




**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

**NEW JERSEY TURNPIKE AUTHORITY
SELECTED FINANCIAL AND OPERATING PRACTICES**

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COMPTROLLER**

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BACKGROUND

The New Jersey Turnpike Authority (the Authority) was established in the New Jersey Department of Transportation (NJDOT) with the passage of the New Jersey Turnpike Authority Act of 1948, N.J.S.A. 27:23-3 (the Act). The Act established the Authority as a corporate body with the powers necessary for it to manage and operate the New Jersey Turnpike (Turnpike).

On May 27, 2003, the Act was amended to allow for the consolidation of the Authority and the New Jersey Highway Authority. Accordingly, the Authority assumed all of the powers, rights, obligations and duties of the New Jersey Highway Authority, which until that time had managed and operated the Garden State Parkway (Parkway) and PNC Bank Arts Center. According to the Authority, its primary mission is to ensure the safe and efficient movement of people and goods over the Turnpike and the Parkway.

The Authority is governed by an eight-member Board of Commissioners (Board) which is comprised of the Commissioner of the NJDOT and seven other members appointed by the Governor. Each of the appointed members serves a five-year term and does not receive compensation for their service. In addition, the Governor designates one Board member to serve as Chair, a position currently held by the NJDOT Commissioner. The Governor has veto power over the actions of the Board.

The daily operations of the Authority are managed by an Executive Director and a Deputy Executive Director. As of December 2009, the Authority employed more than 2,200 full-time employees and approximately 500 part-time, seasonal and temporary employees. In calendar year (CY) 2009, the Authority received nearly \$1.1 billion in revenues, of which over \$950 million was generated by tolls imposed on drivers using the Turnpike or the Parkway. The Authority's

CY 2009 operating expenditures were approximately \$481 million. The Authority's remaining revenue is allocated to the Authority's debt service and reserve funds.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to assess the appropriateness of selected operating expenses of the Authority and the adequacy of its management controls. The scope of the audit covered the period of January 1, 2007 through September 14, 2010. Our audit of the Authority's procurement of health benefits administrators covered the period January 1, 2004 to September 14, 2010. Specifically, we evaluated the Authority's:

1. administering of health benefits;
2. employee-related expenses and benefits; and
3. use of outside legal counsel.

This audit was performed in accordance with the State Comptroller's authority set forth in N.J.S.A. 52:15C-1 et seq. We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of our audit procedures, we reviewed relevant statutes, administrative regulations and policies and procedures of the Authority. Those provisions that we considered significant were documented and compliance with those provisions was verified by interviews, observations and through tests of judgmentally sampled transactions. We also reviewed financial trends at the Authority and interviewed its personnel to obtain an understanding of the Authority's operations and system of internal control.

SUMMARY OF AUDIT RESULTS

Our audit of the Authority revealed a public-sector entity that does not effectively manage its health benefits contracts and provides its employees (including management) with bonuses and payouts that are contrary to the interests of the Authority and the public.

Among the more significant deficiencies we identified were the following:

- During CY 2010, the Authority could have saved approximately \$4 million had it opted to participate in the State Health Benefits Program (SHBP), instead of providing insurance through its self-funded plan. The Authority had not evaluated the relative costs and benefits associated with joining SHBP. Had it chosen to participate in SHBP, it also could have saved a total of approximately \$8.8 million during CYs 2007, 2008 and 2009 collectively.
- The Authority has negotiated an agreement with one of its bargaining units which requires the Authority to provide post-retirement health benefits to some employees who have as few as five years of service with the Authority. Other State employees are required to serve for longer terms of employment to receive such benefits.
- The Authority has negotiated collective bargaining agreements which contain numerous bonus provisions and payouts for Authority employees. For CYs 2008 and 2009, the Authority paid out to its employees approximately \$30 million in such bonuses and payouts. These bonuses and payouts do not appear to be in the public's interest.
- The Authority distributes E-Z Pass transponders to its employees to commute to and from work without incurring the cost of any tolls on the

Turnpike or Parkway. This practice results in non-transparent compensation for Authority employees and we estimate that it costs the Authority \$430,000 annually.

- The Authority expends tens of thousands of public dollars for “employee relations” to benefit individual Authority employees or independent organizations, such as spending \$12,000 to sponsor an employee bowling league.
- The Authority’s Law Department has not exercised adequate oversight of outside counsel contracts and related billings. Specifically, the Authority paid \$224,168 for legal services that were improperly billed.

We make 17 recommendations to address these and other deficiencies.

AUDIT FINDINGS AND RECOMMENDATIONS

Administering Health Benefits

The Authority has not evaluated the costs associated with joining the State Health Benefits Program, resulting in millions of dollars in additional expenses during the three-year period ending December 31, 2009. Further, the Authority has not effectively administered the contracts related to its health benefits program.

The Authority provides medical benefits to its employees, retirees and their surviving dependents through a self-funded health benefits program. To mitigate its risks, the Authority purchases a stop-loss policy which covers catastrophic health care costs above \$300,000 for each claim. This method of providing employee benefits requires the Authority to:

- pay the cost of its employees' actual medical services and an administration fee to the third-party administrators (TPAs) that the Authority contracts with to collect and review health care bills;
- negotiate rates with medical service providers; and
- estimate the amount of funding that will be required to pay employees' health care costs.

