LEGISLATIVE PERFORMANCE REVIEW

WEST VIRGINIA PARKWAYS ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY

May 2008
PE 08-01-425

AUDIT OVERVIEW

The Parkways Authority Has Adequate Financial Resources to Cover Bond Requirements, Operating Expenses and Routine Maintenance, But Some of the Agency's Maintenance Goals Are Delayed Until Funds Are Available

The Parkways Authority Is Gradually Addressing Excessive Spending Practices and Becoming More Prudent, But Opportunities for Further Cost Savings Exist

The Maintenance Department Provides Adequate Services to the Turnpike, But There is Evidence It Can Be Leaner in Its Staffing Levels

The Parkways Authority's Purchasing Procedures Reflect the Principles of State Purchasing Requirements and With a Few Exceptions, Its Purchasing Procedures Are Adequately Followed

Parkways Authority has Adequate Internal Controls in Place but Adherence Lacks in Some Areas

WEST VIRGINIA LEGISLATIVE AUDITOR

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May 20, 2008

The Honorable Edwin J. Bowman
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Dear Chairs:

Pursuant to the West Virginia Performance Review Act, we are transmitting a Performance Review of the *West Virginia Parkways Economic Development and Tourism Authority,* which will be presented to the Joint Committee on Government Operations and Joint Committee on Government Organization on Tuesday, May 20, 2008. The issues covered herein are *"The Parkways Authority Has Adequate Financial Resources to Cover Bond Requirements, Operating Expenses and Routine Maintenance, But Some of the Agency's Maintenance Goals Are Delayed Until Funds Are Available;" "The Parkways Authority Is Gradually Addressing Excessive Spending Practices and Becoming More Prudent, But Opportunities for Further Cost Savings Exist;" "The Maintenance Department Provides Adequate Services to the Turnpike, But There is Evidence It Can Be Leaner in Its Staffing Levels;" "The Parkways Authority's Purchasing Procedures Reflect the Principles of State Purchasing Requirements and With a Few Exceptions, Its Purchasing Procedures Are Adequately Followed;"* and *"Parkways Authority has Adequate Internal Controls in Place but Adherence Lacks in Some Areas."*

We transmitted a draft copy of the report to the West Virginia Parkways, Economic and Tourism Authority on April 21, 2008. We held an exit conference on May 5, 2008. We received the agency response on May 9, 2008.

Let me know if you have any questions.

Sincerely,

John Sylvia

JS/tlc

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EXECUTIVE SUMMARY

In January 2007, the Legislative Auditor issued a report on the West Virginia Parkways, Economic Development and Tourism Authority (Parkways Authority) that focused primarily on the agency's economic development function. This current review examines the agency's administration of the Turnpike roadway. The scope of this review is on the internal controls, administrative policies and purchasing procedures as they relate to the entire agency. In addition, the Maintenance Department was examined in terms of its staffing levels. A primary objective of this review is to determine if the Parkways Authority is economical in the management of the Turnpike.

The findings and recommendations of this review are as follows:

The Parkways Authority Has Adequate Financial Resources to Cover Bond Requirements, Operating Expenses and Routine Maintenance, But Some of the Agency's Maintenance Goals Are Delayed Until Funds Are Available.

- Toll revenues have increased at an average annual rate of 2.7 percent since 1989. However, between 2000 and 2007, the average annual growth rate has been 0.8 percent.

- Annual net toll revenue balances averages between $10 million and $15 million. However, the estimated annual cost of needed capital improvements is around $40 million. Consequently, an average of $27 million in identified road improvements are deferred each year.

- According to the agency's road assessment, more than 60% of the Turnpike is in fair to poor condition. Toll revenue is insufficient to achieve the goal of having less than 25 percent of the Turnpike road in fair to poor condition.

Toll revenues have increased at an average annual rate of 2.7 percent since 1989. However, between 2000 and 2007, the average annual growth rate has been 0.8 percent.

Annual net toll revenue balances averages between $10 million and $15 million. However, the estimated annual cost of needed capital improvements is around $40 million. Consequently, an average of $27 million in identified road improvements are deferred each year.

Issue 1: The Parkways Authority Is Gradually Addressing Excessive Spending Practices and Becoming More Prudent, But Opportunities for Further Cost Savings Exist.

An important issue with respect to any quasi-state agency, such as the Parkways Authority, is whether it has developed practices or policies that result in inefficiencies or excessive spending. The Legislative Auditor finds that the Parkways Authority has developed policies that are consistent with state administrative policies. Its purchasing procedures are similar to the purchasing guidelines established by the state Purchasing Division. The Parkways Authority uses the state Surplus Property Division in disposing of used vehicles and equipment. The agency offers its employees health insurance through the state's Public Employees Insurance Agency, and employees are members of the Public Employees Retirement System. Also, Parkways employees receive increment pay, accrue annual and sick leave at the same rate as state employees. However, the Parkways Authority has developed several policies that have lead to excessive spending. Some of these policies have been recently discontinued in recognizing the need to become more prudent, but some policies remain in effect.

The Parkways Authority has developed several policies that have lead to excessive spending. Some of these policies have been recently discontinued in recognizing the need to become more prudent, but some policies remain in effect.

Issue 2: The Maintenance Department Provides Adequate Services to the Turnpike, But There Is Evidence It Can Be Leaner in Its Staffing Levels.

The Maintenance Department of the Parkways Authority is well managed and provides good maintenance services to the Turnpike roadway. The Legislative Auditor observed that facilities and equipment are well maintained. Inside the facilities and the outside grounds are clean and organized. The Maintenance Department currently employs 147 employees, which is down from 159 employees in 2004. Despite this recent reduction in staff, the Maintenance Department may still be overstaffed. This is suggested by comparisons with the West Virginia Division of Highways and other comparable state turnpike authorities.

Despite this recent reduction in staff, the Maintenance Department may still be overstaffed. This is suggested by comparisons with the West Virginia Division of Highways and other comparable state turnpike authorities.

Issue 3: The Parkways Authority's Purchasing Procedures Reflect the Principles of State Purchasing Requirements and With a Few Exceptions, Its Purchasing Procedures Are Adequately Followed.

Since the Parkways Authority is a quasi-state agency and exempt from state purchasing procedures, the Legislative Auditor's Office evaluated the Parkways Authority purchasing procedures to determine whether it encourages competitive bidding and complies with its purchasing policies. The Legislative Auditor finds that the Parkways Authority has developed purchasing procedures that reflect the basic principles of the State's Purchasing Division's guidelines. Overall, with few exceptions, the Parkways Authority's practice of its purchasing procedures is adequate.

Issue 4: Parkways Authority has Adequate Internal Controls in Place but Adherence Lacks in Some Areas.

The Legislative Auditor finds that the Parkways Authority has developed purchasing procedures that reflect the basic principles of the State's Purchasing Division's guidelines. Overall, with few exceptions, the Parkways Authority's practice of its purchasing procedures is adequate.

The Legislative Auditor assessed the Parkways Authority's internal controls which are designed to have the agency operate effectively, efficiently, in compliance with various laws, and to protect the agency's resources against misuse. The Legislative Auditor finds that the Parkways Authority has an internal controls system with the necessary components that, with few exceptions, functions properly. There is sufficient management information and monitoring activities. There are areas in which adherence to purchasing guidelines can be improved, especially for purchases under $1,000.

The Legislative Auditor finds that the Parkways Authority has an internal controls system with the necessary components that, with few exceptions, functions properly.

Additionally, the Legislative Auditor has the concern with the Parkways Authority's control environment, which is the intangible attitude or atmosphere that expresses and fosters the commitment to adhering to internal controls. An employee survey reveals that a relatively large number of the agency's staff claim that the application of policies and disciplinary action is inconsistent and dependent on the employees' familial relationship with members of management. This attitude stems from the fact that there is a relatively large number of agency employees who are related to each other and who are in supervisory positions. The Legislative Auditor could not confirm whether this perception of nepotism is real, but identified it since the level of related employees is unusually pronounced in this agency. The agency is aware of the situation and has made attempts to keep this situation under control. A prevalent perception that proper procedure is not consistently followed, whether real or not, can lead to a widespread lack of commitment to proper procedure throughout the agency.

Recommendations:

1. The Parkways Authority should consider discontinuing its Sick Leave Buy-back policy. Since the Legislature has established a less expensive policy in which sick leave can be converted for pay, the Parkways Authority should adopt the same policy as enacted by the Legislature.

2. The Parkways Authority should objectively review its step wage increase process, particularly with respect to highway maintenance workers, to determine if its wages are higher than necessary to be competitive.

3. The Toll Bonus System should be revamped so that the Parkways Authority receives a majority share of enhanced revenues. A less expensive non-monetary incentive for toll collectors should also be considered as a substitute for the current toll bonus system.

4. The Parkways Authority should consider other less costly ways of recognizing or showing appreciation to its employees.

5. The Parkways Authority should examine the organizational structure of its Maintenance Department to assess the need for certain management level positions in the Highway Production and Fleet Management sections.

6. The Parkways Authority should consider reducing its current level of mechanic positions to a more appropriate level.

7. Consideration should be given to coordinating the use of mechanics between the Parkways Authority and the Department of Transportation if such an arrangement proves feasible and cost effective for both agencies.

8. The Parkways Authority should assess the cost benefits of having certain maintenance services under private contract.

9. Consideration should be given to the cost advantages of the Parkways Authority and the Department of Transportation jointly contracting for similar services.

10. The Parkways Authority should consider amending its purchasing policies to include a standardized form to allow for adequate and consistent sole source justification statements by all departments.

11. The Parkways Authority's Maintenance Department should conform with the established guidelines for making purchases under $1,000, especially with respect to ensuring that appropriate personnel are performing their designated tasks, complete purchase records are kept and steps are taken to avoid the practice of stringing purchases.

12. The Parkways Authority should consider providing expanded or additional public notice or make stronger efforts to solicit bids from other contractors in order to stimulate multiple bidding.

13. When issuing an RFP for investment management and/or custodian services, the Parkways Authority should also explore investment management and/or custodian services offered by state agencies as well as those provided by private entities.

14. The Parkways Authority should contemplate revising its uniform policy and consider eliminating the provisions of uniform items that are optional to employees in order to make cost reductions.

15. *The Parkways Authority should eliminate the occurrence of related employees supervising each other, and address other areas that may be negatively affecting the control environment.*

16. *The Parkways Authority should consider a realignment of duty assignments for the Deputy Director of Purchasing.*

17. *The Parkways Authority should improve adherence to its Purchasing Policies and Procedures for purchases under $1,000. Consideration should also be given to modifying the Maintenance Department's Master Control Log to include a field to record if an employee signed for received items.*

18. *The Parkways Authority should consider implementing an automated purchasing system that records, organizes, monitors, and regulates all of the agency's purchasing processes.*

OBJECTIVE, SCOPE & METHODOLOGY

This performance review of the West Virginia Parkways Economic Development and Tourism Authority (Parkways Authority) is authorized by West Virginia Code, Chapter 4, Article 2, Section 5. The Parkways Authority is statutorily established by West Virginia Code §17-16A and is created to oversee the maintenance and operation of the West Virginia Turnpike, which is a four lane toll highway, 88 miles in length, from Charleston to Princeton, West Virginia. The Parkways Authority also has a statutory responsibility to promote and enhance economic and tourism development. Furthermore, the agency is mandated by law to work towards freeing the road of tolls.

Objective

A previous review by the Legislative Auditor released in January 2007 focused on the economic development aspects of the Parkways Authority. The current review focuses on the Parkways Authority's operating management of the toll road. Effective January 1, 2006, tolls were increased to address various construction needs of the Parkways Authority. The toll increase led to a public outcry and a lawsuit that resulted in an injunction against the toll increase. Consequently, the Parkways Authority reversed its decision and restored tolls to pre-January 2006 levels. The agency's attempt to increase tolls raised the issue by some in the Legislature as to whether the Parkways Authority has been managed in an economical manner. Therefore, this review examines if the Parkways Authority has eliminated waste, taken all necessary cost cutting measures and if it has been prudent and efficient in managing the Turnpike.

Scope

The scope of this review covers the years from the inception of the Parkways Authority in 1989, when it was created to replace the abolished West Virginia Turnpike Commission, through December 2007. The review focuses primarily on the agency's Maintenance and Engineering Department (Maintenance Department). Therefore, a limited review is made of the toll collection operations, traffic control, the Administration Department, Tourist Information Centers, and economic development and tourism activities. However, several programs were evaluated that involve other departments besides the Maintenance Department. These programs include, Employees Health Premium Subsidies, Sick Leave Incentive Program, Toll Incentive, Step Wage Increases, Recognition Awards, and Assigned Vehicles. The agency's purchasing procedures and internal controls were also examined as they relate to all departments of the agency.

Methodology

The analysis for this review was conducted primarily through information provided by the Parkways Authority, interviews of agency staff, observations by staff of the Legislative Auditor's Office, information received from other state agencies and from turnpike authorities of other states. A comparison was made of the costs between the Division of Highways' maintenance facility in Chelyan and the maintenance facility of the Parkways Authority in Standard. Although the two facilities service different types of roads, the type of work of each facility is similar. All aspects of this performance review is in accordance with Generally Accepted Government Auditing Standards.

Overview

The Parkways Authority Has Adequate Financial Resources to Cover Bond Requirements, Operating Expenses and Routine Maintenance, But Some of the Agency's Maintenance Goals Are Delayed Until Funds Are Available.

Summary

In January 2007, the Legislative Auditor issued its review on the economic development and tourism functions of the West Virginia Parkways Economic Development and Tourism Authority (Parkways Authority). This current report examines the Parkways Authority's overall management of the Turnpike system to determine if it is operated economically. As with any quasi-state agency, in which the agency is exempt from many state requirements and is not under the Legislature's direct budgetary oversight, there is concern that the agency may not operate efficiently or with prudence. **In general, the Legislative Auditor finds that the Parkways Authority has developed administrative policies and procedures that facilitate an economical operation.** Procurement procedures and internal controls were reviewed and were found to be appropriate for the most part. This is discussed in Issues 3 and 4. **However, in some areas the agency has exhibited liberal spending.** To some extent, the Parkways Authority has recognized the need for greater restraint in certain expenditures. The agency is gradually moving towards becoming a leaner organization. This is discussed in Issue 1. The Legislative Auditor has some concerns with the staffing levels in the Maintenance Department. There may be opportunities for further personnel reductions. This is discussed in Issue 2. Toll revenue growth has been relatively low. However, the Parkways Authority's financial resources are adequate to meet the bonds' trust indentures, operating costs, routine maintenance and some short and long-term maintenance projects. Nevertheless, funding is not adequate to meet all of the agency's identified maintenance projects. Consequently, some short and long-term maintenance projects are delayed until funds become available.

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Background

In June 1989, the West Virginia Turnpike Commission, which was created in 1947, was abolished and replaced by the creation of the Parkways Authority under West Virginia Code §17-16A. Since that time the Parkways Authority has assumed all management and financial responsibilities of the West Virginia Turnpike (Turnpike), a four-lane toll highway, 88 miles in length, from Charleston to Princeton, West Virginia. Upgrading the Turnpike to interstate standards from a two-lane to four-lane highway was initiated in May 1973 and was completed in September 1987. The upgrade increased the total lane miles to 415 miles. The Turnpike traverses 116 bridges, has 3 mainline toll collecting plazas, a toll plaza connecting Corridor L (U.S. Route 19), 3 travel plazas, a Welcome Center at Princeton, a rest area with facilities at milepost 69, and a rest area without facilities at milepost 19. The Parkways Authority provides a courtesy patrol to assist travelers with disabled vehicles, and a 28-member State Police Troop provides law enforcement throughout the Turnpike.

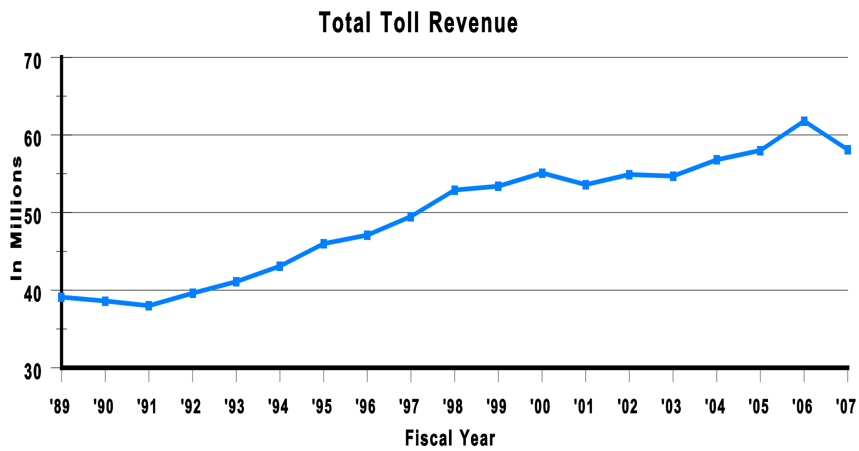
Since 1989, toll revenues have grown by $19 million, going from $39.1 million in 1989 to $58.1 million in 2007. This represents an average annual growth rate of 2.7 percent. However, the more recent trend of annual toll revenue growth from 2000 to 2007 has slowed to 0.8 percent.

Figure 1 below shows total toll revenue from FY 1989 to 2007. Since 1989, toll revenues have grown by $19 million, going from $39.1 million in 1989 to $58.1 million in 2007. This represents an average annual growth rate of 2.7 percent. However, the more recent trend of annual toll revenue growth from 2000 to 2007 has slowed to 0.8 percent. According to the most recent traffic and toll study performed for the Parkways Authority by Wilbur Smith Associates, from 1991 to 2005 commercial traffic on the Turnpike has grown by an average annual rate of 4.84 percent, while passenger traffic on the Turnpike has grown by 2.46 percent over the same period. Consequently, the composition of toll revenue from commercial and passenger vehicles has changed over this period, in which approximately 54 percent of toll revenue is paid from commercial vehicles in 2005 compared to 44 percent in 1991. According to the same study, 76 percent of total Turnpike revenue come from vehicles that are registered outside of West Virginia.[1]

The composition of toll revenue from commercial and passenger vehicles has changed over this period, in which approximately 54 percent of toll revenue is paid from commercial vehicles in 2005 compared to 44 percent in 1991.

[1] *<u>Traffic and Toll Revenue Update Study 2005</u>, Wilbur Smith Associates, December 2005, p. ES-1.*

Figure 1



During the 2006 legislative session, the Parkways Authority's enabling statute was amended. The passage of Senate Bill 557 restricted the Parkways Authority from issuing new revenue bonds. Existing bonds can be refinanced through issuance of revenue refunding bonds; however, there can be no additional principal or extension of maturity of existing debt. In addition, the legislation requires that any future toll increases must be discussed in public hearings.

During the 2006 legislative session, the Parkways Authority's enabling statute was amended. The passage of Senate Bill 557 restricted the Parkways Authority from issuing new revenue bonds. Existing bonds can be refinanced through issuance of revenue refunding bonds; however, there can be no additional principal or extension of maturity of existing debt. In addition, the legislation requires that any future toll increases must be discussed in public hearings. Table 1 shows the amount of revenue bonds obligations that remain outstanding as of June 30, 2007. Series 1993 Premium Capital Appreciation bonds were paid off this year. There remains six series revenue bonds in various amounts with maturity dates ranging from 2011 to 2019. Four of the series (2001A, 2001B) are economic development and tourism (EDT) bonds. The proceeds were used to construct and expand the Caperton Center where Tamarack is located in Raleigh County. The EDT bonds cannot be paid with toll revenues. They have been pledged with non-toll revenues such as revenues from the Caperton Center, certain interest and investment earnings, and concession revenues derived from service plazas. The remaining two bond series (2002, 2003) relate to the construction of the Turnpike. All sources of operating revenue can be used towards payment of these bonds. As Table 1 shows, the estimated debt service for these six revenue bond series is more than $11 million each year.

Table 1
Outstanding Revenue Bond Obligations & Annual Debt Service
(as of June 30, 2007)

	Total Outstanding Revenue Bond Obligations	Estimated Annual Debt Service
Outstanding Turnpike Revenue Bonds (Series 2002, 2003)	$95.9 Million	$10.5 Million
Outstanding Economic Development & Tourism Revenue Bonds (Series 2001A, 2001B)	$7.9 Million	$1.2 Million
Totals	$103.8 Million	$11.7 Million

Source: Independent Auditor's Report, Gibbons & Kawash, June 30, 2007 & 2006.

In April 2007, Governor Manchin, chairman of the Parkways Authority Board, introduced a resolution to return the focus of the Parkways Authority on its principle mission of operating and maintaining the Turnpike as a modern, efficient and safe roadway. As a result, initiatives were taken to phase-out and eventually eliminate all economic development and tourism projects from Parkways Authority activities. This also involves transferring Tamarack operations to the Department of Commerce, which would be responsible for developing an improved business plan for Tamarack.

As a result, initiatives were taken to phase-out and eventually eliminate all economic development and tourism projects from Parkways Authority activities. This also involves transferring Tamarack operations to the Department of Commerce, which would be responsible for developing an improved business plan for Tamarack.

Available Toll Revenues for Turnpike Improvements

Table 2 shows the net toll funds available for improvements to the Turnpike. Operating expenses exclude depreciation and expenses that are paid through sources other than toll revenue. Thus, available funds for Turnpike debt service come strictly from toll revenues. Although concessionaire revenues can be used for Turnpike expenses, those revenues are currently pledged to the EDT revenue bonds. Due to a 5.8

percent drop in toll revenue in 2007,[2] a 3.5 percent increase in operating expenses, and a significant increase in recommended replacement and renewal reserves, net revenue for Turnpike capital improvement declined to $5.6 million in 2007. Annual depreciation for Turnpike operations is close to $30 million, while annual depreciation for EDT projects is around $1 million.

