

THE PORT AUTHORITY OF NY & NJ

December 1, 2014

Ms. Carmen Maldonado
Audit Director
Division of Governmental Accountability
Office of the State Comptroller
123 William Street, 21st Floor
New York, NY 10038-3804

Dear Ms. Maldonado:

On behalf of The Port Authority of New York and New Jersey (Port Authority), I want to thank you for your assessment of the progress we have made to implement the recommendations outlined in the 2010 audit report entitled *Vehicle and Heavy Equipment Purchase Program* 2009-S-32.

As your follow-up audit report 2014-F-2 of November 3, 2014 notes, we have either fully or partially implemented five recommendations (numbers: 1,2,3,5 and 8) related to monitoring and documenting analyses and decisions regarding purchasing, replacing or renting vehicles and heavy equipment. We plan to continue to advance these recommendations consistent with industry best practices and our pursuit of continuous improvements in our business processes to ensure the most effective use of our resources.

As for the three recommendations that you have indicated are "not implemented" that pertain to a formal rental policy, assessing advantages of repetitively renting or purchasing equipment, and budgeting for contracted car services based on past spending patterns, we have carefully considered your recommendations and offer the following updates:

Recommendation 4: *Develop rental policy and procedures that adequately define the rental process and the responsibilities of the involved parties, including clarifying the methodology for estimating the amount required for rentals. Train staff who participate in the rental budgeting process to follow this methodology.*

Port Authority Response: We agree that our current Passenger Vehicle Program policy does not address rentals. Therefore, we are in the process of revising the current policy and expanding it to include specific rental policies and procedures. Staff will be trained accordingly. In addition, the updated vehicle and equipment requisition form will reflect our new procedure and be consistent with the new policy.

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Recommendation 6: *Analyze equipment rentals over time to determine if they are repetitive and if it is better to purchase the equipment.*

Port Authority Response: We agree with the recommendation. The Port Authority does monitor long-term rentals to determine the efficacy of their continued need, as well as the possible benefits of permanent purchase, although we recognize the need to strengthen our process. For example, we initiated a process improvement in 2014 to better align usage with short-term needs. This has resulted in shorter duration rentals in specific cases for construction support, and our intent was to expand to all rentals. However, we agree that the rental equipment used by the agency over the audit review period, from January 2011 to June 2014, included the rental of many pieces of equipment used on a long-term basis. We will strengthen our process, including updating necessary forms and procedures (such as the aforementioned vehicle and equipment requisition form) including the need for user departments to justify long-term rentals.

Recommendation 7: *Estimate contracted car service needs based on an analysis of actual past spending trends and use these figures when entering into future contracts.*

Port Authority Response: The contracts referenced are requirements contracts and merely provide a mechanism to purchase services subject to our need; therefore, we take exception to this recommendation. As is typical of requirements contracts, we are under no contractual obligation to use any of the services, and the amounts cited represent the maximum dollar amounts under the requirements contracts. Our actual amounts spent over the last several years are significantly lower than the maximum indicated.

Typically, the services provided for under these contracts are related to occasional medical situations and our law department operations, but may be called upon for emergency situations as well. Further, as we stated during our exit interview, due to the bi-state nature of our agency, we need to maintain requirements contracts in both states, i.e., three (3) separate car service contracts. One contract is for primary service in New Jersey, one for primary service in New York and one for back up service in New York. As such, the competitive bidding process requires each to assume that they could be responsible for providing the bulk of the services. Therefore, we budget for three car service contracts up to the amounts of the contracts awarded to the successful bidders. While we do not exhaust all of the funding for each contract, it is difficult to project what the mix will be in any given year.

In closing, we have benefited from the assessment process and appreciate that the follow-up audit recognized the many changes and improvements we have already implemented in documenting, monitoring and justifying the purchase, replacement and/or rental of vehicles and equipment as well as for our car service contracts. The Port Authority will continue to build

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upon the recommendations to refine and improve our processes in order to advance our shared interest in transparency and public accountability.

Sincerely,


Stephanie E. Dawson
Acting Chief Operating Officer

cc: John Degnan
Patrick J. Foye
Deborah L. Gramiccioni
Nicole Crifo
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THOMAS P. DENAPOLI
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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 3, 2014

Mr. John Degnan
Chairman
Port Authority of New York and New Jersey
225 Park Avenue South
New York, NY 10003-1604

Re: Vehicle and Heavy Equipment
Purchase Program
Report 2014-F-2

Dear Mr. Degnan:

Pursuant to the State Comptroller's authority as set forth in Section 7071 of McKinney's Unconsolidated Laws of New York, we have followed up on the actions taken by officials of the Port Authority of New York and New Jersey (Port Authority) to implement the recommendations contained in our prior audit report, *Vehicle and Heavy Equipment Purchase Program (2009-S-32)*.

Background, Scope and Objective

The Port Authority, established in 1921, has the mandate to promote and protect the commerce of the bi-state port and to undertake port and regional improvements not likely to be financed by private enterprise or to be attempted by either state alone. It manages a network of aviation, ground transportation infrastructure, and seaport facilities.

The Port Authority operates a fleet of vehicles and heavy equipment. As of June 7, 2014, the fleet comprised 3,170 vehicles and pieces of heavy equipment, including 558 items identified for disposal and 96 new items on order. The fleet includes passenger vehicles, vans, SUVs, and pick-up trucks that are generally used for employee transportation, security patrols, small maintenance tasks, and other similar uses. Larger vehicles, such as trucks and trailers, are used for facility maintenance work, including snow plowing, emergency response, hauling of debris, and some construction projects. Heavy equipment items include runway snow blowers, fork lifts, and backhoes.

