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Audit Objectives	2
Audit Results - Summary	2
Background.....	3
Audit Findings and Recommendations.....	5
Accountability and Transparency	5
Status of Individual Project Items	8
Recommendations.....	13
Audit Scope and Methodology.....	14
Authority	14
Reporting Requirements.....	14
Contributors to the Report	15
Appendix A - Auditee Response..	16

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK STATE
THRUWAY AUTHORITY**

**STATUS OF THE BOARD-
APPROVED CAPITAL PLAN
FOR 2005-2011**

Report 2008-S-48

AUDIT OBJECTIVES

We examined whether the New York State Thruway Authority (Authority) was adequately monitoring and reporting on the status of project items in the Board-Approved Capital Plan for 2005-2011. We also examined whether the project items on the capital plan were starting and finishing on time and remaining within budgeted costs.

AUDIT RESULTS - SUMMARY

We found that the Authority does not report whether the individual capital project items approved in 2005 are starting and finishing on time or remaining within their originally budgeted costs. Instead, the Authority, based on Board of Directors (Board) instructions, monitors whether construction contracts are let on time and at the cost estimated by their engineers, and whether the capital plan's total expenditures for a period are within budget. However, the Authority does not relate this aggregate financial measurement to individual project items and it does not systematically compare expected completion dates to actual completion dates on an item-by-item basis. As a result, at any point in time, Authority officials and the Board do not report whether they are on track to complete the project items in the capital plan as approved in 2005.

In fact, while the Authority has a capital plan that consists of certain project items in certain locations with certain expected costs, this information is not published in its entirety for the Authority's Board of Directors, State policymakers, or the public to review. As a result, there is limited accountability and transparency for the Authority's capital plan. Such accountability and transparency are particularly important when, according to Authority officials, Thruway tolls are being

increased, in large part, to fund the capital plan.

We note that other public authorities in New York State publish their capital plans and report on the progress of capital plan project items. We recommend the Authority adopt some of these reporting practices. At a minimum, the Authority should, publish its capital plan on its web site and prepare monthly progress reports comparing the actual start and end dates, and actual expenditures, for individual capital projects (along with project items) against the planned start and end dates and budgeted expenditures for those projects. The Authority should also submit this information to its Board to ensure they have sufficient information on which to base capital planning decisions.

We also examined whether the Authority was on track to complete its \$2.7 billion capital plan at the cost that was announced in 2005. We found that completing the plan as approved will take much longer and cost significantly more than was forecast in 2005.

Authority officials stated economic conditions, such as double-digit inflation, have resulted in budget increases and project delays. They also stated that, while the makeup of the plan has changed, they are still committed to a capital investment of \$2.1 billion for bridge and highway capital project items as they announced in 2005. Our discussions with senior capital planning officials in transportation disclosed they, too, have experienced similar increases in the costs of construction materials.

In its management of its capital plan, the Authority must continuously modify, delete and add capital project items to effectively balance available financial resources with the

completion of the capital project items most needed to protect the safety of the motoring public. To ensure that this decision-making is effective, the Authority should know the relative priority of all capital project items included in the capital plan. This need was also pointed out in our prior audit report addressing the Authority's proposed toll increases for July 2008 through January 2010 (Report 2008-S-6, issued in January 2008). Our current audit shows that the capital plan will cost more and take longer than was previously estimated at a time when gas prices are soaring and toll increases are climbing thereby resulting in decreased traffic and associated toll revenues. As a result, the Authority may be confronted with making even more changes to its capital plan than would typically be expected. Therefore, it is more important than ever that the Authority's decision-making is supported with the documented priority of all capital project items. Our report indicates that improvements are necessary in this area.

This report, dated October 23, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
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BACKGROUND

The Authority is a public benefit corporation 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 Thruway is a 641-mile superhighway system crossing New York State. It is the longest toll superhighway system in the United States. By law, the Thruway is a self-supporting operation: its costs are fully covered by its tolls and miscellaneous income generated from its operations.

Since 1992, the Authority has also been responsible for the operation, maintenance, construction and reconstruction of the New York State Canal System, a 524-mile navigable waterway consisting of various interconnected canals, canalized natural waterways, lakes and reservoirs. A specially created Authority subsidiary, the New York State Canal Corporation, has direct operational responsibility for the Canal System. The Canal System is not self-supporting: its costs are covered largely by revenue from Thruway operations.

The Authority is also responsible for the operation and maintenance of two toll-free State-owned highways: the I-287 Cross-Westchester Expressway and I-84, which runs from Pennsylvania to Connecticut. However, the New York State Department of Transportation is responsible for the capital projects on both these highways.

