



State of New Jersey

OFFICE OF THE STATE COMPTROLLER
P.O. Box 024
TRENTON, NJ 08625-0024

CHRIS CHRISTIE
Governor
KIM GUADAGNO
Lt. Governor

A. MATTHEW BOXER
State Comptroller

January 15, 2013

Ms. Veronique Hakim
Executive Director
New Jersey Turnpike Authority
P.O. Box 5042
Woodbridge, NJ 07095-5042

Re: Follow-Up Report F-06

Dear Ms. Hakim:

Pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1 et seq.*, we have followed up on the actions taken by officials of the New Jersey Turnpike Authority (Authority) to implement the recommendations contained in our audit report, *New Jersey Turnpike Authority: Selected Financial and Operating Practices* (Report PA-10), issued on October 19, 2010. Our findings and conclusions are set forth below.

Background and Objective

Our October 2010 audit report found a series of operating deficiencies at the Authority. For example, we found that the Authority could have saved more than \$12 million over a period of four years had it opted to participate in the State Health Benefits Program, instead of providing health insurance through its self-funded plan. We also found that over a two-year period the Authority paid out to its employees approximately \$30 million in non-performance-based bonuses and payouts that did not appear to be in the public interest. In addition, the Authority had provided E-Z Pass transponders to its employees to commute to and from work without incurring the cost of tolls. We estimated this non-transparent compensation benefit cost the Authority \$430,000 annually. Further, the Authority had expended tens of thousands of public dollars for "employee relations" not relevant to the Authority's mission, in order to benefit individual Authority employees or independent organizations. Lastly, the Authority's Law

Department had not exercised adequate oversight of its outside counsel contracts and related billings, resulting in payment for legal services that were improperly billed.

The objective of our follow-up engagement was to determine if the Authority has implemented the 17 recommendations contained in our initial audit report.

Summary Conclusion

We found that Authority officials have made significant progress in implementing the recommendations contained in our initial audit report. Of the 17 audit recommendations, 11 recommendations have been implemented, 4 recommendations have been partially implemented, and 1 recommendation has not been implemented. The status of 1 recommendation could not be determined at this time.

Status of Initial Audit Recommendations

Recommendation 1

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

Status: Implemented

Following our audit, the Authority contracted with an outside consultant to complete a cost comparison projection for the State Health Benefits Program (SHBP) and the Authority's self-funded plan. That comparison confirmed that the Authority would achieve substantial savings by switching to SHBP. Ultimately, however, instead of switching to SHBP, the Authority opted to reduce its administrative costs through new, more favorable contracts for medical, pharmacy, dental and vision plans which the Authority projects will save \$3 million to \$5 million over a three-year period. The Authority also will achieve additional savings through plan redesigns that mirror the terms of SHBP. In addition, the Authority implemented an increase of its employees' cost share of the medical insurance and is currently in the process of further increasing those employee contributions.

Recommendation 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.

Status: Partially Implemented

The Authority has drafted updated procedures for its purchasing manual that will specifically

address this recommendation. We reviewed a copy of those draft procedures. The Authority believes that the final manual will be ready for implementation by the middle of 2013.

Recommendation 3

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

Status: Implemented

This recommendation stemmed from our audit finding concerning deficiencies in the Authority's procurement of certain health care services. To assess the implementation status of this recommendation, we reviewed the Authority's written proposal evaluations and award memoranda concerning four new Authority contracts for health care, all of which became effective May 1, 2011. Our review determined that each contract had been properly awarded in accordance with the criteria set forth in the Authority's request for proposals.

Recommendation 4

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

Status: Implemented

For this recommendation we again focused our testing on the Authority's health care contracts, which were the genesis of the initial audit recommendation. The Authority now has formal written contracts with all four of its health care providers. Each of those contracts properly defines the material terms of the agreement between the Authority and the provider.

Recommendation 5

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

Status: Could Not Be Determined

Our initial audit found that the Authority had simply extended multiple health care provider contracts instead of using a competitive procurement process. The Authority currently has four contracts for health care providers, all of which became effective May 1, 2011. Because each of these contracts is, by its terms, effective through 2014, we could not determine at this time whether this recommendation has been implemented.

Recommendation 6

Eliminate the bonuses cited in this report.