Horizon Blue Cross Blue Shield of New Jersey (Horizon) and Cigna Healthcare (Cigna) are the companies the Authority has contracted with to serve as the TPAs for its health care plan. According to the Authority, the scope of services and the quality of the benefits offered under its plan are similar to those offered under the SHBP plan. We found that the Authority has never performed a comparative analysis concerning the cost of its self-insured plan versus the cost it would incur if it participated in SHBP.

In 2009, the Authority's health benefits program was comprised of approximately 2,300 active employees, 1,680 retired employees and 460 surviving dependents. Based on these enrollment numbers, we estimated the cost the Authority would have incurred if it participated in SHBP and compared it to the aggregate cost the Authority incurred from its self-funded plan during CYs 2007, 2008 and 2009. We found that the Authority could have saved approximately \$8.8 million during those periods (\$1.8 million, \$3.8 million and \$3.2 million, respectively) if it had participated in SHBP.

Since the rates charged by SHBP increased during 2010, we performed the same cost comparison for CY 2010 to determine if the Authority's participation in SHBP would still result in cost savings. Since the Authority has not concluded its CY 2010 operations, we were unable to determine the precise amount of the cost savings it would have realized from its participation in SHBP. However, based on the Authority's 2009 enrollment numbers and the equivalent CY 2010 premium rates applicable to administering the Authority's self-funded health benefits program, we estimate that the Authority could have saved up to \$4 million if it chose to participate in SHBP during CY 2010.

In order to participate in SHBP, the Authority must resolve issues of eligibility for its retirees. Statutory requirements concerning participation in SHBP dictate that post-retirement benefits can be paid for employees who have at least 25 years of service in one or more State or locally administered retirement systems at the time of retirement. Alternatively, employees may receive post-retirement health benefits upon retiring at age 62 with at least 15 years of service with the employer. The Authority, however, has taken a more liberal approach to providing post-retirement health benefits to its employees. For example, one of its bargaining units has negotiated an agreement which requires the Authority to provide post-retirement health benefits to some employees who have as few as five years of service with the Authority and have retired under the Public Employee Retirement System. If the retirees from this bargaining unit have not

completed the State-mandated number of years of government service, they may not be eligible to participate in SHBP.

We also reviewed documents concerning the Authority's procurement of the TPA services. Specifically, in 2004, the Authority engaged an independent health benefits consultant (Consultant) to conduct a competitive process for the selection of the TPAs, and the Authority issued a Request for Information (RFI) that required the submission of proposed contracts and price quotes. Four vendors responded to the RFI: Horizon, Aetna, Cigna and Health Net. The RFI stated that the contract would have a term of three years with two potential one-year extensions. The Consultant ultimately prepared a report to the Authority recommending that it retain Horizon to administer its traditional health benefits program and Cigna to administer its HMO plan.

Our review of this procurement identified a number of deficiencies:

- The Consultant entered into negotiations on the Authority's behalf with Horizon several months prior to the issuance of the RFI, thereby raising questions about the fairness of the procurement.
- Despite the fact that Aetna's proposal contained the lowest rates for both of the Authority's plans, the Consultant did not recommend retention of that company. The Consultant stated at the time that Aetna would have higher costs if the Authority chose to use individual services (i.e., health, dental and prescription) rather than using a packaged set of services. However, the RFI did not request quotes on individual services, only a quote for packaged services. The Authority was unable to produce any documents that reflected price quotes for individual services.
- The Authority never signed the proposed contracts that were submitted by Horizon and Cigna in response to the RFI. Instead, the Authority has relied upon a CY 2000 contract with Horizon, with modifications and

extensions. When we initially requested the contract with Cigna, the Authority stated that a contract had not been agreed upon with Cigna so the terms of the RFI itself were the operative terms. Thereafter, the Authority produced several unsigned contracts between the two parties and a letter from 2005 that simply stated the parties agreed to be bound by any terms on which they have reached final agreement.

- Without using any competitive procurement process, the Authority extended the contracts with Cigna and Horizon beyond the term and potential extensions originally set forth in the RFI.

Recommendations

1. Evaluate the costs and merits of participating in the State Health Benefits Program.
2. Reform procurement procedures to ensure appropriate limitations on communications between the Authority (or its agents or consultants) and potential vendors prior to and during the procurement process.
3. Ensure award recommendations are based solely on information properly considered by the Authority during the procurement process.
4. Utilize formal written contracts to define the material terms of agreements entered into by the Authority.
5. Do not extend contracts beyond the contractual term set forth in the agreement.

Employee Bonuses and Payouts

The Authority has negotiated collective bargaining agreements containing numerous bonus provisions and providing for payouts which cost tens of millions of dollars in employee expenses.

The maintenance and operation of major toll roads that stretch across the state is a labor-intensive enterprise. Accordingly, payroll expenses represent the Authority's single largest operating expenditure, totaling approximately \$381 million during the period January 2008 through December 2009.

