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AUDITOR OF STATE

STATE OF OHIO

OHIO TURNPIKE COMMISSION PERFORMANCE AUDIT

JANUARY 9, 2003



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To the Ohio Turnpike Commission and Interested Citizens:

In response to a request from the Ohio Turnpike Commission (OTC), the Auditor of State's Office conducted a performance audit covering selected areas of OTC operations. This audit provides an independent assessment of OTC's operations in the areas of policies and procedures, ethics management, internal controls and human resource management. These areas were cooperatively selected in an effort to assist OTC in strengthening internal controls and in increasing accountability.

The performance audit contains recommendations which, if implemented, could provide both operational and business practice improvements. While the recommendations contained within the performance audit are resources intended to assist the agency in strengthening select areas, OTC is also encouraged to independently assess its overall operations for the purpose of identifying additional areas for improvement. The performance audit report also suggests several areas for future study.

An executive summary has been prepared which includes the project history, an overview of OTC, the purpose and objectives of the performance audit, and summaries of the key recommendations and noteworthy accomplishments. Statistical information has also been included in the executive summary which compares OTC to other peer turnpike agencies. This report has been provided to OTC and its contents discussed with appropriate agency officials and management. OTC has been encouraged to use the results of the performance audit as a resource in improving its overall operations.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be obtained on-line through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

January 9, 2003

Executive Summary

Project History

The Ohio Turnpike Commission (OTC) engaged the Auditor of State's Office (AOS) in September 2002 to conduct a performance audit of its policies and procedures, internal controls and human resources functions. A recently released report from the Ohio Inspector General's (OIG) office raised questions of possible conflicts of interest, and prompted the resignation of OTC's executive director and legislative liaison.

In response to the report by OIG, OTC has taken several actions to improve its practices. OTC formed an ethics subcommittee to prepare a draft ethics policy. The draft policy included elements of Ohio's ethics statutes, as well as procedures for notifying OTC's approximately 1,000 active vendors of the new ethics policy. However, in October 2002, the Ohio Ethics Commission (OEC) unanimously approved a motion indicating its preference that OTC adopt the model ethics policy established by OEC. In November 2002, OTC adopted the OEC model policy and participated in an OEC-sponsored training seminar on ethics. OTC has also arranged for continued ethics training of Commission employees as set forth in the ethics policy. Likewise, OTC has pursued resolution of several other OIG recommendations and has requested this performance audit in a continuing effort to increase accountability and to strengthen its internal controls.

Overview of OTC

The Ohio Turnpike (the turnpike) is administered and maintained under the direction of OTC which was created on September 1, 1949, under Ohio Revised Code (ORC) Chapter 5537. OTC is empowered to construct, maintain, repair, police, and operate the turnpike system. In accordance with ORC § 5537.02, the Commission consists of seven members: four members are appointed by the Governor, serving a term of eight years, one member is the Director of the Ohio Department of Transportation (member ex officio without compensation), another member is a State senator, and the final member is a State representative. Neither the senator nor the representative has voting status within the Commission. The executive director reports directly to OTC and provides leadership and oversight of the turnpike's daily operations.

The turnpike was completed in 1955 and upon its completion, consisted of approximately 241 miles of highway and 17 interchanges and terminals that managed traffic over two eastbound and two westbound travel lanes. Since inception, the turnpike has expanded to 31 interchanges, 30 toll plazas, and 16 service and concession plazas. Several areas have been expanded to three

eastbound and three westbound travel lanes. At the time of inception, the turnpike was the largest construction project in the history of the State. Turnpike operations are primarily supported by revenue obtained from user tolls which are based upon a vehicle's weight classification and total distance traveled on the turnpike. The turnpike is the only toll road in Ohio, all plans for additional toll roads were abandoned in 1956 with the establishment of the national interstate highway system.

In 1995, OTC developed a capital improvement plan to maintain, improve and expand the current Ohio turnpike system. The estimated cost for completion of the capital improvements program is approximately \$1.5 billion for completed and remaining projects. The major components of the program include the construction of a third lane for 160 miles of the turnpike, reconstruction of service plazas, construction of additional interchanges and renovation of the oldest OTC toll plaza facilities.