The annual net balance that is available for additional capital improvements has been between $11 million to $15 million since 2003, with the exception of 2007, when it declined to $5.6 million. However, the annual net balance is insufficient to cover additional long and short-term pavement, bridge rehabilitation, and facility improvements that the Parkways Authority has identified through its 30-year Master Plan.

As Table 2 indicates, the Turnpike generates enough toll revenue to honor the requirements of the trust indentures, that is, pay for operating expenses, debt services, and recommended renewal and replacement costs estimated by the consulting engineer. The annual net balance that is available for additional capital improvements has been between $11 million to $15 million since 2003, with the exception of 2007, when it declined to $5.6 million. However, the annual net balance is insufficient to cover additional long and short-term pavement, bridge rehabilitation, and facility improvements that the Parkways Authority has identified through its 30-year Master Plan. The intent is to pay for these needs through Turnpike revenues. The Parkways Authority's current assessment of paving and other improvement needs for FY 2008 is nearly $27 million. The estimated cost of the Master Plan projects planned for each year are between $20 million and $30 million, which exceeds the $10 million to $15 million available each year in net revenues. As a result, the Parkways Authority has been forced to defer many Master Plan projects until financial resources are available. As a result of a recommendation by the Public Resources Advisory Group (PRAG), the Parkways Authority shortened its planning time frame from 30 years to a 5-year Needs Assessment Program.

The estimated cost of the Master Plan projects planned for each year are between $20 million and $30 million, which exceeds the $10 million to $15 million available each year in net revenues.

[2]*The relatively large drop in toll revenue for 2007 is partly due to the temporary toll increase in 2006.*

Table 2
Net Toll Revenues Available for Turnpike Capital Improvements
(in thousands)

Fiscal Year	2003	2004	2005	2006	2007
Total Toll Revenues	$54,850	$57,827	$58,152	$61,806	$58,219
Total Turnpike Operating Expenses*	$27,583	$28,706	$30,187	$31,414	$32,606
Funds Available for Turnpike Debt Service	$27,267	$29,120	$27,965	$30,392	$25,613
Turnpike Debt Service and Recommended Renewal and Replacement	$16,153	$16,590	$14,836	$15,153	$19,949
Net Funds for Turnpike Capital Improvements	$11,114	$12,531	$13,129	$15,239	$5,664

Source: Audited Financial Statements, Gibbons & Kawash, June 30, 2007 and 2006.
**Excludes depreciation, and expenses that are not paid by toll revenue such as economic development projects and renewal and replacement expenses paid from reserves.*

The total amount that has accumulated and held in reserve for capital improvements is shown below in Table 3. The Parkways Authority indicated that generally the reserve revenue fund is at its peak at the end of each fiscal year (June 30); however, during the summer and fall construction periods much of the reserve revenue is expended on capital projects.

During the summer and fall construction periods much of the reserve revenue is expended on capital projects.

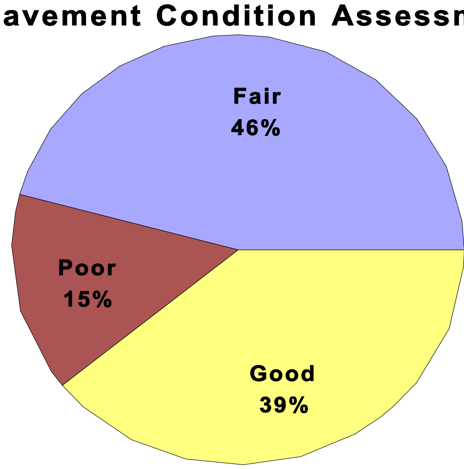
Table 3 Reserve Revenue Available for Capital Improvements Restricted By Tri-Party Agreement	
Fiscal Year	Reserve Revenue
2007	15,210,000
2006	15,763,000
2005	10,659,000
2004	10,582,000
2003	13,779,000
Source: Parkways Authority CAFR.	

The Parkways Authority has the goal of having less than 25 percent of the Turnpike in fair to poor condition.

Figure 2 shows the Parkways Authority's assessment of the Turnpike pavement condition. **According to this assessment, more than 60 percent of the Turnpike is in fair to poor condition.** The Parkways Authority has the goal of having less than 25 percent of the Turnpike in fair to poor condition.

Figure 2

2007 Pavement Condition Assessment



Conclusion

The Parkways Authority has provided adequate maintenance of the Turnpike since the agency was created in 1989. Toll revenues during this time have grown on average 2.7 percent. However, the more recent trend of annual toll revenue growth from 2000 to 2007 has been 0.8 percent. Despite this relatively small growth in revenue, the agency has maintained most of the Turnpike roadway in fair to good condition. Toll revenues have been sufficient to cover the essential financial obligations of the agency and to fund some of the needed capital improvements. However, funding is insufficient to cover all of the short and long-term capital improvement projects that the Parkways Authority deems necessary to achieve the agency's objective of having less than 25 percent of the Turnpike road in fair to poor condition. As of FY 2007, the Turnpike has 61 percent of the road in fair to poor condition. The consequences of this is that some maintenance projects have to be deferred until funds are available.

Despite this relatively small growth in revenue, the agency has maintained most of the Turnpike roadway in fair to good condition.

However, funding is insufficient to cover all of the short and long-term capital improvement projects that the Parkways Authority deems necessary to achieve the agency's objective of having less than 25 percent of the Turnpike road in fair to poor condition.

Issue 1

The Parkways Authority Is Gradually Addressing Excessive Spending Practices and Becoming More Prudent, But Opportunities for Further Cost Savings Exist.

Issue Summary

The Parkways Authority is a quasi-state agency in that it does not receive an appropriation from the Legislature and, by definition, it is not a state spending unit. Consequently, this status exempts the Parkways Authority from the Legislature's budgetary review process and other state-wide requirements. An important issue with respect to any quasi-state agency is whether it has developed practices and procedures that result in inefficiencies, excessive spending, or create undue disparities between itself and other state agencies. **The Legislative Auditor finds that, despite its quasi-state status, the Parkways Authority in many respects adheres to policies that are in harmony with administrative policies of the State. However, in other areas, the agency has developed policies that have resulted in excessive spending.** The Parkways Authority has recognized the need to become more prudent and has discontinued several generous policies. Nevertheless, there remains expensive spending policies that should be addressed.

The Parkways Authority has recognized the need to become more prudent and has discontinued several generous policies. Nevertheless, there remains expensive spending policies that should be addressed.

Many Parkways Administrative Policies Are in Harmony With State Policies

One of the objectives of this review is to determine if the Parkways Authority has developed administrative procedures that are seriously incongruous to state-wide administrative policy and consequently lead to excessive spending. As a quasi-state agency, the Parkways Authority does not come under the requirements of the Department of Personnel, the Division of Purchasing, the Surplus Property Division, or the State Auditor's cash management system. Although exempt from the state Purchasing Division, the Parkways Authority follows procurement procedures that are similar to the Purchasing Division's guidelines. This is discussed in greater detail in Issue 3. Also, the Parkways Authority regularly uses the Surplus Property Division in disposing used vehicles and equipment. Employees of the Parkways Authority are members of the Public Employees Retirement System (PERS), and contributions are made at the same rates as other state employers and employees. The Parkways Authority has indicated that it does not provide its employees a supplement to PERS benefits. The Parkways Authority also offers its employees health insurance through the State's Public Employees Insurance Agency (PEIA). Parkways employees receive increment pay, accrue annual and sick leave at the same rate as state employees. Adhering to state policies or developing similar policies can help avoid excessive spending practices and impropriety.

The Parkways Authority Has Developed Relatively Expensive Policies

The Parkways Authority has developed or maintained from its predecessor policies that are relatively expensive. In some instances, these policies are arguably excessive and unnecessary for the effective operation of the Turnpike. Some of these policies have recently been discontinued, while others remain in effect. The following Parkways policies are discussed in this issue.

From its inception in 1989 through June 2002, the Parkways Authority paid 100 percent of the PEIA health premiums. Parkways employees had no deductions from their wages and salaries for PEIA health premiums.

- Employees Health Premium Subsidy,
- Sick Leave Incentive Program
- "Step" Wage Increases,
- Toll Collectors Incentive,
- Recognition Awards, and
- Assigned Vehicles for Emergency Response

Employees Health Premium Subsidy

The Parkways Authority has provided its employees with health insurance through the PEIA. From its inception in 1989 through June 2002, the Parkways Authority paid 100 percent of the PEIA health premiums.[3] Parkways employees had no deductions from their wages and salaries for PEIA health premiums. The Legislative Auditor inquired the PEIA concerning the Parkways Authority's responsibility to deduct the employees share of the health premium from wages and salaries.

[3]*Some Parkways employees who chose any plan other than the PEIA Indemnity Plan started paying a portion of their premiums beginning in fiscal year 2000.*

The PEIA indicated that at least since 1996 it has billed the Parkways Authority using "State Fund" invoices which clearly show the total health premium amount for each employee and what portion is to be paid by the employer (employers' share) and employees (employees' share). Nevertheless, the Parkways Authority continued to pay 100% of the employees component for its employees through June 2002. **This policy cost the Parkways Authority an estimated $300,000 to $400,000 each year.**

The Parkways Authority indicated that in FY 2002 it acknowledged the rising cost of employees health premiums and wanted to bring its employees in line with other state workers by having them pay the employees share. To avoid having its employees assume the entire financial cost in one year, the Parkways Authority phased in having them pay their health premium share over a five-year period beginning in FY 2003, in increments of 20 percent. The phase-in has been completed and as of FY 2007, the Parkways Authority has deducted the entire employees' health premium component from their wages and salaries. The estimated cost of this policy and the phase-in schedule are shown in Table 4.

To avoid having its employees assume the entire financial cost in one year, the Parkways Authority phased in having them pay their health premium share over a five-year period beginning in FY 2003, in increments of 20 percent.

Table 4
Parkways Authority Payments
of Employees' Share of Health Premiums

Fiscal Year	2002	2003	2004	2005	2006*	2007*
Estimated Employees Share of Health Premiums	$369,951	$424,388	$491,635	$488,014	$505,899	$558,295
Percentage of Employees Health Premiums Paid By Parkways Employees	0%	20%	40%	60%	80%	100%
Estimated Amount of the Employees Health Premiums Share Paid by the Parkways Authority	$369,951	$339,510	$294,981	$195,206	$101,179	$0.00

Source: Data from PEIA billing invoices and Parkways Authority Payroll Register.
* FY 2002-2005 are estimated employees share of PEIA health insurance premiums based on 16 percent of the total premium amount billed the Parkways Authority by PEIA. FY 2006 and 2007 figures are based on actual employee shares of the PEIA billing.

Sick Leave Incentive Program

The Parkways Authority maintains a Sick Leave Incentive Program that was started by the agency's predecessor, the Turnpike Commission, during the late 1970's. This policy made it mandatory for all employees who have sick days in excess of 60, to receive pay for 25 percent (2 hours of an 8 hour day) of all the excess days, based on the employees' current hourly wage rate.[4] The remaining 75 percent of the excess sick days that are unpaid are kept by employees as "banked" sick days. These banked days cannot be compensated for in future years. An employee must carry sick leave hours in excess of 60 days to qualify for the incentive. The agency deducts taxes and an amount towards retirement. This requires the agency to match the employees retirement contribution with the employer's share of 10.5 percent of the gross amount. The total cost of this provision is shown in Table 5.

The remaining 75 percent of the excess sick days that are unpaid are kept by employees as "banked" sick days. These banked days cannot be compensated for in future years.

Table 5
Parkways Authority Cost
of Sick Leave Incentive

Fiscal Year	2003	2004	2005	2006	2007
Sick Leave Incentive	$64,697	$66,085	$63,312	$64,132	$62,290
Parkways Employer Retirement Contribution	$6,793	$6,938	$6,647	$6,733	$6,540
Total Cost	$71,490	$73,023	$69,959	$70,865	$68,830

Source: PERD analysis of Parkways Authority payroll data.

The Parkways Authority indicated that the intent of the provision is to give employees an incentive to use sick leave for valid reasons and thus increase productivity. This sick leave incentive provision placed the Parkways Authority in an outlying position compared to other state agencies that were not allowed to offer such a provision. It also allowed Parkways employees to convert a portion of their sick leave toward retirement which was also not allowed by other state agencies. During the 2008 legislative session, Senate Bill 476 passed the Legislature that allows state employees who were hired prior to July 1, 2001, and who have accumulated at least 65 sick leave days, to sell them for 25 percent of the employee's daily pay. The employee would have to maintain at least 50 sick leave days. A major difference between this enacted provision and the Parkways Authority's current Sick Leave Incentive policy is that

During the 2008 legislative session, Senate Bill 476 passed the Legislature that allows state employees who were hired prior to July 1, 2001, and who have accumulated at least 65 sick leave days, to sell them for 25 percent of the employee's daily pay.

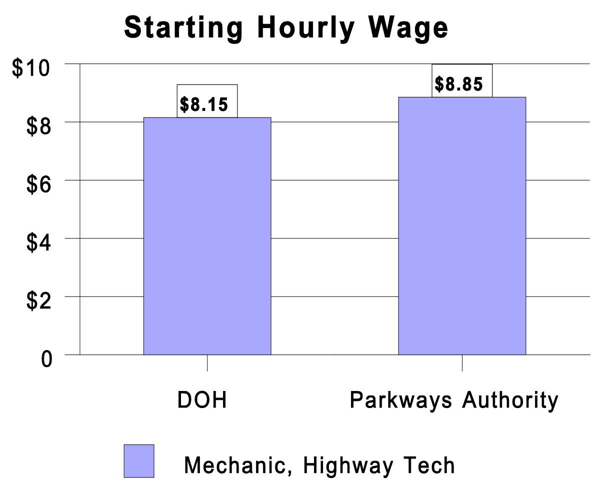
[4] *As of November 2007 it is no longer mandatory to convert excess sick days for pay. Parkways employees have the option each year to either receive compensation for a portion of their sick days or bank all of their excess sick days.*

Parkways allows employees to keep the remaining 75% of excess sick days, whereas, Senate Bill 476 does not; that is, Senate Bill 476 requires that the entire sick day is sold for 25 percent of the employee's full day's pay. **The Legislative Auditor recommends that Parkways Authority discontinue its current Sick Leave Incentive policy and adopt the same policy as enacted by the Legislature in Senate Bill 476.** The Parkways Authority's current Sick Leave Incentive policy involves a greater expense than enacted by the Legislature.

"Step" Wage Increases

A wage comparison between the Parkways Authority and the West Virginia Division of Highways (DOH) shows that the Parkways Authority has higher starting salaries for its maintenance workers (see Figure 3).[5] The DOH is required to hire staff through the State Division of Personnel. It posts the hourly wage of $8.15 for mechanics (TW2MECH) and transportation workers 2 (TW2EQOP) positions. These positions have similar job descriptions as Parkways Authority mechanic and highway technician positions that have a starting hourly wage of $8.85. These wage statistics are current as of November 2007.

Figure 3



[5] *Since there can be significant differences in cost of living from one state to another, the wage comparison was confined to the West Virginia DOH.*

In addition to higher starting wages for maintenance workers, the Parkways Authority has a wage increase process that results in significantly higher annual wage increases than the DOH. The Legislative Auditor compared the average annual wage increase of the Parkways Authority's Standard maintenance facility workers with the DOH's Chelyan maintenance facility workers. The comparison is shown in Table 6. Although Chelyan is not an interstate organization, its workers have similar job descriptions as Standard maintenance workers, and the Division of Personnel does not distinguish between an interstate organization and a county organization when it comes to starting salaries. The Chelyan facility was used in the comparison because of its proximity to the Standard facility (11 miles) and because it has a larger number of maintenance employees than DOH's interstate organizations. The Legislative Auditor received the hire date, hired starting wage and annual salary, current wage and annual salary, and the job title for each maintenance employee at the Chelyan and Standard facilities. Mechanics and foremen were included but clerical staff and vacant positions were excluded. Chelyan has 23 maintenance workers and Standard has 20 allocated full-time positions. The composition of each facility's staff is similar in terms of positions and the number of years worked. As Table 6 indicates, **maintenance workers at Parkways Authority's Standard facility experienced an average annual salary increase of 7.43 percent, which is well over twice the average annual increase (2.85 percent) for workers at DOH's Chelyan facility.**

In addition to higher starting wages for maintenance workers, the Parkways Authority has a wage increase process that results in significantly higher annual wage increases than the DOH.

As Table 6 indicates, maintenance workers at Parkways Authority's Standard facility experienced an average annual salary increase of 7.43 percent, which is well over twice the average annual increase (2.85 percent) for workers at DOH's Chelyan facility.

Table 6 Parkways vs. Division of Highways (District One) Comparison of Annual Salary Increases		
	DOH Chelyan Maintenance Facility	Parkways Authority Standard Maintenance Facility
Number of Employees (including mechanics)	23	18*
Average Years of Employment	11.2 Years	12.5 Years
Number of Employees With Less Than 3 Years Employment	5	4
Number of Employees With Over 20 Years Employment	4	4
Average Annual Salary Increase	2.85%	7.43%

Sources: PERD Analysis of Salary Data From the Parkways Authority and the DOH, Division One.
** Salary data were not included for two of the 20 allocated positions due to vacancy or medical leave.*

A primary reason for the disparity in annual wage growth between these two agencies is that the Parkways Authority has a "step" wage increase process that leads to pronounced wage increases over the first three years of employment. This "step" increase process is shown in Table 7. It should also be noted that these step wage increases will occur on top of any across-the-board raises authorized by the Governor.

A primary reason for the disparity in annual wage growth between these two agencies is that the Parkways Authority has a "step" wage increase process that leads to pronounced wage increases over the first three years of employment.

Table 7
Parkways Authority
Maintenance Department Step Wage Increase

Classification	Base 1	Base 2	Base 3	Base 4	Base 5	Base 6	Base 7	Base 8
Craftsman Technician Mechanic Apprentice	Start $8.85	3 Mo. $10.62	6 Mo. $11.65	12 Mo. $12.70	18 Mo. $13.77	24 Mo. $14.80	30 Mo. $15.26	36 Mo. $15.77
Years of Service	5+ Years	10+ Years	15+ Years	20+ Years				
Craftsman Highway Tech Mechanic	$16.30	$16.80	$17.25	$17.70				

Effective: July 2007
Raises are not automatic in any department they are based upon job performance.
Merit increases are $.40 per hour and are based upon job performance.
Merit will be added to the base salary when moving from one step to another.

Source: WV Parkways Authority

The Parkways Authority's step wage increases create a relatively large salary disparity between DOH transportation workers and Parkways highway technicians who perform essentially the same duties. Table 8 gives a few examples of the differences between current wages and annual salaries between the DOH and the Parkways Authority for similar positions and start dates at the DOH's Chelyan maintenance facility and Parkways Standard maintenance facility.

The Parkways Authority's step wage increases create a relatively large salary disparity between DOH transportation workers and Parkways highway technicians who perform essentially the same duties.

Table 8 Parkways Employees vs. DOH Employees Highway Technicians vs. Transportation Workers 2 (TW2EQOP)				
Employee	Employee Hire Date	Employee Hire Wage	Employee Current Wage*	Employee Current Annual Salary*
Parkways	6/92	$7.28	$18.05	$37,544
DOH	4/92	$6.94	$13.47	$28,017
Parkways	11/01	$7.63	$16.65	$34,632
DOH	7/01	$8.31	$11.02	$22,921
Parkways	4/03	$8.12	$16.02	$33,321
DOH	12/03	$8.31	$9.71	$20,196
Parkways	3/04	$8.50	$15.26	$31,740
DOH	7/04	$8.31	$9.71	$20,196

Source: PERD analysis of payroll data from the Parkways Authority and the Division of Highways.
**Current wage rates and annual salaries as of November 2007.*

The Legislative Auditor acknowledges that higher wage levels have the advantage of reducing turnover rates. This in turn reduces the recruiting costs of filling vacancies, reduces loss of productivity and training costs, which can be significant costs per position. There is evidence that the vacancy rate of transportation workers for the DOH is high compared to the Parkways Authority. A 2007 Workforce Development Study by the Rahall Transportation Institute for the West Virginia Department of Transportation (DOT) shows that transportation workers have the highest turnover and unfilled job openings of all classifications within the DOT. The study further shows that the turnover is higher in the border areas of the state than other parts of the state because of higher salaries in nearby states.[6] In addition, the study acknowledges that the Parkways Authority is a source of competition for the DOT because of its higher wages.[7]

The Legislative Auditor acknowledges that higher wage levels have the advantage of reducing turnover rates. There is evidence that the vacancy rate of transportation workers for the DOH is high compared to the Parkways Authority.