The fleet is managed by the Central Automotive Division (CAD), which is part of the Operations Services Department. CAD is responsible for monitoring the condition of the vehicles and equipment in the fleet, addressing the needs of operating units, and working with the procurement department to obtain items that best fit the Port Authority's needs.

CAD has written procedures that require staff to perform certain steps prior to purchasing new vehicles and equipment. Once these steps are completed, a document referred to as an Automotive Equipment Purchase Program (Purchase Program) is submitted annually to the Executive Director for authorization. For the three years ending December 31, 2014, the Port Authority budgeted \$61.7 million for purchasing vehicles and heavy equipment. As of August 1, 2014, the Port Authority authorized the purchase of 635 vehicles totaling \$60.2 million.

The Port Authority also contracts for car service, and rents vehicles and heavy equipment used for tasks such as construction, loading materials, and snow removal.

Our initial audit determined that the Port Authority generally did not follow required procedures to ensure that the acquisition of vehicles and heavy equipment was justified. In addition, the Port Authority included funds for vehicle and equipment rentals in its annual Purchase Program. We also found that the car service contract amounts were excessive compared to the amount the Port Authority actually spent.

The objective of our follow up was to assess the extent of implementation, as of September 17, 2014, of the eight recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Port Authority officials made some progress in correcting the problems we identified in our prior audit report. However, additional improvements are needed. Of the eight prior audit recommendations, two were implemented, three were partially implemented, and three were not implemented.

Follow-Up Observations

Recommendation 1

Enforce and monitor the requirement to document the reasons for purchasing new items (including mechanic's reviews, assessments and cost benefit analysis for items designated for replacement) prior to submitting the Purchase Program for approval.

Status - Partially Implemented

Agency Action - We selected a judgmental sample of 20 items purchased between 2011 and 2014, totaling \$2.9 million, and reviewed their associated files. Of the 20 items, 12 had documentation showing the need for the new item or that the cost benefit analysis and mechanic's assessment were completed prior to the purchase of the replacement vehicle. The cost benefit analysis and mechanic's assessment were done after the purchase of the replacement vehicle for four items. The remaining four did not have documentation showing the need for the new items or that the review and assessment were done. Port Authority officials explained that one item was purchased using Federal Emergency Management Agency (FEMA) money.

Recommendation 2

Document the planning process to include a record of meetings, decisions and analysis regarding the vehicle and heavy equipment Purchase Program.

Status - Partially Implemented

Agency Action - Port Authority officials did not document internal meetings held about the Purchase Programs. However, they maintained minutes for meetings with facilities regarding the Purchase Program. They also maintain some Excel spreadsheets on their network pertaining to the purchase program process.

Recommendation 3

Strengthen monitoring and increase oversight of the rental process, including making the Central Automotive Division adequately involved in the rental process.

Status - Partially Implemented

Agency Action - The latest version of the Port Authority's Passenger Vehicle Program is dated August 17, 2010 and does not include any language pertaining to the rental process. We reviewed the automotive request forms used to request rentals for the period April 1, 2013 to June 19, 2014 and found that all justifications and approvals were entered.

Recommendation 4

Develop rental policy and procedures that adequately define the rental process and the responsibilities of the involved parties, including clarifying the methodology for estimating the amount required for rentals. Train staff who participate in the rental budgeting process to follow this methodology.

Status - Not Implemented

Agency Action - The Port Authority provided us with the Passenger Vehicle Program dated August 17, 2010, however, it does not mention the rental process.

Recommendation 5

Instruct supervisors to only approve automotive request forms that are complete.

Status - Implemented

Agency Action - We reviewed the automotive request forms used to request rentals for the period April 1, 2013 to June 19, 2014 and found that all justifications and approvals were entered.

Recommendation 6

Analyze equipment rentals over time to determine if they are repetitive and if it is better to purchase the equipment.

Status - Not Implemented

Agency Action - Port Authority officials provided a list of rental equipment they use to conduct daily business operations from January 2011 to June 2014. We noted that they use rented equipment on a continuous basis. However, Port Authority officials did not provide an analysis showing whether it is better to purchase the equipment.

Recommendation 7

Estimate contracted car service needs based on an analysis of actual past spending trends and use these figures when entering into future contracts.

Status - Not Implemented

Agency Action - Port Authority officials provided documentation of car service expenditures totaling \$199,909 for calendar years 2011 to 2013. However, the actual past spending trends were not used to estimate contracted car service needs. Our review showed that the contracts for car services for the subsequent three-year period, April 23, 2014 through April 22, 2017, totaled \$931,425.

Recommendation 8

Review future Purchase Programs to ensure car service is not included.

Status - Implemented

Agency Action - We reviewed the Port-Authority's Purchase Programs for calendar years 2011, 2012, and 2013 and there were no funds for car service.

Major contributors to this report were Abe Fish, Christine Chu, James Eugene, Daniel Bortas, and Jean- Renel Estime.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Port Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

A handwritten signature in cursive script that reads "Carmen Maldonado".

Carmen Maldonado
Audit Director

cc: R. Sudman, Audit Director
A. Levine, Assistant Director