In addition, beginning in 1992, the Authority was required by State legislation to perform certain mandated capital projects that were in some way related to the Thruway, the Canal System, or I-84. According to the legislation, the projects were undertaken for economic development purposes. The last of these projects are scheduled to be completed in 2008.

The Authority is responsible for all aspects of its capital program. The Board approves the multi-year capital plan and the annual Contracts Program. The Authority plans its capital project items, finances the project

items, and oversees the project items. In addition, with the exception of the mandated economic development projects, it decides which project items are to be done. While the Authority uses in-house staff to perform some of its smaller capital project items, most project items are contracted out. The Authority is responsible for the contract solicitation and award process.

The Authority manages its capital program through multi-year capital plans. In September 2005, the Board approved the Authority's current capital plan. As of March 2008, the plan totaled \$2.7 billion and extended through 2011.

About \$2.14 billion of the plan relates to Thruway bridge and highway capital project items, \$342 million relates to equipment replacements and other facility capital needs, \$250 million relates to Canal System capital project items, and \$7 million relates to economic development projects. Equipment replacements involve such items as vehicles, construction equipment and landscaping equipment, while other facility capital needs involve administrative buildings, maintenance buildings, Thruway service area buildings, barracks for the State Police Troopers who patrol the Thruway, radio towers, and other Thruway structures.

According to Authority officials, the current capital plan includes more than 300 individual construction projects ranging from less than \$100,000 in expected construction costs to more than \$100 million in such costs. In addition to construction costs, the capital plan includes items for support services such as construction inspection, design term agreements, material testing, and other services.

Each project on the plan consists of one or more project items (i.e., discrete parts). For

example, a project to rehabilitate the highway pavement between exits 34 and 34A, which was initiated in December 2006 (i.e., the construction contract was awarded at that time) with an expected construction cost of \$14.0 million, consists of only one project item. However, a project to resurface the highway pavement between exits 30 and 31 and perform safety upgrades at the service area between those exits, which was initiated in August 2006 with an expected construction cost of \$9.3 million, consists of two project items: (1) the service area safety upgrades and pavement resurfacing up to exit 31 and (2) the pavement resurfacing at exit 31 including the exit ramps.

The Authority's current capital plan is larger than its prior capital plans (the plan for 1997-2002 totaled \$1.55 billion). According to Authority officials, the current plan is larger because the Thruway's aging infrastructure, most of which is at least 50 years old, requires increased reconstruction and rehabilitation. Authority officials also cite inflationary increases in the costs of certain construction materials, and note that some project items are needed to address the growing traffic congestion in some areas of the Thruway. We note that, in recent years, a number of transportation agencies have experienced increases in construction material costs.

The Authority issues bonds to finance part of the cost of its capital project items. However, there is a limit to how much debt the Authority can incur. Consequently, the Authority must rely on toll revenue to cover some of its capital costs. Since announcing its current capital plan in 2005, the Authority implemented toll increases in April 2005 and January 2008 and approved a series of further increases beginning in July 2008 that, according to Authority officials are needed to cover projected cash shortfalls resulting

largely from the funding demands of the capital plan.

While most capital costs are covered by bond proceeds and Thruway revenue, the Authority also receives some Federal funding for capital project items, particularly on the Canal System. Some State funding is also received for Canal System capital project items.

The capital plan is developed by Authority staff. According to Authority officials, engineers in each Division are supposed to identify the capital needs in their region, prioritize those needs, suggest projects to address these needs, and submit the prospective project items to Thruway Headquarters. The prospective project items are to be reviewed by program managers at Headquarters, and the program managers are to identify the statewide priorities and create a statewide capital plan. This plan must be approved by the Capital Program Executive Steering Committee (whose four members are the Chief Engineer, the Chief Financial Officer, the Director of Maintenance and Operations, and one of the regional Division Directors on a rotating basis) and the Board.

In their identification of prospective project items, Division engineers are expected to refer to the Authority's long-range (20-year) capital plan, as it provides general planning guidance (e.g., segments of pavement are to be systematically replaced as they reach the end of their useful service life). In addition, after the multi-year plan is developed, the items on the plan are to be evaluated each year to ensure that they are still a priority, and new items are to be considered to address any newly identified needs.

The Authority uses an automated Capital Program Management System to monitor and report on the progress of these project items. However, the Capital Program Management System is not designed to provide information at the capital project level.

