
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objectives 2

Audit Results - Summary 2

Background 3

**Audit Findings and
Recommendations 4**

Revenue Accountability 4
Recommendations 6

Other Revenue Controls 6
Recommendation 7

Nostalgia Train Program Expenses
and Funding 8
Recommendations 10

Audit Scope and Methodology 10

Authority 11

Reporting Requirements 11

Contributors to the Report 11

Appendix A - Auditee Response .. 12

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**METROPOLITAN
TRANSPORTATION
AUTHORITY**

**NEW YORK TRANSIT
MUSEUM: SELECTED
FINANCIAL MANAGEMENT
PRACTICES OF THE
NOSTALGIA TRAIN
PROGRAM**

Report 2006-S-19

AUDIT OBJECTIVES

Our objectives were to determine whether the Metropolitan Transportation Authority (1) accounts for the revenues generated and the expenses incurred for Nostalgia Train Program events, and (2) uses revenue from sources other than ticket sales to fund Nostalgia Train Program expenses.

AUDIT RESULTS - SUMMARY

The MTA operates the New York Transit Museum (Museum). The Museum is funded by private donations, public funding for cultural and educational activities, and Museum Store sales. In the Nostalgia Train Program, which is administered by the Museum with the support of the New York City Transit Authority (Transit), vintage subway cars are periodically placed in operation as a single train, and members of the public may purchase tickets to ride on the train.

We identified significant weaknesses in the Museum's internal controls over ticket revenue for Nostalgia Train excursions. As a result of these weaknesses, there was no assurance that all ticket revenue owed to the Museum is collected and all collected revenue is deposited into the Museum's bank account. Consequently, if some of the revenue were lost or stolen, it would be difficult for the Museum to detect the loss of funds. We recommend significant improvements be made in the Museum's internal controls over this revenue.

We also found the MTA does not fully account for Nostalgia Train Program expenses, as it does not account for the restoration and maintenance costs that are incurred by Transit for the care of vintage subway cars for the excursions. We further determined that Nostalgia Train Program revenues are not compared with related

expenses. The net cost of the Program needs to be known if informed decisions are to be made by Museum, Transit and MTA managers associated with the Program. We recommend the MTA account (using estimates as appropriate) for the costs that are incurred in the implementation of the Nostalgia Train Program, match these costs against Program revenues, and provide the results of this analysis to the MTA Board of Directors on a regular basis.

We also determined that most of the expenses incurred in the implementation of the Nostalgia Train Program events are incurred by Transit, and these expenses are financed by Transit's fare revenues and public funding for mass transit programs. Transit is not reimbursed from Nostalgia Train ticket sales nor from the Museum's other funding sources (i.e., private donations, public funding for cultural and educational activities, and Museum Store sales). We recommend that the MTA's Board decide whether it is appropriate to use MTA funds to support the Nostalgia Train Program and whether, and to what extent, the Museum should reimburse MTA costs for the Program.

Our report contains six recommendations to improve controls over the collection and reporting of revenue and expenses. Officials generally agreed with our recommendations and have taken steps to implement changes.

This report dated, August 29, 2007, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The Metropolitan Transportation Authority (MTA) provides subway; rail and bus service in and around New York City, and operates and maintains seven bridges and two traffic tunnels in New York City. The MTA conducts these operations through various affiliates. One of these affiliates, the New York City Transit Authority (Transit), provides subway service in New York City. Transit operates about 6,200 subway cars along 26 routes, using 660 miles of track and 468 stations.

The MTA is a public authority that is governed by a 17-member Board of Directors. The members are nominated by the Governor and confirmed by the State Senate. As an affiliate of the MTA, Transit is governed by the same Board of Directors. Transit's operations are funded by riders' fares and public funding.

The mission of the Museum is to collect, exhibit, interpret, and preserve the history, sociology, and technology of public transportation systems; and to conduct research and educational programs that will make the Museum's extensive collection accessible and meaningful to the broadest possible audience. The Museum holds and cares for more than 6,000 artifacts, including scale models of historic vehicles, uniforms, tools, signs and signals; as well as an archival collection of photographs and other fragile items. These collections are owned by the MTA. The Museum is housed in an authentic 1936 subway station in Brooklyn Heights and operates a gallery annex in Grand Central Terminal that presents changing exhibitions. Each year more than 359,000 people visit the Museum.

A not-for-profit group, the Friends of the New York Transit Museum, raises funds from

public and private sources to help support the Museum's programs. The Museum's operations are also supported by profits from sales at the Museum Store, as well as licensing fees charged to manufacturers using the MTA's logo on items sold in the store. In 2004, the Museum had an operating budget of \$3.6 million and a full-time staff of 28 employees.

