



# Port Authority of New York and New Jersey

## Vehicle and Heavy Equipment Purchase Program

Report 2009-S-32



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

December 23, 2010

Anthony R. Coscia  
Chairman  
Port Authority of New York and New Jersey  
225 Park Avenue South  
New York, NY 10003

Dear Chairman Coscia:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Vehicle and Heavy Equipment Purchase Program. This audit was performed pursuant to the State Comptroller's authority as set forth in Section 7071 of McKinney's Unconsolidated Laws of New York.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*

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## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

#### Audit Objective

Our audit objective was to determine whether the Port Authority of New York and New Jersey (Port Authority) ensures that the acquisition and disposition of vehicles and heavy equipment is justified.

#### Audit Results – Summary

The Port Authority operates a fleet of vehicles (e.g., cars vans, SUVs, and pick up trucks) and heavy equipment (e.g., runway snow blowers, fork lifts, backhoes). The fleet is managed by the Central Automotive Division and the Port Authority has procedures for staff to follow prior to purchasing new vehicles and heavy equipment. Once these steps are completed necessary new vehicles and heavy equipment are identified annually on a document referred to as the Automotive Equipment Purchase Program (Purchase Program). The Purchase Program is submitted to the Executive Director for authorization. For the three years ending December 31, 2009, the Port Authority authorized the purchase of 616 vehicles and/or pieces of heavy equipment totaling \$48.2 million.

We found that the Port Authority generally did not follow required procedures to ensure that the acquisition of vehicles and heavy equipment was justified. In a random sample of 75 items that were purchased for \$8.2 million, the Port Authority provided documented justification for the purchase of only two items for \$192,279.

For the remaining 73 items, (21 were additions to the fleet and 52 were purchased as replacement items) the Port Authority did not have documented justification. For example, when we reviewed the files for the 52 replacement items, we found that the required mechanic's review and cost benefit analysis was documented for only 23. For 13 of them the mechanic's review was done an average of four months after the new vehicles were received.

We also found that the Port Authority included funds for vehicle and equipment rentals in its annual Purchase Program. However, when we compared the amount budgeted for rentals to the actual amount spent from 2007-2009, we found that the amount budgeted for the three years totaled approximately \$11.7 million, but only \$7.2 million was spent through October 2009. We were informed that unused funds cannot be reallocated for other spending needs.

Similarly, the Port Authority's Purchase Programs for the period 2007 through 2009 included \$705,000 for car service. However, car service expenditures totaled only \$179,680 for this time period; a difference of \$525,320. These excess funds cannot be moved or spent on other items if unused. As a result, the Port Authority has less money available than it should for other necessary expenditures.

Our report contains eight recommendations to strengthen planning and oversight of vehicle and equipment purchases.

This report, dated December 23, 2010, 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

Office of the State Comptroller

Division of State Government Accountability

110 State Street, 11<sup>th</sup> Floor

Albany, NY 12236

# Introduction

## Background

The Port Authority of New York and New Jersey (Port Authority) was established on April 30, 1921. According to its annual report, the agency's area of jurisdiction is called the Port District, a bi-state region of about 1,500 square miles centered on the Statue of Liberty. The agency's mandate is 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.

The Port Authority is governed by a Board of Commissioners. The governor of each state appoints six members subject to State Senate approval. An Executive Director, appointed by the Board of Commissioners, is responsible for managing the operations of the Port Authority.

The Port Authority operates a fleet of vehicles and heavy equipment. As of May 13, 2009, the fleet included 2,274 vehicles and pieces of heavy equipment. This included 404 items identified for disposal, and 88 new items on order. The fleet includes passenger vehicles, vans, SUVs and pickup 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 such as snow plowing, emergency response, hauling of debris and some construction projects. Heavy equipment items include runway snow blowers, fork lifts, backhoes etc.

The fleet is managed by the Central Automotive Division which is part of the Operations Services Department. The Central Automotive Division 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.

The Central Automotive Division has written procedures which 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 to the Executive Director for authorization on an annual basis. For the three years ended December 31, 2009, the Port Authority authorized the purchase of 616 vehicles and heavy equipment items totaling \$48.2 million, although only \$39.8 million was actually budgeted for purchases during the period.