Status: Partially Implemented

Our initial audit identified approximately \$20.4 million in various bonuses paid to Authority employees during calendar years 2008 and 2009, or approximately \$10.2 million annually. In response to our audit, the Authority has eliminated all of these bonuses for its non-union employees, except for longevity payments for employees hired by the Authority before July 1, 2000. In addition, the Authority has re-opened and modified multiple collective bargaining agreements to eliminate these bonuses for toll collectors and toll violation officers. These bonuses, however, remain in the Authority's collective bargaining agreements for its other union employees such as road maintenance workers and mechanics. The Authority is in the process of negotiating new collective bargaining agreements and has made proposals to eliminate these bonuses from those agreements as well. Our review of Authority payroll data for 2011 identified \$9.2 million in bonus payments, resulting in savings that year of \$1 million for the Authority. The Authority expects elimination of these bonuses to result in greater savings in future years.

Recommendation 7

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

Status: Partially Implemented

Our initial audit identified approximately \$7.2 million in annual, year-end payouts for unused sick time and vacation leave to Authority employees during calendar years 2008 and 2009, or approximately \$3.6 million annually. In response to our audit, the Authority eliminated these payouts for its non-union employees effective November 15, 2010. In addition, the Authority has re-opened and modified multiple collective bargaining agreements to eliminate these payouts for toll collectors and toll violation officers. These payouts, however, remain in the Authority's collective bargaining agreements for its other union employees. The Authority is in the process of negotiating new collective bargaining agreements and has made proposals to eliminate these payouts from the agreements. Our review of Authority payroll data for 2011 identified approximately \$2.7 million in annual payouts for sick and vacation leave, resulting in savings that year of \$900,000. The Authority expects elimination of these year-end payouts will result in greater savings in future years.

Recommendation 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.

Status: Not Implemented

The Authority has not adopted a specific limit on managerial compensation at this time. Bills have been introduced in both the State Senate and Assembly that would limit the compensation of officers and employees of independent State authorities. If these bills become law, the compensation of the Authority's Executive Director and other Authority managers would be limited accordingly. Authority management stated to us that the Authority is awaiting final resolution of these bills before designing an Authority-specific policy in this regard.

Recommendation 9

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

Status: Partially Implemented

The Authority eliminated the toll-free passage benefit for all of its employees effective January 1, 2011. However, following the filing of employee grievances, an arbitrator ruled that the Authority is required to continue to provide this benefit to its union employees, pending execution of new collective bargaining agreements. Nonetheless, this benefit is no longer being provided to the Authority's non-union employees. In addition, the Authority is in the process of negotiating new collective bargaining agreements and has made proposals to eliminate this benefit from those agreements.

Recommendation 10

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

Status: Implemented

Our initial audit identified \$178,000 in Authority funds that were paid out of Employee Relations accounts to contribute to various non-profit organizations and provide various benefits to Authority employees, including sponsoring an employee bowling league, awarding scholarships to children of Authority employees, and paying for other events.

Following our audit, the Authority eliminated all "employee relations" payments except for those

that were previously committed. Our review of the Authority's Employee Relations accounts for calendar year 2011 identified \$10,500 in such payments, all representing previous scholarship-related commitments. There will be an additional \$7,000 expended in 2012 and \$3,500 in 2013 on behalf of these students.

Recommendation 11

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

Status: Implemented

Our initial audit identified \$224,168 in improper billings from one of the law firms acting as the Authority's outside legal counsel. In response to our audit, the Authority reviewed these billings. As a result of its review, the Authority reached a settlement with that law firm resulting in the Authority's recovery of \$31,991. The Authority has opted not to pursue recovery of the remaining billings based on its conclusion that a former Authority employee had authorized those billings.

Recommendation 12

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

Status: Implemented

To test for compliance with this recommendation, we reviewed all invoices for legal services for March 2011 and October 2011 that were paid directly by the Authority. There were 364 such invoices totaling \$350,397. Our review determined that these invoices were properly billed, submitted and paid in accordance with the Authority's written agreements with its legal counsel.

Recommendation 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.

Status: Implemented

Our review of the 364 invoices referenced above did not identify any instances of multiple attorneys billing for attendance at the same meeting.

Recommendation 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.

Status: Implemented

Our review of the 364 invoices did not identify any instances of the Authority's outside counsel billing for routine filing or file organization.