The subway station housing the Museum had been decommissioned in 1946. However, it was reopened in 1976 as a temporary exhibit to commemorate the U.S. Bicentennial. The exhibit was supposed to close after the Bicentennial celebration, but it proved to be so popular that it remained open and eventually became a permanent museum. Transit originally operated the Museum, but the MTA assumed control in the mid 1990s.

Transit owns a total of 88 vintage subway cars, 20 of which are on display on tracks in the lower level of the Museum. In addition, for Transit's 2004 Centennial celebration, 25 of these vintage cars and two motor units were restored and put into use by the Museum and Transit for educational, training and engineering purposes.

In the Museum's Nostalgia Train Program, some of these vintage subway cars are placed in operation as a single train, and members of the public may purchase tickets to ride on the train. The train is staffed with a full crew by Transit and supervised by Transit's Rapid Transit Operations Division. Except for a two-year renovation period that started in late 2001, the Museum has held Nostalgia Train excursions since 1979. Between April 18, 2004 and August 21, 2005 (a period of about 16 months), the Museum held eight such excursions.

In the 2004 and 2005 calendar years, the Museum reported that revenues from the

Nostalgia Train Program totaled \$23,035 and \$12,110, respectively. Transit reported that its personal service expenses for these excursions (i.e., the cost of the crews on the trains) totaled \$31,566 and \$20,576, respectively.

An anonymous letter received by the Office of the State Comptroller included allegations that there were weaknesses in the Museum's accounting practices and claimed that latecomers were allowed to purchase tickets on board the Nostalgia Train, instead of paying in advance, with no apparent controls over the resulting revenue. Our audit addressed these allegations.

AUDIT FINDINGS AND RECOMMENDATIONS

Revenue Accountability

Between April 2004 and August 2005, the Museum held eight Nostalgia Train excursions. Two of these excursions, which were held on September 18 and 19, 2004, were related to Transit's Centennial celebration. The admission prices for the two Centennial excursions were \$50 per adult and \$20 per child. The admission prices for the remaining six excursions were \$30 per adult, \$25 for Museum members, and \$10 per child.

Tickets are needed for passengers to be admitted to the excursions. The tickets may be purchased in advance or on the day of the excursion. Tickets may be purchased by cash, check or credit card. The ticket sales for each excursion are recorded on a Reservation Detail Report. Receipts are also issued for each ticket sale. The Museum is responsible for all ticket sales, revenue collection and revenue reporting activities.

The Museum reported a total of \$35,145 in ticket sales for the eight excursions held in

2004 and 2005. To determine whether this was an accurate accounting of sales revenue, we reviewed the process followed by the Museum in collecting and reporting revenue from Nostalgia Train excursions. As part of our review, we examined the Reservation Detail Reports, sales receipts, bank statements, bank deposit slips, and other relevant records for 2004 and 2005. In addition, to observe actual ticket and revenue collection practices, we went on an excursion that was held on June 17, 2006.

We found significant internal control weaknesses over the processes for collecting and reporting revenue. Specifically, it could not be verified that (1) all the revenue owed to the Museum for the excursions was in fact collected and (2) all the revenue that was collected was in fact deposited into the Museum's bank account.

There was no way to verify the collection of all owed revenue, because the actual number of passengers on each excursion was not recorded. In the absence of such a record, there was no way to determine how many passengers should have purchased tickets and how much they should have paid for each ticket.

If the sales receipts or tickets had been adequately controlled, the value of sales could have been determined and verified. However, neither the sales receipts nor the tickets could be relied upon because of the following control weaknesses:

- The sales receipts were not sequentially numbered and the Museum did not keep a copy of each sales receipt that was issued. In the absence of sequential numbering, missing receipts could not be identified. Also, the Museum did not keep a copy of all receipts.

- The tickets were not pre-numbered and a portion of the ticket was not collected when passengers boarded the train.
- Tickets sold on the day of the excursion were not recorded as sales.
- There were no records of ticket cancellations or the use of complimentary tickets.

There was no way to verify that all collected revenue was deposited into the Museum's bank account, because there was no reliable record of the revenue actually collected for each excursion. All sales collected were supposed to be recorded in the Reservation Detail Reports, but we found that the information in these reports was not reliable, for the following reasons:

- The recorded sales information was not always accurate, as the report provided for excursions did not include the amount of tickets sold on the day of the excursion.
- The information did not always indicate whether tickets were purchased by credit card, check or cash. As a result, the information could not be reconciled to the cash receipts or deposits slips and thus provide assurance all cash collected revenue was in fact deposited. For example, on five of the excursions, same-day cash sales could not be verified because the Reservation Detail Reports did not disclose which passengers paid cash (and their names were not noted on the sales receipts that were given to cash-paying customers).

