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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 29, 2014

Mr. Howard P. Milstein
Chairman
New York State Thruway Authority
200 Southern Boulevard
P.O. Box 189
Albany, NY 12201-0189

Re: New York State Thruway Authority
Selected Aspects of Discretionary
Spending
Report 2012-S-156

Dear Mr. Milstein:

According to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we audited selected aspects of discretionary spending of the New York State Thruway Authority (Authority) for the period January 1, 2010 to December 31, 2012. The objective of our audit was to determine whether the Authority's discretionary spending complied with Authority guidelines and was reasonable, adequately supported, and properly approved.

Background

Certain public authority costs pertain directly to the operating purpose of the entity. For example, a transportation authority's expense to pay for vehicle fleet maintenance is an operating cost. However, a public authority also incurs "discretionary" costs to pay for expenses that indirectly support the primary operating purpose. For example, discretionary costs include expenses for travel and entertainment and employee professional development. As with operating costs, discretionary costs must be related to the mission of the public authority and be reasonable. Also, costs must not be incurred for the personal benefit of the board of directors, management, or staff. Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds for each. In addition, the policies should state what type of supporting documentation and formal approvals are necessary for such costs and should require employees to perform due diligence to obtain the lowest cost.

The Authority was created in 1950 by Article 2, Title 9 of the New York State Public

Authorities Law for the purpose of financing, constructing, reconstructing, improving, developing, maintaining, and operating a highway system known as the Thruway. The Authority strives to provide its customers with a roadway that is safely drivable at a reasonable speed under the given weather conditions. Since 1992, the Authority has also been responsible for the State's canal system, which is maintained and operated by its subsidiary, the Canal Corporation. The Authority is governed by a board of seven directors. To accomplish its mission, the Authority incurs direct costs for specific program purposes and it incurs indirect or "discretionary costs" that support overall objectives.

To determine if the Authority's discretionary spending complied with Authority guidelines and was reasonable, adequately supported, and properly approved, we examined 113 payments for discretionary spending totaling \$87,840 for the period of January 1, 2010 through December 31, 2012.

Results of Audit

Authority policy permits employee recognition and service awards. While such a policy fosters employee morale, the policy should provide guidance as to reasonable amounts for such expenses. We question the following ten payments totaling \$14,557 as it is unclear how the Authority determined the reasonableness of the expenses:

- Eight payments totaling \$9,457 for various employee recognition events, including almost \$8,000 for an employee appreciation/holiday dinner.
- Two payments totaling \$5,100 for food provided at staff conferences, including \$3,630 spent on food at one two-day staff conference.

Recommendation

1. Examine written policies and procedures to determine if they provide adequate guidance related to the reasonableness of expenses.

Audit Scope, Objectives and Methodology

We audited to determine whether discretionary spending of the Authority complied with Authority guidelines and was adequately supported and properly approved. The audit covers the period January 1, 2010 through December 31, 2012.

To accomplish our audit objective, we reviewed policies, procedures, and guidelines related to submitting of and paying for discretionary spending. We also interviewed Authority officials and employees to obtain an understanding of internal controls relevant to discretionary spending. We selected a judgmental sample of payments, based on the nature and amount of the payment. We reviewed the supporting documentation for 113 payments totaling \$87,840.

We conducted our performance audit in accordance with generally accepted government auditing standards. 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 based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

Reporting Requirements

A draft copy of this report was provided to Authority officials for review and comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the New York State Thruway 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 recommendation contained herein, and where the recommendation is not implemented, the reasons why.

Major contributors to this report were Robert Mehrhoff, Jennifer Paperman, Brandon Ogden and Jonathan Bernstein.

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

Sincerely,

Carmen Maldonado
Audit Director

cc: Harry Lennon, Director, Internal Audit
NYS Division of the Budget

Agency Comments



Howard P. Milstein
Chairman

New York State Thruway Authority New York State Canal Corporation

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Thomas J. Madison, Jr.
Executive Director

September 16, 2014

Ms. Carmen Maldonado, Audit Director
Office of the State Comptroller
Division of State Accountability
123 Williams Street, 21st Floor
New York, New York 10038

Dear Ms. Maldonado,

On behalf of Chairman Howard P. Milstein, thank you for allowing the New York State Thruway Authority to respond to your audit, *New York State Thruway Authority – Selected Aspects of Discretionary Spending, Report 2012-S-156*.

The Thruway has strict guidelines and instructions governing discretionary spending that have resulted in a \$900,000 reduction in travel and overtime expenses since 2012. We have also successfully limited overall operational spending by enhancing cost containment protocols, flattening management, consolidating divisions and departments, reducing our workforce, and implementing other streamlining actions. This year, Thruway and Canal Corporation operating expenses will be 12 percent, or about \$60 million, below what was previously planned. I think you will agree that this will benefit the patrons we serve and the state economy that we support.

In addition to improving operational efficiencies, the Thruway also reduced its multi-year capital construction program by \$300 million. Despite this reduction, a new asset management system has enabled us to re-focus the program on high-impact capital projects that preserve good highway and bridge conditions and help ensure high levels of reliability, safety, and service.

We agree with your audit recommendation that the Authority examine its written policies and procedures to determine if adequate guidance is provided regarding discretionary expenses. In fact, in recent years the Thruway's cost containment strategy has included regular reviews of these policies and procedures. Just this June, updated Executive Instruction was issued to staff that further limits discretionary expenses, hiring, overtime, equipment purchases, energy usage and other key operational expenses.

The Authority remains committed to enhancing the efficiency and effectiveness of our operations so we may continue to provide high levels of safety and service for our customers.

Sincerely,



Thomas H. Madison, Jr.
Executive Director