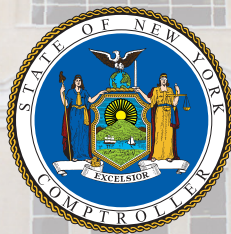




New York State Thruway Authority

Management of Overtime Costs

2010-S-10



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

September 23, 2010

John L. Buono, Chairman
NYS Thruway Authority
200 Southern Boulevard
Albany, NY 12201

Dear Mr. Buono:

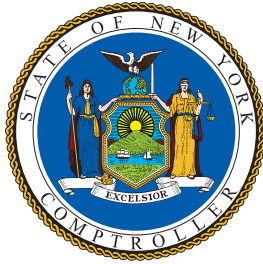
The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees 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 New York State Thruway Authority's *Management of Overtime Costs*. This 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.

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

The objectives of our audit were to determine whether the Authority is effectively managing and monitoring employee overtime and if overtime paid to employees was actually worked and necessary.

Audit Results - Summary

The New York State Thruway Authority (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 Authority strives to provide its customers with a roadway that is safely drivable at a reasonable speed under the given weather conditions. According to the Authority's records, overtime has decreased approximately 24 percent from \$10.6 million in 2007 to \$8.1 million in 2009. In 2009, about \$5 million (62 percent) of the overtime was for maintenance personnel and about \$2.1 million (27 percent) was for toll collectors. Authority officials indicated most overtime occurs because of weather events or employee absences. As of April 2010, the Authority had 3,589 employees including 2,589 full-time and 1,000 part-time employees.

We found Authority officials were effectively managing and monitoring employee overtime. The Authority has issued policies and guidelines to limit overtime, negotiated changes to employee contracts, issued cost containment directives, and monitored reports of overtime usage. For example, contract changes include paying highway maintenance workers and supervisors straight time for work at night, and incentive payments for employees who don't use their sick leave for a certain period of time. Reductions in leave usage can result in reductions in overtime to replace absent employees. In 2007, the Authority implemented a report which provides detailed information to Authority supervisors about employee attendance, overtime, earnings, and whether overtime earned exceeds 15 percent of their annual salary. Authority management attributes the decline in overtime costs during our audit period to these steps.

We also found that the Authority's overtime hours paid were worked and justified. However, we found additional opportunities to reduce overtime may be available and we recommend the Authority pursue additional changes during future employee contract negotiations to further reduce overtime. For example, contracts require maintenance work performed on weekends be paid overtime. During the winter, the Authority schedules employees to work each shift on weekends.

It may be cost effective to negotiate a change to this clause. We also found management needs to formally assess optimal staffing levels to ensure employee work schedules are the most cost effective.

Our report contains one recommendation to improve the Authority's management of overtime. Officials generally agreed with our recommendation and have taken steps to implement changes.

This report, dated September 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, 11th Floor
Albany, NY 12236

Introduction

Background

The New York State Thruway Authority (Authority) is a public benefit corporation created in 1950 to construct, operate and maintain the Thruway. In all, the Thruway (excluding I-84) is comprised of 2,818 lane miles of roadway, 810 bridges, more than 350 office and maintenance buildings, 27 travel plazas, 275 toll booths, 18 water waste treatment plants and 26 motor fueling stations for Authority vehicles and equipment. Operationally, the Authority is segmented into four regional Divisions - Albany, Buffalo, Syracuse and Suffern - with its administrative headquarters located in Albany. More than 1,600 maintenance personnel (Maintenance) maintain the Thruway's roadway, bridges and buildings, vehicles, and other types of equipment. The Authority strives to provide its customers with a roadway that is safely drivable at a reasonable speed under the given weather conditions. During the winter season, the Authority provides staff coverage 24 hours a day, seven days a week.

In 1992, the New York State Canal Corporation was created as a formal subsidiary of the Authority responsible for operating and maintaining the New York State Canal System, a 524-mile navigable waterway consisting of various interconnected canals, natural waterways, lakes and reservoirs.

The Authority employs maintenance workers, toll collectors, equipment maintenance workers, engineers, information technology and administrative staff to help manage and operate the Thruway. As of April 2010, the Authority had 3,589 employees including 2,589 full-time and 1,000 part-time employees.

