does business, nor does the Authority retain contract renewal documentation if those services are continued beyond the initial contract period. We found no documentation for medical, audit, legal, and insurance consulting services being provided to the Authority.

For example, in January 2007 the Board approved a 50 percent increase in payment, from $6,000 to $9,000 annually, to an insurance firm to provide consulting services to the Authority. The only information that the Authority could provide for the consulting services was from 2004, and covered the scope of services to be provided from July 1, 2004 through June 30, 2005 at a cost of $6,000. Although the consultant continued to provide services to the Authority after 2005, there was no formal contract to show that the Board extended the engagement or voted to retain the services of the consultant, until 2007 when a vote was made by the Board to increase the firm's compensation. The Authority indicated that additional compensation was provided to the consultant due to a reduction in insurance costs over a five-year period, but we found no formal contract with the consultant regarding the scope of services to be provided or the basis for payments made to the consultant. Without a written agreement we could not determine if the scope of work increased, if the services were being provided consistent with the needs of the Authority, or how the level of compensation was determined.

In a second example, we were told that the Authority requires all toll collectors to receive a chest x-ray, drug test, and physical prior to starting the job. The Authority contracts with a physician to perform these pre-employment examinations. However, the Authority was unable to provide us with a formal contract between the Authority and the physician stating the services to be provided and a schedule of the fees to be paid. We reviewed the invoices billed to the Authority by the physician for physical examinations of eight toll collectors hired during 2007, and determined that the physician generally charged $60 to conduct a drug test. However, in one instance the physician billed the Authority $120 for an employee’s drug test; twice the amount that was normally billed. Further, four of the eight toll collectors did not receive chest x-rays. The lack of a formal written agreement limits the ability of the Authority to properly audit, or to withhold payment for excessive charges or services not provided. It does not appear the Authority has established an adequate control process over these payments, since Authority management was not aware of these discrepancies until we identified them.

The Authority indicated that it recognizes the need to ensure duties and compensation are clearly spelled out in contracts and that they are reviewed and renewed appropriately.

<u>Investment Guidelines</u>

Section 2925 of Public Authorities Law requires all authorities to establish guidelines to govern investment practices. These guidelines should instruct officers regarding the investing, monitoring and reporting of funds, require that an independent audit of investments be done annually, and require that it be reviewed annually by the Board. The Authority has not established or approved guidelines to govern their investment practices. Authority management stated that they follow guidelines established by the County Treasurer for investing funds; however this process has not been formally approved by the Board. Additionally, the County guidelines are not specific to the Authority’s processes and do not fully satisfy the requirements of Section 2925 of the Law, regarding reporting, auditing of investments, and permitted investments. As a result of our review, the Board adopted investment guidelines at its September 2008 Board meeting.

<u>Property Disposition</u>

Section 2896(1) of Public Authorities Law requires public authorities to adopt guidelines for the use, awarding, monitoring, and reporting of contracts for the disposal of property, and to annually publish a report listing property disposed of during such period, including the price received and the name of the purchaser for all property sold. The Authority had not established property disposition guidelines that formally outline the use, awarding, monitoring and reporting of such property. Authority management stated that they follow an appropriate property disposition process. Nevertheless, formalized property disposition guidelines approved by the Board will ensure accountability, transparency and fair market value when disposing of property by providing standardized procedures for the transaction, the awarding of contracts, and monitoring and reporting to the Board. As a result of our review, the Board adopted property disposition guidelines at its September 2008 Board meeting.

Transparency

Section 2800(1)(b) of Public Authorities Law requires local authorities to make information accessible to the public to the extent practicable through the use of the authority's Internet web site. This information is to include the mission, current activities, and financial data, including the current year budget. The Authority has established an Internet web site, but at the start of our review it was not functional, and there was no financial information or operational data posted to it. Authority management explained that they are in the process of improving the functionality of the web site. During our review, management made progress and posted the Authority's 2007 annual report, 2008 budget information, and its adopted policies on the web site.

Annual Report

Section 2800(2) of Public Authorities Law requires authorities to prepare annual reports disclosing information related to their operations, management, and finances, and to submit this report within 90 days of the end of the fiscal year. The Authority's 2006 Annual Report was due to the ABO on April 1st, 2007, however it was not received until June 2007 and failed to include information on all property held by the Authority. In addition, as of our review the Authority had not submitted its 2007 Annual Report through the Public Authorities Reporting Information System (PARIS).

Budget Report

Section 2801(1) of Public Authorities Law requires authorities to submit budget information on operations and capital construction at least 60 days prior to the start of the public authority's fiscal year. The 2007 budget information was submitted by the Authority by the November 1, 2006 due date. However, the Authority's 2008 budget was not adopted prior to the start of its fiscal year, and the budget report has not been provided to the ABO utilizing PARIS. Instead, a hard copy was sent to the ABO in April 2008, approximately six months late. This is contrary to the reporting practice for authorities put in place by the ABO and the Office of the State Comptroller.

Compliance Issues Summary

Board Duties
The Authority has not adequately separated the functions of the Board from those of management, as required by Section 2824(3) of Public Authorities Law. This is demonstrated by the fact the Board Chair executes contracts in the capacity of Executive management.

Executive Session
The Board meets in executive session without providing sufficient legal justification for doing so, as required by Section 105 of Public Officer's Law.

Committees
The Authority does not have properly functioning Audit and Governance committees, as required by Section 2824 of Public Authorities Law.