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

## **Audit Scope and Methodology**

We audited the Port Authority to determine whether it ensured that the acquisition and disposition of vehicles and heavy equipment is justified. Our audit period was January 1, 2007 through October 28, 2009. To accomplish our objective, we reviewed relevant sections of Board of Directors meeting minutes, Purchase Programs, Port Authority regulations, and selected records maintained by the Central Automotive Division. We also interviewed Central Automotive Division officials and staff.

We randomly selected a sample of 75 vehicles and pieces of equipment purchased during 2007, 2008 and 2009 (25 from each year) for review under the following parameters; current status of item being replaced, date of mechanic's review, date of cost benefit analysis, and date of disposition. The 75 items cost \$8.2 million and were selected using dollar unit sampling methods to obtain a representative sample of vehicle types. We excluded certain items which were included in the Purchase Program which were of low value (e.g., concrete saws) and were ancillary purchases (e.g., key fobs). We also reviewed vehicle and equipment rentals as well as car service purchases. In addition, we reviewed the files to determine how the decisions were made to replace vehicles and equipment. We randomly selected 20 Automotive Request Forms totaling \$124,088 to review the rental process. These were chosen to determine the justification for the rentals.

In addition to the general operation vehicles, the Port Authority owns 369 buses, aircraft re-fuelers and other pieces of equipment which are operated and maintained by several contractors at airports in the New York City area. It also owns several large gantry cranes which are kept at port facilities. These were not part of our audit scope.

We conducted our 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.

**Authority**

We performed this audit pursuant to the State Comptroller’s authority as set forth in Section 7071 of McKinney’s Unconsolidated Laws of New York.

**Reporting Requirements**

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

Within 90 days after final release of this report, we request that the Chairman of the Port Authority of New York and New Jersey report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

**Contributors to the Report**

Major contributors to this report were Carmen Maldonado, Robert Mehrhoff, Erica Zawrotniak, Peter Schmidt, Aurora Caamano, Kamal Elsayed, and Sue Gold.

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## Audit Findings and Recommendations

### **Purchase Program**

The Central Automotive Division is responsible for following procedures to determine when to purchase new vehicles and equipment. These steps include a mechanic's review, and an assessment of the existing vehicle or piece of equipment, a preliminary replacement evaluation, and a cost benefit analysis. Once these steps are done, Central Automotive Division management should meet to discuss the results, including determining whether it is cost efficient to purchase a new item. When a decision is made to purchase a new vehicle or equipment item, the purchase is included on the Purchase Program and is submitted to the Executive Director for approval. We determined that the Port Authority generally did not document compliance with these procedures. As a result, it could not justify expenditures for new vehicles and equipment in our sample.

We reviewed the Purchase Programs submitted for calendar years 2007, 2008 and 2009. The Purchase Programs had the total number of vehicles and pieces of equipment to be purchased and the total number that will be replaced. The Purchase Program also showed a dollar limit for purchases for the upcoming year. However, the Purchase Programs did not list which individual items would be replaced.

Central Automotive Division management officials said they meet on an annual basis to review vehicle and heavy equipment needs, along with any corporate directives such as the green initiative, prior to the Purchase Program being submitted for approval. However, they indicated that they do not formally document these meetings and could not provide written analysis showing how the number of items and costs listed in the Purchase Programs were determined. Central Automotive Division management officials said that these meetings are informal and no minutes are taken. For the 2009 Purchase Program, Central Automotive Division officials could provide only a one-page summary of the total number of vehicles by category. There was no information regarding how the number or category was determined, or the reason for changes in the total number of vehicles in the summary, and the documents were not dated. Thus, they did not justify the 2009 Purchase Program. Documenting the actions taken (including discussions, decisions and supporting analysis) provides added assurances that the Purchase Program has been effectively planned.

We randomly selected a sample of 75 items purchased in 2007, 2008 and 2009, totaling \$8.2 million, and reviewed their associated files. We determined that only two of the purchases totaling \$192,279 were justified with the required supporting documentation. Both of the files

had the proper paperwork showing that the reviews and assessments were completed prior to the Purchase Program being submitted. For the remaining 73 items the purchases were not justified with the required supporting documentation. In these instances, there was either no documentation to show the need for the new items or the reviews and assessments were done after the Purchase Program was submitted.