For the year ended December 31, 2009, the Authority's operating expenses were \$339.3 million, of which \$256.6 million was for wages and benefits. According to the Authority's records, overtime has decreased about 24 percent from \$10.6 million in 2007 to \$8.1 million in 2009. In 2009, about \$5 million of the overtime (62 percent) was for Maintenance and about \$2.1 million (27 percent) was for toll collectors. Authority officials indicated most overtime occurs because of weather events or employee absences.

Audit Scope and Methodology

We audited the Authority to determine whether it is effectively managing and monitoring employee overtime and if overtime paid to employees is actually worked and necessary. Our audit covered the period January 1, 2006 through June 18, 2010. To accomplish our objectives, we met with Authority officials to confirm and enhance our understanding of their practices for managing and assessing overtime. We reviewed

overtime policies and procedures, annual budgets, employee contracts, management reports related to overtime, and relevant documents supporting overtime worked. We also conducted a site visit to an assigned work location to confirm that employees were present and working in their assigned capacities. We analyzed overtime expenditures and budgeting documents for the period of January 1, 2007 through December 31, 2009.

To determine if overtime paid was worked and necessary, we tested a judgmental sample of 238 overtime transactions. We based our selection on the most common reasons for overtime. Our sample included toll collectors, maintenance workers, and construction managers.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

This audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

**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 attached in their entirety at the end of the report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the New York State Thruway Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were

taken to implement the recommendation contained herein, and where the recommendation was not implemented, the reasons why.

**Contributors to
the Report**

Major contributors to this report include Carmen Maldonado, Steve Goss, Mark Ren, Brandon Ogden, Gayle Clas, and Robert Horn.

Audit Findings and Recommendation

Management and Control of Employee Overtime

Management is responsible for identifying, controlling, and reducing risks that can impede an organization from accomplishing its mission. In a period of economic downturn, managing an organization's costs, including overtime, is essential. We found that the Authority has taken steps to manage and control overtime. These actions include issuance of policies and guidelines to limit overtime, negotiated changes to employee contracts to reduce overtime, issuance of cost containment directives, maintaining reports to track and monitor overtime usage, and the preparation of an overtime budget. Authority management attributes the decline in overtime costs during our audit period from \$10.6 million to \$8.1 million to these actions. While the Authority has reduced overtime, we identified opportunities to further reduce overtime that may be possible by renegotiating contract clauses that drive overtime and by formally assessing optimal staffing levels.

During our audit period, the Authority had policies in place to eliminate overtime whenever possible. For example, the Authority required supervisors to get prior approval from an appropriate manager for overtime that is not an emergency or not required by a contract. Administrative Services Bulletins and Executive Instructions periodically stress that only necessary expenses, including overtime, be approved. Starting August 20, 2009, supervisors were required to submit bi-weekly overtime justification reports to their Division Director or Department Head.

The Authority has also negotiated employee contract changes in 2000 and again in 2005 in an effort to reduce overtime. These changes include the scheduling of Maintenance workers and supervisors at night on straight time. Previous to these changes, all such work was done on overtime. Also, the Authority negotiated new Worker's Compensation rules that reduced leave without pay, and in turn reduced overtime because employees return to work sooner. The Authority contracts also include incentive payments for employees that don't use their sick leave for a certain period of time. Reductions in leave usage can result in reductions in overtime to replace absent employees. We also note there were no contract changes for overtime in the 2009 contract.

Several clauses in current contracts continue to require overtime. For example, employees called into work are paid a minimum of four hours overtime. The contracts also require weekend maintenance work to be paid overtime, even though the Authority schedules Maintenance

employees to cover winter weekends around the clock. We believe that the Authority should perform an analysis to determine whether it would be cost beneficial to pursue changing these clauses during future contract negotiations to further reduce overtime costs.

The Authority issued cost containment directives in 2008 and 2009 which included guidelines to reduce staffing through better scheduling and sharing of resources. Additionally, in 2007, the Authority implemented a report to improve monitoring of attendance and overtime. The report provides detailed information about employee attendance, overtime, earnings, and whether overtime earned exceeds 15 percent of their annual salary. We reviewed one monthly report in each Division and asked the Division managers how they use this report. Managers stated that they use the report to identify trends and monitor issues related to attendance, overtime, work assignments and productivity. They also indicated they direct operating unit managers to limit their projected expenditures to critical activities and to provide written justifications for discretionary expenditures such as controllable overtime. We also noted that daily overtime reports list employees working overtime and the justification for the overtime, and supervisors maintain diaries detailing the work performed.