In 2001, OTC generated approximately \$210 million in total revenues, most of which were derived from tolls, concessions and income investments. In the same year, OTC expended approximately \$163 million to support its operations. Additionally, OTC issues revenue bonds to support various capital improvement projects along the turnpike. These bonds represent OTC's accumulated long-term debt of \$776 million. OTC maintains favorable bond ratings of AA and Aa3, according to leading credit rating services including Standard & Poor's, Fitch Rating's and Moody's Investors Service.

OTC offers several services geared towards the convenience and safety of turnpike users. OTC contracts with several companies to operate restaurants and service stations at each of the 16 service plazas operated by OTC which are placed in pairs approximately 30 miles apart. OTC is currently undertaking a project to reconstruct all 16 service plazas. Contracts for both the construction and operation of the new plazas are awarded through a competitive bid process.

OTC also maintains a high safety record as compared to other toll road operations. In 2001, OTC had relatively low accident and fatality rates of 77 and 0.5 per 100 million vehicle miles, respectively. Also, a separate Ohio State Highway Patrol District is solely dedicated to policing the turnpike which contributes to the level of safety for turnpike travelers.

Noteworthy Accomplishments

This section of the executive summary highlights specific OTC accomplishments identified throughout the course of the audit.

- OTC has implemented strong internal controls in several areas. Toll collections, which generate the majority of OTC revenues, has a highly detailed and rigorous system of controls to ensure accurate reporting of tolls collected. Similarly, OTC's budgeting process and purchasing card program include well documented internal controls.
- In October 2002, the Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to OTC for its FY 2001 comprehensive annual financial report. This is GFOA's highest form of recognition in the area of governmental accounting and financial reporting.
- OTC maintains favorable bond ratings of AA and Aa3, according to leading credit rating services including Standard & Poor's, Fitch Rating's and Moody's Investors Service.
- OTC has developed an aggressive capital improvements and maintenance program. Although OTC could improve the publicity of its service expansion and roadway improvement programs, the level of capital planning is consistent with best practices.
- OTC has achieved vendor discounts in several key areas, such as vehicle and road salt purchases, which are less costly than similar discounts offered through the Ohio Department of Administrative Services (DAS), General Services Administrative Pricing Program and the Ohio Department of Transportation's cooperative purchasing program.
- OTC offers a liberal flex-time policy which addresses several levels of employees' needs in terms of leave and attendance. OTC's policy allows employees to miss less than one full day of work and to make up the hours at a later date. Additionally, during the summer season, employees are allowed to arrive and leave work at earlier times. This flexibility allows employees to make better use of working hours in the case of a doctor's appointment or some other similar situation. The employee manual contains the specific requirements of the flex-time policy.
- OTC has a well developed request for qualifications (RFQ) and request for proposal (RFP) system. The system, in use for several years, helps OTC target its RFPs to the most qualified consultants.

Conclusions and Key Recommendations

In general, OTC operates an effective organization which meets its stated goals and objectives. In several areas, though, OTC could benefit by formalizing its processes into policies and procedures. Likewise, OTC management should ensure that field staff are apprised of changes to OTC policies and should provide occasional refresher courses in key policy areas.

OTC should increase levels of consistency and standardization of departmental policies and internal controls. A greater level of monitoring will also be required to heighten accountability and oversight both within OTC and to OTC's external stakeholders. OTC has made great strides in remedying problems identified by the OIG's report. To ensure continued progress in heightening accountability, OTC should adopt a more open and accommodating posture to external inquiries and formalize a number of departmental processes via policy and procedure. Finally, OTC should consider additional evaluations of OTC operations in the areas listed in **issues requiring further study**. The following are the key recommendations of the performance audit:

- **OTC has adopted OEC's model ethics policy. OTC should periodically consult OEC to ensure the effective implementation of various ethics-related administrative procedures. Finally, OTC should reduce potential conflicts of interest by implementing policies defining hiring and contracting procedures.**
- **OTC should adopt a formal strategic plan. The plan should include OTC's mission, vision and value statements, concise and measurable objectives, strategies, action plans, responsible parties, timelines, as well as a process for implementing, monitoring and updating the plan.**
- **OTC's management and staff, with Commission approval, should update the travel reimbursement policy to include guidelines established by the Ohio Office of Budget and Management (OBM) and the Pennsylvania Turnpike Commission (PTC).**
- **OTC management should formally communicate its commitment to internal controls. Senior agency management and the Commission should articulate the importance of internal controls in writing to employees at all levels of the agency. Additionally, statements on the importance of internal controls could be issued in conjunction with communications regarding the newly adopted ethics policy.**

