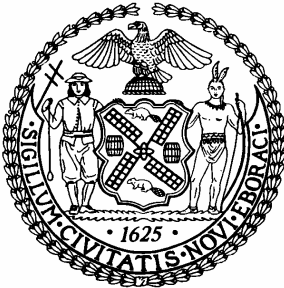


AUDIT REPORT

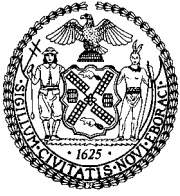


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on Department of Transportation Controls over Parking Card Distribution and Sales Revenue

MG06-081A

June 26, 2006



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited the Department of Transportation (DOT) to determine whether DOT maintained adequate financial controls over revenue generated from the sale of parking cards, and whether it had adequate safeguards over the inventory and distribution of the parking cards.

DOT manages the City's transportation infrastructure. Its Division of Traffic Operations' Parking Bureau reported revenues totaling \$10.9 million from the sale of Parking Cards. Audits such as this provide a means of ensuring that DOT and other city agencies provide adequate controls, accountability, and safeguards over City assets.

The results of our audit, which are presented in this report, have been discussed with DOT officials, and their comments were considered in the preparation of this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/ec

Report: MG06-081A
Filed: June 26, 2006

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The City of New York
Office of the Comptroller
Bureau of Management Audit

Audit Report on
Department of Transportation Controls
Over Parking Card Distribution and Sales Revenue

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AUDIT REPORT IN BRIEF

This audit determined whether the Department of Transportation (DOT) maintained adequate financial controls over revenue generated from the sale of parking cards, and whether it had adequate safeguards over the inventory and distribution of the parking cards.

DOT manages the City's transportation infrastructure. In Fiscal Year 2002, the DOT Division of Traffic Operations' Parking Bureau introduced the NYC Parking Card, a stored-value card sold in denominations of \$20 and \$50 by mail, over the Internet, and at retail locations in the City. The cards can be used in place of coins to pay for parking meter fees in all municipal parking fields, municipal meters (muni-meters), and certain single-space meters in the City. In Fiscal Year 2005, DOT reported revenues totaling \$10.9 million from the sale of Parking Cards.

Audit Findings and Conclusions

DOT generally maintains adequate financial controls over revenue generated from the sale of parking cards. In addition, the physical security and safeguards over parking cards provide reasonable assurance that the parking-card inventory is protected against theft and misappropriation. Further, DOT maintained accurate and complete parking-card inventory records.

However, the Parking Bureau does not reconcile on a monthly basis Electronic Fund Transfer (EFT) payments resulting from Internet credit-card sales transactions to monthly Internet sales nor verify the accuracy of the monthly credit card processing fees. Also, cash-receipt control procedures were not consistently followed, and DOT operating procedures were outdated. These weaknesses, however, were not sufficiently significant to detract from our overall opinion.

Even though we did not audit or render an opinion on the E-Card system as a whole, our audit disclosed general control weaknesses and deficiencies that could materially compromise the system, raise concerns over the reliability, completeness, and accuracy of the E-Card data, and lead to greater inefficiencies in the processing of customer-parking card orders.

Audit Recommendations

To address these issues, the audit made 12 recommendations. Among them, we recommend that the DOT should:

- Implement procedures requiring the Parking Bureau to reconcile EFT transfer payments for Internet parking card orders on a regular (e.g., monthly) basis to ensure that transaction settlement amounts match total Internet sales.
- Verify that the fees incurred by DOT for credit card processing are appropriate.
- Ensure that remittance checks received and processed by the Parking Card Unit are restrictively endorsed upon receipt, in accordance with Comptroller's Directive #11.
- Ensure that MIS and Parking Bureau officials develop a plan and implement procedures to ensure that E-Card is appropriately supported by MIS so that proper resources are made available to address routine system maintenance and to investigate and appropriately resolve persistent problems, particularly those with Internet sales orders.
- Develop and periodically test a formal disaster recovery plan to ensure that E-card and other agency mission-critical applications are adequately protected in the event of a disaster or unplanned disruption in operating capabilities.
- Deactivate inactive user IDs as well as those for CHC consultants and DOT personnel no longer employed by the agency.
- Review E-Card, evaluate and document deficiencies (i.e., reporting functions and inventory module), and establish a plan and timeline for the remediation of such deficiencies with collaboration between MIS and Parking Bureau departments. Require that proper monitoring, program-change control, and system-documentation procedures be followed.

Agency Response

DOT agreed with ten audit recommendations and disagreed with two others that addressed programmer access to automated business activities and the agency's formal disaster recovery plan.

INTRODUCTION

Background

The Department of Transportation (DOT) manages the City's transportation infrastructure, including City streets, highways, sidewalks, and bridges. DOT is responsible for installing and maintaining street signs, traffic signals, street lights, and parking meters; repairing potholes and other street defects; managing municipal parking facilities; and operating the Staten Island Ferry.

In Fiscal Year 2002, DOT introduced the NYC Parking Card. The card is a stored-value Smart Card,¹ sold in denominations of \$20 and \$50, that can be used in place of coins to pay for parking meter fees in all municipal parking fields, municipal meters (muni-meters), and certain single-space meters in the City.

The DOT Division of Traffic Operations' Parking Bureau sells parking cards by mail-order, over the Internet (www.nyc.gov/dot), at the City Store (1 Centre Street), the NYC & Company Visitors Information Center (810 Seventh Avenue), and vending machines at the ferry terminal on Staten Island. The Parking Bureau is responsible for fulfilling customer orders, processing and reporting revenue collections derived from the sale of parking cards, distributing parking cards for sale through its various channels, and controlling and safeguarding the on-hand inventory of parking cards.

Since its introduction, the NYC Parking Card has grown in popularity. Between Fiscal Years 2002 and 2005, parking card sales grew by approximately 722 percent to \$10.9 million in Fiscal Year 2005 from \$1.3 million in Fiscal Year 2002. In Fiscal Year 2005, mail orders for parking cards represented the largest portion of sales (73%), followed by Internet sales (14%), retail sales at the City Store and the NYC & Company Visitors Information Center (8%), and sales at the Staten Island vending machines (5%).

