



# New Jersey Turnpike Authority

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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



## **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**

**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.*

**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.**

### **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.

### **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.**

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.**

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.**

## **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.**

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.**