[6] Workforce Development Study 2007, *Rahall Transportation Institute, p. 45.*
[7] Workforce Development Study 2007, *p. 26.*

The issue is likely that DOH transportation workers are not paid an adequate wage rate. However, it is less clear whether the Parkways Authority's wage rate for highway maintenance workers is higher than needed to be competitive and maintain low employee turnover rates. Average annual salary increases for highway maintenance workers that are nearly three times higher than the DOH may be higher than necessary to maintain workers. The Parkways Authority has the advantage of being located in the central part of the state. It does not have direct competition for labor with other states, with the possible exception of the state of Virginia. One of the findings of the Rahall study is that "no one wants to leave the area in which they are currently living.... If workers want to stay in the area, they will seek employment opportunities in the area."[8] Furthermore, according to statewide workforce data, the public sector is the primary employer of highway maintenance workers, employing nearly 88 percent of those employed.[9] Similar positions in the private sector are limited. On the other hand, the labor market for mechanics is broader in the public and private sectors. Therefore, the higher wages for mechanics may be more justified in order to attract and retain quality mechanics, while the wage levels for highway maintenance workers may be higher than what is necessary to be competitive. **The Parkways Authority should objectively review for future employment its step wage increase process as a source of cost savings, particularly with respect to highway maintenance workers.**

The issue is likely that DOH transportation workers are not paid an adequate wage rate. However, it is less clear whether the Parkways Authority's wage rate for highway maintenance workers is higher than needed to be competitive and maintain low employee turnover rates.

The higher wages for mechanics may be more justified in order to attract and retain quality mechanics, while the wage levels for highway maintenance workers may be higher than what is necessary to be competitive.

Toll Collectors Incentive

The Parkways Authority provides incentives to its toll collectors based on the accuracy of toll collections per $1,000. Incentives are awarded twice a year. The average 12-month incentive amount awarded to qualified toll collectors in CY 2007 was $367.25. Table 9 shows the total cost for toll incentives awarded.

[8] *Workforce Development Study 2007, pp. 25-26.*

[9] *Comparative Occupational Wages 2007, West Virginia Bureau of Employment Programs.*

Table 9 Toll Collector Incentives			
Calendar Year	**Total Incentives**	**Parkways Retirement Contribution**	**Total Cost of Incentives**
2005	$31,178	$3,273	$34,451
2006	$31,196	$3,275	$34,471
2007	$30,849	$3,239	$34,088

Source: PERD computation of Parkways Authority Payroll Register data.

There are three performance categories for which incentives can be achieved, "Super," "Excellent," and "Good." Toll collectors with an average accuracy rating of "Super" maintained over a six-month period receive an incentive of $0.50 for every actual hour worked over the six-month period. Ratings of "Excellent" and "Good" earn incentives of $0.25 and $0.15 respectively per actual hour worked over the six-month period. A satisfactory rating does not warrant an incentive, while persistent unsatisfactory performance could result in disciplinary action and possible termination. The toll incentive structure is shown in Table 10.

Table 10 Toll Collector Incentive System		
Performance Category	Collection Error Rate Per $1,000 Collected	Incentive
Super	$0.00 - $0.09	$0.50 per hour worked
Excellent	$0.10 - $0.30	$0.25 per hour worked
Good	$0.31 - $0.60	$0.15 per hour worked
Satisfactory	$0.61 - $1.00	No Incentive
Unsatisfactory	$1.01 - above	Possible Disciplinary Action

Source: Parkways Authority Personnel Policies and Procedures Manual.

The Legislative Auditor assumes that an incentive system is designed to enhance revenue to the agency and reward toll collectors by paying them a fraction of the increased revenue in the form of incentives. **However, in practice the incentive system is giving the toll collectors virtually all of the enhanced revenue in incentives.** For example, over the last three fiscal years, the Parkways Authority averaged close to $60 million in toll revenue. If the agency had an average collection error rate of $1.00 per $1,000 in toll collections, then the agency would have lost $60,000 in revenue. For every $0.10 drop in the error rate, revenue would be enhanced by $6,000. Over the last two calendar years, the agency's payroll register shows that on average 70 percent, or 84 of the 119 full and part-time toll collectors qualified for an incentive. Therefore, 30 percent of toll collectors have error ratings above $0.60 per $1,000. The Legislative Auditor did not determine what the average error rating is for all toll collectors. Nevertheless, based on the scenarios of possible average error ratings shown in Table 11 and the actual incentives awarded, including the cost of the agency's retirement contribution, the agency is giving virtually all of the enhanced revenue to toll collectors. The most likely scenario is that toll collectors, as a whole, have an average error rating of around $0.50 per $1,000. The total cost of the incentives paid in CY 2007 was more than $34,000. Consequently, **more than the enhanced revenue is being paid to toll collectors.** Even in the less likely scenarios of $0.30 or $0.40 per $1,000, the agency is virtually giving all of the enhanced revenue to employees.

The Legislative Auditor assumes that an incentive system is designed to enhance revenue to the agency and reward toll collectors by paying them a fraction of the increased revenue in the form of incentives. However, in practice the incentive system is giving the toll collectors virtually all of the enhanced revenue in incentives.

Table 11
Scenarios of Enhanced Revenue Paid to Toll Collectors Through the Incentive System

Error Rating Scenarios	Enhanced Toll Revenue	FY 2007 Actual Incentives Paid*	Parkways Share of Enhanced Revenue
$0.30 per $1,000	$42,000	$34,088	$7,912
$0.40 per $1,000	$36,000	$34,088	$1,912
$0.50 per $1,000	$30,000	$34,088	$ (4,088)
$0.60 per $1,000	$24,000	$34,088	$ (10,088)

Source: PERD analysis of toll incentives and collection error ratings, based on $60 million in toll collections.
**Incentives paid include the cost of the agency's required employer retirement contribution.*

Consideration should be given to modifying the toll incentive system. The rating system should be continued as a way to measure performance so that toll collectors have an incentive in maintaining their employment. However, a less expensive non-monetary form of incentives should be considered as well. The Legislative Auditor contacted comparable Turnpike Authorities and asked if their toll collectors receive incentives based on the accuracy of toll collections. The states of Maine, Maryland, New Hampshire, Ohio, and Oklahoma do not issue such incentives to their toll collectors. Kansas provides an incentive; however, it is at the discretion of the Authority. If the Parkways Authority plans to keep the current monetary incentive system, it should be revised. **The Legislative Auditor contends that a monetary incentive system should benefit the agency's revenues significantly more than what is awarded to employees.**

If the Parkways Authority plans to keep the current monetary incentive system, it should be revised. The Legislative Auditor contends that a monetary incentive system should benefit the agency's revenues significantly more than what is awarded to employees.

Recognition Awards

The Parkways Authority took some cost saving initiatives in April 2007 by suspending its Awards and Recognition policy. In FY 2004 and 2005, one-time Recognition Awards in the amounts of $400 and $500 respectively were paid to each permanent full and part-time employee. Table 12 shows the estimated total costs of these awards. These awards are relatively expensive for an agency to assume when there are insufficient funds for needed maintenance of the Turnpike. **In the future, the agency should consider other less costly ways of showing appreciation to its employees.** The Legislative Auditor commends the Parkways Authority for suspending its Awards and Recognition policy.

Recognition awards of this magnitude are relatively expensive for an agency to assume when there are insufficient funds for needed maintenance of the Turnpike.

Table 12
Employees Recognition Awards

Fiscal Year	Award	Estimated Total Cost*
2005	$500 per employee	$206,635
2004	$400 per employee	$166,192

Source: PERD analysis of Parkways Authority data.
**Includes an estimated cost for the employer's retirement contributions.*

<u>Assigned Vehicles for Emergency Response</u>

The Parkways Authority assigned agency vehicles to certain employees who were allowed to park the vehicles at their domicile. The purpose for these assignments was for efficient emergency response. Twenty-two employees were assigned agency vehicles. **In an effort to reduce expenses, the Parkways Authority discontinued this policy.** The agency estimated that the total annual amount of cost savings from eliminating the take-home vehicle assignments is approximately $62,300 in fuel cost savings, wear and tear, and maintenance. The amended policy requires that employees drive their personal vehicles to their work site. Although the Legislative Auditor understands the need for efficient emergency response, it appears that several vehicle assignments were unnecessary for emergency response or emergency responses would have been too infrequent to be justified. Several employees commented in the Legislative Auditor's Employee Survey that they considered vehicle assignments a waste or misuse of the agency's funds because of the infrequency of emergency responses. **Although there may have been some efficiencies gained from this policy, it is likely that some unnecessary expenses were incurred as well.**

Although the Legislative Auditor understands the need for efficient emergency response, it appears that several vehicle assignments were unnecessary for emergency response or emergency responses would have been too infrequent to be justified.

Conclusion

The Parkways Authority has in many respects imposed upon itself state policies that facilitate prudent management.

The Parkways Authority has in many respects imposed upon itself state policies that facilitate prudent management. It essentially follows purchasing guidelines that are similar to the guidelines of the state Purchasing Division, it regularly uses the Surplus Property Division for disposing used vehicles, its employees are members of the Public Employees Retirement System, and health insurance is provided through the State's Public Employees Insurance Agency. Parkways employees receive increment pay, accrue annual and sick leave at the same rate as state employees.

However, the Parkways Authority has developed policies that are relatively expensive and arguably excessive and unnecessary.

However, the Parkways Authority has developed policies that are relatively expensive and arguably excessive and unnecessary. These policies divert needed funds from the mission of maintaining the Turnpike roadway. The Legislative Auditor acknowledges that in the recent past, the agency has discontinued some of these policies and has moved towards a more prudent form of management. The Legislative

Auditor commends the Parkways Authority for these important changes, particularly discontinuing the agency's payment of the employees' share of health insurance premiums. Nevertheless, the agency should consider changes to other policies that remain in effect. The Sick Leave Incentive policy should be discontinued. Since the Legislature implemented a less expensive sick leave incentive option, the Parkways Authority should establish a policy that is the same as enacted by the Legislature. The Toll Collectors Incentive policy should be revamped so that the agency benefits substantially more than the employees. The agency's "step" wage increase process should be examined for future employment to determine if it is higher than what is necessary to provide a fair and competitive wage rate, particularly for highway maintenance workers.

The Legislative Auditor commends the Parkways Authority for discontinuing certain policies and moving toward more prudent management. Nevertheless, the agency should consider changes to other policies that remain in effect.

Recommendations:

1. The Parkways Authority should consider discontinuing its Sick Leave Incentive policy. Since the Legislature has established a less expensive policy in which sick leave can be converted for pay, the Parkways Authority should adopt the same policy as enacted by the Legislature.

2. The Parkways Authority should objectively review its step wage increase process, particularly with respect to highway maintenance workers, to determine if its wages are higher than necessary to be competitive.

3. The Toll Incentive System should be revamped so that the Parkways Authority receives a majority share of enhanced revenues. A less expensive non-monetary incentive for toll collectors should also be considered as a substitute for the current toll incentive system.

4. The Parkways Authority should consider other less costly ways of recognizing or showing appreciation to its employees.

Issue 2

The Maintenance Department Provides Adequate Services to the Turnpike, But There Is Evidence It Can Be Leaner in Its Staffing Levels.

Issue Summary

In many respects the Maintenance Department operates economically. However, the Legislative Auditor's findings suggest that the Maintenance Department has some overstaffing.

A prominent focus was given to the Maintenance and Engineering Department (Maintenance Department) because of its significance to the Parkways Authority. There are 147 employees in the Maintenance Department within several subsections of the department. This issue shows that in general, the Maintenance Department is well managed and provides good maintenance services to the Turnpike given its resources. The maintenance facilities that were observed are clean and well equipped with modern equipment. In many respects the Maintenance Department operates economically. However, the Legislative Auditor's findings suggest that the Maintenance Department has some overstaffing.

The Maintenance Department Provides Good Service to the Turnpike System

The maintenance facilities observed by the Legislative Auditor were clean and organized, with modern and well maintained equipment.

The Maintenance Department employs 147 individuals who maintain the 88 mile Turnpike system through 3 maintenance facilities. Appendix B contains a map of the Turnpike and the locations of the three maintenance facilities. Each maintenance facility is responsible for all bridges and roadway repairs for a north and southbound segment of the Turnpike. The Ghent maintenance facility is located in the southern part of the Turnpike and it maintains the segment of north and southbound lanes from mile posts 9 to 37. The Beckley maintenance facility maintains the middle segment from mile posts 37 to 60, and the Standard maintenance facility is responsible for the northern segment from mile posts 60 to 95.

Each maintenance location has facilities for office space, equipment storage, salt storage, fuel pumps, and vehicle repair shops. Two staff members of the Legislative Auditor's Office observed the Beckley and Standard maintenance facilities. These facilities had modern and well maintained equipment. The grounds and facilities were clean and organized.

The Beckley maintenance facility is the largest of the three facilities primarily because it provides other services to all Turnpike maintenance facilities. In addition to providing bridge and road repair to the central segment of the Turnpike, the Beckley facility houses shops that provide maintenance services to the entire Turnpike system, such as carpentry, utility (electric and plumbing), welding, vehicle painting and body repair, highway signs, heavy equipment repairs, and landscape maintenance. The Beckley location is also the central warehouse for receiving and delivery of system wide maintenance supplies and equipment, and it also provides office space for the administrative staff who oversee all maintenance and engineering services.

According to the consulting engineer, "The roadways are in poor to very good condition." Bridges are in good condition through routine maintenance, and buildings and related facilities are also well maintained.

The Turnpike is routinely inspected by an independent consulting engineer, HNTB Corporation. According to the consulting engineer, "The roadways are in poor to very good condition." Bridges are in good condition through routine maintenance, and buildings and related facilities are also well maintained.[10] Due to a high level of preventive bridge services, the Parkways Authority has not replaced any bridge decks to date. Parkways Authority maintenance employees provide routine maintenance work such as pavement repair, patching, sealing, bridge repair, mowing, sweeping, snow and ice, and litter pick-up. Major maintenance projects are contracted with private vendors, such as major paving projects, heavy bridge work, pavement striping, bridge painting, full-depth concrete repair, and guardrail replacement.

Due to a high level of preventive bridge services, the Parkways Authority has not replaced any bridge decks to date.

Maintenance Department's Fleet and Equipment Are Well Maintained

Some comparisons were made between the Parkways Authority, the DOH and other state toll authorities. A comparison of vehicles was made between the Parkways Authority's Standard maintenance facility and the Division of Highways' Chelyan maintenance facility in District One, which is located approximately 11 miles from the Standard facility. Although the Chelyan facility is not an interstate organization, a comparison in terms of equipment can be made since the work conducted at each facility is similar. Table 13 lists the vehicles used at each facility as of November 2007. Standard's vehicles are more recent models with relatively low miles compared to Chelyan. The DOH's policy for District

[10] *Consulting Engineer's Report for the West Virginia Parkways, Economic Development and Tourism Authority*, HNTB Corporation, October 2005.

One on vehicle replacement is to keep heavy equipment, such as dump trucks, on the road for a minimum of 10 years or 13,000 hours (plus or minus 150,000 miles). Passenger cars are kept for a minimum of 5 years and 120,000 miles. However, according to the DOH's District One Manager, "Generally, the budget doesn't allow us to maintain that schedule and thanks to our mechanics we can keep our fleet on the road until money is available."

The Parkways Authority does not immediately replace equipment once it has reached its economic life. When equipment reaches its targeted replacement age, its replacement will depend on its condition and future usefulness. If the condition is good the unit can be kept as a "hand-me-down" for low usage or back-up purposes.

The Parkways Authority's replacement policy seeks to minimize costs over the equipment's "useful life." The point of minimal costs is identified as the economic life of the equipment, in which to keep the equipment in service after that point would cost more in the long-run because of higher maintenance costs and lower productivity. Each class of equipment has an average economic life, in terms of years, in which the equipment is "targeted" for replacement once it has been in service for the number of years of its economic life. The Parkways Authority does not immediately replace equipment once it has reached its economic life. It takes into consideration that some equipment continues to perform dependably beyond its economic life. When equipment reaches its targeted replacement age, its replacement will depend on its condition and future usefulness. If the condition is good the unit can be kept as a "hand-me-down" for low usage or back-up purposes. According to the Parkways Authority, each year equipment is evaluated and "targeted" for replacement. An Annual Equipment Renewal and Replacement Needs schedule has been developed that shows the average life for various classes of equipment, the estimated replacement cost for each unit, and the number of units that need to be replaced. The Parkways Authority estimates that its annual replacement needs are approximately $1 million.

A review of Surplus Property data reveals that the Parkways Authority has disposed of vehicles and equipment that are relatively old and with high mileage.

A review of Surplus Property data reveals that the Parkways Authority has disposed of vehicles and equipment that are relatively old and with high mileage.

Table 13 Vehicle Comparison Parkways Authority vs. Division of Highways			
Parkways Authority Standard Maintenance Facility		Division of Highways Chelyan Maintenance Headquarters	
Vehicle Type	Miles	Vehicle Type	Miles
2008 Ford Single Axle Dump	4,035	2007 Mack CV713	19,628
2005 Mack Dump Truck	11,470	2007 Ford F250	20,883
2007 Sterling Single Axle Dump	11,842	2006 Ford F550	30,937
2005 Mack Dump Truck	13,676	2004 GMC Sierra	45,282
2005 Mack Dump Truck	15,657	2000 Ford F550	70,824
2005 Mack Dump Truck	16,002	2004 Intntl 7400	78,817
2005 Mack Dump Truck	18,588	2000 Ford F550	117,148
2005 Mack Dump Truck	20,486	1995 Chevy S-10	147,852
2006 GMC Crew Cab	29,096	1999 GMC Sierra	163,289
2005 GMC Pickup	63,471	1995 GMC WG64	179,042
2005 GMC Crew Cab	68,442	1997 GMC C7H042	200,947
2007 GMC Pickup	70,957	1997 GMC C7H042	201,880
2005 GMC 1 Ton Pickup	77,578	1999 GMC Sierra	218,872
2003 Ford Crew Cab	86,566	1995 GMC WG64	240,232
2001 Ford Crew Cab	122,576		
Sources: West Virginia Parkways Authority, the Division of Highways, District One.			

Staffing Levels Have Increased Significantly Since the Parkways Inception

Since the establishment of the Parkways Authority in 1989, the number of permanent staff has increased significantly. Figure 4 shows that staff has grown from 290 employees in FY 1990 to 368 in FY 2007. These staffing figures do not include State Police or Tamarack employees. There has been a 10.7 percent decline in staffing since 1999 when the staffing level peaked at 412 employees.

There has been a 10.7 percent decline in staffing since 1999 when the staffing level peaked at 412 employees.

Figure 4

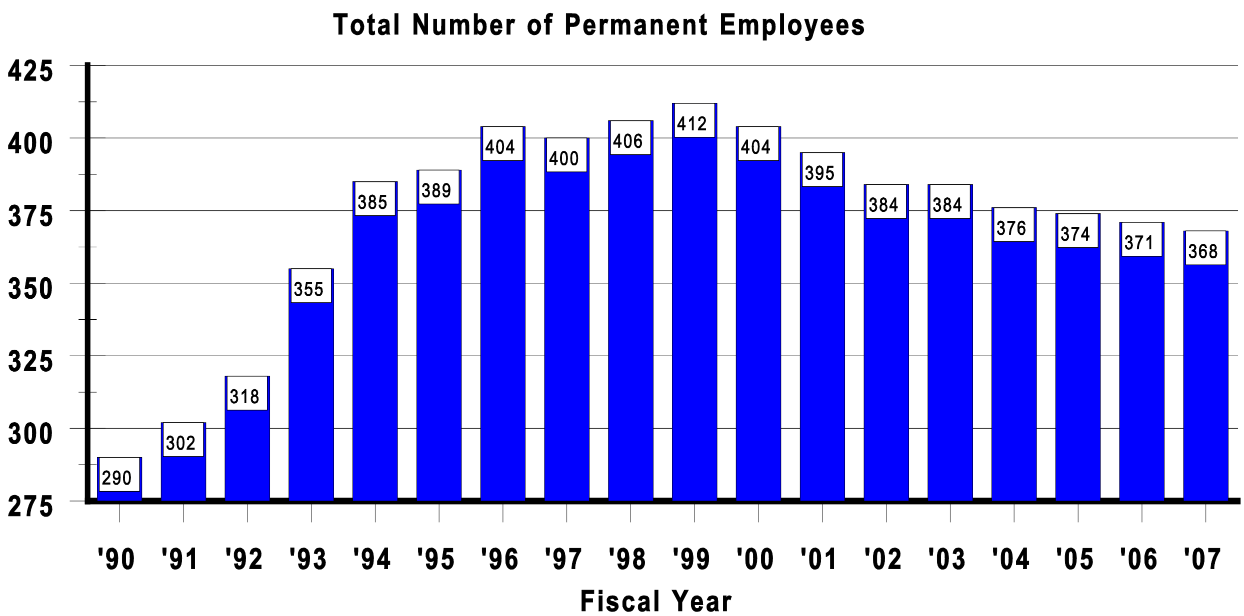


Table 14 below gives a breakdown of some of the additional positions. The increase in staffing has been in several areas of the agency. Some of the staff increases were to fill newly created positions, while other increases were to expand existing positions. The Turnpike took on several major changes that justified the need for increasing staff. A major change occurred with the completion of the dualization project in 1987. Table 14 provides a brief description of the position justifications. Additional toll collectors were needed when the toll plazas were expanded by six lanes and the creation of the E-ZPass system. The creation of Tourist Information Centers, additional travel plazas and the Princeton

Some of the staff increases may be justified, given the changes that have occurred over the years.

Welcome Center required additional staff. Other staffing increases were to enhance safety and coordination of State Police communications, provide additional administration needs and additional maintenance staff. Some of the staff increases may be justified, given the changes that have occurred over the years.