While we found that seven vehicles totaling \$661,117 were additions to the fleet, we found no documentation supporting the need to expand the fleet for these vehicles. We also determined that 14 vehicles which were specifically purchased as replacements were added to the fleet at a cost of \$1.8 million even though 14 other vehicles were not removed from service. As a result, the fleet actually increased by 21 vehicles.

The remaining 52 vehicles purchased for approximately \$5.6 million eventually replaced other vehicles. However, there was no documentation to justify their purchase. For example, when we reviewed the files for the 52 vehicles that were replaced, we found that only 23 of them (44 percent) even had the required mechanics review and cost benefit analysis done. Of these, 13 had the mechanic's review done an average of four months after the new replacement vehicles were received. One of these reviews occurred one year after the new vehicle was received. Further, we found that for 17 vehicles ordered, none of the units being replaced had been assessed at the time of our review.

We also note that the cost benefit analysis that is supposed to be performed only considers the cost to keep the older item in service for one additional year versus the first year cost of a new item, and is then based on the alternative with the lowest cost. For example, if a vehicle requires a transmission overhaul, the full cost of this overhaul would be weighed against the cost of a new vehicle's first year rather than over the life of the repaired vehicle. By doing the cost benefit analysis in this manner, the Port Authority does not consider that major repairs could significantly extend the life of a vehicle or a piece of equipment, thereby negating the need to spend money and purchase new items.

Central Automotive Division management officials said that they usually perform the assessments after the new vehicle or equipment item has been received, even though the procedures call for them to do otherwise. They said this is to ensure that they have the latest information on the condition of the item before they decide to either dispose of the old item or keep it active. However, we believe it is highly questionable to order items that may not be needed at a time when the Port Authority should be looking for ways to reduce spending.

In addition, Port Authority officials said they are not required to perform the cost benefit analysis prior to submitting the Purchase Program for authorization. However, their procedures state otherwise. Officials also said that their process allows them to temporarily reassign older vehicles into secondary service for short time periods to replace other vehicles. Port Authority officials noted that a major advantage of these practices is that they are able to better meet the agency’s automotive needs resulting from unforeseen circumstances, without expanding or going over the Purchase Program budget. While we recognize the potential benefit of this process, we conclude that it also has a high risk to waste funds on items that are not needed. The number of vehicles and equipment items that remain in service after replacements are delivered indicates that some of the targeted items are not at the end of their useful lives. We recommend Central Automotive Division staff comply with the required procedures and do assessments and cost benefit analyses prior to submitting the Purchase Program for approval.

Once vehicles and equipment are identified to be replaced, they are removed from service and sold. We reviewed files for 18 vehicles that should have been disposed of and determined that the disposals were properly handled.

- Recommendations**
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.

(Port Authority officials replied to our draft report that while documentation could be improved, they believe the vehicle replacement program is fully justified and based on a comprehensive analysis.)

Auditor’s Comments: While Port Authority officials refer to a “vehicle replacement program” it was clear from our review of the information that they did not justify the purchase because there was no evaluation done to determine which vehicles had to be replaced. In fact, 21 of the 75 vehicles were additions to the fleet with no vehicle identified for replacement. Thus, we urge Port Authority officials to review the actual practices that are followed to develop the Purchase Program to ensure they are in accordance with senior management’s objectives.

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

(Port Authority officials replied to our draft audit report that the development of the Purchase Program is a lengthy process lasting five to six months. During this time informal meetings are held to discuss the vehicle fleet and determine how to meet their needs. However, minutes are not kept. They agreed to keep draft versions of the Purchase Program, but will not maintain minutes or other documents to support their decisions.)

Auditor's Comments: We question the reluctance of Port Authority officials to document and maintain records which demonstrate that they justified the Purchase Program. Such records would provide for transparency and accountability by Port officials.

### **Vehicle and Equipment Rentals**

Each year, Central Automotive Division management estimates how much it will need for vehicles and equipment rentals and includes that amount in its overall Purchase Program. Officials said that they generally utilize past spending trends and add an additional cushion to budget for current needs. We found there are neither controls in place to ensure that renting equipment is more cost effective than purchasing the items nor to establish the appropriate budget for rentals.