Objective

The objectives of this audit were to determine whether DOT maintains adequate financial controls over revenue generated from the sale of parking cards, and whether it has adequate safeguards over the inventory and distribution of the parking cards.

Scope and Methodology

The audit scope covered November 1, 2004, representing the start of full implementation of the Parking Card order-processing computer system, E-Card, through October 31, 2005.

To accomplish our objectives and gain an understanding of the financial controls over revenue and the safeguards for parking card inventory, we met with officials from the DOT

¹ A smart card is a plastic card, the size of a credit card, with an imbedded, integrated-circuit computer chip that carries all necessary information and can perform all functions with the use of a card reader. Unlike magnetic strip cards, smart cards do not require access to remote databases.

Parking Bureau, Parking Card Unit, Research and Development Unit, Internal Security/Special Investigations, and Fiscal Affairs, as well as officials from the Comptroller's Bureau of Accountancy, Revenue Monitoring Unit.

In addition to our review of the DOT *Parking Card Unit Standard Operating Procedures* (SOP) manual, dated July 2004, we used the following sources as criteria:

- Comptroller's Directive #1, "Principles of Internal Control" and accompanying Agency Evaluation of Internal Controls Checklist;
- Comptroller's Directive #11, "Cash Accountability and Control";
- Comptroller's Directive #18, "Guidelines for the Management, Protection and Control of Agency Information and Information Processing Systems";
- Comptroller's Directive #21, "Revenue Monitoring"; and
- Directives and standards of the Department of Investigation's, *Citywide Information Security Architecture, Formulation and Enforcement (CISAFE)*.

To gain an understanding of sales transactions, we purchased parking cards directly from DOT, from the City Store, and over the Internet. To supplement our understanding of parking card sales, we analyzed parking card statistics for Fiscal Years 2002 through 2005 and reviewed DOT organization charts, the *Mayor's Management Report*, the Executive Budget, and other relevant information obtained from DOT, the Internet, and other sources. We also reviewed the agency's self-assessment of its internal controls for Fiscal Years 2004 and 2005, performed in compliance with Comptroller's Directive #1, "Internal Control Checklist" and submitted to the Comptroller's Office.

Documentation was reviewed that outlined the flow of parking card sales transactions through the various sales channels (mail, Internet, retail, and vending machines) and the related processes, controls, and procedures for parking card operations were documented in memoranda and flow charts.

Tests of Controls over Sales Processing, Cash Receipts, and Parking Card Inventory

To test for compliance with established policies and procedures and to ascertain whether adequate segregation of duties was in force, we conducted walkthroughs and observations of the Parking Card Unit and: observed the daily preparation and assignment of sales (mail and Internet) orders, along with the distribution and assignment of parking cards from the on-hand inventory to fulfillment clerks; reviewed documentation pertaining to the revenue from sales and inventory assigned to the vending machines on Staten Island and to the City Store and the NY &

Company Visitors Information Center.² The processing of sales orders and the preparation of daily cash receipts and sales reports was also observed.

In addition, we observed the preparation of daily bank deposits and on one occasion accompanied DOT staff and security personnel transport the deposit to the bank, and tested remittance checks to determine whether they were appropriately stamped with a restrictive endorsement upon receipt and adequately safeguarded until transported to the bank. The controls over account credits and adjustments were also evaluated.

A total sample of 50 parking card orders—19 mail and 31 Internet—was randomly selected from a population of 50,756 orders processed through E-card for the period November 1, 2004, through September 30, 2005, and was subjected to various compliance, analytical, and data-reliability tests (discussed below).

Tests of Controls over DOT Information-Processing

As part of our review of internal controls, we evaluated, on a limited basis, general controls over the DOT E-Card system, an integral component of parking card operations. Specifically, we met with officials from the DOT Management Information System (MIS) department, toured the central DOT data center, reviewed documentation pertaining to the agency-wide and Internet architecture, security, and connectivity of the network where E-Card resides, assessed the procedures and controls in place pertaining to user access, data backup, disaster recovery, program-change control and maintenance, and the supervision and security of the data center.

Tests of Cash Receipts

To determine whether remittance checks and money orders collected for mail orders were properly posted, processed, and accurately reported, daily cash receipts from mail orders were reviewed for May 1, 2005, through August 31, 2005, representing the most recent data for the four months including and preceding the start of audit fieldwork. For each business day during the test period, mail-order sales were traced to the DOT Daily Cash Receipts Report, Check Verification Log, validated bank deposit ticket, and Financial Management System (FMS) reports submitted to the Fiscal Affairs department by the Parking Card Unit.

We evaluated the Parking Bureau's procedures for reconciling total monthly Electronic Funds Transfer (EFT) payments and associated fees to total monthly Internet sales and analyzed monthly Merchant Activity Reports and Settlement Statements for the period November 2004 through October 2005, detailing total transfer payments credited to the City's treasury account for credit card (Internet parking card sales) transactions and related processing fees charged to DOT for such transactions. We also reconciled the total monthly transfer payments and related fees for the same period to the monthly parking card sales totals as reported by DOT.

In addition, we reviewed interagency transfer of funds to DOT from DCAS, representing cash collections for parking card sales at the City Store and the NY & Company Visitors

² The City Store and NY & Company Visitor Information Center are under the jurisdiction of the Department of Citywide Administrative Services.

Information Center as well as the procedures, handling, and reporting of cash collections at the Staten Island ferry terminal vending machines by the DOT Meter Collections Unit.

Tests of Data Reliability and Processing

To assist in our review, since “read-only” access to the E-Card database was not available, DOT MIS officials, alternatively, granted access to the application’s reporting functions, permitting us to evaluate the various report options and to identify Tally Reports, Sales Reports, and Monthly Sales Reports options as useful for audit testing. For the six month period January 2005 through June 2005, reports were generated for each of these report types. To test for accuracy, the results of the reports were compared to each other as well as to Parking Bureau reports for the same period.

The accuracy, completeness, and reliability of data in the E-Card database, was tested using the sample of 50 randomly selected orders. With DOT personnel providing access to the E-Card system, we tested various attributes (i.e., customer name, address, order type, customer number, ship date, order amount) from the system for each of the 50 sampled orders to documentation stored in the associated customer files. Based on the results of these tests, there was reasonable assurance that the data on E-Card accurately reflected information in DOT customer files.