Table 14
Increased Employment From December 1988 To December 2006

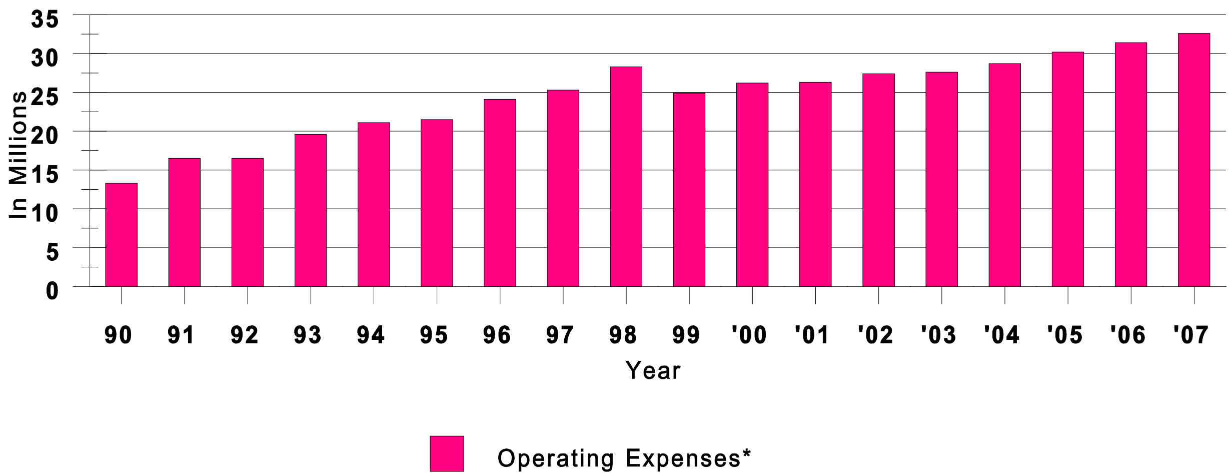
Toll Collection: 12 Toll Collectors (Added 6 lanes, more traffic, E-Z Pass) 1 Assistant Toll Director (Management, Planning) 1 Toll Equipment Maintenance (Variable message signs, electronic toll system management, planning)	14
Tourist Information/Craft Shops positions (1993 Travel Plazas, Princeton Welcome Center)	25
E-ZPass Customer Service Center (New E-ZPass Toll System)	3
Radio Communication Operators (More traffic, more State Police, increased safety)	4
Administration: 2 Director of Operations & Training (Quality Control, Inspector General) 2 Safety Office (Safety Officer and Assistant) 2 Human Resources (Legal Requirements, Workload) 1 Accounts Payable (Workload) 3 Purchasing (Workload) -1 Headquarters Custodian	9
Maintenance Department: 2 Environmental/Water Treatment (Rest Area 69, Bluestone Plaza, laws) 3 Landscaping (New Travel Plaza, Princeton Welcome Center, Facilities) 2 Heavy Equipment Mechanics (Workload) 1 General Purpose Maintenance (More attention to Beckley Travel Plaza) 3 Mechanics (1993-Governor's Inspire Program) 4 IT/Security/Telecom (Computer networking, gates, cameras) 9 Maintenance (Preventive maintenance/repairs Courtesy Patrol/safety, Beckley Interchange, and VanKirk Drive) 1 Utility (Restaurants, larger Travel Plazas) 11 Maintenance Administration (Receptionist, Secretary, Facilities Division (4), Highway Maintenance, Program Manager, Warehouse, Highway Supervisor and Deputy Supervisor, Highway Production) -2 Carpenter Shop -2 Chelyan Maintenance -6 Sign Shop	26
Total Net Employment Increase	81

Source: West Virginia Parkways Economic Development and Tourism Authority

A sizable portion of operating expenses go towards salaries and benefits. As a result of the increase in staff, higher priced materials and fuel costs needed to maintain the roadway, operating expenses have increased significantly since the inception of the Parkways Authority. Figure 5 shows operating expenses from fiscal years 1990 to 2007.

Figure 5

Operating Expenses



The Parkways Authority has to some extent recognized that its permanent staffing levels can be leaner. In 2004, the Maintenance Department went through reorganization. Twelve positions were eliminated through attrition or retirement since the 2004 reorganization, reducing the Maintenance Department staff from 159 to 147. The Legislative Auditor also noticed that temporary staff has been reduced from a high of 132 in FY 1997 to 97 in FY 2006. Interviews with Parkways staff also confirmed a drop in temporary staff. However, despite the reduction in permanent staff, further reductions may be warranted.

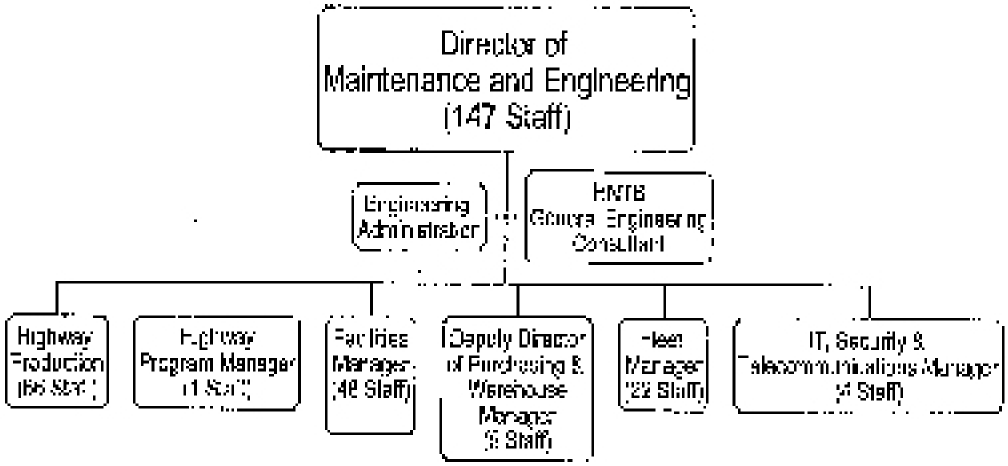
The Parkways Authority has to some extent recognized that its permanent staffing levels can be leaner.

Staffing Levels in the Maintenance Department May Still Be High

An examination of the Maintenance Department organization and spans of control puts in question the need for some staff positions. The basic organization structure of the Maintenance Department is shown in Figure 6.

Figure 6

Maintenance & Engineering Department



The Highway Production unit has 66 employees. The organization chart for Highway Production is shown in Figure 7. Most of these employees are located in the three maintenance facilities, each of which have a foreman to supervise day-to-day operations of the facility. In addition to the three foremen, there is a general supervisor and a deputy general supervisor between the foremen and the highway production manager. This places four management levels above the front line maintenance facility workers. The number of subordinates who report to one manager is defined as the span of control. Currently, the span of control for the three maintenance facilities is around 1:17, that is, 17 employees are supervised by one foreman. Span of control studies point out that there is no ideal ratio of line staff to managers or an ideal number of management levels. A number of factors influence appropriate spans of controls and management levels. According to the general findings of span of control studies, some of the factors that influence the optimal span of control are:

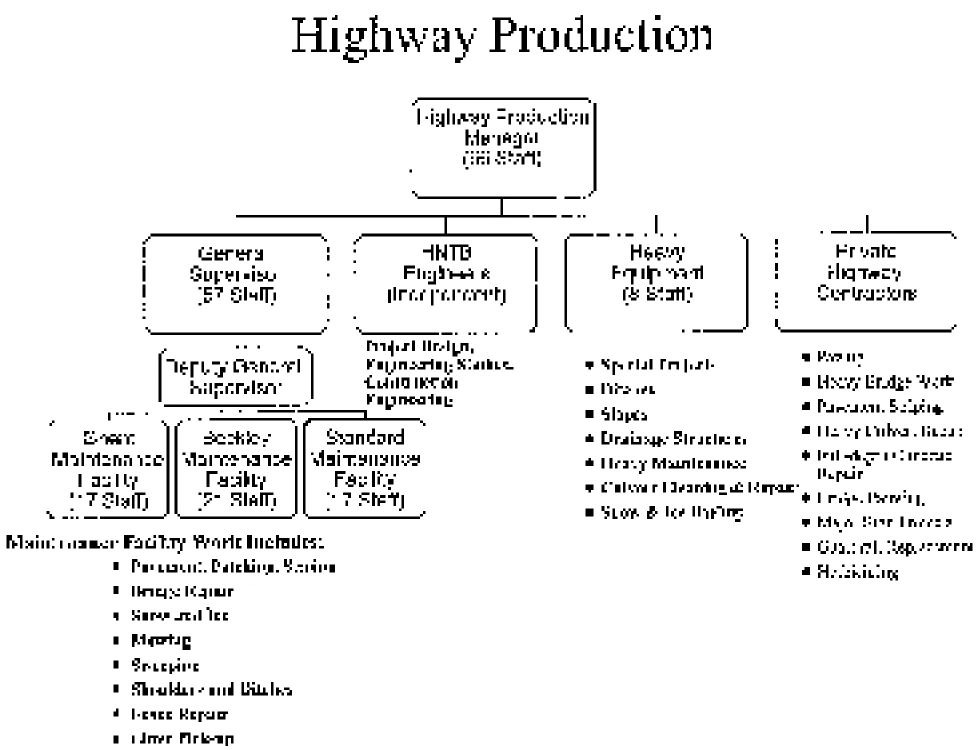
- the skill, capabilities, and experience of subordinates;
- the skill, capabilities, and experience of supervisors;
- the diversity and complexity of the work;
- the use of information technology;
- the administrative burden on management; and
- the geographic dispersion.

Generally, the more change that takes place in the work environment, the greater the geographic dispersion, the more diverse and complex the work, and the more administrative burden on the manager, then the smaller the span of control should be. The span of control at the maintenance facilities is relatively large, but given the nature of the work, the current span of control may be appropriate.

With facility foremen in charge of day-to-day operations at each maintenance facility, two additional supervisors appears more than what is needed.

However, it is less clear why the Highway Production unit would need three management levels above the maintenance facility foremen. The Parkways Authority indicated that the General and Deputy General supervisors work as a team to achieve the division's goals for the maintenance facilities. The General Supervisor is more involved in the day-to-day operations of the three maintenance facilities, while the Deputy General Supervisor spends the majority of his time coordinating with contractors who repair third-party damage to roadway infrastructure, such as guardrails. With facility foremen in charge of day-to-day operations at each maintenance facility, two additional supervisors appears more than what is needed.

Figure 7



The organization of Fleet Management also appears to have a questionable management layer. Figure 8 shows the organizational chart of the Fleet Management section. This section has a Fleet Manager and Deputy Fleet Manager overseeing seven shops. There are three mechanics stationed at each of the maintenance facilities, one of which is a shop manager. Although they are stationed at the Standard, Ghent and Beckley maintenance facilities, the mechanics come under Fleet Management supervision, not the maintenance facility foreman. The remaining shops for Gas, Heavy Equipment, Welding and Paint are located in Beckley and are within relatively close proximity of each other. The Director of the Maintenance Department indicated that the Fleet Manager has direct contact with the Paint, Welding, Heavy Equipment, and Gas shops, while the Deputy Fleet Manager works closely with the mechanics located at the three maintenance facilities. There is a total of 20 employees in these shops overseen by 2 management levels. With the 20 employees divided between the 2 managers, each manager has a span of control around 1:10. This is in sharp contrast with spans of control of 1:22 for the Assistant Facilities Manager and 1:20 for the General Supervisor in the Facility Maintenance section. Given that each shop in the Fleet Management section has a shop manager and the span of control is significantly smaller than other sections of the Maintenance Department suggests that one of the two management positions in Fleet Management may be unnecessary.

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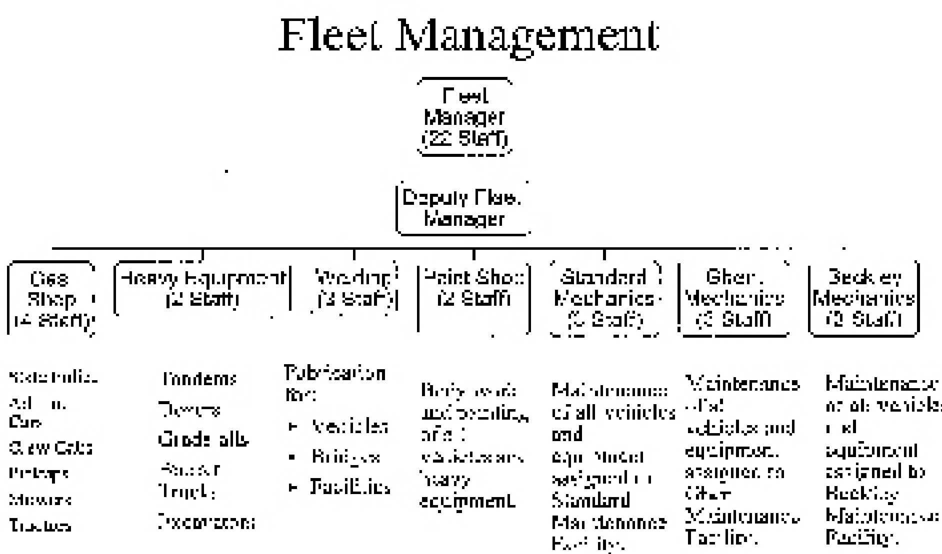
Figure 8



Parkways Maintenance Expenses Are Greater Than the Division of Highways

The Parkways Authority completed a detailed study in January 2006 that revealed the Turnpike routine maintenance costs per lane-mile in FY 2005 was $9,766, compared to $5, 534 for the DOH's maintenance of interstate roadways. **This translates into a total cost differential of $1,756,000 more to maintain the Turnpike compared to the DOH's maintenance of a similar length of interstate road.** The Parkways Authority concludes that the $1.7 million cost differential is because, "... the Turnpike provides a considerably higher level of service in its routine maintenance program than do the [DOH] interstate maintenance orgs [organizations]."[11] The five areas of higher level service identified by the Parkways Authority compared to the DOH are:

- snow and ice control,
- litter pickup,
- pavement crack sealing,
- pavement patching, and
- emergency service.

By "higher level service," the study is referring to a greater number of hours worked in these service areas and the greater material and equipment costs associated with them compared to the DOH. This cost differential is shown in Table 15.

[11] *Turnpike Maintenance Costs and Comparison With DOH*, *Parkways Authority, January 18, 2006, p. 5.*

Table 15
Cost of Higher Service Levels
Parkways Authority 2006 Study

Activity	DOH	Parkways	Total Cost Difference
Snow & Ice Control			
Material Cost	$326,000	$1,039,000	$713,000
Labor Hours	8,907	19,174	$250,000
Equipment*			$85,000
Litter Pickup			
Labor Hours	2,105	11,321	$204,000
Equipment*			$69,000
Pavement Crack Sealing			
Labor Hours	0	5,259	$86,000
Equipment*			$29,000
Pavement Patching			
Labor Hours	476	8,010	$167,000
Equipment*			$57,000
Emergency Service			
Labor Hours	252	1,480	$27,000
Equipment*			$9,000
Total Cost Difference			$1,696,000

Source: Turnpike Maintenance Costs and Comparison With DOH, Parkways Authority, January 18, 2006, p. 6.
**Equipment costs are estimated at 34 percent of labor costs.*

The Parkways Authority's cost comparison study follows proper logic up to a point. It prorates DOH interstate costs to be consistent with the same length of highway as the Turnpike, and it compares only routine maintenance activities between the two organizations. The analysis has the premise that the difference in cost is based on a different composition of activities between the two agencies. This is a viable explanation, but only with respect to the differences in material costs, equipment, and overtime. However, including the cost of straight-time labor hours should not be included in the analysis. The analysis is based on comparing the two agencies with routine maintenance staffing levels that are similar per lane mile, as the study indicates. Consequently, the number of labor hours each entity has is a common factor. If Parkways spends more time in one task compared to the DOH, then the DOH is spending more time in other activities. If certain tasks are associated with higher material, equipment and overtime costs, then these should be the only cost differential. If the analysis is corrected to exclude straight-time labor costs, then **the Parkways Authority has $734,000 higher routine maintenance cost for the Turnpike compared to the DOH for the same length of road.** A good portion of this amount can be explained by the Parkways Authority's higher wages and benefit costs.

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With respect to staffing, the Legislative Auditor compared the staffing of the Parkways Authority's three maintenance facilities to the staffing of the DOH interstate organizations in District One. Table 16 shows that the average staffing of Parkways Authority maintenance facilities is higher than interstate organizations in the DOH's District One. Interstate organizations of the DOH are comparable to the Parkways Authority's maintenance facilities, in that the employees perform similar tasks on interstate roadways. The Parkways Authority allocates on average 21 employees to each maintenance facility, of which 17 are maintenance workers, 1 foreman, and 3 mechanics.[12] On the other hand, the DOH allocates 11 maintenance workers to an interstate organization, of which 9 are maintenance workers, 1 foreman, and 1 mechanic. The number of lane miles serviced per maintenance facility is approximately the same for each agency.

[12] *Three mechanics are physically located at each Parkways Authority facility but they are supervised by another organization unit. Consequently, the Highway Production Organization Chart does not include these mechanics in the total staff for each facility.*

Table 16 Parkways Authority vs. Division of Highways Allocation of Maintenance Workers per Facility		
	Division of Highways Interstate Organization (District One)	Parkways Authority Maintenance Facility
Average Number of Lane Miles Served	127	138
Number of Mechanics	1	3
Average Number of Maintenance Workers (including foremen)	10	20
Average Number of Allocated Workers	11	21
Source: Data From Parkways Authority and the Division of Highways.		

Table 17 shows the combined total number of workers allocated to all five interstate organizations in DOH's District One and the Parkways Authority's three maintenance facilities. The combined totals suggest that the interstate organizations of the DOH service more total lane miles with less staff than the Parkways Authority's maintenance facilities.

Table 17 Parkways Authority vs. Division of Highways Lane Miles Per Maintenance Worker		
	Division of Highways 5 Interstate Organizations (District One)	Parkways Authority 3 Maintenance Facilities
Total Number of Lane Miles Served	637	415
Total Number of Mechanics	5	9
Total Number of Maintenance Workers (including foremen)	49	55
Total Number of Lane Miles per Worker (including mechanics)	11.8	6.5
Source: PERD analysis of data from Parkways Authority and the Division of Highways.		

The Parkways Authority's 2006 cost comparison study addresses this staffing differential by indicating that several tasks are performed by Parkways maintenance workers that are not performed by DOH transportation workers. The tasks referred to are:

- courtesy patrol,
- certain preventive bridge maintenance, and
- delineator installation and maintenance.

According to Parkways estimates, the number of positions and hours needed for these 3 tasks are equivalent to 20 Parkways maintenance employees. The study concluded that when these 20 employees are excluded from the 55 shown in Table 17, the level of staffing for routine maintenance per lane-mile is similar for each agency, 1 maintenance worker per 11 to 12 lane miles. According to the DOH District One Director, its maintenance workers do not formally provide courtesy patrol services. The Department of Transportation provides courtesy patrol services statewide for its interstate highways through a private contractor. The DOH also indicated that it does some delineator work and it does routine road repair on bridges, but major delineator and bridge work is contracted with private vendors.

some of the staffing differences between the Parkways Authority and the DOH is explained by tasks not performed by DOH maintenance workers, particularly courtesy patrol.

The Parkways analysis in this area appears consistent. It is likely that some of the staffing differences between the Parkways Authority and the DOH is explained by tasks not performed by DOH maintenance workers, particularly courtesy patrol, which explains most of the differences in staff (12 of the 20 positions). However, all of the services that Parkways identifies as explaining the higher staff levels at maintenance facilities are performed by the DOH by a combination of its maintenance workers and outside contractors. **The issue this raises is whether it is more cost effective to have certain maintenance services contracted out or performed by full time staff.** The DOH indicated that its courtesy patrol contract is less expensive than if the DOH were to provide this service with its own staff. Similar services that the DOH contracts out are also contracted out by other comparable state turnpike authorities, as will be discussed in the following section. Furthermore, if the Parkways Authority determines it cost effective to have certain maintenance tasks under private contracts, **consideration should be given to the cost advantages of the Parkways Authority and the Department of Transportation jointly contracting for similar maintenance services.**

All of the services that Parkways identifies as explaining the higher staff levels at maintenance facilities are performed by the DOH by a combination of its maintenance workers and outside contractors. The issue this raises is whether it is more cost effective to have certain maintenance services contracted out or performed by full time staff.

Parkways Authority in Comparison With Other State Turnpike Authorities

The Governor requested an independent review be conducted on the Parkways Authority by the Public Resources Advisory Group, Inc. (PRAG) to evaluate the need for future proposed toll increases. The PRAG review compared the Parkways Authority with 12 state turnpike authorities and it arrived at several conclusions and recommendations. One conclusion made in the PRAG report is that the Parkways Authority's operating and maintenance (O&M) expenses, analyzed on a per-roadway-mile basis, "appear to be moderate relative to comparable facilities, especially those facilities where winter snow conditions are significant."[13] Furthermore, in comparing the 1.9 percent growth rate of the Parkways

Authority's O&M expenses from FY 2000 to FY 2005 to the 6.8 percent average annual growth rates of other mature toll roads for the same time period, the PRAG report found that the Parkways Authority kept the growth in O&M expenses "to a minimum."[14]

By not controlling for traffic volume in its comparisons with other state turnpikes, the PRAG report is not accurate in claiming that the Parkways Authority's O&M expenses are moderate.