We compared the amount budgeted for rentals to the actual amount spent for 2007, 2008, and 2009. We found that the budgeted amounts were significantly higher. For example, the amount budgeted for the three years totaled approximately \$11.7 million, but only \$7.2 million was spent through October 2009. Central Automotive Division management said that if budgeted funds are not used, they cannot be moved or spent on other items. Therefore, the Port Authority has millions of budgeted dollars that are not being used each year. We question whether this is the best way of managing money in these tight fiscal times and recommend the Port Authority use a methodology that more closely matches budgeted to actual rental amounts.

In addition, we reviewed 12 automotive request forms used to request rentals, totaling \$96,786. The automotive request form asks for justification as to why the work could not be accomplished using existing vehicles or equipment, and whether an effort had been made to borrow the equipment or vehicles from other units within the Port Authority. The form has to be signed and approved by the appropriate supervisor. However, we found that even though the forms were incomplete they were all approved. Staff told us that they discussed the requests with their supervisors prior to submitting the forms. However, neither the people who requested the rentals nor their supervisors could provide documentation to justify the rental requests. Further, staff could not show us whether any type of analysis was done to compare the cost of

renting equipment on a regular basis, such as snow claws every winter, to purchasing the items.

Central Automotive Division management told us that the rental decisions are made independently in the various units by individuals responsible for rentals and that the Central Automotive Division only verifies that the funds are available for the rental and obtains the rental equipment. They also said that managers at the different Port Authority facilities are the ones who approve the automotive request forms. Therefore, there is no one unit within the Port Authority that is overseeing the rental process to ensure funds are used appropriately.

In response to our preliminary findings, Central Automotive Division management wrote that they have started to evaluate the amount of rentals against the amount it would cost to purchase the same item. In addition, as a result of our findings, rentals were excluded from the 2010 Purchase Program and were authorized separately.

Central Automotive Division management said that they plan to take steps to ensure that the agency's administrative instructions are expanded to include language defining a rental process and responsibilities of all involved parties. We agree this must be done to provide sufficient oversight for the rental process.

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

(Port Authority officials replied to our draft report that their rental policy has served them well in satisfying its short-term needs in a timely and cost effective manner. They added that they continually review equipment rentals to ensure the equipment is returned timely and CAD's cost control efforts have resulted in external rental budget for 2010 which is a 12 percent reduction compared to 2009.)

Auditor's Comments: We are pleased that the Central Automotive Division has taken action to control the cost of renting equipment.

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

(Port Authority officials agreed with Recommendations 4 and 5 and have implemented them)

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

(Port Authority officials replied to our draft audit report that this is part of their current practices.)

Auditor's Comments: Contrary to the Port's response, there was no evidence to support that the Central Automotive Division performed various activities related to equipment rentals.

## **Car Service**

Car service is provided for employees when the use of public transportation is impractical or unsafe, or Port Authority-owned vehicles are not available. Division directors or their designees may authorize the use of Port Authority contract car service. Car service should be utilized for business needs only and should be the least expensive option. Sufficient business reasons must exist prior to incurring this transportation expense.

In 2008, the Port Authority entered into three contracts with two companies for car services totaling \$889,698. These contracts covered service in New York and in New Jersey. Two of the contracts were for three years each. The third was for two years and provided backup coverage when service could not be provided under the other two contracts. However, the total for the contracts was \$209,698 more than was authorized in the Purchase Program. In addition, we found that the contract amounts were excessive compared to what the Port Authority spent in the past.

For the period 2007 through 2009, \$705,000 was authorized for spending for car service. However, when we reviewed the Port Authority's accounting system; we found that car service expenditures totaled only \$179,680 for this time period, a difference of \$525,320. Port Authority officials could not show us how they determined how much to spend on car service contracts. Similar to the vehicle and heavy equipment rental funds, monies dedicated to contracts cannot be spent on other items. As a result, the Port Authority has less money available than it should for other necessary expenditures.

In response to our preliminary findings Port Authority officials maintained that car service was only budgeted in the 2006 and 2007 Purchase Program. However, as noted above, \$680,000 was included in the Purchase Program in 2008. Since car service is not related to vehicle or equipment purchases, we recommend the Port Authority keep car service funds separate from the Purchase Program.

- Recommendations** 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 officials replied to our draft audit report that budgeting for car services is based on historical information. However, these trends may not continue into the future and could result in variances between estimated and actual. They also indicated that funds not used for car service are available within CAD's contract services budget.)