Ten different bargaining units (i.e., unions) represent approximately 2,700 full-time and part-time Authority employees. These bargaining units have negotiated collective bargaining agreements with the Authority that cover a four-year period. Each of these bargaining units represent different classifications of employees (e.g., toll collectors, maintenance employees, etc.) and each has negotiated bargaining agreements that contain different terms and conditions concerning employee job duties, working conditions, leave time and compensation. To determine the nature of the work conducted by Authority employees and the compensation for performing these job duties, we reviewed the Authority's ten bargaining agreements in place during CYs 2008 and 2009. All ten of the Authority's bargaining agreements will expire during various points in CY 2011.

Our review of the bargaining agreements revealed several costly contract provisions that prescribed bonuses and payouts that added approximately \$30 million to the Authority's payroll expenses and resulted in significant increases to Authority employees' salaries (including management). Public-sector compensation should strike the appropriate balance between fairly compensating employees while ensuring that services are provided at the most

economical cost. We question if the Authority's bonuses and payouts are in the best interest of the public given that:

- the Authority is a public entity whose revenue stream is derived primarily from tolls paid by the public, and whose employees are members of the State pension system;
- each of the payouts provide bonus pay without consideration of performance; and
- several of the bonuses appear to be additional payments provided to employees already given enhanced levels of compensation based on either the type of work they perform or other special circumstances such as working on a holiday.

The bonuses and payouts provided by the Authority to its employees are described individually in the paragraphs that follow.

a) Separation Bonus

Seven collective bargaining agreements provide for a separation bonus for employees who retire from or cease working for the Authority after 10 or more years of working there. Depending on the specific collective bargaining agreement, these employees are paid between \$500 and \$600 for each full year of Authority service upon separation or retirement. The Authority expended approximately \$1.4 million during CYs 2008 and 2009 for these separation bonuses.

b) Voluntary Separation Plan

In CY 2007, an additional voluntary separation plan was offered to employees who elected to end their employment with the Authority and who had at least

one year of full-time service. Eligible employees were required to resign or retire between October 31, 2007 and December 31, 2007. The ensuing separation payments were calculated as a percentage of base pay based on the employee's number of years of service with the Authority. During CY 2008, these voluntary separation payments totaled nearly \$2.7 million.

c) Longevity Bonus

Since 1996, the Authority has gradually phased out longevity bonuses for newly hired employees. However, approximately 1,400 employees still receive longevity bonuses annually. Pursuant to eight of the Authority's collective bargaining agreements, employees who have worked for the Authority for at least 10 years receive an annual 4 percent longevity bonus added to their base salary. Employees who have worked for the Authority for at least 15 years receive an annual 6 percent longevity bonus added to their base salary, and employees who have worked there for 30 years receive an annual 7 percent bonus. During CYs 2008 and 2009, the Authority expended more than \$11.6 million on these longevity bonuses.

d) "Bank-Out" Bonus

The collective bargaining agreement for Parkway toll collectors provides for a "bank-out" bonus to be paid to these employees for time spent after their normal shift counting monies received from tolls collected. Such a process is considered a routine job duty for toll collectors who belong to other Authority bargaining units. Specifically, bank-out bonuses of \$1,650 are paid to Parkway toll collectors who work at least 1,000 hours in the preceding contract year. In total, during CYs 2008 and 2009, Parkway toll collectors received bank-out bonuses of more than \$653,000.

e) Anniversary Bonus

Part-time toll collectors at the Authority receive an anniversary bonus of \$400 each year following completion of their fourth year of service. During CYs 2008 and 2009, the Authority paid a total of \$274,000 for such anniversary bonuses.

f) Snow Bonus

Three collective bargaining agreements provide for a “snow bonus” ranging from \$1,000 to \$1,700 to be paid each snow season to those employees who work plowing snow on the Authority’s roadways. Such bonuses are in addition to these employees’ overtime pay for snow removal. During CYs 2008 and 2009, snow bonuses cost the Authority nearly \$268,000.

g) Holiday Bonus

Seven of the Authority’s collective bargaining agreements provide a bonus to employees who work on a holiday that falls on a day they were otherwise not scheduled to work. Such bonuses range from \$25 to \$100 and cost the Authority a total of approximately \$226,000 during CYs 2008 and 2009. Four of the seven agreements that provide such holiday bonuses already provide extra compensation to employees who work on holidays by paying them either time and a half or double pay on such days.

h) Birthday Bonus

One of these seven collective bargaining agreements also provides a bonus to employees who work on their birthdays. For CYs 2008 and 2009, such birthday bonuses totaled \$227,000.

i) Sick Leave Payouts

In accordance with past practice and collective bargaining agreements, the Authority grants 15 sick days each year to all full-time employees (including the “at-will” employees described later in this report). For employees hired after January 1, 2000, the Authority limits the amount employees are compensated for unused sick days at the time of their retirement to \$15,000. Employees hired before January 1, 2000, however, are not subject to the \$15,000 limit. Moreover, a further exception exists for certain classifications of employees who were allowed to retain sick and vacation days earned prior to the merger between the Turnpike Authority and the Highway Authority (e.g., former Parkway employees and Turnpike management employees).