The problem with these two conclusions is that they do not control for important factors. The PRAG report did not control for the wide disparity in traffic volume between the Parkways Authority and other state toll systems. Furthermore, the PRAG report compared the growth rate of the Parkways Authority's O&M expenses with other state turnpike authorities that all had recent toll increases. Toll increases can lead to increases in O&M expenses. Since the Parkways Authority has not had a toll increase in over 20 years, the comparison of growth in O&M expenses used in the PRAG report may not be comparable.

The Legislative Auditor's Office verified the PRAG report's data that were used in the previously mentioned conclusions. Most of the data were accurate with the exception of information for the states of Illinois and Maryland. However, the changes for these two states would not have significantly altered the conclusions in that section of the PRAG report. Table 18 below replicates a table of the PRAG report with corrected data for Illinois and Maryland.

[13] *Independent Review and Analysis of the West Virginia Parkways, Economic Development and Tourism Authority, Public Resources Advisory Group, February 5, 2007, p. 25.*

[14] *Public Resources Advisory Group, pp. 24-25.*

Table 18
O&M Expenses per Roadway Mile for Comparable Facilities

Turnpike Authorities	Roadway Miles	FY 2005 O&M ($000)	O&M per Roadway Mile
New Jersey Turnpike Authority	1,219	$245,651	$201,518
Massachusetts Turnpike Authority - Western Turnpike	590	$91,633	$155,310
Illinois State Toll Highway Authority*	1,665	$215,796	$129,607
New York State Thruway	2,564	$305,310	$119,076
Pennsylvania Turnpike Commission	2,124	$218,768	$102,998
Florida Turnpike System	1,995	$157,570	$78,982
Ohio Turnpike Commission	1,356	$104,528	$77,086
West Virginia Parkways Authority	**415**	**$27,814**	**$67,022**
Maine Turnpike Authority	522	$32,460	$62,184
Maryland Transportation Authority - JFK Highway*	334	$19,776	$59,209
New Hampshire Turnpike System	631	$30,041	$47,609
Kansas Turnpike Authority	944	$36,818	$39,002
Oklahoma Turnpike Authority	2,389	$59,883	$25,066

Source: The PRAG Report, p. 25.
** Data for Illinois and Maryland were incorrect in the original PRAG report and are displayed here with the corrected data and rankings. Maryland's calculation for O&M expenses per road mile is understated because it does not include administrative and general expenses, which were not allocated to the JFK Highway.*

The PRAG report indicates that a firm conclusion cannot be drawn on the comparison shown in Table 18 because comparing O&M expenses to other state turnpike authorities is dependent on a number of factors, including seasonal weather and the incidence of snow. However, a major factor that PRAG mentions but does not control for as it relates to O&M expenses per roadway mile is the volume of traffic on each turnpike system. When traffic volume, measured in terms of toll transactions or number of vehicles, is considered, the data show that there are high and low traffic volume turnpike systems, with West Virginia being on the low end.

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The Legislative Auditor obtained toll transaction figures for the state turnpike systems used in the PRAG report. These figures are shown in Table 19. It is logical to assume that O&M expenses per lane mile will be higher for turnpike systems with higher toll transactions. For the 13 turnpike systems, a correlation analysis was performed on 2005 toll transactions and O&M expenses, as well as toll transactions and O&M expenses per lane mile. The results show positive Pearson Correlation values of 0.694 and 0.636 respectively. This indicates that a positive correlation is present between the two measures, which suggests that turnpike systems with high traffic volume will tend to have higher O&M expenses and O&M expenses per lane mile than turnpike systems with relatively low traffic volume. Therefore, in the PRAG report the Parkways Authority appears to be moderate in O&M expenses per lane mile because it is a relatively low traffic turnpike system compared to several of the other states. However, as will be seen below, when the Parkways Authority is compared to turnpike systems that have comparable traffic, the Parkways Authority is on the high end with respect to O&M expenses per lane mile.

In the PRAG report the Parkways Authority appears to be moderate in O&M expenses per lane mile because it is a relatively low traffic turnpike system compared to several of the other states.

Table 19
Turnpike Authority Toll Transactions FY 2006

Turnpike Authority	Total Transactions
Illinois	764,137,000
New Jersey	681,209,995
Florida	661,368,000
New York State	269,390,865
Pennsylvania	185,901,000
Oklahoma	135,082,444
New Hampshire	114,562,787
Massachusetts-Western Turnpike (2005)	105,000,000
Maine	76,094,107
Ohio	51,784,000
West Virginia	**35,182,000**
Kansas	33,122,409
Maryland- JFK Highway	14,735,847

Source: State Turnpike Authority Annual Financial Reports

When the Parkways Authority is compared to turnpike systems that have comparable traffic, the Parkways Authority is on the high end with respect to O&M expenses per lane mile.

Controlling for traffic volume, a more appropriate comparison would be to compare state turnpike systems that are closer to the Parkways Authority in terms of toll transactions. The states of Florida, Illinois, New Jersey, New York, and Pennsylvania have significantly larger traffic volume than the Parkways Authority. Table 20 shows O&M expenses per lane mile excluding these states and updated to show FY 2006 data. In this comparison, the Parkways Authority is on the high end in O&M expenses per lane mile. An examination of these states from a micro level reveals some interesting features that may benefit the Parkways Authority in further reducing its operating costs.

Table 20
State Turnpike Comparison
FY 2006 O&M Expenses Per Lane Mile

State Turnpike Authority	Total Lane Miles	FY 2006 O&M (thousands)	O&M Per Lane Mile
Massachusetts Turnpike Authority - Western Turnpike	590	$99,213	$168,158
West Virginia Parkways Authority	415	$31,414	$75,696
Ohio Turnpike Commission	1,373	$103,514	$75,392
Maine Turnpike Authority	510	$35,988	$70,565
New Hampshire Turnpike System	625	$41,783	$66,852
Maryland Trans. Auth. - JFK Highway	334	$18,706	$56,006
Kansas Turnpike Authority	980	$36,823	$37,574
Oklahoma Turnpike Authority	2,389	$64,818	$27,132

Source: State Turnpike Authority Comprehensive Annual Financial Reports. Total lane miles for Kansas, Maine, New Hampshire, and Ohio were provided by staff of the respective Turnpike Authority.

Table 21 shows the total maintenance department employees for comparable state turnpike systems. For those states that provided staffing information, the Parkways Authority has the lowest lane miles per maintenance department employee. **However, there are differences in services provided that may explain some of the staffing differences.** In particular, Kansas, New Hampshire, and Oklahoma, the leanest states in the comparison, do not have formal courtesy patrol services. New Hampshire and Oklahoma do not use their maintenance workers for major bridge maintenance, while Kansas does. Nevertheless, even reducing the Parkways Authority staffing figures by up to 20 to account for courtesy patrol and bridge work, still leaves Kansas, New Hampshire and Oklahoma, significantly leaner than the Parkways Authority.

There are differences in services provided that may explain some of the staffing differences.

The number of bridges per mile to maintain was also evaluated. There is not a significant difference between these states in this regard. The Parkways Authority maintains 116 bridges over 415 lane miles, which averages to one bridge every 3.5 miles. The range for the comparable states is between one bridge per 2.8 miles for Kansas to one bridge per 4.8 miles for Maryland. A description of the six states' routine maintenance service levels is given below.

Kansas Turnpike Authority

Kansas does not have a formal courtesy patrol program. Its maintenance workers do major bridge work and delineator installation and maintenance.

Table 21
Lane Miles Per Maintenance Department Employees
Parkways vs. Comparable State Turnpike Authorities

State Turnpike Authorities	Number of Lane Miles	Total Maintenance Department Employees*	Number of Lane Miles per Maintenance Department Employee
Oklahoma Turnpike Authority	2,389	170	14.1
New Hampshire Turnpike System	625	72**	8.7
Kansas Turnpike Authority	980	125	7.8
Maine Turnpike Authority	510	108	4.7
Ohio Turnpike Commission	1,373	356	3.9
Maryland Trans. Auth. - JFK Highway	334	111	3.0
WV Parkways Authority	415	147	2.8
Massachusetts Turnpike Authority	590	n/a	n/a

Source: PERD analysis of 2007 data from Parkways Authority and other state turnpike authorities.
**Maintenance department employees include supervisors, engineers, administration and support staff.*
***Includes five mechanics who are assigned to the New Hampshire Turnpike but are employees of the State Department of Transportation's Bureau of Mechanical Services.*

Maine Turnpike Authority

Maine's Turnpike Authority operates a seasonal (June through September) courtesy patrol using its personnel. It conducts up to 25% of major bridge work with the remainder being contracted out. Maine's maintenance workers do all delineator installation and maintenance work.

Maryland Transportation Authority - JFK Highway

Maryland's JFK Highway has a formal courtesy patrol performed by a centralized section of state employees. For the most part, major bridge maintenance is not performed by Maryland maintenance workers. Maryland does not have a comprehensive program for cleaning salt off bridges, nor does it reseal decks after initial bridge construction. Bridge painting is no longer performed by maintenance workers. This is contracted out. Delineator installation and maintenance is done by Maryland maintenance workers.

New Hampshire Turnpike System

The New Hampshire Turnpike does not operate a formal courtesy patrol. The New Hampshire DOT Bureau of Bridge Maintenance (not a part of the Bureau of Turnpikes) operates 15 bridge maintenance crews throughout the state. One of those crews is dedicated to the Turnpike system. The Turnpike pays the Bureau of Bridge Maintenance for this crew's salaries and materials, as well as purchasing and supplying that crew with a crane truck, a 1-ton dump truck and two pickup trucks. This crew performs the bulk of the bridge maintenance work on the New Hampshire Turnpike. However, periodically a contracted vendor is hired to sandblast and repaint bridges.

The New Hampshire Turnpike maintenance workers are responsible for delineator installation and maintenance. Two years ago, the New Hampshire Turnpike employed five mechanics, one per maintenance facility. However, these positions were transferred to the New Hampshire DOT Bureau of Mechanical Services. They are for the most part permanently assigned to work on the Turnpike fleet. Labor and parts are initially paid out of the Bureau of Mechanical Services and then billed to the Turnpike.

Ohio Turnpike Commission

The Ohio Turnpike Commission operates a courtesy patrol with its maintenance workers. Delineator installation and maintenance, all bridge maintenance, except painting, are performed by maintenance workers.

In comparing these states with the Parkways Authority, the states that are on the high end of O&M expenses per lane mile (Ohio and Maine) have formal courtesy patrol services.

Oklahoma Turnpike Authority

The Oklahoma Turnpike Authority does not have a formal courtesy patrol service. It may perform minor bridge repair and painting; however, it contracts out all major bridge maintenance and repair, sweeping, etc. Oklahoma also installs delineators.

In comparing these states with the Parkways Authority, the states that are on the high end of O&M expenses per lane mile (Ohio and Maine) have formal courtesy patrol services. Maine's courtesy patrol is limited to four months out of the year. Those on the low end of O&M expenses per lane mile, except Maryland, do not provide courtesy patrol. All of the states in the comparison do delineator work. With the exception of Kansas, the states on the low end of O&M expenses per lane mile (Oklahoma and Maryland) contract out major bridge maintenance and repair work. The state of New Hampshire coordinates Turnpike major bridge work through its Department of Transportation.

With the exception of Kansas, the states on the low end of O&M expenses per lane mile (Oklahoma and Maryland) contract out major bridge maintenance and repair work.

The Parkways Authority May Have More Mechanics Than Necessary

Table 22 shows the number of mechanics and what percent they are of the total maintenance department for state turnpike authorities. The Parkways Authority has the second highest percentage among comparable turnpike authorities. The Parkways Authority employs three mechanics for each maintenance facility and mechanics are employed in other maintenance shops. Furthermore, the equipment at maintenance facilities is relatively new. There is evidence that Parkways mechanics at times have downtime and are used to do maintenance work. Although this is not uncommon among state turnpike authorities, it nevertheless raises the issue whether Parkways has sufficient mechanic work for the number of mechanics it employs. Although it may appear to be economical for mechanics to do maintenance work during downtime, it

There is evidence that Parkways mechanics at times have downtime and are used to do maintenance work. Although it may appear to be economical for mechanics to do maintenance work during downtime, it would be more efficient to have the appropriate number of mechanics devoted strictly to mechanic work.

would be more efficient to have the appropriate number of mechanics devoted strictly to mechanic work. The average percentage of mechanics to total maintenance department staff for the comparable states is eight percent. For the Parkways Authority, 8 percent of the total maintenance department would be nearly 12 mechanics, which would be a reduction of 5 mechanic positions. This analysis is intended to be suggestive. If a reduction in mechanics is warranted, it would free costs for needed maintenance work. In addition, **the Parkways Authority and the DOH should evaluate a coordinated effort of having some mechanics roam between the two organizations on an as-needed basis that could be more economical for both agencies.**

For the Parkways Authority, 8 percent of the total maintenance department would be nearly 12 mechanics, which would be a reduction of 5 mechanic positions.

Table 22
Mechanics as a Percentage of All Maintenance Workers

State Turnpike Authority	Total Maintenance Workers	Number of Mechanics	Mechanics as a Percentage of Total Maintenance Workers
Massachusetts Turnpike Authority - Western Turnpike	n/a	n/a	n/a
Maine Turnpike Authority	108	18	16.7%
West Virginia Parkways Authority	147	17	11.6%
Maryland Trans. Auth. - JFK Highway	111	10	9.0%
New Hampshire Turnpike System	72	5*	6.9%
Ohio Turnpike Commission	356	24	6.7%
Kansas Turnpike Authority	125	7	5.6%
Oklahoma Turnpike Authority	170	7	4.1%

Source: PERD Analysis of Data From Parkways Authority, and Other State Turnpike Authorities.
**New Hampshire recently had five mechanics removed from its Maintenance Department. They now come under the State Department of Transportation's Bureau of Mechanical Services that maintains all vehicles for the Department of Transportation and the Turnpike. For this analysis, the five mechanics are included in the total maintenance workers.*

Conclusion

The Parkways Authority, through its Maintenance Department, has maintained the Turnpike roadway in operative condition for the traveling public. The Maintenance Department has organized and well kept facilities, and it has modern and well maintained equipment. For the most part, the Maintenance Department is managed well.

The Parkways Authority, through its Maintenance Department, has maintained the Turnpike roadway in operative condition for the traveling public.

The analysis on Parkways maintenance staffing levels and O&M expenses per lane mile are intended to be suggestive. It is difficult to control for all variables that can explain cost and staffing differences between turnpike authorities. Given this caveat, the analysis suggests that the Parkways Authority's Maintenance Department is overstaffed in certain areas. The Maintenance Department has two questionable management levels, one in the Highways Production section and another in the Fleet Management section. The comparison with comparable turnpike authorities and the West Virginia DOH suggests that the total number of employees in the Maintenance Department is relatively high, the number of mechanics may be greater than needed, and the Parkways Authority should give consideration to the cost benefits of contracting out certain maintenance services, such as major bridge maintenance and repair work, and courtesy patrol. In addition, some of the leaner comparable turnpike authorities have greater coordination with their respective departments of transportation. Therefore, the Parkways Authority should consider discussing with the Department of Transportation coordinating efforts that could be cost effective for both agencies, such as in the use of mechanics, road signs, courtesy patrol through the DOT's courtesy patrol contract, or joint contracting for other maintenance work.

The comparison with comparable turnpike authorities and the West Virginia DOH suggests that the total number of employees in the Maintenance Department is relatively high, the number of mechanics may be greater than needed, and the Parkways Authority should give consideration to the cost benefits of contracting out certain maintenance services, such as major bridge maintenance and repair work, and courtesy patrol.

Recommendations

5. The Parkways Authority should examine the organizational structure of its Maintenance Department to assess the need for certain management level positions in the Highway Production and Fleet Management sections.

Some of the leaner comparable turnpike authorities have greater coordination with their respective departments of transportation.

6. The Parkways Authority should consider reducing its current level of mechanic positions to a more appropriate level.

7. Consideration should be given to coordinating the use of mechanics between the Parkways Authority and the Department of Transportation if such an arrangement proves feasible and cost effective for both agencies.

8. The Parkways Authority should assess the cost benefits of having certain maintenance services under private contract.

9. Consideration should be given to the cost advantages of the Parkways Authority and the Department of Transportation jointly contracting for similar services.

Issue 3

The Parkways Authority's Purchasing Procedures Reflect the Principles of State Purchasing Requirements and With a Few Exceptions, Its Purchasing Procedures Are Adequately Followed.

Issue Summary

Since the Parkways Authority is a quasi-state agency, independent of state purchasing procedures, the Legislative Auditor's Office evaluated the Parkways Authority purchasing procedures to determine whether it encourages competitive bidding, avoids excessive or questionable spending, and complies with its purchasing policies and procedures. To make these determinations, the Legislative Auditor reviewed the Parkways Authority's Purchasing Policies and Procedures manual, sampled purchase orders, examined bid documents and contracts, and interviewed purchasing personnel. The Legislative Auditor finds that the Parkways Authority has developed purchasing procedures that reflect the basic principles of the State's Purchasing Division's guidelines. Overall, with few exceptions, the Parkways Authority's practice of its purchasing procedures is adequate.

Parkways Authority Purchasing Policies Reflect State Purchasing Requirements

A concern the Legislative Auditor had is whether the procurement practices of the Parkways Authority promote competitive bidding and seeks to obtain goods and service at the lowest price. Although the Department of Administration determined that the Parkways Authority is not required to utilize the State's Purchasing Division for its procurement, the Parkways Authority's purchasing policies and procedures, in many ways, reflect the policies and procedures set forth by the West Virginia Purchasing Division. Table 23 shows that the Parkways Authority uses similar bid requirements and purchasing levels established by the State Purchasing Division. The difference between the two agencies' purchasing levels is due to the Purchasing Division' recent revisions of its requirements effective July 2007. Prior to July 2007, the Parkways Authority's purchasing levels and bid requirements were the same as the State Purchasing Division. Consequently, the Parkways Authority's guidelines are slightly more stringent than the State Purchasing Division's current requirements. For example, the state encourages competition but it does not require a bid for purchases less than $2,500. The Parkways Authority's comparable purchasing level also does not require a bid but the purchase amount cannot exceed $1,000.

Table 23
Purchasing Levels

WV PURCHASING DIVISION*	WV PARKWAYS AUTHORITY
$2,500 and less Bids encouraged but not required.	**Less than $1,000** Bids encouraged but not required.
$2,500.01 - $5,000 3 documented verbal bids	**$1,000 - $4,999** 3 documented verbal bids
$5,000.01 - $25,000 3 Written Bids	**$5,000 - $9,999** 3 Written Bids
	$10,000 - $19,999 3 Written Bids Class II Legal Advertisement
Over $25,000 - Formal Acquisitions Processed by the WV Purchasing Division	**$20,000 and above** - Require Board Approval 3 Written Bids Class II Legal Advertisement

Source: WV Purchasing Division Procedures Handbook, and WV Parkways Authority Purchasing Policies and Procedures.
**Effective as of July 1, 2007.*

To determine whether or not the Parkways Authority consistently applies and enforces its purchasing policies and procedures, the Legislative Auditor randomly selected two samples of purchase orders for review. The first sample consists of 183 purchase orders and was taken from the Maintenance Department's Master Control Log, which records purchases less than $1,000. The second sample was chosen from a list of agency-wide purchases exceeding $1,000. The purchase order samples are discussed at greater length later in this report.

Written Justification for Sole Source Purchases Inadequately Documented

Sole source or direct purchasing occurs when an agency purchases from a vendor without competitive bidding. This form of purchasing is allowed by the State Purchasing Division if the item cannot be obtained through ordinary purchasing procedures, or the item is unique and not available from any other source. In these instances, the agency must have written justification showing the efforts made to determine the availability of the item and why competitive bids are not possible. The Parkways Authority's Purchasing Policies and Procedures allow sole source purchasing, however, "written justification" is required, regardless of the dollar amount, showing that: (1) the requested vendor is the only known source, **or**; (2) the items are of a unique or special nature, **and**; (3) the request is not an attempt to circumvent the normal bidding procedures.

The Parkways Authority's Purchasing Policies and Procedures allow sole source purchasing, however, "written justification" is required, regardless of the dollar amount.

Table 24 shows a list of the six sole source purchases in the sample. The Legislative Auditor observed three of the sole source purchase orders only stated "sole source" or "direct purchase" on the face of the document with no "written justification" statement. The other three sole source purchase orders supplied justification statements. However, in these three instances, there were inconsistencies in the extent of written justification documented. Two provided relatively brief justification statements, while the third included a standardized form titled "Single/Sole Source Justification" that thoroughly documented the conditions surrounding the need for a sole source purchase. **The Legislative Auditor recommends that the Parkways Authority consider amending its purchasing policies to include a standardized form to allow for adequate and consistent sole source justification statements by all departments.**

The Legislative Auditor observed three of the sole source purchase orders only stated "sole source" or "direct purchase" on the face of the document with no "written justification" statement.

