



NEW YORK STATE SENATOR

Jeffrey D. Klein

IDC Calls For MTA Forensic Audit

JEFFREY D. KLEIN July 7, 2011

| ISSUE: **TRANSPORTATION, MTA (METROPOLITAN TRANSPORTATION AUTHORITY),
GOVERNMENT OPERATIONS, AGENCIES, PAYROLL TAX**

Calling it the only sure way to get to the bottom of the Metropolitan Transportation Authority's spending practices, the Independent Democratic Conference today unveiled legislation sponsored by Senator David Carlucci, (D-Rockland/Orange), that would commence a forensic audit of the public authority.

Under the legislation, (S.4501), the audit, which would be the first true top-to-bottom review of the MTA, would be conducted by an independent outside auditing firm and be paid for by the authority.

“Through a series of questionable financial practices, the MTA has jeopardized the public trust,” Senator David Carlucci, (D-Rockland/Orange), said “New Yorkers have to manage their hard earned dollars in a responsible and competent way, and so should the authorities that tax dollars fund. A full top-to-bottom forensic audit of exactly how these tax dollars are expended by the MTA will illuminate any discrepancies, move it toward fiscal solvency and eliminate the need for the payroll tax.”

Decades of increased debt service and rising costs and – as well as a history of questionable spending practices – have left the MTA with projected out-year deficits of \$247 million in 2012, \$37 million in 2013, and \$482 million in 2014. This is despite recent fare hikes and a 2009 rescue package that gave new revenue streams to the MTA, including the unpopular payroll mobility tax.

A forensic audit is a specialized review of an entity's finances that is conducted with the aim of finding evidence of inappropriate financial activity. Compared to other audits, they are more complex and labor intensive, and require special expertise.

The IDC believes that a forensic audit for the MTA is warranted due to a history of questionable behavior and spending decisions by the agency.

A 2003 report by the State Comptroller's Office showed that the MTA overstated the severity of its fiscal problems and hid a \$512.5 surplus in order to justify a 33 percent fare increase. This scandal caused a serious erosion in the public's trust of the MTA.

Since then, the agency has taken steps to make its finances more transparent. However, reports of questionable spending decisions by the MTA continue.

This includes:

- A 2010 report by the MTA Inspector General showing that the authority doled out millions of dollars to sub-par contractors. According to the report, the MTA attempted to hide this shoddy work in order to spare the authority embarrassment.
- A 2010 audit by Comptroller Tom DiNapoli that found problematic policies regarding overtime at the MTA. The findings led to the comptroller ordering a forensic audit of just overtime at the authority. This forensic audit, the first of its kind by the Comptroller's office, is much narrower than what the IDC is proposing. The MTA has a \$12 billion operating budget and is expected to spend \$478 million on overtime this year.
- Another report by Comptroller DiNapoli documented that the MTA spent \$5.76 million to maintain a nearly empty building, its former headquarters in Brooklyn, as it considered renovations. At the same time, the MTA spent \$1.4 million a year to rent office space for the displaced workers.
- A report released last week by the Citizens Budget Commission that ranked the Long Island Rail Road and the MTA's bus systems among the most expensive mass transit networks in the country when compared by cost per-passenger mile.

"Each of these little smoking guns adds up to one big fire," Senator Jeffrey D. Klein, (D-Bronx/Westchester), said. "If we are going to work together to fix our mass transit system, we are going to need to be on the same page and know all the facts. I truly believe that the only way to accomplish this is through a forensic audit of the MTA's finances."

Senate bill 4501 is not the first attempt by the Legislature to have a forensic audit of the MTA conducted. The MTA rescue plan gave the President Pro Tempore of the Senate and the Speaker of the Assembly the power to initiate an audit the MTA in 2009, and possibly every two years going forward. However, the language of the bill left the scope of the audit subject to an agreement of legislative leaders and it did not have a dedicated funding stream. The time frame to conduct such an audit lapsed with no action taken.

Under S.4501, the scope of the audit will be comprehensive and the MTA itself would be responsible for payment. The MTA estimates that a full forensic audit of itself would cost up to \$10 million.

The IDC believes that the MTA would be able to cover the costs by lowering unnecessary overtime and aggressively collecting back rent from tenants of MTA buildings. As of mid 2009 they were owed \$9 million alone in back rent.

“This is a one time expense that will pay dividends down the road,” Senator Diane Savino, (D-Staten Island/ Brooklyn), said. “By undertaking this forensic audit, the MTA can put itself on the road to recovery and reclaim its reputation with the public.”

This proposal does have support in the State Senate, which included a forensic audit in its 2011-2012 budget resolution.

“In these difficult economic times, where resources are scarce, it is extremely important that organizations funded by the state undertake all possible efforts to operate as efficiently as possible,” said Senator David J. Valesky. “This legislation is a first step toward getting the MTA back on the right track to ensure state resources are being used in the best way.”