A basic expenditure control is the preparation of a budget and managerial monitoring of budget compliance. Authority management indicated they perform a comprehensive analysis of Thruway operating expenses, including overtime, during each annual budget cycle. Several factors are considered when preparing the budget including expected traffic flow, new and expiring projects, and changes in staffing levels. Authority officials stated that the overtime budget is determined through historical data, workloads and any new projects that may be coming up during the year, including construction projects, and closures of toll plazas. Further, any change to existing budget items incurring a five percent or more increase in spending requires written justification. Our review of budget documentation determined that the Authority followed its budget process.

Management should periodically perform a cost-benefit analysis of scheduling alternatives for their employees to minimize unnecessary overtime. An assessment of the purpose, location, and time when overtime occurs could help management determine whether work schedules are the most cost-effective alternative considering service needs, staff availability, and the average employee leave rate. Authority officials told us supervisors continuously reassess whether scheduling is optimal during the normal course of operations. However, Authority officials did not provide us with documentation showing that they had

performed a comprehensive cost-benefit analysis of the alternatives considered, including overtime incurred and the rate of employee absenteeism. Therefore, the Authority cannot demonstrate that its base staffing level in each unit is optimal to meet its workload demand while minimizing overtime usage.

For example, during 2009 the Communications Unit, which operates 24 hours a day, incurred overtime nearly every day (352 days), at least 24 hours of overtime on 115 days totaling \$265,000. Authority management told us employee leave was the main cause of the overtime, and that the leave is spread across the shifts and days of the week. Considering the routine occurrence of overtime, we question whether the unit is optimally staffed. Authority officials stated that a cost analysis to determine the minimum staffing levels for the unit was completed, but was not formally documented. We believe a formal analysis should be periodically completed to determine if the present staffing levels are adequate.

Justification of Overtime

Management and supervisors should ensure that all hours authorized are actually worked. To determine whether overtime hours were actually worked, we judgmentally selected a sample of 238 transactions totaling \$41,080 relating to a pay period in each of calendar years 2007, 2008, and 2009. The employees included toll collectors, maintenance workers, and construction managers. We found that the documents provided show that the overtime was authorized and worked.

In addition, on April 5, 2010 we visited the Communications Unit to observe whether employees, working both straight time and overtime, were present and working. We found all 11 employees, including one on overtime, were present.

Recommendation

1. Investigate ways to further reduce employee overtime costs such as, but not limited to:
 - Negotiating changes to employee contract clauses that drive overtime,
 - Performing formal analyses to determine if staffing levels are optimal and employee work schedules ensure appropriate levels of service while controlling costs, and
 - Revising the process for budgeting overtime to require justification for each amount instead of using historical data and adjusting it for various factors.

Agency Comments



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

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

September 1, 2010

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

Dear Ms. Maldonado:

Chairman Buono has asked that I respond on his behalf to the draft audit report (2010-S-10) forwarded to his attention on August 3, 2010 regarding New York State Thruway Authority *Management of Overtime Costs*.

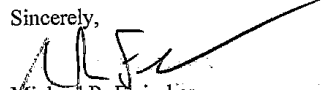
The Authority is pleased that the results of this Audit showed that Authority officials are effectively managing and monitoring employee overtime and that there was a demonstrated decline in overtime costs during the audit period.

The Authority is continually striving to reduce its overtime costs and agrees with the recommendation that it further investigate ways to reduce such costs. The Authority will continue to work toward that end.

On pages seven and thirteen of the Report, reference is made to "bonus" payments for employees who do not use sick leave. As these payments are made pursuant to the Authority's sick leave incentive program, the Authority requests the word "bonus" be replaced with the word "incentive". An additional inaccuracy appears on the same pages in the statement, "For example, contracts require all maintenance work performed on weekends be paid overtime". The Authority does have maintenance units that are, by contract, scheduled on a seven day rotating schedule on straight time to provide coverage for maintenance needs. These units include the Service Area Mechanics, Toll Equipment Mechanics and the Tappan Zee Bridge Patrol.

Please do not hesitate to contact Marc Hannibal at (518) 471-5853 should you have any other questions concerning this matter.

Sincerely,


Michael R. Fleischer
Executive Director