As a result of these weaknesses in the Museum's internal controls over Nostalgia Train revenue, if some of the revenue were lost or stolen, it would be difficult for the Museum to detect the loss of funds through routine reconciliation of collection records to bank deposit records.

In this basic financial procedure, bank deposit records are compared against revenue collection records to ensure that collections are in fact deposited into the appropriate accounts. We performed such reconciliations as part of our audit and identified a discrepancy that that should have been investigated and resolved by the Museum. According to the Reservation Detail Report for the excursion of August 21, 2005, the Museum collected \$1,610. However, the Museum's bank records indicate that the deposits from that excursion totaled only \$1,495. Museum employees should have identified and investigated the discrepancy.

To enable the Museum to better protect its funds, we recommend the MTA regularly perform revenue reconciliations for the Nostalgia Train Program. To make these reconciliations as effective as possible, we recommend the Museum maintain reliable records showing the amount of revenue actually collected for each excursion. This record could then be compared to the bank deposits to ensure that all collected revenue was in fact deposited. To further promote revenue accountability, we recommend the Museum maintain, for each excursion, a record showing how many passengers purchased tickets and how much they should have paid for each ticket. This record could then be compared to the record of revenue collections to ensure that all excursion revenue owed to the Museum was in fact collected.

We note that some of the records needed for proper revenue control are created, but not retained, by the Museum. For example, for each Nostalgia Train excursion, the Museum creates a list of the people who have purchased advance tickets. A Museum employee then checks the names as the passengers board the train. However, the list is discarded after the excursion. These lists could be used in determining how much revenue should have been collected for each excursion. The Museum does not have formal record-retention requirements. We recommend such requirements be developed.

Recommendations

1. Maintain reliable records showing the amount of revenue actually collected for each Nostalgia Train excursion, and compare this record to the related bank deposits to ensure that all collected revenue was in fact deposited.

(MTA officials replied to our draft report that accurate records of revenue for Nostalgia Train excursions are maintained. They indicated that each Museum program is tracked and accounted for separately but, at the bank's request, all revenues are deposited weekly as a lump sum.)

Auditor's Comment: For the period covered by our audit, Museum officials did not maintain records that provided assurance that all revenues collected were reported, recorded and deposited in the bank. The absence of key controls such as pre-numbered tickets, properly prepared receipts for cash received on the date of the excursion, or an accurate count of the number of passengers resulted in a condition where all revenues, especially cash, are not accounted for. We are

pleased that Museum officials report improvements are in place.

2. For each Nostalgia Train excursion, maintain a record showing how many passengers purchased tickets and how much they should have paid for each ticket, and compare this record to the record of revenue collections to ensure that all excursion revenue owed to the Museum was in fact collected.

(MTA officials responded to our draft report that records for paid tickets and "comps" are maintained and are matched with revenue collected at the conclusion of the excursion.)

Auditor's Comments: The documents examined during our audit did not support that records were maintained for all tickets. For example, there was no record of the number of complementary tickets issued for any of the excursions during our audit. In addition, the Museum did not always keep a copy of all receipts issued on the day of the excursion or the number of tickets sold. As a result, there was no record that could be used to verify that all revenue was collected and recorded. We are pleased that MTA officials report improvements are in place.

3. Develop formal retention requirements for the records that are needed in the verification of Nostalgia Train revenue.

(MTA officials responded and indicated there is a record retention requirement.)

Other Revenue Controls

Four of the Museum's 28 employees are responsible for activities related to the collection and reporting of Nostalgia Train revenue. To help ensure that such

responsibilities are performed properly, management should develop appropriate written policies and procedures, and provide appropriate training. However, we found that neither Museum nor MTA management has developed such policies and procedures. As a result, revenue collection and reporting activities are less likely to be performed in an appropriate manner.

In addition, while the four employees were trained in the use of a reservation program for recording Nostalgia Train ticket sales that was placed in service in 2003, the training was provided several months before the program was operational. As a result, the employees told us they found it difficult to recall all of the specific procedures they were supposed to follow and are still struggling to learn how to use the program. In addition, just one copy of the program's manual is available for the four employees. We recommend the training be repeated and additional copies of the manual be provided.

No one employee should have sole control over a financial transaction from beginning to end. For example, the same employee should not make reservations for Nostalgia Train excursions, collect payment for the tickets, and reconcile the payments against the reservations. Rather, these responsibilities should be separated among at least two employees. If these responsibilities are not adequately separated among different employees, errors and thefts are less likely to be detected.