Table 24 Parkways Authority Direct (Sole Source) Purchases				
PO #	**Department**	**Item/Service Description**	**Cost**	**Follows Policy**
06/07-18	Toll	Central processing unit plus installation	$5,234.80	Yes
06/07-106	Maintenance	Spreader parts for inventory	$8,909.02	**No**
06/07-109	State Police	Installation of radio, video, & lighting	$3,250.00	**No**
06/07-309*	Facilities	GR3 Sign Retroreflectometer	$9,800.00	Yes
06/07-317	Maintenance	Propane-Standard Maintenance	$2,695.00	Yes
06/07-357	Tamarack	Replacement amplifier	$1,441.35	**No**

Source: WV Parkways Authority
**This purchase order had a useful form titled "SINGLE/SOLE SOURCE JUSTIFICATION" attached.*

Practices for Executing Purchases Less Than $1,000 Inconsistent With Policy

The Parkways Authority Purchasing Policies and Procedures manual establishes detailed steps for carrying out purchases that are less than $1,000. The manual indicates, "All [purchase order] numbers will be issued numerically to the respective Section Heads by the Parkways [Authority] Purchasing Division." The purchasing procedures also require that, "All purchase orders must be completed in the sections and signed by the Section Head" and "A Master Control Log of all purchase orders will be maintained by the Section Head." The Legislative Auditor observed that the Deputy Director of Purchasing maintains a master control log for the Maintenance Department and prepares purchase orders, both tasks that the Parkways Authority's purchasing procedures assign to a "Section Head." The purchasing policy is correctly designed to separate certain purchasing responsibilities between the Section Heads and the

Purchasing Department to avoid potential fraud. However, the current practice has a member of the Purchasing Department performing the work of Section Heads. The Legislative Auditor sees no evidence that the current arrangement has resulted in fraud, but rather may have developed out of convenience. Therefore the Legislative Auditor concludes that the Maintenance Department should conform with the established guidelines for making purchases that total less than $1,000.

Master Control Log Records Incomplete

A copy of the Master Control Log was provided to the Legislative Auditor by the Deputy Director of Purchasing. The Master Control Log records Maintenance Department purchases that are under $1,000. There are six fields of information that are to be recorded in the log according to the agency's purchasing policy. Upon review of the Master Control Log, the Legislative Auditor observed that for each purchase order issued, information is recorded for only four of the six fields. The information that is not recorded is the date the counter receipt was returned (to the Section Head), which indicates the date the item was received, and the date that the counter receipt and purchase order was transmitted to the Accounting Department. The Legislative Auditor concludes that the Maintenance Department Head has not periodically reviewed the Master Control Log as required by the Purchasing Policies and Procedures manual otherwise the insufficient information would have been observed.

Therefore the Legislative Auditor concludes that the Maintenance Department should conform with the established guidelines for making purchases that total less than $1,000.

The Legislative Auditor randomly selected from the Master Control Log for FY 2006 a sample of 183 Maintenance Department purchases, each less than $1,000. The Parkways Authority's policy states, "The employee will always obtain a counter receipt which must be signed and dated by him/her certifying that the items purchased have been received." This requirement is important to create accountability in making purchases and to reduce the risk of inappropriate purchases. The Legislative Auditor observed that in some instances the receipt or invoice does not have an employee's signature and date confirming that the item(s) had been received. The agency should take steps to improve adherence to its purchasing policy. As an example, West Virginia Code §12-3-10f does not allow the head of a spending unit to submit a requisition on the State Auditor for payment of a purchased item unless it includes a Receiving Report, which includes a description of the commodities and quantities received, the receiving date and a signature acknowledging receipt by the employee receiving the commodities.

Instances of "Stringing" Are Present

As the sample of purchase orders less than $1,000 were being reviewed, and other information was cross referenced, such as the Maintenance Department's Master Control Log and a Detailed Remittance report, the Legislative Auditor identified cases that strongly suggest the practice of "stringing." Stringing is a practice in which purchases from the same vendor are separated into smaller purchase order amounts to avoid exceeding purchase levels that require bidding. Table 25 shows 6 separate purchase orders to a Beckley vendor, all of which were issued three days apart and some were issued on the same day. All of the items purchased were similar in nature and the account reference indicated that a large majority of the goods would be used to replenish the warehouse's general supplies that are shared by other departments. In each case, if the purchases made on the same day were combined, they would have totaled more than $1,000, which would have required three documented verbal bids. Moreover, these 6 purchases were part of 15 separate purchase orders made to the same vendor over a 9-day period totaling $5,795, which was paid to the vendor on one check. A purchase that is between $5,000 and $10,000 requires 3 written bids.

The Legislative Auditor identified cases that strongly suggest the practice of "stringing." In each case, if the purchases made on the same day were combined, they would have totaled more than $1,000, which would have required three documented verbal bids.

Table 25
Examples of "Stringing"

Issue Date	Invoice Date	PO #	Vendor	Purchase Amount
1/25/06	1/30/06	90662	BJW Printing & Office Supply	$812.62
1/25/06	1/30/06	90666	BJW Printing & Office Supply	$893.40
1/26/06	1/30/06	90726	BJW Printing & Office Supply	$957.11
1/26/06	1/30/06	90732	BJW Printing & Office Supply	$729.36
1/27/06	1/30/06	90675	BJW Printing & Office Supply	$808.35
1/27/06	1/30/06	90693	BJW Printing & Office Supply	$729.36
Total				**$4,930.20**

Source: WV Parkways Authority

Another incident involves two purchase orders dated seven days apart, requesting identical items in equal quantities from the same New Jersey vendor, Eastern Data Paper. This can be seen in Table 26. Each purchase order totals $943.50. This exact situation occurred a second time six months later. A third instance occurred six months from the second incident except in this case the purchase orders have the same issue date and the quantities and cost differ. However, if the two purchase orders are combined in these cases they total over $1,000. Because the items purchased are not regularly ordered on a weekly basis and a clear pattern is observed, the Legislative Auditor determines that the agency did not deplete its supply of these items in a week's time, thus necessitating a new order the following week. The evidence suggests that the purchases were separated a week apart to avoid obtaining three verbal bids.

Because the items purchased are not regularly ordered on a weekly basis and a clear pattern is observed, the Legislative Auditor determines that the agency did not deplete its supply of these items in a week's time, thus necessitating a new order the following week.

Table 26
Separated Purchases to Keep Prices Under $1,000

PO Issue Date	PO #	Vendor	Quantity @ Price	Purchase Amount	Item Description
8/16/05	88370	Eastern Data Paper	30 @ $31.45	$943.50	Toll Receipt Paper
8/21/05	88398	Eastern Data Paper	30 @ $31.45	$943.50	Toll Receipt Paper
2/16/06	91078	Eastern Data Paper	30 @ $31.45	$943.50	Toll Receipt Paper
2/23/06	91136	Eastern Data Paper	30 @ $31.45	$943.50	Toll Receipt Paper
8/02/06	93447	Eastern Data Paper	15 @ $31.45	$620.00	Toll Receipt Paper
8/02/06	93448	Eastern Data Paper	30 @ $31.45	$943.50	Toll Receipt Paper

Source: WV Parkways Authority Maintenance Department Master Control Log

There is no evidence that the Parkways Authority has an open-ended or state-wide contract with either the Beckley or New Jersey vendors that were competitively awarded. It is possible that similar incidents of this nature are occurring with other vendors. **This practice may have developed out of convenience, however, the Parkways Authority should avoid these types of purchasing practices since they restrict competition.**

Purchases Greater Than $1,000 Comply with Policies and Procedures

The Legislative Auditor reviewed a random sample of 46 purchase orders, each exceeding $1,000 from FY 2007, to test their compliance with the Parkways Authority's purchasing standards. Those standards that apply to all purchases greater than $1,000 include referencing the disbursement criteria on the face of the document, acquiring three signatures of approval, soliciting and properly documenting verbal or written bids, and verifying that a vendor is registered with the state of West Virginia and current with its Workers Compensation and Unemployment Compensation premium payments. In general, the sample suggests that the Parkways Authority follows its policies and procedures when issuing a purchase order for purchases totaling more than $1,000. However, in this area the Parkways Authority can improve adherence to its purchasing procedures. Below the sample of purchase orders is broken down by dollar amount.

<u>$1,000 - $4,999</u>

Twenty-seven of the 46 purchase orders sampled fall within this price range. Except in the case of statewide contracts or open-ended Parkways Authority contracts, all of the purchase orders totaling between $1,000 and $5,000 include a "Bid Quotation Summary" form. The Bid Quotation Summary form provides a consistent format to comprehensively document the required verbal bids. Although purchases within this dollar range do not require written bids, a majority of the purchase orders have faxed written bids attached.

The Legislative Auditor identified one instance within this category in which the Parkways Authority did not follow proper procedures. The Parkways Authority's Purchasing Policies and Procedures manual notes, "It is the Parkways Authority's responsibility to make sure vendors are properly registered with the WV Purchasing Division prior to issuing a purchase order either verbally or in writing." However, from a list of four bidding vendors, the Parkways Authority selected the vendor that not only had the highest bid, but was not registered to do business in the state of West Virginia. Documents attached to the purchase order indicate that there may have been some question about the vendor's registration before the work was performed. After the work had already been completed, the Parkways Authority's Purchasing Department requested that the selected vendor register with the state and provided the vendor with the necessary forms. The purchase order is dated more than two months after the completion of the work. In addition, there was no explanation as to why the highest bid was chosen.

$5,000 - $9,999

Eleven of the 46 purchase orders sampled were in this category. Purchases falling within this monetary range are required to attach three written price quotations. With the exception of state wide contracts and open-ended Parkways Authority contracts, all of the purchase orders reviewed provide the required written bids. Although it is not required in this category, all but one of the purchase orders reviewed utilize the "Bid Quotation Summary" form that is referenced above in the $1,000 - $5,000 section.

$10,000 and Above

Eight of the 46 purchase orders sampled total more than $10,000. Purchases that total between $10,000 and $20,000 require a class II legal advertisement and three written bids. Purchases totaling more than $20,000 require approval from the Parkways Authority Board in addition to a class II legal advertisement and three written bids. Because a large percentage of the transactions totaling more than $10,000 are purchased through statewide contracts or Parkways Authority open-ended contracts, six of the eight in the sample did not require written bids or a class II legal advertisement. Of the remaining two purchase orders, one was between $10,000 and $20,000 and did not have evidence of a class II legal advertisement and three written bids. The other purchase order exceeded $20,000 and sufficiently document the month of the meeting in which the Board approved the purchase, however there is no evidence of a class II legal advertisement and three written bids. **The Parkways Authority should improve adherence to its purchasing procedures in this area.**

Parkways Authority Makes Reasonable Efforts to Use Statewide Contracts

In 11 of the 46 purchase orders reviewed, the Parkways Authority utilized statewide or Division of Highways contracts. In addition to the sample of purchase orders, the Legislative Auditor also reviewed purchase orders for vehicles, sodium chloride (road salt) and fuel because of the large cost associated with these items. The Parkways Authority piggybacks on a Division of Highways contract for road salt and a statewide contract for fuel and vehicles. The Legislative Auditor finds that the Parkways Authority makes efforts to utilize statewide contracts when possible to ensure it of a reasonable cost.

The Parkways Authority piggybacks on a Division of Highways contract for road salt and a statewide contract for fuel and vehicles.

Highway and Bridge Rehabilitation Projects Are Competitively Bid And Fairly Awarded

When a statewide contract is not used for the acquisition of large equipment or an extensive maintenance project, the Parkways Authority publicizes an "Advertisement for Proposal." An advertisement for proposal invites vendors to submit bids to the Parkways Authority for equipment or services and includes equipment or project specifications and pertinent information such as a pre-bid conference date or a bid opening date. The Advertisement for Proposal is printed as a Class II legal advertisement in three major newspapers where the WV Turnpike is located. The agency also posts all Advertisements for Proposals on the its website (www.wvturnpike.com) under a tab labeled "Bid Opportunities." For the procurement of professional service contracts such as architectural, legal counsel, investment services, auditor, etc., the Parkways Authority issues Requests for Proposals (RFP) which are also publicized via Class II legal advertisements and on the agency's website.

When a statewide contract is not used for the acquisition of large equipment or an extensive maintenance project, the Parkways Authority publicizes an "Advertisement for Proposal." The Advertisement for Proposal is printed as a Class II legal advertisement in three major newspapers where the WV Turnpike is located.

In the case of highway and bridge rehabilitation projects and other major capital projects, the Parkways Authority's Consulting Engineer, HNTB Corporation, prepares the bid specifications, assists the Authority in evaluating the bids, and offers the General Manager contract award recommendations which are presented to the Parkways Authority Board for approval. HNTB applies the WV Division of Highways Standard

Specifications for roads and bridges when evaluating bids for construction contracts. The Legislative Auditor reviewed 22 extensive highway and bridge rehabilitation contract awards for the years 2002 through 2007. The records indicate that the Parkways Authority conducted the bidding process in a fair and competitive manner. However, on several occasions a single bid was received from the same company for pavement rehabilitation. The Parkways Authority indicated that currently the sole bidder is the only company known to operate an asphalt plant within a reasonable distance from the WV Turnpike and that other companies located further away would incur higher mobilization costs or would require constructing an asphalt plant. In an effort to ensure that the single bidder is not price gouging, the consulting engineer, HNTB Corporation, develops cost estimates for paving projects based on construction costs and other contracts in West Virginia and bordering states. The potential for significant cost savings exists when multiple bids are received. The frequency of a single bidder for major contracts concerns the Legislative Auditor. **As a result, the Legislative Auditors finds that the Parkways Authority should consider providing expanded or additional public notice or make stronger efforts to solicit bids from other contractors in order to stimulate multiple bidding.**

The records indicate that the Parkways Authority conducted the bidding process in a fair and competitive manner. However, on several occasions a single bid was received from the same company for pavement rehabilitation.

The Parkways Authority Should Consider the State's Investment Management Services

The Parkways Authority's investment management contracts as well as custodian agreements have typically lasted for a period of five years, a three-year contract with two one-year renewals. The most recent RFP for investment management and/or custodian services occurred in 2002. According to Parkways Authority Board meeting minutes, Advertisements for Proposals were published in four local newspapers and direct mail invitations were sent to 10 known vendors. Six qualified firms submitted proposals that were evaluated by a three-member review committee that made a recommendation to the Board's finance committee. The contract for both investment management and custodial services was awarded to United National Bank of Charleston, West Virginia. Table 27 shows the amount paid to United Bank over the past five years for investment management services.

Table 27
Parkways Authority Expenditures on Investment Services

Fiscal Year	Expenditures
2003	35,408
2004	33,440
2005	39,079
2006	40,529
2007	44,836

Source: WV Parkways Authority
**Bank service charges and trustee fees paid under separate contracts are not included in above totals.*

Although the investment management contracts and custodian agreements were competitively bid, the Legislative Auditor is concerned that the Parkways Authority has not considered services available through state agencies, such as the West Virginia Board of Treasury Investments (BTI) or the West Virginia Investment Management Board (IMB).

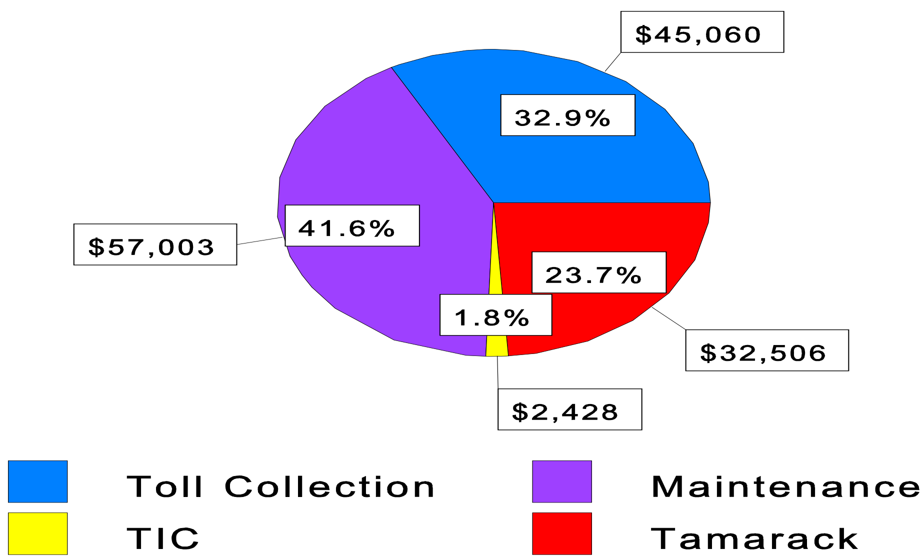
Although the investment management contracts and custodian agreements were competitively bid, the Legislative Auditor is concerned that the Parkways Authority has not considered services available through state agencies, such as the West Virginia Board of Treasury Investments (BTI) or the West Virginia Investment Management Board (IMB), which are the principal investment management organizations for the state. The Legislative Auditor contacted the Executive Director of the IMB to inquire as to whether or not the Parkways Authority has ever communicated an interest in the agency's investment services. In response, the IMB's Director stated that since he has been the director of the IMB (since 1997) and its predecessor agencies (since 1989) he could not recall being contacted by the Parkways Authority regarding the use of the IMB's investment services; however, if approached by the Parkways Authority, the IMB would be willing to discuss possible investment management opportunities. He also noted that he was not aware of any statutory restrictions in the IMB's statute that would prohibit its investment of Parkways Authority's funds. It cannot be determined what if any cost savings are possible if the Parkways Authority used one of the state investment agencies. However, it is possible that state investment agencies may offer similar investment performance at less cost than the private sector.

The Parkways Authority's investment management and custodial service contract with United National Bank expired on May 31, 2007. In September 2007, the Parkways Authority stated that it is in the process of updating its Investment Policy and Portfolio Procedures guide and will rebid the contract with updated policies in place. **The Legislative Auditor recommends that when issuing an RFP for investment management and/or custodian services, the Parkways Authority should also consider investment management services offered by state agencies.**

Revising the Uniform Policy May Reduce Expenditures

The Parkways Authority furnishes uniforms to Maintenance, Toll, Tourist Information Center, and Tamarack employees. Because the Maintenance Department and the Toll Collection Department comprises a majority of the agency's total uniform expenditure, the Legislative Auditor focused on those two departments and did not review the Tourist Information Center or the Tamarack uniform policy. Figure 9 breaks down the Parkways Authority's total uniform expenditure by department for fiscal year ending 2007.

Figure 9
Uniform Expenditures by Department
FY 2007



Each full-time maintenance or toll employee is issued one set of uniforms after successful completion of a probation period. A complete set contains the following:

Maintenance Department Employees

- three pair of pants,
- three long sleeve shirts,
- three short sleeve shirts,
- two coveralls (insulated and non insulated),
- one winter coat,
- one lightweight jacket,
- two pair of gloves, and
- one hard hat.

Toll Department Employees

- four trousers or skirts,
- three long sleeve shirts,
- three short sleeve shirts,
- one summer jacket or sweater,
- one headgear (at the request of the employee),
- one reflective safety vest, and
- one winter jacket (every other year).

The contents of the set may vary slightly depending on the employee's designated trade or shop. To maintain this inventory of uniforms each permanent employee is allotted an annual uniform allowance in the amount of $250 that may be applied to the purchase of any combination of uniform items that his or her allowance will permit. This allowance is not cash provided to employees, but rather a predetermined amount that the agency will spend on uniform items chosen by the employee. Reflective safety vests and hard hats are not deducted from the employees' uniform allowances but are accounted for in the maintenance department's overall uniform expenditure.

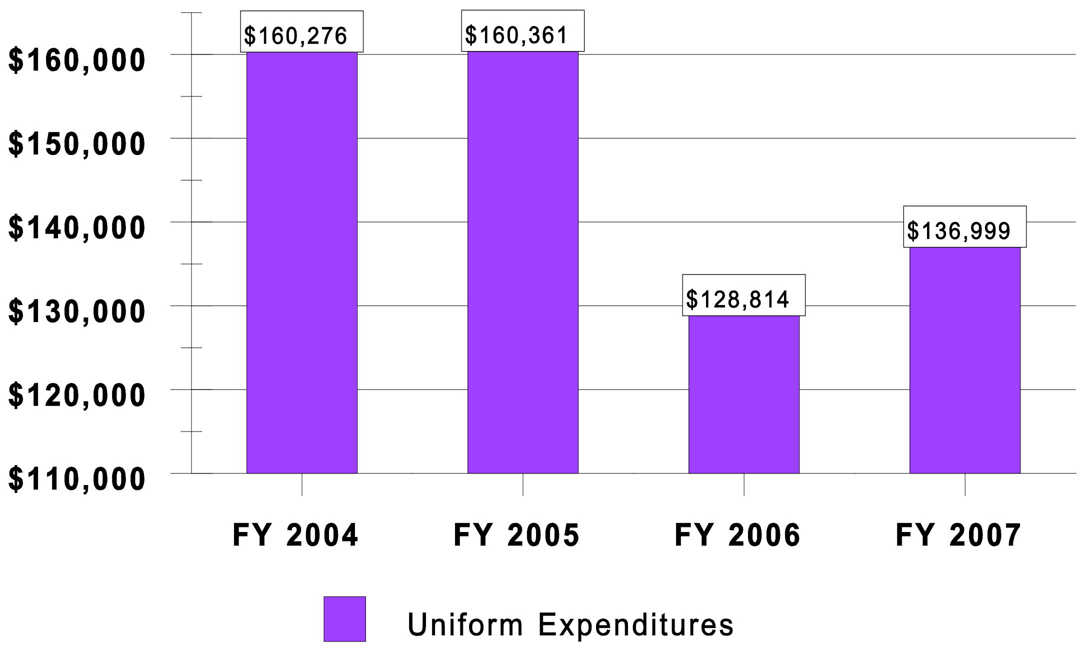
To maintain this inventory of uniforms each permanent employee is allotted an annual uniform allowance in the amount of $250 that may be applied to the purchase of any combination of uniform items that his or her allowance will permit.