- **OTC should develop a formal risk assessment program in accordance with the overall mission of the organization. The risk assessment program should include an annual self-evaluation to identify possible deficiencies within each specific area of responsibility and should identify the source and any contributing factors of potential risks facing OTC.**
- **The Internal Audit (IA) department should assist departments in developing formal, written Standard Operating Procedures (SOPs) or policies and procedures for all functions to effectively standardize and communicate internal controls to be performed in all departments.**
- **The IA department should develop an annual audit plan for the purpose of communicating annual internal auditing objectives to OTC management. The audit plan should include an allocation of hours for the chief auditor to assist the external auditors in the annual year-end financial audit.**
- **The Commission should establish an Audit Committee as a standing subcommittee to oversee internal and external audit functions. The Audit Committee should be comprised of Commission members who collectively possess the expertise and experience in accounting, auditing and financial reporting. The Commission may choose to include professionals, such as attorneys and bankers, who are knowledgeable of OTC operations. During the course of this audit, OTC implemented this recommendation.**
- **OTC's general counsel should work with the Commission to enact a resolution authorizing a change to the procurement approval limit (Section 1.00 of the Commission's *Code of Bylaws*) from \$500,000 to \$100,000. By reducing the approval limit, the Commission would have more oversight on all procurement contracts over \$100,000.**
- **OTC should develop SOPs for the HR department that formally articulate the majority of critical HR functions and associated duties. In addition, HR staff should be cross-trained to ensure the functionality of the department.**
- **OTC should centralize its HR functions within the HR Department. OTC should identify HR responsibilities based on industry standards which could be targeted to be strengthened and/or centralized within the HR department.**

- **OTC should work with its bargaining unit to implement a formal and annual employee performance evaluation process that applies to both bargaining and non-bargaining unit personnel. Additionally, OTC should more clearly define critical concepts, such as *merit*, contained in § 2.1.1 of the Employee Manual.**
- **OTC should establish a formal policy regarding outside employment and include it in the Employee Manual and CBA (subject to negotiation).**
- **OTC's HR department should formalize its current labor agreement negotiation process into a policy that includes procedures for preparation, negotiation and follow-up with the bargaining unit.**

Additional Recommendations

This section of the Executive Summary highlights additional recommendations from each area of the audit report.

Policies and Procedures

- OTC should consider creating a committee to address the implementation of its ethics policy and accompanying administrative procedures. Furthermore, OTC should link the efforts of this committee to its strategic plan, as part of the agency's overall objectives, as well as its mission, vision and value statements.
- OTC should update and consolidate all non-bargaining unit policies and procedural booklets into one handbook. Additionally, the employee handbook should incorporate OTC's mission, vision and value statements, as well as its strategic plan.
- OTC should review existing differences between its Collective Bargaining Agreement (CBA) and non-bargaining unit employee handbooks. When these differences have been identified, OTC should work with the bargaining unit, via negotiation, to ensure its employees receive consistent treatment under standardized policies and procedures.

Internal Controls

- The OTC chief auditor should provide the executive director, the deputy executive director and the Commission a quarterly report on all internal audits performed. Quarterly reports will help solicit input and increase oversight from top administration and the Commission

regarding special areas of concern. Likewise, monthly management reports should be provided to OTC senior management by department supervisors to ensure adequate management information for decision making purposes.

- OTC departments should be instructed to perform annual self-evaluations of internal controls in the absence of a regular annual internal audit. As the IA department cannot audit all departments annually, department managers should evaluate and fine tune internal controls in the interim. The IA department should be available to serve as a resource to assist department supervisors in developing the evaluation process and modifying any internal controls that are determined to be weak.
- The IA and purchasing departments should work together to consolidate the purchasing and the purchasing card manual into one comprehensive purchasing policy and procedure manual. The purchasing policy should be reviewed by all employees who have purchasing authority and signed to acknowledge understanding.
- The Commission should pass a resolution authorizing OTC to join the Ohio Department of Administrative Services' (DAS), General Services Administrative pricing (GSA) program and ODOT's cooperative purchasing program to receive discounts on materials and equipment in accordance with ORC § 5513.01 (B).