The Authority is governed by a seven-member Board of Directors. Board members are appointed by the Governor with the advice and consent of the State Senate. Authority staff is headed by an Executive Director, who is appointed by the Board. The Authority is organized into four regional Divisions headquartered in Buffalo, Syracuse, Albany and Suffern (the Division in Suffern is called the New York Division). The Authority's Headquarters is responsible for systemwide Thruway operations such as the Intelligent Transportation System (e.g., electronic overhead message signs and closed circuit televisions).

The Authority has a total of about 3,400 employees. Its budget for 2008 totaled \$1.1 billion (the Authority's fiscal year coincides with the calendar year). For that year, about \$491 million was budgeted for Thruway capital project items and equipment replacements, and \$54 million was budgeted for Canal System capital project items and equipment replacements.

Our audit addressed the capital project items on the Board-approved capital plan. It did not address the equipment replacements that are included on the plan.

AUDIT FINDINGS AND RECOMMENDATIONS

Accountability and Transparency

A performance measurement system is an important part of an accountable and transparent operation. Authority management

should establish performance goals and routinely monitor and report that performance to determine whether expected levels are being achieved.

The Authority does monitor and report on certain aspects of its performance. For example, the Authority reports on whether construction contracts are let on time as noted in its annually approved Contracts Program. It also reports whether the construction contracts are awarded for the expected amounts, as it compares the engineer's estimate to the amounts bid on each contract. The Authority also reports whether the capital plan's total expenditures for a period (month, quarter, and year) are within budget.

However, the Authority does not relate this aggregate financial measurement to individual projects (or items). In particular, the Authority does not report whether its capital project items are starting and finishing on time or remaining within budgeted costs. As a result, at any point in time, Authority officials do not report whether they are on track to complete the project items in the capital plan as approved in 2005, and if they are not on track to complete the plan, how far short they are likely to fall.

In fact, while the Authority has a capital plan that consists of a certain number of project items of certain types in certain locations with certain expected costs, this information is not published in its entirety for the Authority's Board, State policymakers or members of the public to review. Parts of the plan are published for Authority management, the Board and certain State policymakers (e.g., quarterly listings of the construction contracts to be let over the remainder of the plan), but the entire plan, and the overall progress to date on the plan, are not published.

As a result, there is limited accountability and transparency for the Authority's capital plan. Such accountability and transparency are particularly important when, according to Thruway officials, tolls are being increased to cover projected cash shortfalls resulting largely from the funding demands of the capital plan.

We note that other public authorities in New York State publish their capital plans, as does the State Department of Transportation. The Metropolitan Transportation Authority (MTA), in particular, has a highly structured public reporting process (the MTA currently administers a five-year, \$29.6 billion capital plan for various public transportation systems in and around New York City). The MTA's entire capital plan, and all significant changes to the plan, are reported to the MTA's governing Board and are made available to the public on the MTA's web site.

The MTA also monitors and reports on its progress in accomplishing its capital plan. It prepares monthly progress reports for the Board comparing the actual start and end dates, and actual expenditures, for individual capital projects against the planned start and end dates and budgeted expenditures for those projects. It also prepares exception reports for the Board that highlights project delays and cost overruns.

Many of the MTA's capital reporting practices are required by Sections 1263(b), 1269(b) and 1269(c) of the Public Authority Law. For example, Section 1269(b) requires the MTA submit its capital plan to the Capital Program Review Board for approval. The legislation also sets forth the categories of expenditure to be used in preparing the plan. Each subsequent plan shall also describe the current status of each capital element included in the previous plan. The Authority is not subject to the same statutory requirements,

but this does not mean that the Authority cannot adopt these reporting practices for itself. We recommend the Authority review the MTA's capital reporting practices and adopt the best of the practices for itself. In particular, we recommend the Authority, at a minimum:

- publish its capital plan and update the plan when significant changes are made, and
- prepare monthly progress reports comparing the actual start and end dates, and actual expenditures, for individual capital projects against the planned start and end dates and budgeted expenditures for those projects.

The Authority should submit the plan and monthly progress reports to its Board and post the plan on its web site. In addition, the Authority should report the information by capital project, not project item. Item information may be included under a particular project, but all the information for a particular project should be summarized and reported in one place.