Auditor's Comments: Information regarding car service expenditures for 2007 to 2009 clearly indicates the Port Authority did not use historical costs as a basis for budgets or the contracts awarded for these services. In addition, there was no evidence to support that funds budgeted for car services were available for other CAD contract services.

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

(Port Authority officials replied to our draft audit report that in 2008, they reinstated their historical practice of excluding car services and rental of vehicles and equipment from the Program, and will continue this practice in the future.)

Auditor's Comments: The Port's Program for 2008 includes car services and rental of vehicles and equipment. The 2009 Program includes rentals of vehicles and equipments. Thus if these items were removed from the Program, it was after that date.

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## Agency Comments



**THE PORT AUTHORITY OF NY & NJ**

*Chief Financial Officer*

November 16, 2010

Carmen Maldonado  
Audit Director  
Division of State Government Accountability  
123 William Street – 21<sup>st</sup> Floor  
New York, NY 10038

Re: Audit Report 2009-S32

Dear Ms. Maldonado:

Thank you for the opportunity to comment on your draft audit report, dated October 6, 2010, regarding the Port Authority's Vehicle and Heavy Equipment Purchase Program (the Program).

Given that the recommendations contained in your draft report are re-statements of recommendations that the Port Authority previously addressed as part of our response to your three exception reports, the Port Authority's formal response to these recommendations remains essentially consistent with our previous responses and are included in the attached.

If you have any questions or need additional information, please contact Tom Lubas, Deputy Director, Operations Services Department, at 201-216-2816.

Sincerely,

Michael Fabiano  
Chief Financial Officer

Att.

225 Park Avenue South, 15th Floor  
New York, NY 10003  
T: 212 435 7738

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.

While we agree that documentation could be improved, we believe that the vehicle replacement program is fully justified and based on a comprehensive analysis as described below.

The Port Authority believes that its Central Automotive Division’s automotive equipment replacement practices exceed the standard and acceptable best practices in the fleet management industry. First, we use the most commonly accepted public and private fleet best practices to manage the Program using an analytical model that takes into account a number of key factors including mileage; years of service; and past and predictive maintenance and repair costs. We then supplement this process by soliciting our facility end users to determine any changes in operational requirements and we survey the automotive industry to determine equipment and parts obsolescence and the availability of new technologies that would improve the efficiency and effectiveness of Port Authority operations. Subsequent to developing the Program and prior to its implementation, planned vehicular and equipment replacements and associated costs are reviewed with senior Port Authority staff and our Board of Commissioners, via the Port Authority’s authorization process.

The ongoing process of performing physical vehicle assessments and Cost Benefit Analyses is applied above and beyond the industry best practices and is performed throughout each year as required pursuant to CAD’s Engineering Purchase Program Procurement Process, regardless of the timing of when the Program is authorized. While many of the vehicle assessments and related CBA’s are complete prior to the approval of the Purchase Program, it is not an agency requirement to perform such analysis prior to submitting the program for authorization.

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Further, the development of the Program generally begins at least six months prior to the agency review of the authorizing document and at least 12 months before the actual purchase or receipt of replacement vehicles and equipment under the respective year’s Program. The majority of automotive equipment has a relatively short life compared to many other types of assets and developing a CBA too far in advance would therefore have limited value. The main benefit of a CBA is to ensure that we have fully utilized the vehicle and that the vehicle is no longer economically beneficial to continue to operate. In addition, this process allows us to temporarily reassign a vehicle, slated to be replaced, into secondary service for short time periods to replace a vehicle that has become unserviceable and whose replacement is pending or to meet seasonal/emergency needs not anticipated nor included under the current Program. In addition,

\* See State Comptroller’s Comments on page 27.

CAD rarely purchases single vehicles primarily because fleet purchases are subject to economic trends and manufacturer’s build-out and delivery schedules. Finally, there are emergencies and other unanticipated circumstances that require specific replacement decisions to be modified after an order has already been made resulting in a delayed CBA. As a result, it is possible for a vehicle, whose replacement has already been delivered, to still be in service to meet other temporary needs. While we make every effort to minimize such usage, there is no way to completely prevent such occurrences without having an adverse impact on facility operations. It should also be noted that there is a major advantage of these practices in that it allows us to better meet the agency’s vehicular needs, resulting from unforeseen circumstances, while remaining within amounts budgeted for the Program.