In addition, the Authority provides its employees with the option of receiving an annual payout for up to five unused sick days during the first five years of service and for up to ten unused sick days thereafter. During CYs 2008 and 2009, the Authority expended a total of \$3.8 million for such annual sick leave payouts.

Through receiving sick leave payouts annually, the Authority’s employees are potentially able to receive more than \$15,000 in sick leave payouts over the course of their tenure with the Authority and therefore circumvent the \$15,000 sick leave payout limit. For example, during each of CY 2008 and CY 2009, approximately 820 employees received such annual sick leave payouts. These payouts averaged approximately \$2,300 per employee. After seven years of receiving the average annual payout of \$2,300, an employee would have already been compensated for unused sick leave in an amount exceeding the \$15,000 limit. Then, upon retirement, that employee also could potentially receive payment for the balance of his or her unused sick leave. In total, the Authority expended \$2.1 million in sick leave payouts at retirement during CYs 2008 and 2009.

Policies and agreements that allow employees to retire with thousands of dollars in compensation from sick leave payouts are not consistent with the rationale for granting sick days.

j) Annual Payouts for Vacation Leave

Depending on an employee's number of years of service and bargaining unit, the Authority grants employees 5 to 20 vacation days annually. Similar to the allowance provided for unused sick days, the Authority provides its employees with the option of receiving an annual payout for some unused vacation days. The Authority also provides employees with the option of banking their unused vacation days to be used at a later date or paid out at retirement. The Authority expended approximately \$3.7 million in vacation leave payouts, including such payouts to at-will employees, during CYs 2008 and 2009.

Other State employees generally are not entitled to such annual cash payouts for unused vacation days.

* * *

The overall effect of these bonuses and payouts are illustrated in the chart below for three Authority employees who retired in CY 2008.

| Title | Property Inspector | Senior Communication Maintenance Technician | Asst. Foreman-Roadway |
|-------------------------------|--------------------|---|-----------------------|
| 2008 Base Salary | \$73,469 | \$93,768 | \$69,950 |
| Sick Leave Payout | \$143,806 | \$114,686 | \$106,262 |
| Vacation Leave Payout | \$87,380 | \$ - | \$ - |
| Voluntary Separation Plan | \$53,497 | \$65,638 | \$52,463 |
| Separation Bonus | \$24,600 | \$14,000 | \$19,800 |
| Annual Unused Vacation Payout | \$7,559 | \$9,700 | \$3,913 |
| Longevity Bonus | \$5,143 | \$5,626 | \$4,897 |
| Total Payouts/Bonuses | \$321,985 | \$209,650 | \$187,335 |

For example, as shown above, a Property Inspector who earned a base salary of \$73,469 during CY 2008 was able to receive more than \$320,000 at the time of his retirement in the form of various bonuses and payouts paid by the Authority. These sick leave payouts and other bonuses do not appear to represent a justifiable expenditure of public funds.

The Authority has paid similar bonuses and payouts to Authority management and others not subject to a collective bargaining agreement. Specifically, the Authority employs approximately 230 full-time and temporary employees who are considered “at-will” employees and are not members of any union. These at-will employees include management employees such as the Executive Director, Deputy Director and other Authority administrators.

Although the Authority’s at-will employees do not have any statutory rights to the collective bargaining process, we found that they benefit from some of the bonuses and payouts prescribed by the Authority’s collective bargaining agreements. For example, during CY 2009, the Authority’s Executive Director earned \$181,035. Her compensation consisted of \$154,514 in base salary, a \$9,271 longevity bonus, and \$17,251 in leave time and other payouts. Piggybacking off of such generous collectively bargained bonuses and payouts complicates the ability of executive management to objectively represent the interests of the Authority when negotiating contracts with the various bargaining units.

We further note that the Executive Director’s salary is significantly higher than the \$141,000 salary provided to the NJDOT Commissioner, who also serves as the Chairman of the Authority’s Board. In addition, the Executive Director’s total compensation during the aforementioned period exceeded the New Jersey Governor’s annual salary of \$175,000.

Our review revealed four other at-will management employees who during CY 2009 earned more than the \$141,000 annual salary received by members of the Governor’s cabinet:

- The Northern Division Manager earned \$145,232 which consisted of \$106,665 in base salary, a \$7,467 longevity bonus, \$15,364 in overtime and \$15,736 in leave time and other payouts.
- The Assistant Director of Law earned \$143,215, which consisted of \$117,880 in base salary, a \$7,073 longevity bonus and \$18,262 in leave time payouts.
- The Chief Engineer earned \$155,994, which consisted of \$148,239 in base salary and \$7,755 in leave time and other payouts.
- The Director, Electronic Toll Collection earned \$148,845, which consisted of \$140,676 in base salary and \$8,170 in leave time payouts.

In total, at-will employees received approximately \$3 million in non-performance based bonuses during CYs 2008 and 2009.

Particularly since the Authority is not contractually obligated to provide such compensation, the Authority's Board should closely examine if these salaries, bonuses and payouts provided to at-will employees are consistent with notions of transparency as well as the interests of the Authority and the public.