To assist in our review, the DOT MIS department provided a copy of data from selected fields for all records in the E-Card database as of October 31, 2005. To ensure that the data copy was extracted from the current, operating database, we compared the database copy to our prior attribute test results and ran various queries on the database.

Tests of Parking Card Inventory

On August 25, 2005, we took a physical count of the on-hand inventory of parking cards. To ensure that each sealed box of cards contained the quantity indicated and that the card serial numbers matched the range of numbers printed on each box, we randomly selected three boxes of parking cards, counted the cards, and checked whether the sequential numbering of the cards was continuous and accurate. Using a card reader, the same cards were tested to verify the stored value (\$20 or \$50) of each card and to determine whether the cards were functioning correctly.

To ascertain the accuracy and completeness of DOT parking card inventory records, the results of the physical inventory count were reconciled with the DOT parking card inventory (on-hand and distribution) records and purchasing documents from the last order received in two shipments, one on April 19, 2004, and the other on October 20, 2004. We ascertained whether any cards were missing or defective, and assessed the DOT procedures for handling and accounting for such defective or missing cards.

To test the accuracy of log entries recording the distribution of parking cards from on-hand inventory for mail and Internet order fulfillment, using the previously noted randomly selected sample of 50 orders, we traced the serial numbers of cards assigned to each order to the appropriate distribution entry in the DOT inventory distribution log. To test the accuracy of

cards assigned from inventory to the Staten Island vending machines for restocking, we reviewed Vending Machines Restocking Reports and Biweekly Sales Processing reports from June 15, 2005, through October 19, 2005, and traced the serial numbers recorded on these documents to the DOT subsidiary vending machine inventory distribution record. Similarly, to determine the accuracy of card distribution from inventory to DCAS for sale in the City Store and the NY & Company Visitors Information Center, we traced DCAS sales reports and DOT sales order information to the DCAS subsidiary inventory records. We then reconciled the subsidiary inventory records to the primary inventory records.

Tests of Security and Safeguards over Parking Cards

To evaluate the security and safeguards DOT established to protect and secure parking cards, we reviewed applicable sections of a October 7, 2004 report of a security assessment of DOT facilities, performed by Iversen & Biondo, Associates, Inc.,³ a security consulting firm hired by DOT. We noted findings and conditions that addressed our audit objectives or other matters relevant to this audit. We also interviewed security personnel, observed the secured areas where parking cards are stored, and determined whether they were adequately secured and accessible only to authorized personnel.

To ensure that the security cameras were functioning and providing clear images, 10 of the 58 cameras situated throughout the facility were judgmentally selected. To ensure that recorded images were archived as represented by DOT officials, using a sample of 16 cameras (10 from the first test and 6 additional), archived images recorded on various dates and times between September 13, 2005, and October 9, 2005 were viewed. Furthermore, the remote security monitoring and reporting mechanisms over the vending machines at the ferry terminal on Staten Island were tested.

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis to assess the adequacy of DOT's financial controls over sales processing, cash receipts, and parking card inventory.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with DOT officials during and at the conclusion of this audit. A preliminary draft report was sent to DOT officials on April 24, 2006, and discussed at an exit conference held on May 10, 2006. On May 23, 2006, we submitted a draft report to DOB officials with a request for comments. We received a written response from DOT on June 7, 2006. In the response, DOT officials agreed with 10 audit recommendations and disagreed with two others that addressed programmer access to automated business activities and the agency's formal disaster recovery plan.

³ "FINAL: Security Assessment of Meter Collection, Meter Maintenance, Prepaid Parking Card & Internal Security, Contract #20040024704." Iversen & Biondo Associates, Inc., Forest Hills, NY: October 7, 2004.

Overall, DOT officials stated: “We agree with [the] auditors’ opinion that the Department of Transportation (DOT) generally maintains adequate financial controls over revenue generated from the sale of parking cards and that the physical security and safeguards over parking cards provide reasonable assurance against theft and misappropriation. We also agree that the weaknesses presented in the report were not sufficiently significant to detract from the auditors’ overall opinion.”

Subsequently, on June 15, 2006, DOT submitted a supplemental response that included the agency’s Business Continuity Plan. With the exception of this plan document, which has been omitted from this report due to the sensitive nature of its content, the full text of the DOT’s response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

DOT generally maintains adequate financial controls over revenue generated from the sale of parking cards. In addition, the physical security and safeguards over parking cards provide reasonable assurance that the parking-card inventory is protected against theft and misappropriation. Further, DOT maintained accurate and complete parking-card inventory records.

However, the Parking Bureau does not reconcile on a monthly basis Electronic Fund Transfer (EFT) payments resulting from Internet credit-card sales transactions to monthly Internet sales nor verify the accuracy of the monthly credit card processing fees. Also, cash-receipt control procedures were not consistently followed, and DOT operating procedures were outdated. These weaknesses, however, were not sufficiently significant to detract from our overall opinion.

Even though we did not audit or render an opinion on the E-Card system as a whole, our audit disclosed general control weaknesses and deficiencies that could materially compromise the system, raise concerns over the reliability, completeness, and accuracy of the E-Card data, and lead to greater inefficiencies in the processing of customer-parking card orders.

The details of these weaknesses are discussed in the following sections of this report.

Electronic Funds Transfers from Internet Credit Card Sales Transactions Are Not Reconciled

The Parking Bureau does not reconcile on a monthly basis Electronic Fund Transfer (EFT) payments resulting from settled⁴ Internet credit card sales transactions to monthly Internet sales. Consequently, there is no assurance that all funds due for shipped Internet orders are properly credited to the City's treasury account. Moreover, there is no assurance that discrepancies are identified and addressed in a timely manner.

Comptroller's Directive #11 requires that all agency cash accounts be reconciled monthly: "EFT payments are subject to the same controls as conventional cash transactions. However, because of the accelerated movement of fund transfer payments and the 'paperless' nature of these transactions . . . reconciliations of both the number of transactions and the dollar amount must be made promptly upon receipt of statements from financial institutions."