Recommendation 2 – Document the planning process to include a record of meetings, decisions and analysis regarding the vehicle and heavy equipment Purchase Program.

Development of the annual Program is a lengthy process that occurs over 5 to 6 months. CAD management, engineering staff and maintenance supervisors meet informally on an ongoing basis to develop the Program. Given the nature of these meetings and the fact that the Program is a work in progress until approved, staff retains every version of the Program thereby identifying each modification, which results from these meetings. As an example, early versions of the 2009 Program were provided to your audit team. In addition, once the Program is submitted for agency review as part of the authorization process, all subsequent changes and comments are saved until the Program is approved. Going forward we will continue to maintain draft versions of the Program document, however it is not our practice or intention to include a record, documentation or minutes of every meeting and discussion as the Program is developed, refined and finalized. The reasons and rationale for the Program are fully documented and supported in the authorizing document itself.

Recommendation 3 – Strengthen monitoring and increase oversight of the rental process, including making the Central Automotive Division adequately involved in the rental process.

The Port Authority’s longstanding rental policy has served this agency well in satisfying its short-term equipment needs in a timely and cost effective manner. The policy delegates the responsibility to departments for administration of procedures in support of the policy. As a result, approval of the Port Authority Form 2454, which is the mechanism for authorizing the acquisition of automotive equipment, was delegated to department directors or their designees. CAD works closely with customers to evaluate their needs in order to utilize internal equipment when available and provides guidance to departments to ensure that they are renting the proper and most cost effective equipment to meet their needs and agency goals. Over the past two

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\* See State Comptroller’s Comments on page 27.

years, CAD has placed particular focus in evaluating the rental program with regard to rent vs. buy and as a result, we have been able to reduce external rentals more aggressively than estimated. We also continuously review rental spending and have worked closely with departments to ensure that rental equipment is returned on a timely basis and, where fiscally appropriate, replaced with permanent equipment. While CAD does not have direct control on the actual and eventual needs of the facility operations, CAD's cost control efforts have resulted in the preparation of a 2010 external rental budget of \$2.7 million, a 12% reduction as compared to 2009 and an over 50% reduction as compared to the 2006 rental budget. CAD will continue to assist the agency in satisfying its short-term needs in a timely and cost-effective manner. Specific actions to improve the process are described in our responses to Recommendations 4 – 6 below.

**Recommendation 4 – Develop rental policy and procedures that adequately define the rental process and 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.**

As recommended, staff plans to take additional steps to ensure that the agency's Administrative Instruction for vehicle usage, AI 15-3.02, is expanded to include language defining the rental process and responsibilities of all involved parties and that the instructions and questions on the PA 2454 are updated. The enhanced policy and procedures will be designed to further enumerate CAD's expanded role in the rental process.

**Recommendation 5 – Instruct supervisors to only approve automotive request forms that are complete.**

The enhanced Administrative Instruction, AI 15-3.02 noted above, will include language reinforcing the need for properly completed PA 2454's.

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

Please see our response to Recommendation 3.

**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.**

CAD follows agency guidelines and instructions when it comes to estimating contracted car service needs. Initial estimates are made based on historical spending trends and adjusted to allow contingencies for unforeseen emergencies. As historical spending patterns used for budgetary and authorization purposes may not continue in the future, it is reasonable that

variations, including under runs from budgeted amounts may occur. However, the conclusion drawn by the audit that such funds are “tied-up” is not accurate, as funds, resulting from under runs would be available for use within CAD’s contract services budget.

Recommendation 8 – Review future Purchase Programs to ensure car service is not included.

As we have previously explained, the Program grants broad authorization to purchase, lease, and rent or otherwise procure vehicles and vehicular equipment to meet the agency’s operational requirements. In 2008, CAD reinstated its historical practice of excluding car service and rental of vehicles and equipment from the Program, and it is our intention to continue this practice in the future.

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## **State Comptroller's Comments**

1. The Port Authority's position regarding the Central Automotive Division's procedures is already reflected in our report on page 14. In addition, these procedures were provided to the auditors by Central Automotive Division management in response to our request for the steps followed to develop the annual Purchase Program. If Port Authority officials not longer view them as such they need to revise and re-issue new instructions for the Central Automotive Division's use in developing the Purchase Program in the future.
2. The report has been revised based on information in the Port Authority's response to our draft audit report.