In addition to the $250 uniform allowance, the Parkways Authority will reimburse permanent employees for safety boots up to a maximum of $80.00 per year upon submission of a receipt, ANSI certification and a completed expense report. The Toll Messenger, Toll Technicians, and a majority of the Maintenance Department employees may receive the safety shoe allowance. Each employee is responsible for the purchase of his or her safety boots and according to the Safety Shoe Policy IV-14, shoes will be approved for replacement as they become unserviceable due to fair wear and tear in the performance of everyday duty.

Figure 10 shows the agency's total uniform expenditure for fiscal years 2004 through 2007. Although the agency's total uniform expenditure has decreased since 2005, the Legislative Auditors contends that the expenditure can be further reduced.

Figure 10

Parkways Authority Uniform Expenditures



The Legislative Auditor asserts there are two primary reasons for requiring employees to wear a uniform:

- to give employees a homogeneous appearance, and/or
- to prevent personal loss to employees who may damage their personal clothing during the performance of their day-to-day tasks.

The inconsistency in the Parkways Authority's uniform policy is that: 1) not all employees are required to wear all of the agency issued uniform items, and 2) not all uniform items are to prevent personal clothing loss in performing job responsibilities. For example, during various maintenance facility site visits, the Legislative Auditor observed that not all maintenance employees wore the agency-issued navy uniform pants. Although most of the mechanics wore the agency issued uniforms, several highway maintenance employees and some maintenance managers wore denim pants instead. According to the Deputy Director of Purchasing, maintenance employees have the option of wearing either the uniform pants or their own personal pants. However, he noted that if an employee chooses to order the uniform pants with his or her uniform allowance, the employee is expected to wear the uniform pants while performing his or her duties. The uniform policy objective in this instance is not to achieve a homogenous appearance, but to prevent personal clothing loss in performing job requirements. However, it appears to be an unnecessary expense for the agency to provide uniform items when some employees can and prefer to wear their personal items instead. **The Parkways Authority should consider either eliminating the provisions of uniform items that are optional to employees and that a sizable number of employees choose not to wear or require all employees to wear the full uniform everyday.**

The uniform policy objective in this instance is not to achieve a homogenous appearance, but to prevent personal clothing loss in performing job requirements. However, it appears to be an unnecessary expense for the agency to provide uniform items when some employees can and prefer to wear their personal items instead.

In contrast, the uniform policy for toll collectors is not to prevent personal loss of clothing items due to the performance of the toll collection function, but primarily to achieve a homogenous appearance. The Legislative Auditor finds that it is appropriate to require Toll Department employees to present a standardized appearance. Toll collectors are visible to the public and uniformity portrays an organized and professional organization which results in a positive impression of West Virginia. However, the Toll Department's employees are permitted to wear trousers or skirts other than those issued by the agency. The uniform policy states that employees are permitted to purchase dark blue trousers or skirts at their own expense, however all clothing purchased by the employee must be approved for wearing. Consequently, Toll Department employees may or may not be wearing the uniform trousers and/or skirts provided by the Parkways Authority. Since the toll booths shield toll collectors' pants from public view, a uniform trouser or skirt may not be necessary, especially since not all employee wear the agency issued pants or skirts. While continuing to implement a dress code requiring a particular color or style of trouser or skirt at the employee's expense is reasonable, the Legislative Auditor recommends that the Parkways Authority consider not furnishing those items to Toll Department employees. **Considerations should be given to eliminating provisions of other items in which the agency allows toll collecting employees the choice between agency issued items or their own clothing.**

Since the toll booths shield toll collectors' pants from public view, a uniform trouser or skirt may not be necessary, especially since not all employee wear the agency issued pants or skirts.

To put the issue of uniforms into perspective, the Legislative Auditor reviewed the uniform policies of various state turnpike authorities.

Due to limited information and the numerous combinations of uniform items and services offered to employees, it is difficult to make a one-to-one comparison. However, the Legislative Auditor found it is not uncommon for a turnpike authority to have some type of uniform policy. The policies reviewed range from minimal to extensive. Oklahoma's toll authority provides only a winter coat for its employees while Ohio's initial uniform disbursement includes eight sets of uniforms, three pairs of coveralls, and laundering service for those uniforms. While most of the states issue new uniform items annually, some states replace uniform items every three years or as needed at the discretion of a supervisor. Of the turnpike authority's reviewed, Maryland spends on average $845 annually per employee for uniforms, coats, footwear, and laundering while New Hampshire does not require or furnish uniforms to its staff and spends only $100 annually per employee for safety footwear. It should be noted that all of the turnpike authorities provide personal protective equipment or safety apparel such as hard hats, reflective vests, safety eyewear, hearing protection, etc. Issuance of such items is typically accounted for separate from the employee's' uniform allowances and replaced on an as-needed basis. **Although the Parkways Authority is not as generous as some turnpike authority's with respect to the dollars spent per employee, the Legislative Auditor contends that thousands of dollars can be saved depending on the extent to which the agency's uniform policy is revised.**

The Legislative Auditor found it is not uncommon for a turnpike authority to have some type of uniform policy. The policies reviewed range from minimal to extensive.

Within the past year the Parkways Authority has discussed modifying the uniform policy. It has considered reducing the uniform allowance from $250 to $225 and increasing the allowance period from 12 months to 18 months. Other revisions have been considered as well, however, to date only one substantive amendment to the uniform policy has been made. The Toll Department has lengthened its uniform allowance period from 12 months to 18 months. The Legislative Auditor concludes that the Parkways Authority's uniform policies should be further reviewed and the recommendations of this report be considered for cost reduction measures.

Cellular Phone Service Expenditure Is Reasonable

The Parkways Authority supplies a cellular phone to 38 employees. A majority of the cell phones are provided to State Police Troopers or

Maintenance Department managers, supervisors and foremen. Many of these employees work in the field and could be at any given location along the 88 mile Turnpike. Therefore cellular phones are a necessary expenditure for efficiency purposes.

The Parkways Authority's cellular phone service provider is CellularOne. For FY 2005, the total cellular phone service expenditure was $11,845, an average monthly cost of $25.97 per cellular phone. In FY 2006, the expenditure increased to $15,177 bumping the average monthly cost per phone to $33.28. The average monthly cost of each cell phone ranges from $25 to $35 depending upon the "home base" of the employee. The Legislative Auditor concludes that cellular phones are needed equipment for the efficient, daily operation of the Turnpike and that the Parkways Authority's cellular phone service expenditure is appropriate for the number of mobile phones in operation.

Conclusion

The Parkways Authority has done well in establishing purchasing policies and procedures that encourage fair and competitive bidding that should result in reasonable costs for the Parkways Authority. However, the Legislative Auditor finds that the Parkways Authority is not consistent in the application and enforcement of its purchasing policies and procedures, especially with respect to purchases under $1,000. The review of purchases totaling more than $1,000 indicated that the Parkways Authority regularly obtains the appropriate number and type of bids as required by its purchasing policies and procedures. Although the Parkways Authority competitively bids extensive highway and bridge rehabilitation contracts, the agency should make greater efforts to achieve multiple bids for each project. The Legislative Auditor concludes that overall there is room for improvement with respect to the Parkways Authority's adherence to its purchasing policies and procedures. In addition to analyzing the Parkways Authority's purchasing procedures, various expenditures were reviewed. The Legislative Auditor identified two areas, investment management services and employee uniforms, in which the Parkways Authority may be able to reduce spending. The Legislative Auditor finds that the Parkways Authority should evaluate these expenditures and consider the recommendations of this report.

Recommendations

10. The Parkways Authority should consider amending its purchasing policies to include a standardized form to allow for adequate and consistent sole source justification statements by all departments.

11. The Parkways Authority's Maintenance Department should conform with the established guidelines for making purchases under $1,000, especially with respect to ensuring that appropriate personnel are performing their designated tasks, complete purchase records are kept and steps are taken to avoid the practice of stringing purchases.

12. The Parkways Authority should consider providing expanded or additional public notice or make stronger efforts to solicit bids from other contractors in order to stimulate multiple bidding. In the event that only one viable bidder exists for asphalt paving projects, the Parkways Authority should continue to ensure that the sole bidder's costs are reasonable.

13. When issuing an RFP for investment management and/or custodian services, the Parkways Authority should also explore investment management and/or custodian services offered by state agencies as well as those provided by private entities.

14. The Parkways Authority should contemplate revising its uniform policy and consider eliminating the provisions of uniform items that are optional to employees in order to make cost reductions.

Issue 4

Parkways Authority has Adequate Internal Controls in Place but Adherence Lacks in Some Areas.

Issue Summary

The Legislative Auditor assessed the Parkways Authority's internal controls which are designed to have the agency operate effectively, efficiently, in compliance with various laws, and to protect the agency's resources against misuse. An internal controls system has several components, including the control environment, policies and procedures (control activities), management information, and monitoring activities. The Legislative Auditor finds that the Parkways Authority has an internal controls system with the necessary components that, with few exceptions, functions properly. The Parkways Authority has extensive written policies and procedures for personnel and purchasing. There is sufficient management information and monitoring activities. Adherence to purchasing guidelines can be improved, especially for purchases under $1,000.

The Legislative Auditor finds that the Parkways Authority has an internal controls system with the necessary components that, with few exceptions, functions properly.

However, an employee survey conducted by the Legislative Auditor suggests that there are concerns with the Parkways Authority's control environment. The control environment is the intangible attitude or atmosphere that expresses and fosters the commitment to adhering to internal control standards. The attitude that employees have towards management's commitment to following proper procedure is an important factor of an internal controls system. The employee survey reveals that a relatively large number of the agency's staff claim that the application of policies and disciplinary action is inconsistent and dependent on the employees' familial relationship with members of management. This attitude stems from the fact that there are a relatively large number of agency employees who are related to each other and who are in supervisory positions. Although the Legislative Auditor could not confirm whether this perception of nepotism is real, the large number of employees who are related to one another and the large number of respondents who perceive nepotism suggests that the Parkways Authority has a concerning matter with its control environment. A prevalent perception that proper procedure is not consistently followed, whether real or not, can lead to a widespread lack of commitment to proper procedure throughout the agency.

Although the Legislative Auditor could not confirm whether this perception of nepotism is real, the large number of employees who are related to one another and the large number of respondents who perceive nepotism suggests that the Parkways Authority has a concerning matter with its control environment.

Parkways Authority Maintains Extensive Policies and Procedures But Consistent Application Is Questionable

According to the U.S. General Accountability Office's (GAO) standards for internal control, an organization's control environment is the foundation for all other components of internal controls. The control environment is commonly defined as the control consciousness of an organization. Management is responsible for establishing a positive tone from the top and encouraging others to follow its lead. An effective control environment is achieved when employees are committed to following an organization's policies and procedures and its ethical and behavioral standards.[1] The Parkways Authority has an extensive Personnel Policies and Procedures manual covering a wide array of topics ranging from personnel actions to operating policy. A separate set of policies, governing the agency's purchasing procedures, is also maintained by the Parkways Authority. By establishing proper procedures to affect the policy, the manuals help ensure that management's directives are carried out.

An effective control environment is achieved when employees are committed to following an organization's policies and procedures and its ethical and behavioral standards.

The Legislative Auditor conducted a survey of Parkways Authority staff that allowed them to comment on the control environment. The survey allowed employees to respond anonymously and included the two following questions concerning the agency's policies and procedures. The employees responses are illustrated below in Figure 11.

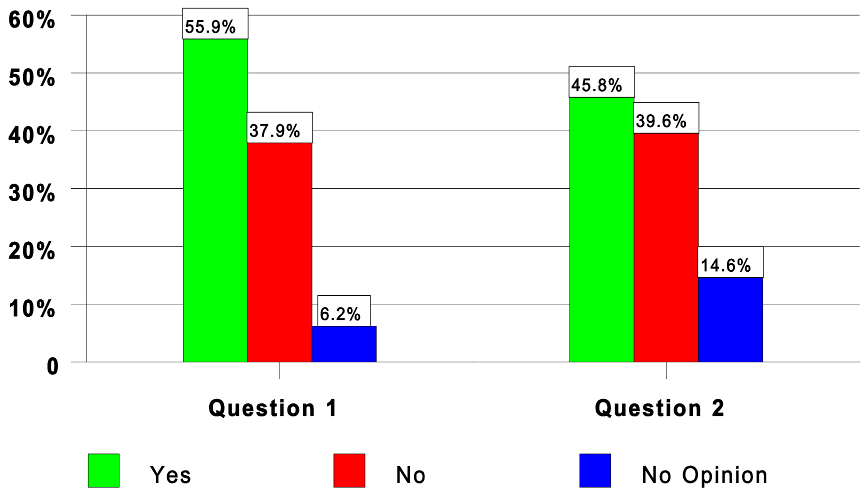
Q1. Are the agency's internal policies and procedures clear and implemented properly?

Q2. Is the Parkways Authority management fair and consistent in applying policy and procedures regarding reprimand and disciplinary action against employees?

[15] *Standards for Internal Control in the Federal Government* *(GAO/AIMD-00-21.3.1, November 1999), p. 8.*

Figure 11

Employee Survey Results



A majority of the employees who responded agreed that the Parkways Authority's policies and procedures are clear and implemented properly; however, the Parkways Authority should be concerned by the large number of respondents who disagreed that management is fair and consistent in applying policy and procedures regarding reprimand and disciplinary action. Respondents were provided space to write remarks regarding each question. Numerous employees' comments expressed the view that the application of policy regarding reprimand or disciplinary action is dependent on the employee's familial relationship with certain management personnel. The comments frequently claimed favoritism and nepotism are rampant especially within the Maintenance and Toll Departments. According to the Director of the Maintenance Department, of the 147 Maintenance Department employees, 40 are related to one another through either blood or law. The Legislative Auditor recognizes that any large agency will have a measure of employees who are discontent with management. However, the percentage of Parkways Authority employees expressing dissatisfaction with management's application of policy, and the large number of employees related to one another is a justified concern.

Numerous employees' comments expressed the view that the application of policy regarding reprimand or disciplinary action is dependent on the employee's familial relationship with certain management personnel.

The Parkways Authority Personnel Policy I-7, effected June 1992, pertains to nepotism and the employment of family members. The policy states that the Parkways Authority prohibits the employment or transfer of family members into the same organizational units where they would be under the direct or indirect supervision of a family member. The term"family member" is clearly defined and includes both blood and law relatives. In the event that an individual through marriage, adoption, etc., is placed in a prohibited work relationship with a relative, the policy instructs that the situation must be resolved by transfer, reassignment, resignation, etc., within 30 calendar days. At the time of the policy's creation, current full-time employees were exempt from the "transfer" portion of this policy.

In 2004 the Maintenance Department underwent a reorganization. A memo issued to Maintenance Department employees indicated the reorganization created a new position called Facilities General Supervisor who oversees the Carpenter, Utilities, Sign and Toll Maintenance shops. The employee who was appointed to this new position is related to two of the four shop foremen who report directly to the Facilities General Supervisor. Although the Maintenance Department's organizational chart shows that the two foremen who are related to the Facilities General Supervisor report to the Assistant Facilities Manager, the Maintenance Department's Director indicated that, "the Facilities General Supervisor works more closely with the six shops on a daily basis while the Assistant Facilities Manager handles the administrative duties." Thus, a portion of the Maintenance Department's chain of command entails an employee who directly or indirectly supervises persons to whom he is related by blood or law. Although only one instance has been confirmed, the Legislative Auditor contends that it is likely that other similar situations are present within the Parkways Authority's organization.

A portion of the Maintenance Department's chain of command entails an employee who directly or indirectly supervises persons to whom he is related by blood or law.

It is difficult for the Legislative Auditor to definitively determine whether or not favoritism or nepotism exists within the agency or whether or not reprimand or disciplinary action is evenhandedly administered by management. However, the fact that such a large number of employees are related to one another and a large portion of employees perceive favoritism among management, this could negatively impact compliance with internal policies. According to the GAO, "Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management."[16] Therefore, the Legislative Auditor recommends that the Parkways Authority consider evaluating

[16] *GAO, p. 8.*

the control environment to determine if the perception of favoritism is real and internal policies are being applied consistently to all employees. Furthermore, the agency should take steps to eliminate the occurrence of family members supervising one another presently and in the future.

Maintenance Warehouse Inventory Controls Are Adequate

Most maintenance supplies, materials and equipment for the Maintenance Department are received at a central warehouse in the Beckley maintenance facility. Items received at the warehouse are assigned an inventory number that is physically attached to the item. Exceptions to this policy include general items such as cleaning supplies, toiletries, office supplies, stationary, and first aid supplies. These general items that do not receive an inventory number are classified as "allocate B" in the budget and are shared between four departments: Maintenance, Toll, TIC Operations, and State Police. The shared items are stored in the warehouse and transferred to the sections as needed. Records are kept for all items leaving the warehouse whether it is an inventory item or a non inventory item. A physical count of all inventory is performed and recorded by the Deputy Director of Purchasing twice a year, once in January and once in June. This count includes the inventory at the warehouse and the inventory located at all of the shops/sections within the Maintenance Department. During one of the two inventory counts, the Parkways Authority's independent auditors, Gibbons and Kawash, observe the physical inventory of the parts department, take test counts and audit the inventory results.

The Deputy Director of Purchasing performs a wide range of tasks. Those duties include but are not limited to the following:

- Issues purchase order numbers
- Processes purchase orders
- Maintains the Master Control Log
- Conducts inventory counts
- Maintains inventory records
- Monitors fuel consumption
- Reviews maintenance work orders
- Manages warehouse employees and provides general oversight as needed.

These job assignments involve several components of a transaction. The Deputy Director issues purchase order numbers and processes purchase orders, maintains the Master Control Log, which lists all transactions under $1,000, and he monitors inventory. However, another employee is responsible for shipping and receiving, which is an important segregation of duties to avoid error or fraud. The Master Control Log is now formatted electronically and accessible through the Parkways Authority's intranet which provides file sharing capabilities among all members of the Purchasing Department. This development allows for enhanced internal controls through greater accessability and monitoring. Although shipping and receiving of items is handled by another employee, the Deputy Director of Purchasing is involved in many components of the transaction process. **Therefore, the Parkways Authority should continue its diligence in maintaining an appropriate segregation of duties with respect to the duties of the Deputy Director of Purchasing.**

Although shipping and receiving of items is handled by another employee, the Deputy Director of Purchasing is involved in many components of the transaction process.

In Issue 3, the Legislative Auditor identified some areas in which the Parkways Authority can strengthen internal controls by improving adherence to its Purchasing Policies and Procedures for purchases under $1,000. Because policies and procedures are an internal control in and of itself, not following those established purchasing guidelines creates an internal control deficiency. The Legislative Auditor found instances in which counter receipts from Maintenance Department purchases did not have an employee's signature or a received date as required by the purchasing policy. A signature is required to certify that the items purchased have been received by the authorized person. Also, the Maintenance Department's master control log records were incomplete. The information that were not recorded are the date the counter receipt was returned (to the Section Head), which indicates the date the item was received, and the date that the counter receipt and purchase order was transmitted to the Accounting Department. It should also be noted that the Master Control Log does not have a field to record the signature of the employee who received the item. Recording the signature of the employee who receives an item is important for accountability. As previously indicated, West Virginia Code §12-3-10f does not allow the head of a spending unit to submit a requisition on the State Auditor for payment of a purchased item unless it includes a Receiving Report, which includes the signature of the employee receiving the commodities. **The Parkways Authority should consider modifying the Master Control Log to include a field to record if an employee signed for the received items.**

Because policies and procedures are an internal control in and of itself, not following those established purchasing guidelines creates an internal control deficiency.

Purchases over $1,000 requires the approval signature of the Department Head, the Director of Purchasing and the General Manager. Once approved and purchased, the item(s) is delivered to the warehouse and a record of the item(s) is kept for inventory purposes by the Deputy Director of Purchasing. The Legislative Auditor finds that these important components of the purchasing process for items over $1,000 are appropriately separated among employees.

An Automated Purchasing System Would Improve Efficiency

The Parkways Authority's Purchasing Department does not utilize a comprehensive computer program to automate the purchasing process in aspects such as tracking purchases, obtaining approvals, keeping a running budget for each department, and keeping inventory. Currently, all purchases are approved, processed, and recorded manually. Although the purchasing unit within the Maintenance Department utilizes computer applications for purchase order entry, inventory control and fleet management, there is not an integrated purchasing computer program that encompasses all of the Parkways Authority's purchasing process. An electronic purchasing system may assist the Parkways Authority by decreasing the time taken to obtain approvals for purchases. Documentation of sole source purchases and general record keeping could be improved. A computerized system could also assist the departments in monitoring their budgets by factoring in approved or pending purchases and calculating the amount of funds currently available for purchases. Another benefit is that a computer program could prevent purchases from being processed if the required parties have not approved the request or if all of the required steps have not been completed. The Legislative Auditor recommends that the Parkways Authority consider developing an automated purchasing system that records, organizes, monitors, and regulates all of the agency's purchases.

Currently, all purchases are approved, processed, and recorded manually. There is not an integrated purchasing computer program that encompasses all of the Parkways Authority's purchasing process.

Fuel Master Computer Program Effectively Regulates and Monitors Fuel Consumption

Motor vehicle fuel is a large expenditure for the Parkways

Authority. Over the past five years, the Parkways Authority has spent an average of $635,000 annually for fuel. The Parkways Authority operates fuel pumps at five locations: Beckley, Charleston, Ghent, Princeton, and Standard. A computer program, called Fuel Master, records detailed data for each fuel pump transaction made at all locations. The software can sort and generate the recorded information in a variety of report formats according to location, vehicle number, or an employee's user identification number. The Deputy Director of Purchasing monitors fuel consumption weekly by manually reviewing the reports generated by the Fuel Master program. Copies of the same reports are distributed to all of the shop foremen within the Maintenance Department. The Fuel Master computer program functions as both a preventive and a detective control.