Each month, DOT receives Merchant Activity and Settlement Reports detailing the daily and monthly transfer payments for authorized and settled credit card (Internet sales) orders.

⁴ In terms of credit card transactions, "settled" transactions are "paid" transactions. "Settlement" is the process of sending batches of approved credit card charges and credits to the financial network so that funds can be deposited into or, in the case of credits, withdrawn from the merchant's bank account.

These reports also reflect the various discount rates, transaction fees, and other fees charged to DOT for the processing of credit card transactions⁵.

Our analysis of the monthly Merchant Activity and Settlement Reports for the months November 2004 through October 2005 revealed that the total monthly transfer payments generally agreed with DOT total monthly Internet sales; however, differences existed each month between the two amounts. Overall, for the 12 months in our analysis, a total net difference (shortage) of \$25,239 existed between total transfer payments (\$2,522,661) and total Internet sales (\$2,547,900), representing a little less than one percent of total Internet sales for the same period. Generally, there can be a timing difference of up to 72 hours (3 days) between the settlement of Internet credit card transactions and the actual date EFT payments are credited to the City's treasury account. However, since DOT does not reconcile monthly Internet sales to monthly transfer payments, it cannot ascertain whether the difference is wholly the result of timing differences or includes actual shortages of funds that remain owed to the City.

Parking Bureau officials stated their belief that monthly reconciliations should be done; however, according to their understanding of internal controls, they stated that since the Parking Bureau "sells the cards it should not verify the money." Instead, they suggested that another entity, specifically DOT's Fiscal Affairs department, should be responsible for such reconciliations. Nevertheless, similar to its responsibility for cash received via mail, the Bureau is clearly responsible for ensuring the accuracy of cash receipts received via EFT payments. Specifically, the Bureau should be reconciling monthly Merchant Activity and Settlement reports to ensure that reported transaction settlement amounts match total Internet sales.

In addition, our audit disclosed that the Parking Bureau does not verify the accuracy of the credit card processing fees (discount fees, transaction fees, and other fees) charged to the agency for the processing of credit card transactions. Instead of verifying the accuracy of these charges, the Parking Bureau's Fiscal Officer merely signs the monthly statements authorizing payment of such charges and fees. For the 12 months from November 2004 through October 2005, DOT paid credit card processing fees totaling \$55,361, representing a little more than two percent of the total transfer payments of \$2,522,661, as reflected on the monthly Merchant Activity and Settlement Reports.

With the agency's expectation of increased Internet parking card sales, which are paid by credit or debit card, the associated revenues and processing fees for such transactions will increase substantially. Due to the accelerated and relatively "paperless" nature of transfer payments, it is essential that reconciliation procedures be implemented and strictly followed. Failure to do so can facilitate theft or misappropriation and frustrate efforts to recoup funds. In addition, by not verifying the accuracy of the monthly credit card processing fees, there is no assurance that appropriate fees are paid by the City.

⁵ This discount rate is a percentage of each credit card transaction that is charged to the merchant services account by the credit card processing company. Transaction fees are separate from discount fees and represent a set fee (i.e., \$0.25) per transaction. Other fees may include monthly statement fees, set up fees, etc. The discount rates and related fees charged to City agency merchant service accounts are agreed upon in advance by the respective companies and the Department of Finance.

Recommendations

DOT should:

1. Implement procedures requiring the Parking Bureau to reconcile EFT transfer payments for Internet parking card orders on a regular (e.g., monthly) basis to ensure that transaction settlement amounts match total Internet sales.

DOT Response: “We agree and DOT is currently implementing procedures using the Department of Finance’s Credit Card Payment spreadsheet as a model for tracking and reconciling payments.”

2. Verify that the fees incurred by DOT for credit card processing are appropriate.

DOT Response: “We agree and are ensuring the appropriateness of the fees charged for credit card processing by comparing those fees incurred to the Contract Pricing Schedule.”

Cash Receipts Control Procedures Not Consistently Followed

Bank Deposit Verification Procedures Not Followed

Our review of the DOT Parking Card Unit’s daily bank deposit log sheets, Final Verification of Number of Checks Deposited, determined that Parking Card Unit personnel do not consistently comply with DOT procedures that require a second person—independent of the person who prepares the daily bank deposit—to verify the quantity of checks in the deposit as listed on the deposit slip and accompanying documentation. The verification log is supposed to show two signatures: the signature of the person who counts the checks and prepares the deposit and the signature of the person who verifies the number of checks in the deposit.

However, close review of the log sheets for the period April 1, 2005, through August 31, 2005, determined that there were 26 (24.8%) out of 105 entries in which the same person signed both as the person counting the checks and the person verifying the number. To a lesser extent, our review identified four instances in which the signature for one individual was signed by another. Specifically, the individual who signed his name as the person counting the checks also signed the name of the second person verifying the number.

Subsequent to being presented with these findings, DOT officials stated that they had spoken to the supervisory staff of the Parking Card Unit and reinforced the requirements.

Customer Remittance Checks Not Consistently Endorsed Upon Receipt

The remittance checks submitted with parking card mail orders were not consistently endorsed upon receipt. In addition, DOT procedures are contradictory about the appropriate time

when the checks should be endorsed. Comptroller's Directive #1 requires that all checks and money orders be restrictively endorsed, generally as they are received.⁶

DOT officials asserted that parking card orders received via mail each day are opened and the accompanying checks are subsequently endorsed. However, during our initial walkthrough of the DOT Parking Card Unit on August 25, 2005, we observed that remittance checks were not restrictively endorsed upon receipt. Instead, the checks were restrictively endorsed upon preparation of the bank deposit the next business day. However, during subsequent observations of the Parking Card Unit, we found that on some occasions the checks were appropriately endorsed and on some occasions the checks were not endorsed upon receipt.

The Parking Card Unit SOP manual itself is inconsistent. Specifically, the section entitled, "Processing of Checks," states, "all checks and money orders are stamped with a restrictive endorsement to the NYC DOT bank account as soon as they are received." Conversely, the same section later indicates that after the bank deposit ticket is filled out, the back of the checks are imprinted with a deposit stamp.

