



**New Jersey State Legislature
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Office of the State Auditor**

**Department of Transportation
Maintenance and Operations**

July 1, 2012 to September 30, 2015

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Transportation, Maintenance and Operations for the period of July 1, 2012 to September 30, 2015. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells
State Auditor
December 29, 2015

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Scope

We have completed an audit of the Department of Transportation, Maintenance and Operations for the period July 1, 2012 to September 30, 2015. Our audit included financial activities accounted for in the state's General Fund and the Special Transportation Fund.

The prime responsibilities of the Maintenance and Operations program are to maintain the state's roads and bridges, ensure the safe and efficient movement of traffic, and disseminate real-time traffic information. Annual expenditures charged to Maintenance and Operations for fiscal year 2015 were \$251.1 million. Reimbursements from the Special Transportation Fund, which consists of federal reimbursements, totaled \$78.4 million. The audit did not include capital construction programs. Annual revenues averaged \$23.5 million for our audit period and consisted of permit fees and providing gasoline to other state agencies. Revenues for Outdoor Advertising and the Logo Sign Program were excluded from this audit.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the Maintenance and Operations program, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report dated August 22, 2007.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements were verified by interview, observation, and testing of transactions. We also read the budget messages, reviewed financial trends, and interviewed the department's personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives, as well as internal control and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

Conclusions

We found the financial transactions included in our testing were related to the Maintenance and Operations program, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain weaknesses that merit management's attention. In addition, we found a potential opportunity for increasing reimbursements involving damage to state property by motor vehicle accidents. We also found the department has not resolved significant conditions noted in our prior report regarding the disposition of inventory variances and overdue vehicle maintenance. These issues have been updated and restated in this report.

We also made an observation concerning the procurement process.

Traffic Claim Reimbursements

Improved efficiency over the traffic claims reimbursement process could increase revenues.

The traffic claims reimbursement process attempts to recoup money for damages from accidents involving state property. We found there have been a significant number of automobile crashes involving damage to state property for which a traffic claim for reimbursement has not been submitted. In fiscal year 2014 alone, there were over 8,000 unclaimed crashes. If the department submitted claims for half of the crashes, they could have potentially received \$5 million in additional reimbursements. It should be noted that the department has 10 years to submit claims for reimbursement.

The claims reimbursement unit relies on receiving notification from insurance companies to generate the leads to initiate new claims. Meanwhile, a separate unit within the department enters police report information into a database for all accidents that occur on New Jersey state roads, interstates, and highways that is not used by the reimbursement unit to identify potential claims.

Recommendation

We recommend that the claims reimbursement unit utilize the accident database maintained by the department to maximize claim reimbursements. The department should also consider seeking reimbursement for past accidents.



Inventory Controls

Inventory controls at maintenance garages should be enhanced.

Our prior report stated the department had not performed an independent physical inventory of vehicle parts, tools, and equipment at their maintenance garages. We found that because of staffing constraints, the condition still exists. The inventory, valued at \$3.1 million, has periodic physical counts performed by employees who are also receiving and maintaining the inventory. To properly safeguard assets from loss, physical inventory counts should be performed by someone other than those responsible for maintaining the inventory. In addition, Department of Transportation Operations Bulletin Series 7, No. 0412 requires a discrepancy report. This report is being submitted for review; however, no further action is taken to investigate the variances. An analysis explaining any variances between physical counts and the inventory records is a necessary internal control.

Recommendation

We recommend the department implement an independent inventory control process for the maintenance garages. Additionally, discrepancy reports should be analyzed and resolved by management.



Preventative Maintenance

The internal policy and procedures for preventative maintenance of vehicles should be enforced.

The department has an internal policy and procedures regarding preventative maintenance for its vehicles. Department of Transportation Operations Bulletin Series 7, No. 0514 states that, "When fueling a DOT vehicle 14 days prior to the vehicles preventative maintenance service the employee will be notified by the fuel terminal display screen what date the vehicle should be serviced." It is the responsibility of the vehicle's operator or the operator's supervisor to schedule the vehicle for service. The fuel terminal display screen will also notify if the vehicle is overdue for service. Vehicles where the preventative maintenance schedule is more than 60 days overdue will be refused fuel.

Our current review of preventative maintenance, which was also a finding in our prior report, found that 115 of 1,205 vehicles were more than 3 months overdue for minor preventative maintenance and 26 of those were overdue more than a year. For annual servicing, 54 of 1,205 vehicles were three months past due, while 16 of those were overdue more than a year. We also found that 111 of the overdue vehicles received fuel after the 60 day maintenance scheduling policy. Because of a lack of enforcement by management, internal policy and procedures pertaining to preventative maintenance of vehicles are not followed by employees. When timely preventative maintenance is not completed, the overall performance and longevity of vehicular assets is put at risk.