However, we found that the same Museum employee may have complete control over all revenue-related transactions for Nostalgia Train excursions. Museum officials indicated that it can be difficult to separate these duties among the Museum's small number of staff. We recognize that a complete separation of duties may not always be achievable. In these

instances, key duties should be separated to the extent possible.

According to the Museum's operations manual, each department is responsible for its money and must keep accurate financial records. The manual also states that revenue should be processed and turned over to the Chief Administrative Officer on a daily basis, with a copy of all checks and other proof of payments attached. We found that these requirements are not met for Nostalgia Train as revenue was turned over to the Chief Administrative Officer weekly rather than daily.

We also found that credit card sales receipts, including complete account numbers, the expiration date, and the card holder's name - all of which could facilitate misuse of the account - were kept in an unlocked desk drawer. These items should be kept in a secure location to prevent theft or loss.

Recommendation

4. Improve controls over Nostalgia Train revenue and related documents by:
 - developing specific written policies and procedures for the collection and reporting of the revenue;
 - repeating the reservation program training and providing employees with additional copies of the reservation program manual;
 - ensuring that no one employee has complete control over revenue transactions;
 - ensuring that the revenue is transmitted to the Museum's Chief Administrative Officer on a daily basis; and

- ensuring that credit card information from ticket sales is stored in a secure location.

(MTA officials replied to our draft report that a review and updating of all Museum policies is expected to be completed by mid-2007. They also indicated that staff are retrained each time the software system used for all reservations, group visits, and statistical recordkeeping is upgraded.)

Auditor's Comment: We acknowledge MTA efforts to retrain staff when the software system is upgraded. This was not always evident during our field work.

Nostalgia Train Program Expenses and Funding

The Nostalgia Train Program is administered by the Museum with the support of Transit. The Museum schedules, publicizes, sells tickets and provides guides for the excursions, while Transit restores, maintains, prepares and operates the vintage subway cars used in the excursions.

Certain costs are incurred in the implementation of the Nostalgia Train Program, by both the Museum and Transit. If the managers associated with the Program - at the Museum, Transit and the MTA at large - are to be able to make informed decisions about the Program, they need to know what these costs are. Such cost accounting is generally recognized to be an important part of any program of sound financial management practices.

However, we found that the MTA does not attempt to account for the costs of the Nostalgia Train Program. Some of the costs are tracked on a piecemeal basis by Transit, but there is no attempt to account for all

Program costs, either on an annual basis or an excursion-by-excursion basis.

The Museum does not attempt to account for any its Nostalgia Train Program costs. These costs, which are mainly personal service costs, are not accounted for separately from other Museum costs.

Transit's Nostalgia Train Program costs are incurred by two Divisions: the Rapid Transit Operations Division and the Car Equipment Division. The Rapid Transit Operations Division operates the vintage trains on the excursions, while the Car Equipment Division restores the vintage cars, maintains the cars so that they are in good working order, and prepares the cars for each excursion.

The Rapid Transit Operations Division maintains records accounting for its Nostalgia Train Program costs, which are generally payroll costs. According to these records, in 2004 and 2005, the costs totaled \$52,142. However, the Car Equipment Division maintains no such records. The Car Equipment Division does maintain records accounting for the total costs incurred on the 88 vintage subway cars and two vintage motor units (these costs totaled \$598,187 for the three years ended April 30, 2006), but the records do not show these costs by individual subway car or individual excursion.

(Transit officials replied to our draft report that it would be difficult to maintain "car specific" detailed information for the vintage cars. They indicated the benefits are off-set by the expense to record the information.)

Auditor's Comment: We acknowledge the difficulty and propose that they develop an estimate of the costs that can be used to arrive at the cost for the Nostalgia Train Program.

We note that the Rapid Transit Operations Division set up a reimbursable account for its Nostalgia Train Program costs and has regularly billed the Museum for those costs. As of February 28, 2006, the Division had billed the Museum a total of \$500,454 for the period January 2000 to February 2006. However, the Division has not been reimbursed by the Museum for any of these costs. The reimbursable account was established in accordance with a prospective Memorandum of Understanding between Transit and the Museum stating that Transit would bill the Museum on a monthly basis for labor, material and other charges; and the MTA would pay Transit, by check, from the Museum's account. However, the Memorandum was never signed because the services provided by Transit in support of the Nostalgia Train Program are considered by MTA officials to be "in-kind" services, and thus, not reimbursable.