To facilitate the Board's review of the capital plan and related progress reports, we recommend the Authority either create a Board committee for that purpose (as is done by the MTA and Port Authority of New York and New Jersey) or ensure that its Capital Program Executive Steering Committee fully reports to the Board on the progress of individual capital projects (along with project items) and the status of the plan as a whole. As part of our audit, we reviewed minutes of the Capital Program Executive Steering Committee's meetings for the period July 2007 through March 2008. The minutes generally covered any changes needed to be made to the annual Contracts Program or to the Multi-Year Capital Plan. Spreadsheets are

also attached to the minutes showing the changes being made. However, there is no documentation to reflect what the Committee submitted to the Board as a result of changes made.

In addition, to further promote accountability and transparency, we recommend the Authority develop performance measures for its capital plan. The measures should address both the Authority's effectiveness in implementing the plan (e.g., percentage of projects completed on time or within a certain percent of budgeted costs) and the effectiveness of the plan itself in keeping the Thruway safe and sound.

We note that the Authority already assigns numerical ratings assessing the condition of Thruway bridges and highway sections (for bridges, less than 4 is poor, 4 to 5 is fair, and 5 to 7 is good; for highways, 1 to 5 is poor, 6 is fair, and 7 to 10 is good). However, the Authority does not routinely incorporate these ratings into its monitoring of the capital plan to determine whether its capital program is effectively maintaining the bridges and highways at a certain level of condition. In its justification for its most recent series of toll increases, the Authority noted that the condition of the Thruway's bridges and highway pavement would deteriorate slightly between 2007 and 2011 even if the capital plan were fully implemented (bridges dropping from an average rating of 5.16 to an average rating of 5.07, and highway pavement dropping from an average rating of 7.66 to an average rating of 7.63). However, the Authority does not report such information on an annual basis. We recommend the Authority do so.

The Authority needs to report on an ongoing basis to State policymakers, its customers and other stakeholders on the progress and status of its capital plan. If the capital program

initiated by the Authority in 2005 will not be completed by the end of 2011, as originally intended, this needs to be known. If the toll increases that were implemented to fund that capital program were not sufficient to fund the entire program, this needs to be known. If the full cost of keeping the Thruway in safe and sound operating condition is more than was originally stated, or if parts of the Thruway are in poor condition because needed repairs have not been made, this too, needs to be known, so that appropriate actions can be taken.

Increasing the accountability and transparency of the Authority's capital program has other benefits, as well. As is discussed later in this report, the Authority is often making changes in its capital plan. New project items may be added to the plan, existing project items may be deleted; some project items start months earlier than scheduled, other project items start months later. If these changes were regularly reported and fully disclosed to all interested parties, there would be less opportunity for questioning actions when project items did not proceed as originally planned.

Status of Individual Project Items

To determine whether the project items on the capital plan were starting and finishing on time and remaining within budgeted costs, we examined the status of the items, as recorded on the automated Capital Program Management System, as of March 12, 2008. At this point, the plan, which covered a period of seven years (January 1, 2005 through December 31, 2011), had been in effect for nearly half of its expected seven-year life.

There were 581 project items that were included on the \$2.66 billion plan when it was finalized and approved by the Board in September 2005. According to the

information on the Capital Program Management System, 74 of the 581 project items had been substantially completed prior to January 1, 2005 (the beginning date for the plan), but continued to be shown on the 2005-2011 capital plan because they had not been formally closed out by the Authority. Since these 74 items were substantially completed by January 1, 2005, we excluded them from our analysis and focused on the remaining 507 project items.

To determine whether these 507 items were starting and finishing on time and remaining within budgeted costs, we had to extract information from various data fields within the Capital Program Management System. The information was available, but it was not assembled in one place for monitoring or reporting purposes, because the Authority does not monitor its capital project items on this basis.

Starting and Finishing on Time

For the purposes of our analysis, we divided the 507 project items into three groups:

- The 168 items that were scheduled to be completed between January 1, 2005 and December 31, 2007,
- The 300 items that were scheduled to be completed after 2007, and
- The 39 items with no scheduled completion date in September 2005 (at that time, this field was left blank on the Capital Program Management System.)

We then focused on the first two groups of project items (the 468 items with scheduled completion dates). To determine whether these items were being completed on schedule, we compared their scheduled

completion dates in September 2005 to their scheduled or actual completion dates on March 12, 2008.

As is summarized in the following table, we found that 90 of the items were ahead of schedule, 151 were on schedule, and 161 were behind schedule. In addition, 66 of the items had been deleted from the plan.

Project Items	As of March 2008			Deleted from Plan
	Ahead of Schedule	On Schedule	Behind Schedule	
To be Completed 2005-2007	37	56	70*	5
To be Completed after 2007	53	95	91	61
Totals	90	151	161	66

* Includes 28 completed items and 42 items that were yet to be completed.