Recommendations

6. Eliminate the bonuses cited in this report.
7. End the practice of allowing annual payouts for sick time and vacation leave.
8. Implement a Board policy that imposes a limit on the total compensation provided to the Executive Director and other managers. In arriving at that

policy, the Authority should consider the salary structure for other New Jersey Executive Branch employees.

Other Employee and Related Benefits

The Authority distributes E-Z Pass transponders to its employees to commute to and from work without paying tolls on the Turnpike or Parkway, thereby costing the Authority hundreds of thousands of dollars annually. In addition, the Authority expends tens of thousands of dollars for “employee relations” efforts which do not seem prudent.

E-Z Pass Transponders

The Authority’s collective bargaining agreements state that employees are to be reimbursed when required to use their personal vehicle for business-related travel. However, pursuant to those collective bargaining agreements, employees are not to be reimbursed for commutation to and from their assigned work locations.¹

Nonetheless, we found that the Authority provides toll-free passage to its employees to commute to and from work by issuing E-Z Pass transponders to all full-time and part-time employees who have been employed with the Authority for more than one year. The transponders allow these employees toll-free passage on both the Turnpike and Parkway. These employees are provided with a monthly statement detailing their E-Z Pass activity. Upon review of the statement, the employees are required to certify and reimburse the Authority for all personal travel on the Turnpike and Parkway, not including their commute to and from work.

Based on our review of the monthly employee statements for May 2009, we estimate that the Authority is losing approximately \$430,000 annually in revenue as a result of providing toll-free passage to employees commuting to and from work using the Turnpike and Parkway.

¹ See the following Collective Bargaining Agreements: Local 196, Chapter 12, Section XXVII; Local 193C, Section XXIX; Local 193, Section XXVI; Local 97, Article XXV; Local 3914, Article 10; and Local 194, Article XXIV.

Such a practice does not seem to be a prudent use of public funds and amounts to hidden compensation for the employees in question. To ensure appropriate transparency, the Authority should not grant compensation to employees that is not specified by its collective bargaining agreements.

Employee Relations Account

The Authority maintains an Employee Relations account that, according to the Authority's internal records, is used to provide "employee incentives approved by the Executive Director or Commissioners."

Our review of the Authority's Employee Relations account for CYs 2007 through 2009 revealed that \$178,000 was paid to contribute to various non-profit organizations and provide various benefits to Authority employees. Examples of such expenditures included:

- \$89,600 for various scholarships for children of Authority employees;
- \$15,000 for annual fundraisers for a non-profit organization which advocates for investment in New Jersey's infrastructure;
- \$12,000 to sponsor an employee bowling league;
- \$10,000 for an event sponsored by an international alliance of toll operators created to provide a forum for sharing knowledge and ideas to enhance toll-financed services (none of the Authority's employees attended the event); and
- \$10,000 to an organization that recognizes professionals who are engaged in their community as civic leaders.

Such expenditures generally are not relevant to the Authority's mission to provide for the safe and efficient movement of people and goods over the

Turnpike and the Parkway. Public funds should not be used to benefit selected employees or organizations in this manner.

Recommendations

9. End the practice of providing toll-free passage to employees commuting to and from work.
10. Eliminate publicly funded “employee relations” payments that are not necessary to the Authority’s mission.

Use of Outside Legal Counsel

The Authority's Law Department needs to strengthen its oversight of outside counsel contracts and related billings.

The Authority's Law Department employs 10 full-time attorneys, including a Director of Law (Director), and 15 support staff. In addition to these employees, the Authority has service agreements with 11 law firms retained through a public procurement process in 2008. In 2009, the Authority paid \$7,106,179 to outside legal counsel.

According to the Director, each outside legal counsel submits its bills to the Authority on a monthly basis. The Authority's agreements with the 11 law firms (Agreements) direct that all billings must be explained in detail. A staff attorney assigned to act as a liaison with that particular outside legal counsel reviews the monthly invoices. The staff attorney then forwards the invoices to the Director for his review and certification. Once certified by the Director, the Authority's Finance and Budget Department pays the invoices.

We reviewed all of the billing invoices from the Authority's six highest-billing law firms in 2009 and interviewed the Director to get a full understanding of the Authority's policies concerning such billings. Our review found that the Authority failed to discover a pattern of billing by one of those firms that violated the terms of its agreement with the Authority and was inconsistent with the Authority's policies. In total, we found that the Authority failed to identify \$224,168 billed by the firm in 2009 for legal services that were not permitted under the Agreements, as follows:

| Category | Amount |
|--------------------------------------|------------------|
| Internal Meetings | \$111,840 |
| Routine Filing and File Organization | \$52,007 |
| Non-Descriptive Billing | \$56,660 |
| Travel Time | \$2,380 |
| Incorrect Billing Rate | \$1,281 |
| Total | \$224,168 |

Each of these areas are discussed in turn below.