In addition, Transit officials told us that the costs of maintaining and repairing the vintage cars used in Nostalgia Train excursions are immaterial when compared with the overall cost of maintaining Transit's entire fleet. For this reason, they believe it would not be worthwhile to account for those costs separately. They further stated that the Car Equipment Division is committed to maintaining and refurbishing all the vintage cars, regardless of their intended use.

Officials from MTA Corporate Affairs and Communication, which oversees the Museum's operations, stated that they do not identify the costs associated with the Nostalgia Train Program because the Museum is operated for its historical and educational value. They added that the Museum does not have to generate income to cover its costs.

Museum officials stated that they do not maintain information on the Nostalgia Train

Program expenses because being a "profit center" was not part of the Museum's mission, which emphasizes public relations, goodwill and educational benefits. Museum officials further stated that the MTA Board of Directors made the decision to operate the Museum, including the Nostalgia Train Program, for its educational value and to preserve the history of the transit system, not to generate revenue. They pointed out that museums generally operate at a loss, and that their facility is not expected to be profitable.

Regardless of whether the cost to support the Nostalgia Train Program should be fully supported from the Museum's revenue sources, management should maintain information of the total cost and total reimbursement for the program. Such information provides accountability and facilitates decision-making about the Program. Presently MTA management lacks such information though all indications are that the cost to support the Nostalgia Train Program far exceeds the sales revenue generated by the Program.

Moreover, while Museum officials indicated that the MTA Board of Directors has authorized the current funding arrangement for the Nostalgia Train Program, they provided no documentation of this authorization. Also, MTA Corporate Affairs and Communication Office could provide no evidence showing that the MTA Board has been made aware of the total costs of the Nostalgia Train Program, including the \$500,454 in costs that have been incurred by the Rapid Transit Operations Division and the other as yet unidentified costs that have been incurred by the Car Equipment Division.

We recommend the MTA fully account for the costs that are incurred in the implementation of the Nostalgia Train Program, match these costs against Program

revenues, and provide the results of this analysis to the MTA Board of Directors on a regular basis. We further recommend that the MTA Board of Directors re-evaluate the MTA funds used to support the Nostalgia Train Program, and determine whether Transit should be reimbursed by the Museum for the work it performs in support of the Program.

Recommendations

5. Fully account for the costs that are incurred in the implementation of the Nostalgia Train Program events, match these costs against Program revenues, and provide the results of this analysis to the MTA Board of Directors on a regular basis.

(Transit officials replied to our draft report that they do not agree with our conclusions regarding their recordkeeping for work performed on the vintage cars. They added that the benefits of obtaining detailed “car specific” information is more than off-set by the expense to capture such data.)

Auditor’s Comments: We acknowledge Transit’s position regarding the efforts needed to obtain “car specific” information and, propose that in lieu of detailed information the Car Equipment Division provide an estimate of the costs for maintaining vintage cars that could be used to complete the cost for the Nostalgia Train Program.

6. Obtain and document the MTA Board’s decision on the use of funds to support the Nostalgia Train Program, and on reimbursement by the Museum for the work the MTA performs in support of the Program.

(In responding to this matter, MTA officials provided comments given during audit field work. These comments indicate that program elements are discussed with the Board during the Annual budget process. However, they added that it may be unrealistic to suggest the Board needs to approve each program aspect of entry operations.)

AUDIT SCOPE AND METHODOLOGY

We audited selected financial management practices of the MTA relating to the Nostalgia Train Program. Our performance audit covered the period January 1, 2004 through June 20, 2006. To accomplish our objectives, we interviewed officials and reviewed records at the MTA, Transit and the Museum. In particular, we reviewed records relating to (a) the revenue generated by Nostalgia Train excursions and (b) the expenses incurred by the Museum and Transit in their administration and support of the excursions. We conducted our audit in accordance with generally accepted government auditing standards.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State’s accounting system; preparing the State’s financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

This audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 1276-a of the Public Authorities Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to MTA, Transit and Museum officials for their review and comment. Their comments have been considered in preparing this final audit report, and are included as Appendix A.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Metropolitan Transportation Authority shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Carmen Maldonado, Robert Mehrhoff, Santo Rendon, Lesley Padmore, Claude Volcy, Dino Jean-Pierre, Marticia Madory and Dana Newhouse.

APPENDIX A - AUDITEE RESPONSE

347 Madison Avenue
New York, NY 10017-3739
212 878-7274 Tel
212 878-7432 Fax

Elliot G. Sander
Executive Director and
Chief Executive Officer



Metropolitan Transportation Authority

State of New York

May 23, 2007

Ms. Carmen Maldonado
Audit Director
The State of New York Office of the Comptroller
123 William Street – 21st Floor
New York, New York 10038

Re: Report #2006-S-19 MTA's New York Transit Museum Selected Financial Management of Nostalgia Train Program

Dear Ms. Maldonado:

This is in reply to your letter requesting a response to the above-referenced draft audit report.