On average, the items were running between four and seven months behind schedule. Some groups of items were significantly behind schedule (for example, the 91 items that were to be completed after 2007 were behind schedule by an average of 25.1 months). However, these delays were offset, to some extent, by the items that were ahead of schedule.

We also analyzed the dollar value (i.e., budgeted amounts) of the items that were on schedule, ahead of schedule and behind schedule to determine whether there was any correlation between dollar value and timeliness. For example, it was possible that

lower-cost items were more likely to be on or ahead of schedule, and higher-cost items were more likely to be behind schedule.

As is shown in the following table, we found that there was some correlation between dollar value and timeliness, as the items that were on or ahead of schedule were budgeted less, on average, than the items that were behind schedule.

Project Items	Ahead of Schedule	On Schedule	Behind Schedule
To be completed 2005-2007	37	56	70
In Millions			
Amount budgeted 3/08	\$87.1	\$198.0	\$335.0
Average amount per item	\$ 2.4	\$ 3.5	\$ 4.8
To be completed after 2007	53	95	91
In Millions			
Amount budgeted 3/08	\$529.8	\$494.8	\$1,309.8
Average amount per item	\$ 10.0	\$ 5.2	\$ 14.4

Remaining Within Budgeted Costs

We also compared the project items' budgets in September 2005 to their budgets in March 2008. As is summarized in the following table, all three groups of project items were exceeding their original budgets:

Project Items	In Millions			Percent Increase
	Budgeted 9/05 *	Budgeted 3/08 *	Increase	
To be completed 2005-2007	\$ 516.7	\$ 620.1	\$ 103.4	20.0 %
To be completed after 2007	\$1,972.9	\$2,334.5	\$ 361.6	18.3 %
No scheduled completion date	\$ 152.3	\$ 202.0	\$ 49.7	32.6 %
Totals	\$2,641.9	\$3,156.6	\$ 514.7	19.5 %
* The cost for all the project items budgeted may not be spent between 2005 and 2011. As a result, the total amount budgeted for the project items exceeds the \$2.7 billion total for the 2005-2011 capital plan.				

We concluded that while many of the project items had not grown since 2005, others increased significantly, and as of March 2008, project item budgets increased by a net total of more than \$514.7 million or 19.5 percent over the original approved capital plan. In our visits to other transportation agencies, we were advised that they too have experienced higher than expected inflationary cost increases. For example, MTA officials advised they have modified their project estimation process to recognize these changed economic conditions.

We found indications that budget increases could worsen between 2008 and 2011 when we performed an analysis of certain changes that took place between 2007 and 2008. Specifically, we reviewed contract letting listings prepared by the Authority for 2007 and 2008 showing the construction contracts that were expected to be let over the remainder of the plan. The listings were prepared as part of the Authority's annual budget process.

A total of 59 contracts were included on both listings, and when we compared the two listings, we found that, between 2007 and

2008, the expected dollar values had changed for 31 of the 59 contracts. In 30 of the 31 changes, the expected dollar values had increased. As a result, between 2007 and 2008, the total expected value of the 31 contracts had increased by 82 percent (\$98.3 million), going from \$119.8 million to \$218.1 million.

Added and Deleted Items

Modifications continued to be made to the capital plan after September 2005, as some project items were added to the plan and others were deleted. According to Authority officials, some of the added items were not on the plan originally because there was no need for the items at that time. However, conditions changed and the items were added in response to the changes.

For example, a number of items had to be added to the plan after portions of the Canal System were damaged by severe flooding in June 2006. Similarly, structural defects in a bridge or highway can suddenly appear, requiring prompt corrective action. The officials indicated that when new items are added to the plan, other items usually must be deleted or deferred to make room for the additions. The officials also indicated that, in some instances, items may be deleted to cut costs when capital plan funding is limited.

As of March 12, 2008, a total of 60 new items had been added to the plan since September 29, 2005, and 78 items had been deleted. As of March 2008, the 60 new items were budgeted a total of \$176.7 million. In comparison, as of September 2005, the 78 deleted items were budgeted a total of \$381.4 million.

It should be noted that many of the deleted items were only deferred until after 2011. Consequently, it is likely that a portion of the

\$381.4 million that was budgeted for the deleted items will have to be added to the Authority's next capital plan.

To determine whether the mix of project items on the plan (i.e., bridge projects, highway projects, Thruway facility projects, Canal System projects, etc.) had been affected by these additions and deletions, we compared the added items to the deleted items. As is shown in the following table, the mix of project items had been affected to some extent.