Independent Audit Firm
The independent audit firm is providing non-audit services to the Authority, which is prohibited under Section 2804(5) of Public Authorities Law.

Financial Disclosure
The Authority's members and officers have not submitted financial disclosure statements to the County Board of Ethics for 2008, as required by Section 2825(3) of Public Authorities Law.

Training
One member of the Board has not attended the State-approved training, as required by Section 2824(2) of Public Authorities Law.

Internal Control Assessment
The Authority has not assessed and reported on the effectiveness of its internal control structure and procedures, as required by Section 2800(2) of Public Authorities Law.

Procurement
The Authority has not adopted formal written procedures for the procurement of professional services that address requests for proposals, soliciting written or verbal price quotes, or other methods for obtaining services, consistent with its fiduciary duty, as required by Section 103 and 104-b(2) of General Municipal Law.

Transparency
The Authority is not making appropriate information on its operations and governance practices available to the public on its web site, as required by Section 2800 of Public Authorities Law.

Annual Report
The Authority did not submit its Annual Report for the 2007 fiscal year to the Authority Budget Office, as required by Section 2800 of Public Authorities Law.

Budget Report
The Authority did not submit its 2008 budget report to the Authority Budget Office 60 days prior to the start of the 2008 fiscal year, as required by Section 2801 of Public Authorities Law.

Operational Deficiencies

1. The Authority's toll structure provides a significant subsidy to frequent users, and the Authority has not documented the basis for this significant subsidy.

2. The Authority is making additional payments for uncredited leave to employees upon separation.

3. The Authority allows employees to accumulate vacation leave in excess of the maximum stipulated in the collective bargaining agreement.

4. The Authority provides additional benefits to employees and contractors by allowing free bridge crossings unrelated to Authority business.

5. The Authority retains two attorneys with duplicative responsibilities.

6. The Authority incurs additional costs by carrying insurance coverage at levels that appear to be excessive when compared to other public authorities.

Governance Recommendations

1. The Board should review its current toll fee structure and ensure that it is rational, equitable and continues to generate sufficient revenues. The basis for this toll structure should be documented.

2. The Board should develop a formal plan for their design for increasing the use of prepaid services and the use of technology based services, while reducing personnel costs.

3. The Board should continuously review and monitor the operations of the Authority to make them more cost effective and efficient, consistent with its fiduciary responsibility to the public.

4. The Authority should limit separation payments made to employees to only appropriately credited unused leave. The Authority should ensure that employees are compensated only for unused leave that has been earned and credited in accordance with the employee bargaining agreement.

5. The Board should require that the accumulation of vacation leave provisions of the collective bargaining agreement be complied with by all employees who are subject to the terms of that agreement, to ensure these balances do not exceed the maximum allowed by the contract.

6. The Authority should not allow employees to utilize the bridge at no charge unless for Authority related business. This practice should be documented and controls put in place to ensure it is followed.

7. The Authority should review the services provided by both attorneys and report to the public whether both positions are justified.

8. The Board should review the current insurance policies held by the Authority, given its size (outstanding debt, traffic, etc.) and operations, and report to the public whether the current coverage is appropriate.

9. Management should provide the Board with the most current financial and bridge traffic information at every Board meeting to ensure the Board is able to effectively review and monitor the Authority's operations.

10. The Board should allow members to have free passage on the bridge only when it relates to their official duties.

11. The Board Chair should not act in the capacity of executive management, including but not limited to executing contracts of the Authority.

12. The Board should comply with Sections 105 of Public Officer's Law, by clearly indicating during the public portion of the Board meeting, the specific grounds for moving into executive session and support this move with a majority vote of the members.

13. The Audit and Governance Committees should appropriately carry out their required duties as outlined by the law and the adopted committee charters. This would include meeting in separate sessions, not regular Board meetings, to discuss agenda items and summarizing their discussions to the Board.

14. The Audit Committee should be more involved with establishing the scope of services and compensation of the independent auditor, in accordance with the Audit Committee Charter, as well as ensure that only approved non-audit services are provided.

15. The Authority should establish written procedures for filing financial disclosure statements, to ensure timely submission of their annual financial disclosure statements to the Nassau County Board of Ethics.

16. The Board should ensure that all members complete the State-approved training within one year of their appointment.

17. The Authority should formally assess and document the effectiveness of its internal control structure, by looking at the various functions of the Authority's operations and determining if they are working appropriately, and identify any deficiencies or potential risk areas for more frequent follow up or establish corrective action plans to address those deficiencies.

18. The Authority should reduce or eliminate the need for toll collectors to waive tolls and the related use of manual entries by toll collectors, and more effectively utilize existing controls to account for and monitor free bridge crossings.

19. The Authority should implement written procedures and training for toll collectors.

20. The Board should establish procedures to be followed when procuring contracts for professional services, such as request for proposal (RFP) guidelines, to ensure the Authority is selecting the most qualified candidates who offer the most valuable economic proposals for their services.

21. The Authority should maintain a list of all active contracts, and a complete record of all procurements.

22. The Board should take steps to ensure that the Authority has entered into written agreements with all professional service providers, stipulating the services to be provided and the basis for compensation

23. The Authority should have a formal contract with the physician that outlines the requirements of the Authority and the fees associated with each medical procedure performed.

24. The Authority should continue the process for improving the functionality of the Authority's web site, to include information on their Board meetings, current activities, and other operational and financial information

25. The Authority should submit their 2007 Annual Report information using PARIS.

26. The Authority should submit their 2008 budget information using PARIS.