I have attached for your information the comments of Mr. Christopher P. Boylan, Deputy Executive Director, MTA Corporate Affairs and Communications, and Howard H. Roberts, Jr., President, MTA New York City Transit, which address this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Elliot G. Sander".

Elliot G. Sander
Executive Director and CEO

Attachment

The agencies of the MTA, Peter S. Kalkow, Chairman

MTA New York City Transit
MTA Long Island Rail Road

MTA Long Island Bus
MTA Metro-North Railroad

MTA Bridges and Tunnels
MTA Capital Construction

MTA Bus Company

347 Madison Avenue
New York, NY 10017-3739
212 878-7160 Tel
212 878-7050 Fax

Christopher P. Boylan
Deputy Executive Director
Corporate and Community Affairs



Metropolitan Transportation Authority

State of New York

May 21, 2007

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Ms. Maldonado:

I am writing in response to Draft Report 2006-S-19, Metropolitan Transportation Authority, New York Transit Museum: Selected Financial Management Practices of the Nostalgia Train Program. I am also attaching a separate letter from MTA New York City Transit President Howard Roberts, dated May 7, 2006, that includes his comments.

While we have several comments on this draft, let me also call attention to my earlier written response to your preliminary findings on August 7, 2006, which is attached. In this letter, we directly addressed several issues raised in the preliminary findings that were simply restated without acknowledgement of our response/answers in Draft Report 2006-S-19. Let me therefore refer to several inaccuracies in the draft report that we believe need to be addressed:

On page 3, paragraph 3, the draft states that, **“The Museum owns more than 6,000 artifacts, including scale models, ... etc.”**

The collections held by and cared for by the Transit Museum are owned by the MTA. Museum staff members care for these items based on their expertise and training in the preservation and maintenance of historic objects.

*
Note

On page 8, column 2, paragraph 3, the Draft states that, **“Museum officials stated that they do not account for Nostalgia Train Program expenses because expense projections and accounting are not in line with the Museum’s mission, which emphasizes public relations, goodwill and educational benefits.”**

Museum staff indicate to me that they did not make such a statement. They did, however, state that being a “profit center” was not part of the Museum’s mission. Museum staff make every effort to exercise sound internal controls in Museum operations and to account for revenue and expenses in accordance with standard business practice.

*
Note

The agencies of the MTA, Peter S. Kalikow, Chairman

MTA New York City Transit
MTA Long Island Rail Road

MTA Long Island Bus
MTA Metro-North Railroad

MTA Bridges and Tunnels
MTA Capital Construction

***We have revised the report to reflect information in the MTA and Transit officials’ response.**

We would also like to take this opportunity to address certain recommendations made in the draft that were either already in place or have subsequently been implemented:

Page 6, Recommendation 1: Maintain reliable records re: Nostalgia Train revenue and compare to bank deposits.

The Museum does maintain accurate records of revenue collected for Nostalgia Train excursions. Revenue for each program conducted by the Museum's education department is *tracked and accounted for separately*. They are not, however, *deposited separately*, rather they are combined with other revenues collected for a weekly bank deposit. That is based solely at the request of the bank, which has asked that those amounts be recorded as a lump sum.

Page 6, Recommendation 2: Maintain record of Nostalgia Train reservations and match to revenue collections.

Records for paid tickets and comp's are maintained using the Ticket Master Vista (TMVista) system. These records are matched with revenue collected at the conclusion of the excursion.

Page 6, Recommendation 3: Develop formal retention requirements for records relating to Nostalgia Train.

Records verifying Nostalgia Train revenue are retained for 1 year. After that, they are archived.

Page 7, Recommendation 4: Develop written policies.

A review and updating of all Museum policies is currently in progress and is expected to be completed by mid 2007.

Repeat reservation training program.

The software system in use at the NYTM for all reservations, group visits and statistical recording keeping (TMVista) is often upgraded. Each time an upgrade occurs, staff is retrained to implement the most current version of the software. Glitches in system software and upgrades are frequent, as acknowledged by TMVista. The Museum makes every effort, and works closely with NYCT TIS personnel and TMVista, to implement upgrades and utilize the most current version to the fullest extent possible. The Museum also participates in industry wide forums that discuss current upgrades and limitations of this software system.