Type of Item	Additions	Deletions	Ratio of Additions to Deletions
Canal System	34	12	2.8 to 1
Information	4	2	2 to 1
Highway	10	31	1 to 3.1
Bridge	8	21	1 to 2.6
Thruway Facility	4	12	1 to 3
Totals	60	78	1 to 1.3

Nearly three Canal System project items had been added for every Canal System project item that was deleted and two information system project items had been added for every information system project item that was deleted. However, only one highway, bridge or Thruway facility project item had been added for every three (approximately) such project items that were deleted.

We also analyzed the added and deleted items by region to determine whether there were any regional variations in the changes. As is shown in the following table, the New York, Syracuse and Buffalo regions experienced a net decrease of items, while the Albany region and the system-wide project items experienced a net increase of items:

Region	Items Deleted	Items Added	Net Inc (Dec)	In Millions		Net Inc (Dec)
				Budgeted 9/05 Deleted Items	Budgeted 3/08 Added Items	
New York	19	6	(13)	\$ 113.9	\$ 11.1	\$ (102.8)
Syracuse	17	8	(9)	\$ 105.5	\$ 13.3	\$ (92.2)
Buffalo	25	15	(10)	\$ 91.3	\$ 27.2	\$ (64.1)
Albany	15	23	8	\$ 68.5	\$ 86.9	\$ 18.4
Systemwide	2	8	6	\$ 2.2	\$ 38.2	\$ 36.0
Totals	78	60	(18)	\$ 381.4	\$ 176.7	\$ (204.7)

In discussion of additions and deletions across operating divisions, Authority officials stated that they manage the capital plan on a systemwide basis. Items are added and deleted on the basis of systemwide priorities. There are no regional allocations. All decisions are made on the basis of what is best for the Thruway as a whole.

Reasons for Changes

According to Authority officials, the capital plan is an evolving, flexible document. Project items may have to be added to the plan and deleted from the plan as needs and priorities change. Items may have to be postponed for various reasons, and to fill the void, other items may have to be moved up.

To determine whether the changes to the capital plan appeared to be justified, we selected a sample of 60 items that had changed in some respect since September 2005 and examined the reasons for the changes. We judgmentally selected 15 items from each region (Albany, Buffalo, New York and Syracuse), and in each region, we judgmentally selected three items in each of the five following categories:

- items whose scheduled completion dates had been pushed back by 30 or more days,

- items that had started (i.e., the construction contract was let) later than scheduled,
- items whose future start dates had been moved forward or pushed back by 30 or more days,
- items that had been added to the plan, and
- items that had been deleted from the plan.

We later determined that one of the items in our sample was a duplicate of another item, so our actual sample size was 59 items.

As is shown in the following table, most of the changes were caused by reductions in the total amount of funding available for future capital projects, modifications in project scope, and permit/design/ownership issues that delayed the start of construction.

Reason for Change	Albany	Buffalo	New York	Syracuse	Total
Reduction in available capital funds	8	4	5	7	24
Change in project scope	2	5	1	5	13
Permit, design, ownership issues	3	3	5	2	13
Added to meet new need	1	3	2	1	7
Started later but ended on time	1	0	0	0	1
Delayed by a delay in related item	0	0	1	0	1
Totals	15	15	14	15	59

Based on our testing, we determined that all of the 59 items in the sample had an appropriate reason to support the changes (e.g., date changes, additions, removals) based on discussion with Division officials. In addition, 43 of the items with a combined budget value of \$614.5 million as of March 2008 had appropriate documentation to support the changes that were made. However, for two items with a budget cost of \$36.2 million, the documentation did not fully support why the changes were made and for 14 items valued at \$337.8 million, there was no documentation to explain why changes were made. For 8 of the 14 items, the documentation only stated that the changes were made while the Authority was updating the Contracts Program for the following year, not why the changes were made.

Prioritization of Capital Needs

In our prior audit of the Authority's proposed toll increases for July 2008 through January 2010 (Report 2008-S-6, issued in January 2008), we emphasized the need for the Authority to prioritize its capital needs to ensure that the best possible use was made of its capital funds and to ensure that its capital needs were appropriately balanced against what the Authority could afford. Our current audit affirms the need for such prioritization, because it shows that the Authority could need significantly more than \$2.7 billion to complete all the work originally contained on its capital plan. In the face of such funding demands, as well as the funding demands of the capital work that will have to be done when the current plan is completed, it is essential that the Authority's capital needs be subject to a rigorous and comprehensive prioritization process.