a) Internal Meetings

The Agreements specify that “[i]nteroffice conferences for which more than one attorney’s time is billed are to be avoided where consistent with quality representation, as is the attendance of more than one attorney at meetings, court appearances or depositions.” The Director stated that the Authority discourages the practice whereby a law firm would bill for more than one attorney’s time when several or more of the firm’s attorneys meet at the same time and same place. However, we found that one firm billed the Authority for weekly “internal status meetings” that were generally attended by 10 to 14 of the firm’s attorneys along with 2 to 3 paralegals all billing at their applicable rates. These meetings lasted on average between 1 and 2 hours. The following chart illustrates some examples of the weekly status meetings that were improperly billed:

| Date of Meeting | Number of Attorneys | Number of Paralegals | Total Amount Billed |
|------------------------|----------------------------|-----------------------------|----------------------------|
| 5/22/09 | 13 | 3 | \$3,029 |
| 6/3/09 | 14 | 3 | \$3,266 |
| 6/11/09 | 12 | 2 | \$3,719 |
| 10/12/09 | 12 | 3 | \$3,425 |
| 11/9/09 | 13 | 3 | \$4,075 |

The firm also billed the Authority \$12,688 for 20 additional status meetings attended by multiple attorneys. The questionable billings for all of these meetings totaled \$111,840.

b) Routine Filing and File Organization

The Agreements also state that “[r]outine filing and file organization by paralegals or clerical staff should not be billed.” Our review of invoices, however, found that the same firm referred to above billed the Authority \$52,007 for paralegal work that falls into the category of “routine filing and file organization.” Examples of the services billed hourly on a regular basis included copying, scanning, searching for files and file management.

c) Non-Descriptive Billing

In accordance with the Agreements, “invoices shall contain a detailed statement of the time spent by each individual on each activity, including a statement of the type of activity, subject matter, and all persons involved.” Our review of billing invoices revealed time entries by one attorney that did not provide any details of the activities performed. This attorney billed work for activities that were typically described as “attend[ing] to various issues and matters” and “attend[ing] to various files and issues.” From January to July 2009, this attorney billed a total of \$56,660 for legal work with descriptions that did not comply with the Agreements.

d) Travel Time

Under the Agreements, “[t]ravel time of attorneys is to be billed at fifty percent of the regular billing rate.” However, we found that one attorney billed at full billing rates for travel time between January and March 2009, resulting in \$2,380 in improper fees. This same attorney billed similar improper travel charges for the month of April. However, Authority attorneys appropriately identified the improper charges for April and recouped them.

Although the billing rate was rectified for April 2009 and subsequent months, we found a continuing pattern of excessive time billing for travel after that date. According to the Director, the Authority verifies that the time charged for travel is reasonable based on the distance traveled. The Director explained that an attorney’s time should be calculated based on the anticipated travel time from the law firm’s office. However, the attorney cited above routinely billed twice as much travel time as other attorneys for what appears to be the same commute on the same dates. Specifically, this attorney continually entered 3.2 hours for travel to and from meetings at the Authority’s Woodbridge office while several other attorneys from the same firm entered 1.0 hour for the same commute.

e) Incorrect Billing Rate

Pursuant to the Agreements, paralegals are required to bill at a rate of \$90 per hour. According to the Director, law clerks and summer associates also should bill at the paralegal rate. Nevertheless, we found that an individual with the title of “clerk” was billing at an hourly rate of \$125. For CY 2009, the Authority was overcharged approximately \$1,281 for the clerk’s services.

Recommendations

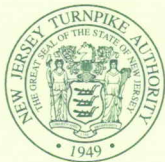
11. Recover the \$224,168 from outside counsel that was billed improperly.
12. Review monthly legal services invoices thoroughly to ensure compliance with the Agreements.
13. Require approval from the Authority in advance for any meeting where more than one attorney from the same law firm will be billing their time so that the Agreements' restriction on interoffice conferences is enforced appropriately.
14. In accordance with the Agreements, ensure that all routine filing, file organization and similar administrative work performed by outside law firms be carried out by non-billing paralegals or legal secretaries.
15. In accordance with the Agreements, ensure that bills from outside law firms provide sufficient detail for each legal task submitted for payment.
16. Ensure that all travel time charged by outside counsel is reasonable.
17. Ensure that all outside counsel billing rates charged are accurate.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Authority officials for their review and comment. Their comments were considered in preparing this report and are attached as Appendix A.

The Authority generally concurred with the report's recommendations. For many of the recommendations, the Authority indicated steps either already taken or underway to implement our recommendations. Specific comments on the Authority's response are found at the end of the response.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, the Authority shall report periodically to this Office advising what steps have been taken to implement the recommendations contained herein.



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VERONIQUE HAKIM, *Executive Director*

CHRIS CHRISTIE
GOVERNOR

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October 1, 2010

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
PO Box 024
Trenton, NJ 08625-0024

Dear Mr. Challice:

Attached please find the New Jersey Turnpike Authority's responses to your report recommendations concerning the Authority's Selected Financial and Operating Practices. We thank you for the opportunity to respond.

As indicated in our response, the Authority was committed to providing your office with all the information necessary to complete your review. We welcome your recommendations as part of the Authority's on-going commitment to corporate accountability and transparency.

I would also like to recognize the professionalism and dedication demonstrated by your staff throughout this review. Please contact me should you have any questions.