To ensure that financial controls over cash receipts, such as restrictively endorsing customer checks upon receipt, can be appropriately relied upon, such procedures must be clearly stated and consistently followed.

Recommendations

DOT should:

3. Ensure that the Final Verification of Number of Checks Deposited log is appropriately completed. Specifically, ensure that the tasks of preparing the deposit and verifying the quantity of checks in the deposit are assigned to different Parking Card Unit staff members. Upon completing the respective tasks, staff members should sign their own name upon completing the task.

DOT Response: DOT agreed, stating: "Procedures have been reinforced with the staff and supervisors constantly ensure compliance."

4. Ensure that remittance checks received and processed by the Parking Card Unit are restrictively endorsed upon receipt, in accordance with Comptroller's Directive #1.

DOT Response: "We do agree with Comptroller's Directive #1 and have ensured that the restrictive endorsements are stamped on incoming checks [and money orders] when received."

⁶ The Office of the Comptroller considers the subject matter covered by the detailed questions contained in the Directive #1 Agency Evaluation Internal Control Checklist to be criteria that agency management should follow in maintaining a reliable and effective system of internal controls.

Operating Procedures Need To Be Updated

The SOP manual for the Parking Card Unit, issued in July 2004, does not accurately address the processes and procedures currently in use by the Unit. According to the SOP manual, “SOPs are reviewed and revised as needed.” However, we found that the SOP manual has not been updated to reflect major changes in procedures followed in the processing of parking card orders.

Comptroller’s Directive #1 states: “Internal controls should be documented in management administrative policies or operating manuals. All documentation should be properly managed and maintained.”

In November 2004 the Parking Bureau implemented the E-Card system to automate the billing of parking card orders. On or about November 14, 2004, the Internet order component of E-Card was implemented, creating the ability for customers to order parking cards over the Internet. With the implementation of E-Card, many of the procedures established in the SOP manual regarding the processing of customer orders became automated, and therefore no longer applicable. For example, E-Card automatically assigns customer account numbers for newly established accounts. SOP procedures detail the manual assignment of customer account numbers and recording this information in a log book. Consequently, this SOP procedure and others spelled out in the manual are no longer applicable under the new system.

At the exit conference on May 10, 2006, DOT officials provided the audit team with an updated SOP manual, dated May 2006. We evaluated the document and found that it fairly reflects the policies and procedures for the Parking Card Unit that we found in force during the audit.

Recommendation

DOT should:

5. Periodically review and update the Parking Card Unit SOP manual to reflect current policies and procedures.

DOT Response: DOT agreed, stating: “Changes have been fully incorporated in the current procedures manual. Future changes in procedures will be similarly communicated via administrative memoranda and the manual will be updated periodically, as appropriate.”

Other Matters:

General Control Weaknesses

In November 2004, DOT implemented E-Card for the processing of parking card orders. The Internet component of the application became active in November 2004 and allows customers to purchase parking cards over the Internet from DOT’s Web site (www.dot.nyc.gov). Even though we did not audit or render an opinion on the E-Card system as a whole, our audit

disclosed general control weaknesses and deficiencies that could materially compromise the system, raise concerns over the reliability, completeness, and accuracy of E-Card data, and lead to greater delays in the processing of customer parking card orders. These matters are discussed below in greater detail.

Lack of Support for the Application

The DOT MIS department has a limited number of programming staff to adequately support E-Card and to adequately address, investigate, and effectively resolve problems that occur.

Comptroller's Directive #18, §6.0, states: "The proper staffing and organization of the information processing environment is an essential element of strong internal controls and a key component of the information protection plan." In addition, §9.4, states: "A central problem control function is a technique that is used to identify, monitor, and resolve information processing environment operations problems." This problem-control function should include procedures to identify specific causes of the problems, develop a plan for resolving the problems, monitor progress at correcting the problems, verify problem correction, and maintain problem history files.

According to DOT officials, E-Card was developed in-house by consultants from Computer Horizons Corporation (CHC), who were working under contract with DOT to provide consulting and support services related to the upgrade and implementation of the agency-wide Intranet system, DOTNET.⁷ However, the contract ended on August 31, 2005, and the CHC consultants who had primarily developed and supported E-Card left. There remained one DOT programmer to support E-Card while also working on other MIS projects. During the audit, DOT Parking Bureau officials reported experiencing increasing problems with Internet orders.

On December 9, 2005, E-Card sustained a material disruption, reportedly caused by a flaw in system maintenance procedures. The system was out of service for three days, through December 12, 2005, during which the Parking Card Unit was prevented from processing and filling customer orders. As a result, E-Card was materially compromised; concerns were raised over the reliability, completeness, and accuracy of the application data; and delays were created in the processing of customer parking card orders. Since DOT personnel were not the primary developers of E-Card, and there are a limited number of personnel resources available to MIS to support, address, investigate, and effectively resolve problems with E-Card, disruptions or other problems could occur.

In addition, our review disclosed erroneous duplicate Internet orders that resulted in multiple charges to customer credit card accounts. For example, upon drawing our random sample of 50 customer orders, we drew (and subsequently rejected from testing) 27 problem Internet orders resulting in duplications that had to be voided. According to DOT Parking Bureau officials, most of the problem incidents had major similarities; however, each was individually addressed as it occurred. The DOT MIS department did not investigate and identify the underlying cause(s) of these recurring problems. By the end of audit fieldwork, the

⁷ Contract #CT84120030021885. Term: February 26, 2001-August 31, 2005. Registration date: May 5, 2003. Original contract amount \$5.6 million. Revised amount \$9.6 million.

underlying cause of these problems had still not been addressed nor corrected. Instead, as reported by DOT Parking Bureau officials, the frequency of Internet order problems has increased with the growth of Internet orders.

Recommendation

DOT should:

6. Ensure that MIS and Parking Bureau officials develop a plan and implement procedures to ensure that E-Card is appropriately supported by MIS so that proper resources are made available to address routine system maintenance and to investigate and appropriately resolve persistent problems, particularly those with Internet sales orders.

DOT Response: DOT agreed, stating: “MIS and Parking officials meet periodically to discuss the goals and needs of the program and ensure that any problems are identified and resolved.”