2 Broadway
New York, NY 10004
646 252-5800 Tel
646 252-5815 Fax

Howard H. Roberts, Jr.
President



New York City Transit

May 7, 2007

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
State Audit Bureau
123 William Street
New York, NY 10038

Re: NYS Comptroller's Draft Audit #2006-S-19

Dear Ms. Maldonado:

New York City Transit has reviewed Report 2006-S-19 regarding the Nostalgia Train Program.

We acknowledge the need to fully account for the costs of Nostalgia Train operations and are in the process of implementing procedures to track these costs. However, we do not agree with the conclusions found on page 2, paragraph 4 and page 8, paragraph 1 that Division of Car Equipment (DCE) record keeping is deficient.

DCE maintenance is performed on Nostalgia Train cars and revenue equipment cars simultaneously in maintenance facilities. Although performing maintenance on both types of cars simultaneously facilitates productivity it does make it extremely difficult to maintain individual expense records for each car. Obtaining 'car specific' expense information (as advocated in the report) would require tracking information on a multitude of job numbers, which is a very intensive task. The benefits of obtaining such detailed information is more than off-set by the difficulty and expense required to capture such data.

In conclusion, the effort required to obtain the information required by the State Comptroller would be difficult to sustain, placing an unreasonable burden on DCE.

Sincerely,

Howard H. Roberts Jr.
President

cc: M. Fucilli
B. Spencer
M. Lombardi

MTA New York City Transit is an agency of the Metropolitan Transportation Authority, State of New York
Peter S. Kalikow, Chairman

***We have revised the report to reflect information
in MTA and Transit officials' response.**

*
Note

347 Madison Avenue
New York, NY 10017-3739
212 878-7000 Tel



Metropolitan Transportation Authority

State of New York

August 7, 2006

Mr. Santo Rendon
Audit Supervisor
Office of the State Comptroller
123 William Street
New York, NY 10038

Dear Mr. Rendon:

This is to supplement the interim letter we sent on July 27th in response to the preliminary finding reports issued in connection with your audit of the operation by New York City Transit (NYCT) of the "Nostalgia Train" in support of the New York Transit Museum. We appreciate your accommodation in allowing us to more fully answer the points raised in the audit.

As indicated in our earlier letter, we found your comments, particularly those related to Nostalgia train event revenue keeping at the Museum helpful and constructive and we are pleased to report that we have already begun implementing a number of your suggestions.

Some other elements of the report regarding expenses and self-sustainability of the vintage fleet and the operation of the "Nostalgia Train," are certainly understandable from the point of view of a profit making entity. However, as we discussed at our meeting, they may not as easily dovetail with the more intangible public benefits associated with maintaining the vintage fleet – absent their use for Nostalgia train events – and the potential for complete self-sustainability for events that benefit the Museum. Let us therefore address each of the three areas you identified in order.

1. Revenue – First Preliminary Finding Report

We agree with many of the recommendations made in the report and have already begun to implement a number of your suggestions. For example:

- When cash is collected on site, numbered receipts are now issued with the name of the patron and the event identified.
- When revenue is turned over to the administrative manager, it is no longer deposited as a lump sum, rather, a report breaking down revenue by event is provided to the manager and becomes part of our records.

The agencies of the MTA, Peter S. Kalikow, Chairman

MTA New York City Transit MTA Long Island Rail Road MTA Long Island Bus MTA Metro-North Railroad MTA Bridges and Tunnels

- Our credit card machine has been replaced with a machine that prints on file records only the last 4 digits of cardholders' card numbers to eliminate the possibility that such information is misused.
- We have reviewed our policies with regard to final reports printed by the Ticket Master Vista system to assure that more accurate records are kept when patrons cancel, utilize vouchers, or pay cash on site. These revisions will be reflected in our revised policy manual when it is issued at the end of the year.
- While the separation of certain duties which may not be feasible immediately given current staffing levels, should these levels change, we would most assuredly address those matters in accordance with your recommendations.

2. Expenses -- Second Preliminary Finding Report

The unique nature of the Museum's not-for-profit mission and its relationship to the NYCT vintage fleet don't easily fit the traditional revenue vs. expense model. NYCT, as part of its fundamental mission, maintains and operates the vintage fleet for reasons that may dovetail with/complement the Museum's mission -- but are not exclusive to it. They do so to:

- protect the history of the system and the public investment in it through the maintenance and upkeep of a select number of historic vehicles;
- use the historic fleet as a teaching tool for Department of Subways personnel; and
- make these historic vehicles accessible to the public.