Veronique Hakim
Executive Director



NEW JERSEY TURNPIKE AUTHORITY

Introduction

Thank you for the opportunity to review and respond to the Office of the State Comptroller's ("OSC") report titled "New Jersey Turnpike Authority Selected Financial and Operating Practices" dated September 14, 2010. During your field work from May 2009 to September 14, 2010 the New Jersey Turnpike Authority was committed to providing the OSC with all of the needed information, and remains a committed partner in fostering an environment of good governance, accountability and transparency.

General Comment

The New Jersey Turnpike Authority is a public agency whose mission is dedicated to the safe and efficient movement of people and goods over two of the busiest toll roads in the United States, the New Jersey Turnpike and Garden State Parkway. To be true to that mission, the Authority's goal is to exercise best public agency practices at all times while providing corporate accountability and transparency. The Authority, its Executive Director and management staff are, and have been, committed to this goal.

Our responses to your report findings are as follows:

Administering Health Benefits

OSC Finding: The Authority has not evaluated the costs associated with joining the State Health Benefits Program, resulting in millions of dollars in additional expenses during the three-year period ending December 31, 2009. Further, the Authority has not effectively administered the contracts related to its health benefits program.

The Authority maintains that it effectively administered both its overall health benefits program and the related contracts during the audit period. The Authority must also note that the cost analysis prepared by the OSC to support its claim that the Authority could have achieved significant savings by participating in the State Health Benefits

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Program (“SHBP”) did not include an actual comparison of the Authority’s and State Health Benefits Program’s Summary Plan Documents which detail each plan’s scope of services. If such a comparison was done, the Authority was not provided with this comparison.

Accordingly, the Authority cannot concur with the savings amount noted in the report.

Recommendations

1. *Evaluate the costs and merits of participating in the State Health Benefits Program.*

In July of 2010, the Authority retained a health benefits consultant, Aon Consultants, Inc. (“Aon”). Aon will be conducting a health benefits analysis that will not only compare the Authority’s health benefits program to the SHBP, but it will also identify the primary cost drivers of the Authority’s plan and recommend more cost effective health plan designs. Once this analysis is complete, the Authority will report Aon’s findings to the OSC and will be able to better evaluate the costs and merits of being in the SHBP.

Regarding the OSC’s cost comparison between the Authority’s health benefits program and the SHBP performed for calendar year 2010, the Authority disagrees with the methodology of using the 2010 equivalent premium rates. In all other years audited - 2007, 2008, and 2009 - the OSC used Authority budgeted and actual expenditures. It should also be noted that in calendar year 2010, the SHBP experienced a rate increase of an estimated 17% overall, whereas the Authority’s annual increase has historically been between 4-5% for the years 2007 through 2009.

2. *Reform procurement procedures to ensure appropriate limitations on communications between the Authority (or its agents or consultants) and potential vendors prior to and during the procurement process.*

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The Authority's current procurement procedures contain controls ensuring appropriate limitations between the Authority, its agents or consultants prior to and during any type of procurement process.

- 3. Ensure award recommendations are based solely on information properly considered by the Authority during the procurement process.*

The Authority's current procurement process contains controls which ensure award recommendations are based on information properly considered during the process. Additionally, the Authority has incorporated the OSC's report "Best Practices for Awarding Service Contracts", dated March 2010.

- 4. Utilize formal written contracts to define the material terms of agreements entered into by the Authority.*

The Authority's standard practice is to utilize formal written contracts to define material terms of agreements for all types of procurements. The Authority acknowledges that this did not happen in the one instance cited by the OSC. The Authority maintains that this was an isolated occurrence.

- 5. Do not extend contracts beyond the contractual term set forth in the agreement.*

The Authority's best practices for Purchasing contracts does not normally recommend the extension of contracts beyond the contractual terms of the agreement. In the matter referenced by the OSC, however, the Authority determined that it was in its best interest to extend its current agreements with its health benefits Third Party Administrators ("TPA") until a procurement process could be completed to procure the services of a health benefits consultant to assist the Authority with the issuing of a request for proposal ("RFP") for TPA services. In July of 2010, the Authority awarded a contract to Aon Consultants, Inc., to, among other things, assist the Authority in preparing and reviewing proposals for a RFP for TPA services. It should also be noted that the extension of the current TPA's contracts were recommended to and ratified by the Authority's Board of Commissioners.

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Employee Bonuses and Payouts

OSC Finding: The Authority has negotiated collective bargaining agreements containing numerous bonus provisions and providing for payouts which cost tens of millions of dollars in employee expenses.

The Authority acknowledges that the payments cited by the OSC were made, but such payments were made in accordance with negotiated bargaining agreements. Also, the conclusion that the Authority's executive management "piggybacked" off of various collective bargaining agreements and thus impaired executive management's collective negotiating objectivity, is unfounded. Indeed, there is no evidence to support a finding that the Authority's executive management negotiators did not always negotiate in a manner that was in the best interests of the Authority.

The OSC cites the cost of longevity payments to Authority employees. The Authority however, exercised good public agency practice when in, 1996, it began the process of eliminating longevity payments for newly hired employees. In addition, the OSC raised concerns about costs of the Authority's Voluntary Separation Plan. These costs were not a bonus. Rather, they were part of incentive programs in 2005, 2006, and 2007 which were designed to reduce the Authority's overall head count. These 3 programs not only resulted in the elimination of two-hundred and forty-three (243) full-time positions but also yielded \$ 39 million dollars in salary savings beyond the cost of the programs through calendar year ending 2009.