Inadequate Application-Access Controls

Our review of authorized users of E-Card and their respective access levels showed that the Parking Bureau granted programmers “Administrator” access rights. This highest level of access to the system enables a person to make changes to the system without oversight or detection. In addition, user identifications (user IDs) to the application were not deactivated after the individuals left the agency.

Comptroller’s Directive #18, §6.0, states: “Proper internal controls require that staff with appropriate training, qualifications, and experience be assigned to each function, and that duties and job responsibilities be adequately segregated.” Therefore, programmers should not have access to business functions. In addition, §8.0, of the Directive states that user IDs that remain inactive or those for terminated employees should be deactivated.

Overall, the DOT Parking Bureau granted “Administrator” E-Card-access rights to 11 individuals, consisting of five members of the Parking Bureau management staff, four CHC consultants, and two DOT MIS employees. As of October 10, 2005, five of the individuals were no longer working with the DOT MIS Department; however, all five of their user IDs with “Administrator” access rights remained active.

Parking Bureau officials stated that programmers required “Administrator” access rights to maintain E-Card; however, this is in violation of Comptroller’s Directive #18 and DOI directives and standards. Since programmers have “Administrator” access to the system, there is no assurance that only tested and approved changes are introduced into the business functions by a database administrator. Moreover, since inactive user IDs, especially those with “Administrator” access rights remain active, there is no assurance that access to E-Card is adequately controlled or that it will not be accessed by unauthorized persons. Unauthorized

system access occurs when someone who is not authorized to use the system gains access, usually by acting as a legitimate user.

Recommendations

The DOT should:

7. Deactivate inactive user IDs as well as those for CHC consultants and DOT personnel no longer employed by the agency.

DOT Response: “We agree. The e-card application has a robust security model. All users are authenticated on the DOT network using Windows Activity Directory Services. Users, whose logins have been disabled, fail to authenticate and are shut out of the system.”

8. Limit E-Card “Administrator” access rights only to DOT personnel whose duties require that level of access.

DOT Response: “We agree, and access restrictions are already in place.”

9. Ensure that programmers do not have access to operative E-Card business activities and that any changes to E-Card are appropriately reviewed, tested, and approved by the database administrator prior to being put in place.

DOT Response: “We disagree; programmers need access to assist users. All changes are appropriately reviewed, tested and approved before implementation.”

Auditor Comment: We disagree with DOT’s contention that programmers need access to business function (production systems) in order to assist users. Internal control, change control, and security principles and procedures mandate that programmers should be restricted to ensure that they only perform appropriate procedures. If programmer access to the production database is not appropriately restricted, inadvertent or malicious modifications may be introduced to the production system. Change control procedures should be enforced to ensure that programmers modify and test program changes in a test environment. The database administrator or his/her designee should be responsible for placing fully tested and approved program modifications into the production system.

Lack of a Formal Disaster Recovery Plan

DOT MIS officials did not provide sufficient documentation to confirm that a formal disaster recovery plan is in place to safeguard E-Card data and to provide for continued processing in the event of a disaster or unplanned disruption of its information-processing facilities.

According to Comptroller’s Directive #18, “A formal plan for the recovery of agency operations and the continuation of business after a disruption due to a major loss of computer processing capability is an important part of the information protection plan.” The directive also

requires that the agency include a network recovery component and, if applicable, a service bureau's business-service plan as an integral part of the agency's business continuation plan.

At a meeting on October 5, 2005, DOT MIS officials asserted that a DOT disaster recovery plan existed that was updated and tested on a monthly basis. However, upon our request to review and verify the existence of the plan, DOT officials provided us with a 12-page document, "NYC Dept. of Transportation Disaster Recovery Plan," stating that it should assist in understanding the DOT plan. The document included only general information, insufficient as evidence that a valid disaster recovery plan specific to DOT indeed existed. For example, the document did not include: the specific steps DOT would take to implement the plan; the names, contact numbers and responsibilities of each individual involved in a disaster situation; or specific business and disaster recovery procedures. Moreover, we received no documentation to substantiate the MIS officials' assertions about the frequency of the updating and testing of the plan.

At the exit conference on May 10, 2006, DOT officials gave the audit team documentation regarding the agency disaster recovery plan. The plan document was the same 12-page document that MIS officials provided to the auditors on October 5, 2005. Accordingly, we maintain that DOT MIS has not provided sufficient or complete evidence to support that it maintains an adequate disaster recovery plan.

Without a formal DOT disaster recovery plan in place to support E-Card as well as other computer applications and systems identified as mission-critical by the agency, there is no assurance that the effectiveness of the processing and billing of parking card orders will continue in the event of a disaster or unplanned disruption of the DOT network.

Recommendation

The DOT should:

10. Develop and periodically test a formal disaster recovery plan to ensure that E-card and other agency mission-critical applications are adequately protected in the event of a disaster or unplanned disruption in operating capabilities.

DOT Response: DOT disagreed, stating: "DOT already has a fully functional and operational disaster recovery 'hot site' to protect mission critical application in the event of a disaster or disruption. The system is periodically tested." Subsequently, on June 15, 2006, DOT submitted a copy of its Business Continuity Plan that "describes the current procedures to be followed in the event of an unanticipated interruption of normal operations."

Auditor Comment: DOT has taken efforts to formalize its business continuity plan (BCP) and disaster recovery plan (DRP). Our review of DOT's BCP document, submitted on June 15, 2006, in conjunction with DOT's disaster recovery plan (DRP) document provided at the exit conference on May 10, 2006, found that the two documents, collectively, provide a framework of DOT's overall BCP/DRP strategies. We urge DOT to continue its efforts to develop its BCP and DRP to ensure that E-Card and other critical applications are adequately protected.

Deficiencies of E-Card

According to DOT officials, E-Card was to be a fully functional system able to track and sell cards, maintain a customer database and order history, track the stock and movement of the parking cards inventory, and provide various reporting capabilities and a full audit trail. However, our audit disclosed that E-Card as currently in use is deficient when compared to the system proposed and envisioned by DOT. Parking Card Bureau officials reported that E-Card is much better than the system previously used, but was found by this audit to be little more than an enhanced billing system, lacking the full spectrum of inventory tracking, auditing, and reporting capabilities that was initially proposed. These deficiencies are discussed in greater detail below.