With regard to the last point, there is a symbiotic relationship between NYCT and the Museum, with the Museum playing an instrumental role in helping NYCT make the vintage fleet available to the public through hosting Nostalgia Train events. In turn, NYCT provides in-kind expertise and assistance to the Museum. The revenues associated with the Museum's portion of the undertaking supports its own ability to continue to provide a venue for sharing not only the trains with the public, but thousands of other historical artifacts that belong to the various MTA operating agencies.

That said, going forward, the Museum will apply appropriate accounting procedures in terms of identifying expenses and revenues associated with its portion of running the Nostalgia train program. However, whether those revenues cover the entire cost of the Nostalgia train program or not should not be the sole determinant of whether or not the Nostalgia train should continue to operate. There are many other sources of revenue generated by the Museum, from grants, retail sales, admission and membership that are intended to subsidize the operation of the Museum and in this case, the Nostalgia train events. Each area cannot be viewed as a stand-alone element of the Museum's operation and mission. While it is true that the overall goal of the Museum is to be as self-sufficient as possible, it does not necessarily follow that each individual program element of the Museum's operation be self-sufficient.

In terms of NYCT's keeping track of individual costs associated with the Nostalgia fleet, the conclusion that *"Transit Car Equipment does not account for repair and maintenance costs by events or by vintage subway car, therefore the department cannot determine the portion of the \$598,187 in expenses incurred over a three-year period that was attributable to the 8 nostalgia events held by the Museum between 2004 and 2005"* is not entirely correct and requires further clarification. Car Equipment has been tracking the related expenses on a monthly basis using a job number, not by event. In fact, the cost referred to above came from this job number report.

In addition, we do not believe that the cost associated with maintaining and repairing vintage subway cars is *"immaterial"* and *"thus does not warrant tracking"* in NYCT's *"repair cost tracking system."* First, while the cost of maintaining the vintage fleet may be negligible as compared to the overall cost of maintaining the entire NYCT subway fleet, Car Equipment has, as stated above, been tracking the cost by job number. It is also not clear to which *"repair cost tracking system"* the reference is made, however, since the Nostalgia trains are used infrequently and are only inspected for special events, we feel the use of a specific job number meets the concerns raised in the audit. Perhaps in the future we can set up special job numbers to track individual Nostalgia Train events. Nonetheless, all those costs are now captured in the one job number.

As far as the MTA Board of Directors is concerned, the Board has, for the past 30 years, indicated implicit support for both NYCT's and the Museum's missions and are briefed on those operations during the annual budget process. While it may be unrealistic to suggest that the Board needs to explicitly approve each and every programmatic aspect of either entity's operations given the many thousands of program elements that NYCT and the Museum undertake each year, we will nonetheless make sure that these elements are discussed during the annual budget process.

3. Self-Sustaining – Third Preliminary Finding Report

While the goal is to make the Museum as self-sustaining as possible, it has never been considered a profit center, nor can it be as a 501(c)(3). It has a larger and less quantifiable mission – that cannot be reflected on a balance sheet -- to preserve and share the history of the MTA family of operating agencies and their influence on the development of the City and the larger New York Metropolitan Region.

The Museum simultaneously serves as a unique marketing tool for the MTA family, providing the opportunity to present our system as a positive mode of choice for future riders through our work with schools throughout the region. It also reinforces our system and the transportation business as a viable career choice for students and other future employees. Those have value -- albeit intangible -- to the MTA, the region and the public.


Clearly other parts of New York State government agree in the value the Museum and its programs add to the region. As a non-profit institution chartered by the State of New York, the Museum is regularly awarded grants from the Department of Education's

Archives Division to care for the artifacts and documents that constitute the MTA's history. The vintage fleet is part of the State's heritage and while the fleet is physically maintained by New York City Transit, the Museum provides the means for these important artifacts to be experienced and enjoyed by the public.

The MTA's acknowledgement of the value of the Museum's mission to the MTA is through supplying such support at little or no cost. This is not viewed as a conflict, but rather as a responsible way to reap the more global benefits to the MTA, the taxpayer and the metropolitan region proffered by the Museum. In that sense, the operation and maintenance of the vintage fleet and the operation of the Nostalgia train fall within the overall Board approved mission of both the Museum and NYCT and, while the goal is to make the Museum as self-sustainable as possible, neither is intended to be entirely supported by external sources of income.

We appreciate the thoughtful audit and we hope that in the context of this letter you will understand the items that we believe we can advance and those that require further consideration. Please do not hesitate to contact us should you have any additional questions.

Sincerely,


Christopher P. Boylan, MTA


Michael A. Lombardi, MTA NYCT

Cc: Katherine N. Lapp
Lawrence G. Reuter
Gabrielle Shubert
Paul Spinelli