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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 19, 2014

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

Re: Management and Control of
Employee Overtime Costs
Report 2014-F-3

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, *Management and Control of Employee Overtime Costs* (2009-S-87).

Background, Scope and Objective

The Port Authority'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. It manages a network of aviation, ground transportation infrastructure, and seaport facilities organized in the following departments: Aviation; Tunnels, Bridges & Terminals; Port Commerce; Port Authority Trans-Hudson Railroad (PATH); Construction; Real Estate and World Trade Center Development; and Public Safety. The Port Authority's 2013 operating budget was \$3.5 billion, including \$1.04 billion for payroll costs for 7,401 staff.

Authority base salary costs for calendar years 2011 through 2013 totaled \$1.71 billion, while overtime costs totaled \$316.3 million. The Public Safety Department and PATH accounted for most of this overtime. Public Safety Department overtime totaled \$165.8 million and its base salary cost was \$455.3 million (36.4 percent). PATH overtime totaled \$55.4 million and its base salary cost was \$259.5 million (21.3 percent).

For 2013, the average base salary per employee for the Public Safety Department and for PATH was \$79,957 and \$70,311, respectively. Considering overtime and base salary, the total average compensation per employee for the Public Safety Department and for PATH was \$115,514 and \$85,970, respectively.

Our prior audit determined that the Port Authority did not manage and control its employee overtime cost. We found that the Port Authority had overtime transactions that lacked the proper prior approvals and justification. In addition, we found the Port Authority did not meet the 20 percent overtime reduction goal established in its 2010 budget to the Governors of New York and New Jersey. Finally, the informal benchmark established by the Port Authority requiring its departments not to exceed 15 percent of base salaries was not met either.

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

Summary Conclusions and Status of Audit Recommendations

We found that Port Authority officials have made progress in implementing the recommendations contained in our prior audit report. Of the four prior audit recommendations, one was implemented, two were partially implemented, and one was not implemented.

Follow-Up Observations

Recommendation 1

The Authority needs to assess its business model and be proactive in the management and control of overtime costs. It should also study the use of overtime (e.g. overtime necessitated by employee absenteeism) and the policies and oversight measures affecting overtime in order to identify actions to reduce overtime costs.

Status - Partially Implemented

Agency Action - The Port Authority documents do not demonstrate that it assessed its business model. However, the Port Authority has adopted a number of measures to be proactive in overtime management. These include:

- Training in November 2011 on a standardized overtime approval process and the use of the Overtime Request Form for overtime pre-approval, justification, verification, and documentation.
- The creation in 2014 of an Overtime Steering Committee, which is charged with overseeing and evaluating needs and usage of overtime.
- A pilot program involving the Office of Medical Services, effective March 3, 2014, where employees can get medical services over the weekends.

Recommendation 2

Develop and communicate plans, policies and procedures to achieve the 20 percent reduction of overtime called in for the 2010 budget.

Status - Not Implemented

Agency Action - The Port Authority did not develop policies and procedures that address the 20 percent reduction called for in the 2010 budget.

Recommendation 3

Require Authority departments to justify their annual overtime budgets each year, specifying the circumstances where limited and justifiable overtime use may likely occur and how these situations will be managed. Monitor department compliance with approved overtime budgets and scrutinize the propriety of the overtime expense.

Status - Implemented

Agency Action - The Port Authority requires individual departments to justify their annual overtime budget each year. It has also implemented a number of measures to monitor and scrutinize the propriety of overtime expenses. These include creating an Overtime Steering Committee, prioritizing urgent projects for overtime use, analyzing budget vs. actual expenditures, projecting overtime hours by department, listing of titles and departments expected to incur overtime, analyzing overtime variances in hours, and establishing accountability over sick leave.

Recommendation 4

Follow up on the questionable overtime transactions identified in our audit and take corrective actions as appropriate, particularly regarding instances where consistent lack of justification and required approval was not documented.

Status - Partially Implemented

Agency Action - Port Authority officials could not provide any evidence that it followed up on the transactions identified in our audit or the decision that no corrective action was warranted. At the closing conference they claimed that documentation supporting their review of the questionable transactions was not available due to the changes in administration and staff.

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 thank the management and staff of the Port Authority for the courtesies and cooperation extended to our auditors during the process.

Very truly yours,

Carmen Maldonado
Audit Director

cc: R. Sudman, Audit Director
Levine, Assistant Director
Division of the Budget