Slow Response Time of E-Card-DOT Network

Based on various observations of the processing of sales orders in conjunction with independent tests of E-Card conducted over the DOT network, we noted that E-Card and the network have an unsatisfactory response time. Specifically, the processing of each sales order, from the creation of the order at the user terminal through the network servers to the completion of the sales order, took from several seconds to several minutes. Throughout the audit, DOT Parking Bureau officials repeatedly complained about this slow response time, stating that the MIS department had not been responsive to their reports of problems.

Comptroller's Directive #18, §11.0, states: "A critical part of the agency's internal control environment is the establishment of a set of procedures and techniques designed to monitor the adequacy of the information processing environment's performance. . . . Satisfaction reports from the end user community will frequently highlight common or recurring problems requiring executive management's attention."

According to DOT MIS officials, the primary cause for the slow network response time is the heavy use of bandwidth by different DOT departments over the agency's network communication line, as well as the number of users on the network. They stated that there is a proposal to install a larger capacity communication line in the future to speed up traffic on the network.

Reporting Functions Not Reliable

The reporting functions in E-Card are not reliable. Specifically, our tests showed that the report totals provided by the various reports (Tally, Sales Order, and Monthly Sales Report) we generated on E-Card did not reconcile with the non-system reports in unrelated software programs—Excel or Access—used by Parking Bureau officials to record and report actual parking card sales and revenue.

Although we found that the totals of the monthly E-Card Tally and Monthly Sales Reports for the six-month period January 2005 through June 2005 matched, these report totals did not agree with the monthly E-Card Sales Order Reports totals for the same months. Of greater concern, none of the E-Card reports generated for the six months in our test period agreed

with the non-system reports used by the Parking Bureau to record and report actual sales revenue to DOT Fiscal Affairs and then to the City's FMS system.

A system's reporting function is an output control that allows management to verify the accuracy and integrity of the database. Without being able to rely on the reporting capabilities built into the system, the Parking Bureau has had to rely on alternative reporting methods, all of which demand extra time and effort, creating inefficiency. Moreover, the inaccuracies of the E-Card reporting functions raise concerns about the integrity of its database.

For the six-month period January 2005 through June 2005, a difference of \$580,657 existed between actual (non-system) sales and revenue reports and the E-Card Tally and Monthly Sales reports. For the same period, there was a difference of \$770,497 between actual sales reports and E-Card Sales Order reports. When presented with these results, DOT Parking Bureau officials stated that with the exception of a daily Tally Report used to determine the quantity of orders to be assigned to supervisors and fulfillment clerks and the quantity of cards needed to fill those orders, E-Card system reports could not be relied on; therefore, they were not used. Alternatively, other reports are maintained in Microsoft Excel and Access to record actual sales and revenue reported by the Parking Bureau to Fiscal Affairs and subsequently, through FMS, in the City's annual financial statements.

Lack of an Inventory Module

DOT initially planned to incorporate an inventory module into the E-Card system that would provide a perpetual record of the parking card inventory, efficiently track the assignment and issuance of cards, and allow for efficient investigation and resolution of disputes. However, our audit disclosed that the version of E-Card currently in use does not have an inventory module built into the system.

According to minutes from a meeting between DOT MIS and Parking Bureau officials on July 29, 2004, the remaining, uncompleted E-Card components were to be completed and implemented in three phases: 1) Intranet components, 2) Internet components, and 3) an inventory module. The contract with CHC to provide consulting and support services for the DOTNET implementation was originally for \$5.6 million. DOT, thereafter, increased the contract to \$9.6 million for additional consultant services to enable completion of the DOTNET work and the design and construction of a backup site. However, the development and implementation of E-Card was not specifically addressed in the contract. According to DOT MIS and Parking Bureau officials, DOT management also used CHC consultant services to develop and implement E-Card, yet the inventory module (originally scheduled to be completed by December 1, 2004) was never completed. DOT officials stated the primary reasons for the inventory module not being completed were the rush to roll-out the application and the departure of CHC consultants from DOT. Nevertheless, since there was no formal contract with CHC that detailed E-Card development specifications and implementation (delivery) dates, DOT management had no recourse to ensure that CHC, whose consultants were the primary developers of the system, would complete E-Card in accordance with DOT's expectations.

To compensate for E-Card's lack of these automated inventory tracking capabilities, the Parking Bureau implemented alternative workaround procedures to document and track parking

card issuance. For example, certain functions in E-Card are used to assign cards from warehouse to supervisor and to fulfillment clerks each day. These procedures require the manual entry of the quantity and corresponding serial numbers of parking cards at each level. The Parking Bureau also maintains documentation reflecting the on-hand inventory of parking cards warehoused in various locations.

While these alternative procedures provide adequate documentation to fairly reflect parking cards inventory on-hand as well as the distribution and assignment of cards for order fulfillment, they require redundant data entry and manual record keeping, increasing the risk that errors can occur. Also, they require greater time and effort to carry out, thus adding to any mounting inefficiencies in the day-to-day operation of the Parking Card Unit.

Recommendations

DOT should:

11. Review E-Card, evaluate and document deficiencies (i.e., reporting functions and inventory module), and establish a plan and timeline for the remediation of such deficiencies with collaboration between MIS and Parking Bureau departments. Require that proper monitoring, program-change control, and system-documentation procedures be followed.

DOT Response: “We agree and the inventory module/customer service functions have been discussed in detail with users and a timeline has been incorporated in the project plan. Some of the requested features have already been developed.”

12. Ensure that when engaging an outside contractor to perform work, agency specifications, requirements, delivery dates, and other necessary related information are explicitly stated and included in a formal contract.

DOT Response: “We agree.”



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*Addendum
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Iris Weinshall, Commissioner

Web: www.nyc.gov/dot

June 7, 2006

John Graham
Deputy Comptroller for Audits, Accountancy & Contracts
City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

RE: MG06-081A

Dear Mr. Graham:

This is in response to your draft report "Audit Report on Department of Transportation Controls over Parking Card Distribution and Sales Revenue."