Recommendation

We recommend the department enforce its internal policy and procedures regarding preventative maintenance to ensure the safeguarding of vehicular assets.



Overtime Support Documentation

There exists inaccurate and incomplete support for overtime.

The department averaged \$21.6 million annually in overtime costs during our audit period. A majority of employee time is recorded on Daily Work Reports (DWR) in the Maintenance Management System (MMS), where it is approved by supervisors.

All time, including overtime, entered on timesheets should be supported by the DWRs. We judgmentally selected 25 timesheets to trace to the DWRs and found 13 did not have either comments detailing the overtime worked or the on-call hours were not equal to the timesheet.

Further review determined that the department does not have a policy which would require the clock hours in which the overtime was performed be posted to the DWR, only the total hours worked. This makes it difficult to determine if the overtime worked was warranted, substantiated, and properly documented, even if it was approved. In addition, not recording the clock times into the DWR makes it difficult to determine if employees are working more than 16 consecutive hours in a 24 hour period, which is not allowed for the safety of both the public and the employee, as per DOT Policy and Procedures 508. In our judgmental sample of 50 timesheets, we found 5 instances where an employee worked more than 16 hours in a day. We were not able to determine if these hours were worked consecutively.

Recommendation

We recommend the department implement a policy in which they require more stringent and accurate recording of the times and nature of overtime. MMS has the ability to record comments and call/completion times, and should be used to improve the support of overtime worked by the department's employees.



Permit Violations

The non-removal of damaged utility poles is creating a public safety hazard.

Highway occupancy permits are required when any activity is undertaken over, under, or within any portion of state highway right of way or property under the jurisdiction of the department, and standards need to be met. When a company is guilty of a violation of the permit standards, it is liable for a fine. A majority of the fines have been issued to utility and communication companies and have been unpaid. These fines increase at a rate of \$100 for each day a violation goes unrepaired. The total fines for double pole infractions have reached \$1.4 million. The violation occurs when a company does not properly remove the damaged pole when installing a new supportive pole. This occurs most often when a pole is used jointly by two companies. When companies are issued a permit to upgrade or replace a joint pole, the responsibility of

removing the damaged pole lies with the permit holder. The non-removal of damaged poles can create a hazard to the traveling public.

The responsibility of performing permit inspections and reviews is inconsistent across the three regional offices. The Central regional office has four inspectors who perform permit inspections and reviews. They are also active at issuing violation fines as needed. However, another region has ceased issuing the fines for violations because of the lack of collection. The department has tried other alternatives to reach an agreement with the utility companies. The damaged poles have not been removed and the public safety hazard has not been eliminated. The department has followed proper state debt collection procedures and has forwarded debt to the Department of the Treasury, Division of Revenue and Enterprise Services.

Recommendation

We recommend the department develop an effective way to ensure that companies remove damaged poles in a timely manner to enhance public safety.



Observation

Procurement Process

The department currently has contracts that are expiring or operating under an extension. The Division of Purchase and Property, within the Department of the Treasury, was created under N.J.S.A. 52:18A-3 and serves as the state's central procurement agency. Their mission is to professionally and ethically procure the best valued products and services in a timely and cost effective manner in accordance with state laws and regulations, to enable client agencies to meet their objectives.

Currently, the contract over the electrical supplies utilized for the maintenance of highway signs, lighting, and traffic control is expired, as well as the contract used for replacement parts of heavy machinery. Additionally, the contract for salt has a term that expires in January 2016, the middle of the snow season, which could put the state at a competitive disadvantage when renewing. These contracts are vital for Maintenance and Operations to conduct business and protect the public safety. These issues occur because of the length of time it takes to bid these contracts. During the audit, it was noted that there were four contracts in the procurement process which took in excess of two years to complete the contract award. These types of lags hinder the department from operating efficiently.

DOT stated that a major cause for these issues is a backlog of purchase requests at the Division of Purchase and Property. The Department of Transportation has procurement authority; however, state regulation limits the authority to professional services, which includes design and engineering disciplines. These disciplines have allowed the DOT to perform major

procurement for road and bridge projects. If the purchasing regulations were revised to allow the department additional procurement authority, the department believes this could potentially improve the timeliness and reduce the costs of contracts.