As was the case in our prior audit, Authority officials in this audit stated that they already engage in such a prioritization process, and

this is why so many changes were made to the capital plan. However, as was also the case in our prior audit, Authority officials provided no documentation of their prioritization process. They provided the priority levels that would be assigned, but not the actual priority level assigned to each individual capital projects item. In the absence of such documentation, the adequacy of the Authority's prioritization process cannot be evaluated.

This lack of documentation is also a further indication of the need to improve accountability and transparency in the Authority's capital program. Project prioritization, like the status of planned and ongoing projects, is information that should be readily available to State policymakers, Thruway and Canal System customers, and other stakeholders. As a public corporation, the Authority must make transparent at all times the full extent of its necessary capital work and manage that need to what is affordable accomplishing its most urgent priorities.

Recommendations

1. Develop reporting mechanisms to address both the Authority's effectiveness in implementing its capital plan and the effectiveness of the plan itself in keeping the Thruway safe and sound. Report the progress and status of the capital plan to State policymakers, customers and other stakeholders in the process, on an ongoing basis.
2. Incorporate numerical bridge ratings into the capital plan monitoring process to determine whether bridges and highways are being kept at appropriate condition levels, and report them on an annual basis.
3. Subject the capital plan to a rigorous prioritization process and ensure that all

decisions are thoroughly documented and communicated to the Board, the public, State policymakers, and the Thruway and Canal System customers.

4. Review the capital reporting practices of other transportation agencies and adopt the best of those practices. At a minimum:
 - publish the Authority's capital plan and update the published plan when significant changes are made;
 - prepare monthly progress reports comparing the actual start and end dates, and actual expenditures, for individual capital projects (along with project items) against the planned start and end dates and budgeted expenditures for those projects; and
 - submit the plan and monthly progress reports to the Board and post the plan on the Authority's web site.
5. Either create a Board committee that is responsible for reviewing the Authority's capital plan and monthly progress reports or ensure that the Capital Program Executive Steering Committee fully reports to the Board on the progress of individual capital projects (along with project items) and the status of the plan as a whole. The Board Committee or the Capital Program Executive Steering Committee should keep minutes of their activities, including project prioritization decisions.

(Authority officials replied to our draft audit report that they accept the recommendations contained in the audit and have implemented or will implement them as soon as possible. They added that the audit incorrectly charges that the recommendations are necessary because Authority officials are not able to

determine if the \$2.1 billion highway and bridge Capital Program approved in 2005 is on time, that projects budgets are not being met and a proper priority ranking of projects is not being made. They state that the audit findings support that changes made to the Authority's Capital Program were both responsible and necessary under the current economic and capital needs environment.)

Auditor's Comments: We are pleased that Authority officials plan to implement our recommendations which will improve the information available to State policymakers and the public. However, our observations and conclusions that the Authority does not have information regarding status of the project items on the Board-approved Capital Plan are correct and supported by the fact that Authority officials do not compare expected completion dates to actual completion dates on an item-by-item basis. As a result, at any point in time, Authority officials and the Board do not report whether they are on track to complete the project items in the Capital Plan as approved.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited the Authority's management of its capital plan for the period January 1, 2005 through March 12, 2008. To accomplish our objectives, we interviewed Authority officials and staff, and reviewed Authority records and documents. In particular, we analyzed information maintained on the Authority's Capital Program Management System. In our review of Authority documents, we relied for the most part on documents that were assembled or compiled specifically for us by Authority officials.

We also interviewed officials at the Metropolitan Transportation Authority, Port

Authority of New York and New Jersey, and New York State Department of Transportation to learn about their monitoring and reporting practices for capital project items. In connection with these interviews, we reviewed certain documents and reports that had been prepared by these entities.

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 the purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to Authority officials for their review and comment. Their comments were considered in preparing this final report, and are included as Appendix A.

Within 90 days of the 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 recommendations, and where recommendations were not implemented why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Carmen Maldonado, Gerald Tysiak, Roger C. Mazula, Wayne Bolton, Raymond Barnes, Anthony Calabrese, Kathleen Garceau, Michele Turmel and Dana Newhouse.

APPENDIX A - AUDITEE RESPONSE



John L. Buono
Chairman

New York State Thruway Authority New York State Canal Corporation

200 Southern Blvd., P.O. Box 189, Albany, NY 12201-0189

www.nysthruway.gov

September 25, 2008



Michael R. Fleischer
Executive Director
TDD/TTY 1-800-253-6244

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

Dear Ms. Maldonado:

Re: New York State Thruway Authority, Status of the Board-Approved
Capital Program for 2005-2011, Report 2008-S-48

On behalf of Chairman Buono, the New York State Thruway Authority (Authority) submits the following response to the above stated Office of the State Comptroller's draft Audit Report (Audit) released August 25, 2008.