Recommendation 15

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

Status: Implemented

Our review of the 364 invoices determined that appropriate detail was provided for each legal task that was billed.

Recommendation 16

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

Status: Implemented

Our review of the 364 invoices determined that travel time is generally being billed correctly. There were several instances of erroneous travel-related billings, but the dollar amounts involved were very small. We have referred these instances to Authority officials for their review and recovery of the amounts at issue.

Recommendation 17

Ensure that all outside counsel billing rates charged are accurate.

Status: Implemented

Our review of the 364 invoices determined that the billing rates charged by the Authority's outside counsel were 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 our final report and are attached as Appendix A. According to their response, Authority officials are continuing to take steps to address those recommendations that have not yet been fully implemented. Of note, concerning Recommendation 8, the Authority stated that it is in the process of reviewing the results of a comprehensive Authority-wide salary analysis performed by the Segal Company. Upon completion of this review, the Authority will move to implement our recommendation.

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 additional steps it has taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

A handwritten signature in blue ink, appearing to read "William P. Challice".

William P. Challice CIA, CFE, CGFM
Director, Audit Division



New Jersey Turnpike Authority

ADMINISTRATION BUILDING - 581 MAIN STREET
P.O. BOX 5042 - WOODBRIDGE, NEW JERSEY 07095
TELEPHONE (732) 750-5300

CHRIS CHRISTIE
GOVERNOR

KIM GUADAGNO
LIEUTENANT GOVERNOR

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VERONIQUE HAKIM, *Executive Director*

December 21, 2012

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

Dear Mr. Challice,

Attached please find the New Jersey Turnpike Authority's responses to your follow up report on the Authority's Selected Financial and Operating Practices. Again, we thank you for the opportunity to respond.

As you know, the Authority remains committed to implementing your recommendations and best practices as our agency continues to move forward in achieving its mission and goals.

Please contact me should you have any questions or need additional information.

Sincerely,

Veronique Hakim
Executive Director

NEW JERSEY TURNPIKE AUTHORITY

Introduction

We are in receipt of your letter dated December 11, 2012 which requests the Authority provide the Office of the State Comptroller (OSC) with responses to your Follow-Up Report F-08. Our responses are noted below by recommendation:

Recommendation 1

Response: The Authority agrees with the status of this recommendation. Also, the Authority continues to achieve cost savings as we realized over \$950,000 in pharmacy rebates in 2012 in addition to future increases in employees' cost sharing of medical benefits for 2013.

Recommendation 2

Response: The Authority concurs with this recommendation and we are committed to issue the final procurement manual in 2013.

Recommendation 3

Response: The Authority agrees with the status of this recommendation.

Recommendation 4

Response: The Authority agrees with the status of this recommendation.

Recommendation 5

Response: As outlined in the Authority's Procurement Manual, it is current policy not to extend contracts beyond their contractual terms. When these specific contracts expire, we will provide the OSC with the necessary documentation to ensure our compliance with this recommendation.

Recommendation 6

Response: The Authority continues to negotiate new collective bargaining agreements that include proposals for eliminating the above referenced bonuses.

NEW JERSEY TURNPIKE AUTHORITY

Recommendation 7

Response: The Authority continues to negotiate new collective bargaining agreements that include proposals for eliminating the above referenced bonuses.

Recommendation 8

Response: The Authority is reviewing the comprehensive Authority wide salary analysis performed by the Segal Company. Upon completion of this review and taking into consideration the passage of any legislation and the various state salary plans, the Authority will take the necessary steps to implement this recommendation.

Recommendation 9

Response: The Authority continues to negotiate new collective bargaining agreements that include proposals for eliminating the above referenced bonuses.

Recommendation 10

Response: The Authority agrees with the status of this recommendation.

Recommendation 11

Response: The Authority agrees with the status of this recommendation.

Recommendation 12

Response: The Authority agrees with the status of this recommendation.

Recommendation 13

Response: The Authority agrees with the status of this recommendation.

NEW JERSEY TURNPIKE AUTHORITY

Recommendation 14

Response: The Authority agrees with the status of this recommendation.

Recommendation 15

Response: The Authority agrees with the status of this recommendation.

Recommendation 16

Response: The Authority agrees with the status of this recommendation.

Recommendation 17

Response: The Authority agrees with the status of this recommendation.