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State of New Jersey

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December 18, 2015

Stephen M. Eells, State Auditor
Office of the State Auditor
PO Box 67
Trenton, NJ 08625-0067

Dear Mr. Eells:

SUBJECT: NJ Department of Transportation (NJDOT)
Maintenance and Operations (July 1, 2012 to September, 2015)
Auditee Response to Audit Recommendations

NJDOT's Division of Operations has reviewed the findings and recommendations in the Office of the State Auditor's report of "Maintenance and Operations" covering the time period of July 1, 2012 to September 30, 2015. The NJDOT offers the following response to the report's findings:

Traffic Claim Reimbursements. The NJDOT concurs with the recommendation that the claims unit should utilize the accident database maintained by the department to maximize claim reimbursements. In fact access to this data has already been provided and is yielding much better results.

However, the NJDOT would like to clarify the finding that there were over 8,000 unclaimed crashes in 2014 and could have potentially received about \$5 million in additional reimbursements if we had pursued even 4,000 of those claims.

Our analysis of the list of 10,201 accident reports that the audit assumed were eligible for reimbursement revealed that the audit's query of FY14 accident records includes several types of events (e.g. mailboxes, trees, etc.) that are not associated with State Property damage. Additionally the list also includes accidents that occurred in non-NJDOT jurisdictions (e.g. Delaware River Port Authority, Burlington County Bridge Commission, etc.), as well as hit and run accidents with no identified responsible vehicle

for which the Department cannot submit claims. After taking these circumstances into account, the revised number of accident reports with possible state property damage decreased from 10,201 to about 7,203 that *might* be eligible to pursue for reimbursement.

FY14 Accident Reports With Possible State Property Damage	
Accident Reports on Traffic Claims Audit Report	10,201
Less: Accidents / No State Property Indicated	(2,829)
Less: Accidents / Non-DOT Jurisdictions	(45)
Less: Accidents / No Plate #	(124)
Revised # Accidents / Possible State Property Damage	7,203

The next step the claims unit performs is to review the accident details to see if there is any damage to state property that is worth pursuing. We know there are accidents that occur where the report indicates state property was struck, but damage did not actually occur. A good example is curb. Often a report indicates a curb was struck, but upon investigation, there was no discernable damage done to the curb. The claims unit, obviously, would not pursue that for reimbursement.

That said, the NJDOT does have a backlog of claims we are steadily pursuing and reducing. Of the 7,203 accidents with potential damage to state property in 2014, the claims unit has reviewed over 5,000. Of the 5,000 that have been reviewed, about 2,000 (40%) resulted in damage to state property which the state is pursuing collection. There are still about 2,203 claims to be reviewed from the 2014 list. We assume about 40% (or about 881) of those will meet the criteria to pursue collection which we intend to do.

Again, the NJDOT agrees and has already implemented the recommendation of our claims unit utilizing our crash records database. It has already yielded improvement, and we are confident it will continue to improve our effort to collect on damage to state property.

Inventory Controls. The NJDOT concurs with the recommendation that the department implement an independent inventory control process for the maintenance garages. However, today, as in the past, staffing constraints limit our ability to fully implement an independent inspection. Instead, as part of a larger re-alignment of the Operations division, the NJDOT is exploring the possibility of outsourcing the maintenance garage parts function to a third party vendor who would be responsible for inventory controls.

Preventative Maintenance. The NJDOT concurs with the recommendation that we should enforce our internal policy regarding preventative maintenance. We have received positive feedback from employees who receive a message on the fuel pump when they re-fuel their vehicle that their state vehicle is due for service and we further use our new fuel system to continue to improve our routine maintenance.

Overtime Support Documentation. The NJDOT concurs with the recommendation to utilize the Maintenance Management System (MMS) to accurately record the details of overtime worked. NJDOT will develop and promulgate an Operations Bulletin (e.g.

Policy) to mandate more detailed work information be entered into the MMS system when recording overtime.

Permit Violations. NJDOT concurs with the finding that utility companies are chronically delinquent in removing "double poles" per the conditions of the Highway Occupancy Permit. The findings specifically site that the three regions manage this responsibility differently. NJDOT Operations has already started to address this by combining the regional permit offices into one centralized office with the expectation that a standard, uniform way of inspecting and ensuring compliance will be developed.

Procurement Process. The NJDOT concurs with the observation that many goods that are currently procured through New Jersey's Department of Treasury, Division of Purchase and Property could be more efficiently handled through NJDOT's Procurement bureau. We hope the Legislature further studies that observations and considers allowing NJDOT to purchase its own materials and equipment.

Sincerely,



Andrew J. Tunnard
Assistant Commissioner, Operations