The Authority accepts the recommendations contained in the Audit and has implemented or will implement them as soon as possible. However, it is important to note that the Audit incorrectly charges that the recommendations are necessary because Authority officials are not able to determine if the \$2.1 billion highway and bridge Capital Program approved in 2005 is on time, that project budgets are not being met and a proper priority ranking of projects is not being made. In fact, the Audit findings support that the changes made to the Authority's Capital Program were both responsible and necessary under the current economic and capital needs environment.

The Federal Highway Administration Construction Price Composite Index between 2000 and 2003 increased 2.9 percent. From 2003 to 2004, the index increased 3.1 percent. In 2005 and 2006, the index increased an astonishing 18.9 percent and 20.5 percent, respectively. The challenges posed by double-digit increases in construction prices and the meteoric rise in motor fuel prices are not unique to the Authority, but are being faced by all transportation agencies throughout the State and the nation. The Authority, much like other transportation agencies such as the Metropolitan Transportation Authority, was, therefore, recently left in a position to make very tough decisions regarding the make-up of projects within the Capital Program opting for less costly near-term: rehabilitation vs. preferred reconstruction of many bridges and sections of highway to improve conditions of the 50-year old system. These difficult, yet responsible, decisions forced the Authority to reprioritize projects and project scopes based on sound engineering principles, ensuring that the Authority's infrastructure assets remain in good condition for the safety of the motoring public and to preserve its excellent safety record.

The Authority will continue to adapt to difficult and changing times and make the necessary and responsible investments into the 2,400 lane miles of highway and 807 bridges under its jurisdiction. The planned investments contained in the Authority's highway and bridge Capital Program will be delivered, will be no less

Ms. Carmen Maldonado
September 25, 2008
Page 2

than \$2.1 billion by the end of 2011, will preserve the current "good" highway and bridge condition ratings ensuring the safety of the motoring public, and will support hundreds of important construction-related jobs in the upstate and downstate economy.

Compounding the challenges associated with the rapid rise in construction prices, the Federal Highway Trust Fund is near default, increasing the uncertainty of future Federal aid to support the Authority's Capital Program. In fact, the Authority has made several requests to the New York State Department of Transportation seeking a new agreement that would reauthorize Federal Interstate Maintenance Funds and the allocation of Federal Toll Credits to the Authority. The provision of this aid and toll credits would greatly improve the Authority's ability to respond to future financial challenges.

A Capital Program Report has been sent to Board Members to provide them with the current status on the annual Contracts Program and an update, as necessary, on adjustments that have been made to the Multi-Year Capital Program due to the escalation of construction costs. There will be a standing Board Item in which the Chief Engineer will provide updates to the Board on the Capital Program. This report has been provided to State policymakers and other stakeholders. Also, a copy of this report will be available on the Authority's website in early October, along with a proposed 2009 Budget and an updated Multi-Year Financial Plan. Since October 2006, the Authority has made its Multi-Year Capital Program available on-line. As funding for the Capital Program is part of the Authority's annual budget process, the information is contained in the annual Budget Book. For example, the 2007 and 2008 Budget Books are available on the Authority's website at <http://www.nvsthruway.gov/about/financial/index.html>. Similarly, the Proposed 2009 Budget Book will be made available on-line in the beginning of October for public review and comment; the final and approved 2009 Budget Book will be made available on-line once the Authority's Board takes action in November.

The Audit also states that the average condition ratings of the Authority's highways and bridges are expected to drop slightly during the current Capital Program. However, it fails to point out that despite the slight drop in condition ratings, the overall conditions will remain in the "good" category.

At the core of the Authority's mission is the delivery of safe transportation services. The safety of the motoring public is the principal concern of the Authority Board and staff, and has resulted in the Thruway continually being rated one of the safest and best maintained highways in the nation. This laudable record, that the Audit fails to mention, is directly the result of a properly managed Capital Program that is designed and focused on maintaining good highway and bridge conditions. The condition ratings of the Authority's highways and bridges are of paramount concern and are being responsibly considered whenever the Capital Program needs to be modified. These condition ratings have been shared in numerous presentations and public board meetings.

In closing, I would like to thank you for the opportunity to comment on the Audit.

Sincerely,



Michael R. Fleischer
Executive Director