The Legislative Auditor reviewed the Fuel Master reports for each of the five fuel pump locations for the period of January 1, 2007 through June 30, 2007. Individual reports for 22 maintenance employees who were assigned vehicles that could be driven to and from work were also examined. The Legislative Auditor identified some minor inconsistencies between the established program controls and the Fuel Master reports; however, the incidents were minimal and an acceptable explanation was provided by the Deputy Director of Purchasing. While the Fuel Master system can not eliminate misuse completely, when monitored, the Fuel Master program provides an effective tool to help protect against significant abuse or fraud.

While the Fuel Master system can not eliminate misuse completely, when monitored, the Fuel Master program provides an effective tool to help protect against significant abuse or fraud.

In addition to the reports, the Fuel Master program also has various preventive features that assist in controlling fuel consumption. Before a fuel pump can be operated, an employee needs a fuel key, a user identification number, a vehicle identification number, and the vehicle's odometer reading. If the odometer reading entered exceeds the last entry by more than 350 miles or if the odometer reading is repeated, the fuel pumps are programmed to not function. In an attempt to regulate the quantity of fuel pumped, some vehicles have a preset maximum fill-up amount for each fuel pump transaction. The Parkways Authority distinguishes fuel pumped into a vehicle from fuel used in equipment based on the vehicle identification number that is entered by the fuel pump user. Each section head within the Maintenance Department possesses a fuel key that is assigned a specific vehicle identification number and a constant odometer reading to be entered when pumping fuel into a container or small equipment. **The Legislative Auditor concludes that the Parkways Authority effectively monitors fuel consumption.**

Assigned Parkways Authority Vehicles Discontinued

Policy IV-11 governs the assignment and use of transportation vehicles. According to this policy, the Parkways Authority complies with the Internal Revenue Service regulation that declares employees who are permanently assigned a vehicle that is used for daily commuting constitutes a taxable fringe benefit and such benefit must be reported as taxable income. The policy lists the titles of the employees who will be assigned a vehicle and permitted to park that vehicle at his/her dwelling. The policy also states that transportation equipment will not be used for the personal convenience of employees; however, it does not describe a procedure for monitoring the use of the vehicles.

The Legislative Auditor was unable to determine whether or not the 22 vehicles were used inappropriately but the Legislative Auditor contends that the use of the assigned vehicles was not adequately monitored.

The Parkways Authority's fleet consists of 190 motor vehicles. Forty-nine vehicles from the total fleet were authorized for commuting to and from a work site to an employee's dwelling. Twenty-six of the 49 vehicles were assigned to and utilized by Troop 7 of the WV State Police. Of the remaining 22 vehicles that were authorized for take-home, 18 were assigned to various Maintenance Department managers, supervisors, and foremen, 3 are assigned to Toll Department personnel, and 1 was assigned to the Operations Department's Safety Officer. The Legislative Auditor was unable to determine whether or not the 22 vehicles were used inappropriately but the Legislative Auditor contends that the use of the assigned vehicles was not adequately monitored.

Effective April 17, 2007, the Parkways Authority eliminated the practice of permitting employees who were permanently assigned a Parkways Authority vehicle to utilize it for daily commuting to and from a work site to an employee's dwelling.

Effective April 17, 2007, the Parkways Authority eliminated the practice of permitting employees who were permanently assigned a Parkways Authority vehicle to utilize it for daily commuting to and from a work site to an employee's dwelling. The General Manager indicated that the Parkways Authority estimates an annual cost savings of $62,300 will result from this policy change. This calculation was based on the federal guidelines for a mileage rate of $0.46, which takes into consideration fuel costs, vehicle wear and tear, and maintenance. The cost saving analysis assumes the average amount of leave taken by each employee is 12 holidays, 24 annual days, and 5 sick days, totaling 41 days that the vehicle is not being driven by the employee. **The Legislative Auditor finds that the Parkways Authority's action was both necessary and helpful in reducing overall operating costs.**

Cellular Phone Use Adequately Monitored

The Parkways Authority Policies and Procedures manual states that, the use of Parkways Authority cellular telephones for personal or private use is strictly prohibited. The Director of Purchasing performs a monthly review of the charges incurred to ensure that they are not excessive. Each cellular phone user is provided with a summary of the plan features so that he or she can most efficiently and economically use this technology in the performance of his or her job. All requests for new cellular phones or equipment are subject to approval by the General Manager after approval has been made by the Department Director. In order to prevent employees from incurring unauthorized charges, the Parkways Authority requested that the cellular phone provider not issue new phones or equipment at the request of an employee without proper authorization. The Legislative Auditor finds that the Parkways Authority monitors cellular phone use and has in place adequate controls to deter employees from incurring unauthorized or excessive charges.

The Legislative Auditor finds that the Parkways Authority monitors cellular phone use and has in place adequate controls to deter employees from incurring unauthorized or excessive charges.

Parkways Authority Makes Efforts to Reduce Risks for Insurance Coverage

The Legislative Auditor reviewed BRIM's claims payout reports on the Parkways Authority for the years 1989 through 2006. The number of claims and the payment amounts were relatively small.

According to the West Virginia Board of Risk and Insurance Management (BRIM), the primary responsibility for BRIM is to provide casualty insurance coverage for all state agencies. The insurance protects against lawsuits and other liability claims resulting from automobile accidents, employment practices, property, flood, and general liability. Through BRIM, the Parkways Authority maintains a general liability and property insurance policy.

The Legislative Auditor reviewed BRIM's claims payout reports on the Parkways Authority for the years 1989 through 2006. The number of claims and the payment amounts were relatively small. Due to the nature of the agency, losses are to be expected, however, mitigating the risk and extent of the losses should be a priority. Therefore, BRIM has inspections performed of the premises of state agencies and loss prevention reports (also known as "Schirmer Reports") are issued by the Schirmer Engineering Corporation. The purpose of the reports is to identify conditions or practices that can result in property and/or general liability losses and increased insurance cost. The Legislative Auditor reviewed the Schirmer Report on the Parkways Authority dated November 2005 and found that the number of new recommendations per facility were not inordinate and the number of outstanding recommendations carried over from the previous report were minimal. The Parkways Authority has made efforts to comply with Schirmer report recommendations and responds in writing to the report recommendations with a list of corrective actions that have been taken.

The Legislative Auditor reviewed the Schirmer Report on the Parkways Authority dated November 2005 and found that the number of new recommendations per facility were not inordinate and the number of outstanding recommendations carried over from the previous report were minimal.

Conclusion

The Parkways Authority has an extensive Policies and Procedures manual for both personnel matters and purchasing procedures. The guidelines set forth in those manuals are adequate when applied fairly and consistently. The Legislative Auditor did not examine if the perception of favoritism or nepotism is real. However, the Legislative Auditor is certain that the large number of employees who perceive favoritism or nepotism and the large number of employees who are related to one another within the organization creates concerns for the control environment that should be addressed by the Parkways Authority.

The Maintenance Department's warehouse has adequate controls in place to protect against inventory loss. Areas in which internal controls could be strengthened by greater adherence to the Purchasing Policies and Procedures manual include ensuring that an employee's signature and a date is present on the counter receipt and record keeping for purchases less than $1,000. Purchases greater than $1,000 have adequate internal controls and generally follow the established Purchasing Policies and Procedures. The Parkways Authority should consider implementing a computerized purchasing system that will enhance the efficiency and accountability of its internal controls.

Fuel for vehicles and equipment is a large expenditure for the

Parkways Authority and is effectively monitored and controlled by a computer system called Fuel Master. The use of agency issued cellular phones is reviewed regularly through the service provider's monthly billing statement. Assigned agency vehicles, on the other hand, were not monitored by the Parkways Authority. The use of Parkways Authority vehicles for transportation to and from work was discontinued during the course of this audit, thus the Legislative Auditor did not conduct a complete examination of the practice.

Recommendations

15. *The Parkways Authority should eliminate the occurrence of related employees supervising each other, and address other areas that may be negatively affecting the control environment.*

16. *The Parkways Authority should continue its diligence in maintaining an appropriate segregation of duties with respect to the duties of the Deputy Director of Purchasing.*

17. *The Parkways Authority should improve adherence to its Purchasing Policies and Procedures for purchases under $1,000. Consideration should also be given to modifying the Maintenance Department's Master Control Log to include a field to record if an employee signed for received items.*

18. *The Parkways Authority should consider implementing an automated purchasing system that records, organizes, monitors, and regulates all of the agency's purchasing processes.*

APPENDIX A: TRANSMITTAL LETTER

WEST VIRGINIA LEGISLATURE

Performance Evaluation and Research Division

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX

John Sylvia
Director

April 21, 2008

Mr. Gregory C. Barr, General Manager
West Virginia Parkways, Economic and Tourism Authority
P.O. Box 1469
Charleston, WV 25325-1469

Dear Mr. Barr:

This is to transmit a draft copy of the Performance Review of the West Virginia Parkways, Economic and Tourism Authority. This report is scheduled to be presented during the May 18-20, 2008 interim meetings of the Joint Committee on Government Operations, and Joint Committee on Government Organizations. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to have the meeting on May 5, 2008. Please notify us to schedule an exact time. In addition, we need your written response by noon on May 8, 2008 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, May 15, 2008 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

John Sylvia

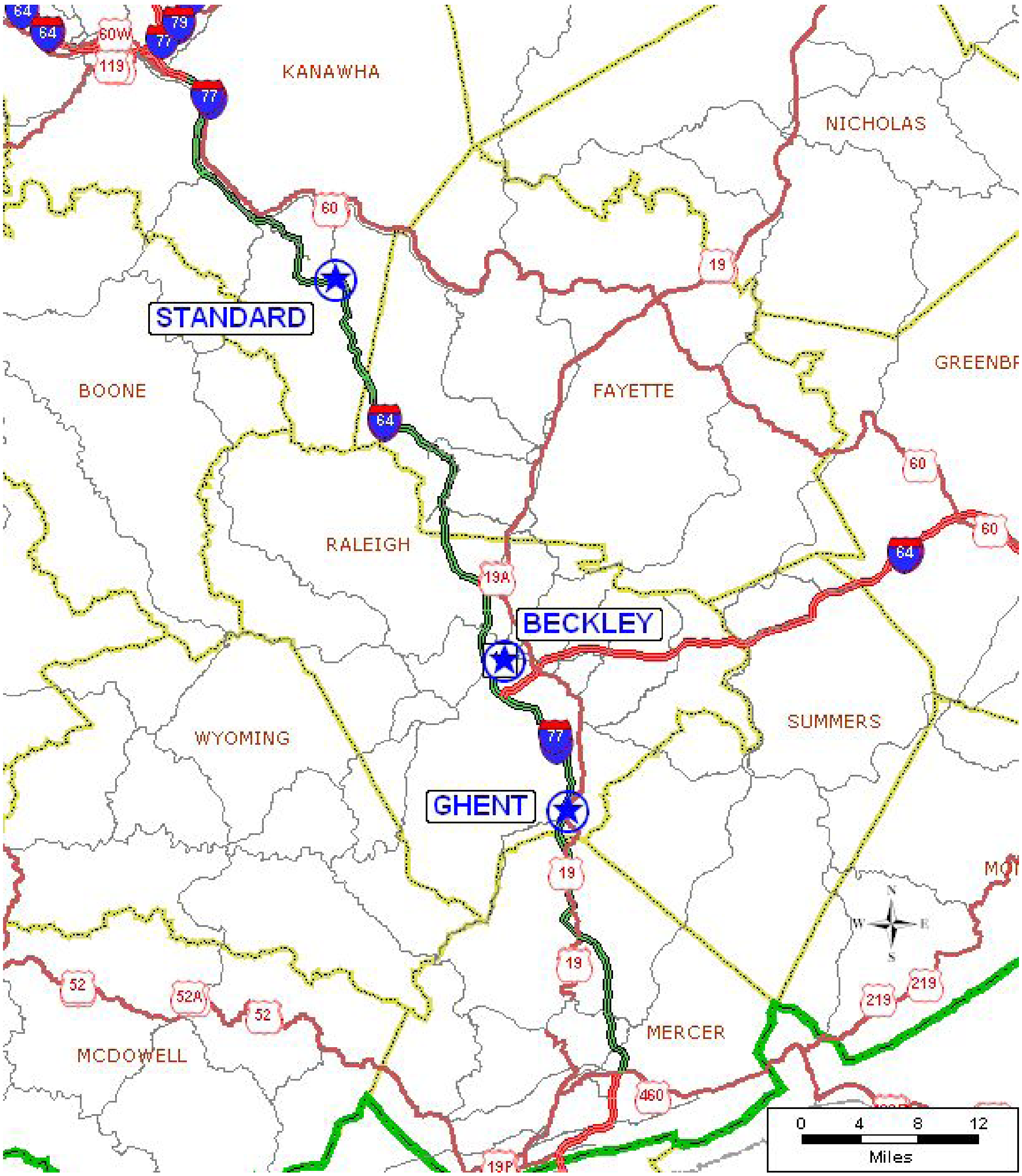
John Sylvia

Enclosure

JS/jda

Joint Committee on Government and Finance

APPENDIX B: Maintenance Facility Locations



APPENDIX C: AGENCY RESPONSE

JOE MANCHIN III
Governor

WEST VIRGINIA PARKWAYS
ECONOMIC DEVELOPMENT AND TOURISM
AUTHORITY
P.O. BOX 1469
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www.wvturnpike.com
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May 8, 2008

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PERFORMANCE EVALUATION AND
RESEARCH DIVISION

Mr. John Sylvia,
Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610

Re: West Virginia Parkways Authority Response to PERD Recommendations

Dear Mr. Sylvia:

Parkways Authority staff has completed a comprehensive analysis of the final Performance Review of the West Virginia Parkways, Economic Development and Tourism Authority. I am providing you with the following comments and responses to the report recommendations:

Issue 1:	**The Parkways Authority Is Gradually Addressing Excessive Spending Practices and Becoming More Prudent, But Opportunities for Further Cost Savings Exist.**

Recommendations:

1. **The Parkways Authority should consider discontinuing its Sick Leave Incentive policy. Since the Legislature has established a less expensive policy in which sick leave can be converted for pay, the Parkways Authority should adopt the same policy as enacted by the Legislature.**

   Response

   Staff will review Senate Bill 476 concerning a sick leave incentive for State employees and bring this matter before the Parkways Authority Board for consideration.

1

2. **The Parkways Authority should objectively review its step wage increase process, particularly with respect to highway maintenance workers, to determine if its wages are higher than necessary to be competitive.**

   Response

   Concur with the recommendation concerning the Authority's step wage increases and will objectively review the policy, particularly for newly hired employees (other employee wages would be "grandfathered"). The Authority will continue to ensure that maintenance employee salaries are adequate to attract and retain qualified staff, while at the same time are within the market value for the positions.

3. **The Toll Incentive System should be revamped so that the Parkways Authority receives a majority share of enhanced revenues. A less expensive non-monetary incentive for toll collectors should also be considered as a substitute for the current toll incentive system.**

   Response

   Concur with the recommendation concerning Toll Collectors Incentives. Staff is exploring the possibility of providing an incentive based upon toll transactions. Analysis indicates that this method would provide a cost savings to the Authority while at the same time increasing traffic throughput at the toll plazas. Staff will also consider the possibility of a non-monetary incentive for toll collectors.

4. **The Parkways Authority should consider other less costly ways of recognizing or showing appreciation to its employees.**

   Response

   The Authority will continue to seek methods of recognizing its employees' contributions to the agency while at the same time being fiscally responsible with resources.

Issue 2:	**The Maintenance Department Provides Adequate Services to the Turnpike, But There Is Evidence It Can Be Leaner in Its Staffing Levels.**

Recommendations:

5. **The Parkways Authority should examine the organizational structure of its Maintenance Department to assess the need for certain management level positions in the Highway Production and Fleet Management sections.**

2

Response

As shown on Figure 4, the Authority has consistently downsized its manpower since 1999. The Highway Production Manager now reports directly to the Director of Maintenance but is not in the chain of command and does not supervise any staff. This change has eliminated a layer of management.

6. **The Parkways Authority should consider reducing its current level of mechanic positions to a more appropriate level.**

Response

Over the past several years, the Maintenance Department has been transitioning into a leaner staffing unit and will continue to do so in the future through attrition and other cost saving initiatives.

7. **Consideration should be given to coordinating the use of mechanics between the Parkways Authority and the Department of Transportation if such an arrangement proves feasible and cost effective for both agencies.**

Response

The Parkways Authority has discussed the issue with the Division of Highways regarding the sharing of mechanics. There was some concern with prioritization of work, tool sharing and other matters that made this issue complicated; however, staff will take this suggestion under consideration for future discussions with the DOH.

8. **The Parkways Authority should assess the cost benefits of having certain maintenance services under private contract.**

Response

The Authority does contract out for maintenance services such as: major highway rehabilitation (asphalt paving and full depth repairs) and bridge rehabilitation (including bridge retrofit and painting); pavement marking; culvert repairs; and, guardrail replacement. Staff will investigate the cost benefits of contracting its courtesy patrol services to mirror the Division of Highways and will continue to seek opportunities for efficiencies in utilizing private contracts.

9. **Consideration should be given to the cost advantages of the Parkways Authority and the Department of Transportation jointly contracting for similar services.**

Response

In the past few years, there has been a concerted effort to coordinate maintenance activities with the Division of Highways. As an example, staff has shared equipment, purchasing specifications, and piggybacked on contracts. Additionally, the Director of Maintenance and the General Manager have begun monthly meetings with the Secretary of Transportation and his staff to discuss joint Parkways Authority and DOH projects and future planning.

Issue 3:	**The Parkways Authority's Purchasing Procedures Reflect the Principles of State Purchasing Requirements and With a Few Exceptions, Its Purchasing Procedures Are Adequately Followed.**

Recommendations:

10. **The Parkways Authority should consider amending its purchasing policies to include a standardized form to allow for adequate and consistent sole source justification statements by all departments.**

Response

Concur with the recommendation and, in fact, the Authority adopted the State Purchasing Department's standard form for sole source purchases effective January 2007.

11. **The Parkways Authority's Maintenance Department should conform to the established guidelines for making purchases under $1,000, especially with respect to ensuring that appropriate personnel are performing their designated tasks, complete purchase records are kept and steps are taken to avoid the practice of stringing purchases.**

Response

The Authority's current policy for purchases under $1,000 is, in fact, more stringent than the State's; however, as a result of this audit, the policy will be re-visited and modernized. Steps have been taken to correct and avoid the stringing of purchases in the future.

12. **The Parkways Authority should consider providing expanded or additional public notice or make stronger efforts to solicit bids from other contractors in order to stimulate multiple bidding. In the event that only one viable bidder exists, the Parkways Authority should continue to ensure that the sole bidder's costs are reasonable.**

Response

The Authority will continue to solicit bids from as many vendors as possible while using every available tool to reach out to potential suppliers. Additionally, we affirm the need to ensure that the sole bidder's costs are reasonable.

13. When issuing an RFP for investment management and/or custodian services, the Parkways Authority should also explore investment management and/or custodian services offered by state agencies as well as those provided by private entities.

Response

The Authority is currently placing a request for proposal for an investment management contract as well as custodian services. The Parkways Authority's Finance Committee previously instructed staff to obtain request for proposals for these services, after which they were directed to compare the services and costs with the State's Investment Management Services to determine average returns and economies to be gained by the Authority. Staff has already met with the State Treasurer's Office to discuss the possibility of providing the Authority with investment management services.

14. The Parkways Authority should contemplate revising its uniform policy and consider eliminating the provision of uniform items that are optional to employees in order to make cost reductions.

Response

Staff will conduct an objective review of the uniform policy to determine cost saving initiatives.

Issue 4:	**Parkways Authority has Adequate Internal Controls in Place but Adherence Lacks in Some Areas.**

Recommendations:

15. The Parkways Authority should eliminate the occurrence of related employees supervising each other, and address other areas that may be negatively affecting the control environment.

Response

The Authority has in place Personnel Policy I-7 regarding Nepotism. Regarding perceived nepotism, Parkways is aware of this issue, have controls in place and have taken necessary steps to ensure compliance with Policy I-7.

16. **The Parkways Authority should continue its diligence in maintaining an appropriate segregation of duties with respect to the duties of the Deputy Director of Purchasing.**

    Response

    Concur with the recommendation.

17. **The Parkways Authority should improve adherence to its Purchasing Policies and Procedures for purchases under $1,000. Consideration should also be given to modifying the Maintenance Department's Master Control Log to include a field to record if an employee signed for received items.**

    Response

    Concur with the recommendation and staff will review its internal control policies for enhancements and ensure compliance with those policies.

18. **The Parkways Authority should consider implementing an automated purchasing system that records, organizes, monitors, and regulates all of the agency's purchasing processes.**

    Response

    Concur with the recommendation to automate the purchasing system. Staff will work toward procuring a module that will tie in accounts payable and the general ledger system.

Thank you for the opportunity to comment on this report. On behalf of myself, staff, and members of the Parkways Authority Board, I want to express our sincere appreciation for the professionalism of both you and your staff. Please let me know if I can offer further information or assistance.

Best regards,

Gregory C. Barr

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General Manager

GCB/tgn

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