We agree with auditors' opinion that the Department of Transportation (DOT) generally maintains adequate financial controls over revenue generated from the sale of parking cards and that the physical security and safeguards over parking cards provide reasonable assurance against theft and misappropriation. We also agree that the weaknesses presented in the report were not sufficiently significant to detract from the auditors' overall opinion.

The following are the recommendations included in the report and our comments related to the specific weaknesses and/or recommendations:

1. "Implement procedures requiring the Parking Bureau to reconcile EFT transfer payments for Internet parking card orders on a regular (e.g., monthly) basis to ensure that transaction settlement amounts match total Internet sales."

We agree and DOT is currently implementing procedures using the Department of Finance's Credit Card Payment spreadsheet as a model for tracking and reconciling payments.

2. "Verify that the fees incurred by DOT for credit card processing are appropriate."

We agree and are ensuring the appropriateness of the fees charged for credit card processing by comparing those fees incurred to the Contract Pricing Schedule.

3. "Ensure that the Final Verification of Number of Checks Deposited log is appropriately completed. Specifically, ensure that the tasks of preparing the deposit and verifying the quantity of checks in the deposit are assigned to different Parking Card Unit staff members. Upon completing the respective tasks, staff members should sign their own name upon completing the task."

During a routine review of program records in 2005, the Parking Card unit supervisor detected that some employees signed for other unavailable employees. This practice was immediately corrected. Procedures have been reinforced with the staff and supervisors constantly ensure compliance.

4. "Ensure that remittance checks received and processed by the Parking Card Unit are restrictively endorsed upon receipt, in accordance with Comptroller's Directive #1."

All checks and money orders received are made payable to the City of New York and are kept in a secure location. The auditors reported that they observed, although did not quantify, that not all checks were immediately stamped with a restrictive endorsement. We believe that this was an isolated instance and that the likelihood of any misappropriation is remote. We do agree with Comptroller's Directive #1 and have ensured that the restrictive endorsements are stamped on incoming checks when received. Although Directive #1 does not mention that money orders should be restrictively endorsed we have implemented this procedure, as well.

5. "Periodically review and update the Parking Card Unit SOP manual to reflect current policies and procedures."

The original procedures manual was prepared and issued in 2002. Subsequently, operational and procedural changes occurred which were fully communicated through a series of administrative memoranda and orders. Those changes have been fully incorporated in the current procedures manual. Future changes in procedures will be similarly communicated via administrative memoranda and the manual will be updated periodically, as appropriate.

6. "Ensure that MIS and Parking Bureau officials develop a plan and implement procedures to ensure that E-Card is appropriately supported by MIS so that proper resources are made available to address routine system maintenance and to investigate and appropriately resolve persistent problems, particularly those with Internet sales orders."

MIS and Parking officials meet periodically to discuss the goals and needs of the program and ensure that any problems are identified and resolved.

7. "Deactivate inactive user IDs as well as those for CHC consultants and DOT personnel no longer employed by the agency."

We agree. The e-card application has a robust security model. All users are authenticated on the DOT network using Windows Activity Directory Services. Users, whose logins have been disabled, fail to authenticate and are shut out of the system.

8. "Limit E-Card "Administrator" access rights only to DOT personnel whose duties require that level of access."

We agree, and access restrictions are already in place.

9. "Ensure that programmers do not have access to operative E-Card business activities and that any changes to E-Card are appropriately reviewed, tested, and approved by the database administrator prior to being put in place."

We disagree; programmers need access to assist users. All changes are appropriately reviewed, tested and approved before implementation.

10. "Develop and periodically test a formal disaster recovery plan to ensure that E-Card and other agency mission-critical applications are adequately protected in the event of a disaster or unplanned disruption in operating capabilities."

DOT already has a fully functional and operational disaster recovery "hot site" to protect mission critical applications in the event of a disaster or disruption. The system is periodically tested.

11. "Review E-Card, evaluate and document deficiencies (i.e., reporting functions and inventory module), and establish a plan and timeline for the remediation of such deficiencies with collaboration between MIS and Parking Bureau departments. Require that proper monitoring, program-change control, and system-documentation procedures be followed."

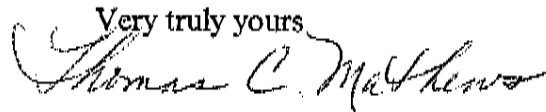
We agree and the inventory module/customer service functions have been discussed in detail with users and a timeline has been incorporated in the project plan. Some of the requested features have already been developed.

12. "Ensure that when engaging an outside contractor to perform work, agency specifications, requirements, delivery dates, and other necessary related information are explicitly stated and included in a formal contract."

We agree.

If you have questions concerning this response, I can be reached at (212) 788-8162.

Very truly yours



THOMAS C. MATHEWS
Auditor General

cc: Comr. I. Weinshall; F/D/C J. Bergtraum; D/C M. Primeggia; D/C H. Altschuler;
D/C C. Freud; A/C V. Rosen; A/C D. Gervasi; Dir. J. Kay, M.O.O.



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*Addendum
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Iris Weinshall, Commissioner

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June 15, 2006

John Graham
Deputy Comptroller for Audits, Accountancy & Contracts
City of New York
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1 Centre Street
New York, NY 10007-2341

RE: MG06-081A

Dear Mr. Graham:

This is a supplement to our response to your draft report "Audit Report on Department of Transportation Controls over Parking Card Distribution and Sales Revenue." The draft report contained a recommendation to develop and periodically test a formal disaster recovery plan to ensure that E-Card and other agency mission-critical applications are adequately protected in the event of a disaster or unplanned disruption in operating capabilities. The attached Department of Transportation's Business Continuity Plan describes the current procedures to be followed in the event of an unanticipated interruption of normal operations.

If you have questions concerning this supplemental response, I can be reached at (212) 788-8162.

Very truly yours

THOMAS C. MATHEWS
Auditor General

attachment

cc: Comr. I. Weinshall; F/D/C J. Bergtraum; D/C M. Primeggia; D/C H. Altschuler;
D/C C. Freud; A/C V. Rosen; A/C D. Gervasi; Dir. J. Kay, M.O.O.