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Recommendations

6. *Eliminate the bonuses cited in this report.*

These recommendations will be considered by executive management for both aligned and non-aligned full time employees.

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7. *End the practice of allowing annual payouts for sick time and vacation leave.*

This recommendation will be considered by executive management for both aligned and non-aligned full time employees.

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8. *Implement a Board policy that imposes a limit on the total compensation provided to the Executive Director and other managers. In arriving at that policy, the Authority should consider the salary structure for other New Jersey Executive Branch employees.*

In July of 2010, the Authority retained an Employee Wage Consultant, The Segal Company, to develop a wage analysis of its union and non-union employees in advance of 2011 collective bargaining negotiations and to act as the Authority's consultant during negotiations. As part of the wage analysis, the Authority will review the salary structure of its employees relative to other New Jersey Executive Branch employees.

Other Employee and Related Benefits

OSC Finding: The Authority distributes E-Z Pass transponders to its employees to commute to and from work without paying tolls on the Turnpike or Parkway, thereby costing the Authority hundreds of thousands of dollars annually. In addition, the Authority expends tens of thousands of dollars for "employee relations" efforts which do not seem prudent.

By year end, the Authority will cease the practice of providing E-ZPass transponders to its employees for commutation purposes. In addition, prior to the issuing of this report, the Authority had reviewed these types of "employee relations" payments referenced in the report and had eliminated payments such as that to the bowling league.

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Recommendations

9. *End the practice of providing toll-free passage to employees commuting to and from work.*

As stated above, by year end, the Authority will be ending the practice of providing E-ZPass transponders to employees for commutation purposes by year end.

10. *Eliminate publicly funded "employee relations" payments those are not necessary to the Authority's mission.*

The Authority acknowledges that the "employee relations" payments cited in the report were made during the audit period. It should be noted, however, that all such payments had the proper authorization of either the Executive Director or Authority's Board of Commissioners. The Authority will review the remaining type of payments noted and will continue to exercise good public agency practices to eliminate any additional payments which are not prudent or in accordance with its mission statement.

Use of Outside Legal Counsel

OSC Finding: The Authority's Law Department needs to strengthen its oversight of outside counsel contracts and related billings.

The Authority concurs with this recommendation and has already initiated a new process of reviewing and authorizing legal bills for payment. This approval process is more qualitative based and will include reviews up to and including the Executive Director. In addition, by late 2010 or early 2011, the Authority will conduct a request for proposal ("RFP") procurement process for outside counsel services. The

Authority has begun structuring the RFP to implement additional controls which will address these types of exceptions.

Recommendations

11. Recover the \$224,168 from outside counsel that was billed improperly.

The Authority is currently reviewing each invoice that represents the \$224,168 in identified over billings and will notify the OSC of its findings on a timely basis. The Authority will recover any improper billings from outside counsel.

12. Review monthly legal services invoices thoroughly to ensure compliance with the Agreements.

As previously stated, the Authority has already implemented a new process which will ensure compliance with all agreements for outside counsel.

13. Require approval from the Authority in advance for any meeting where more than one attorney from the same law firm will be billing their time so that the Agreements' restriction on interoffice conferences is enforced appropriately.

The Authority's response is the same for items 13-17.

As part of the new process, the Authority will require the Law Department to effectively administer these provisions of our contractual agreements. The in-house approval process has already been restructured to ensure that these recommended items are incorporated in the process. As previously stated, this new approval process will emphasize a more quality based approach and will include review and authorization at an executive level before any payments are made.

14. In accordance with the Agreements, ensure that all routine filing, file organization and similar administrative work performed by outside law firms be carried out by non-billing paralegals or legal secretaries.

See above.

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15. *In accordance with the Agreements, ensure that bills from outside law firms provide sufficient detail for each legal task submitted for payment.*

See above.

16. *Ensure that all travel time charged by outside counsel is reasonable*

See above.

17. *Ensure that all outside counsel billing rates charged are accurate.*

See above.

OFFICE OF THE STATE COMPTROLLER COMMENTS ON AUDITEE RESPONSE

- Comment 1) A comparison of the two plans showed that the scopes of services were similar, as acknowledged by the official who administers the Authority's plan. Concerning the use of the 2010 equivalent premium rates, in the absence of actual 2010 expenditure data, these rates provide the most realistic estimate of the cost of the Authority's plan.
- Comment 2) The Authority has not provided a comprehensive analysis to support its comments on "salary savings." For example, we asked the Authority if any of the 243 eliminated positions had been refilled. To date, it has not responded to this question.
- Comment 3) Regarding Recommendations 6 and 7, the Authority indicated that it would "consider" corrective action. In accordance with statutory law, the Authority is required to develop a corrective action plan concerning each of our recommendations. That plan should set forth the specific actions the Authority is taking to implement our recommendations. To that end, we will follow-up to ensure appropriate corrective actions are taken.