Human Resources

- OTC, in conjunction with the HR department, should formalize its process for creating new positions and accompanying job descriptions.
- Position descriptions should be reviewed and updated on an annual basis. This review can be built into OTC's annual performance evaluation process. Following supervisory update and review, all job descriptions should be assessed by the HR manager to ensure uniformity and clarity. Furthermore, position descriptions should be electronically stored and marked with their effective dates; any changes should be processed by human resources and approved by the executive director. In instances where positions descriptions change, OTC should work with its collective bargaining unit to ensure that all parties agree to the required changes.
- The HR department should develop a formalized, progressive disciplinary policy and associated procedures for the Employee Manual. The policy and associated procedures should provide guidance for supervisors in assessing, managing, and documenting situations of inappropriate conduct among non-bargaining unit personnel. Additionally, supervisors

should consult the HR department to update personnel files and to seek assistance in dealing with inappropriate conduct.

- OTC should enhance its attendance policy for non-bargaining unit employees by including formalized, written procedures to guide supervisors in monitoring employee attendance. Furthermore, OTC should supplement its leave policy with procedural guidelines for employees to follow when applying for leave. As instances of abuse occur with either policy, supervisors should follow OTC's disciplinary policy.
- OTC should consider ways to merge its payroll processing cycles so all employees are paid two weeks following the end of the pay period. Although subject to negotiation, OTC should work with the collective bargaining unit to determine an agreeable method that would allow for a reasonable merger of the payroll cycles, resulting in a negligible impact on employees.
- Members of OTC's negotiating team and representatives from the bargaining unit should attend labor relations training provided by Ohio's State Employee Relations Board (SERB). In addition to facilitative assistance provided by SERB, collaborative training will help to condense negotiations and reduce grievances. Furthermore, as established in contract, both parties should participate in periodic labor/management committee meetings to improve communication and to discuss mutual concerns.
- OTC should consider establishing an ombudsman position to provide a more open environment and independent perspective to help resolve both non-bargaining and bargaining unit employee grievances. Although subject to negotiation, such a position would help alleviate the HR department's current workload relative to the bargaining unit and would help improve labor relations.
- OTC should establish an early retirement incentive (ERI) consideration procedure with guidelines and timeframes to follow before ERIs are offered. A formalized procedure will help to ensure a profitable and reasonable buyout and provide an efficient and uniform process for conducting future early retirement incentive ERI opportunities. Additionally, OTC should create a policy that requires a financial assessment prior to offering an ERI. The duration of the window, estimated participation rates and the means of providing effective controls over hiring replacements should be considered, in addition to the allocation of costs associated with the incentive program. An explicit account of all costs, including future costs to retirement systems, is essential to evaluate the effectiveness of the incentive program. Employing an outside neutral source, like OBM, to assess the elements of an ERI program will help to ensure the effectiveness and profitability prior to implementation.

- The Commission should consider strengthening its current *Code of Bylaws* through regular updates and by including standardized selection criteria as well as a formal procedure by which the executive director is appointed.

Objectives and Scope

AOS has designed this performance audit with the objective of reviewing policies, internal controls, and procedures to develop recommendations for improving operations and accountability by enhancing management controls and oversight. Specific objectives of this performance audit include the following:

- Review OTC's ethics policy, its implementation and the mechanism for compliance monitoring and examine employment policies, training, travel and expense reimbursement and gratuity monitoring;
- Evaluate internal controls in areas such as budgeting and management reporting, procurement, travel reimbursement and gratuity monitoring; and
- Review human resources policies, procedures and practices, such as hiring and compensation, and the definition and clarity of staff and Commission responsibilities in this area.

Methodology

To complete this report, the auditors gathered and assessed a significant amount of information pertaining to the selected audit areas; conducted interviews with various individuals associated with OTC, and assessed available information from selected peer turnpike agencies. The auditors also administered a survey which was distributed to 112 turnpike employees. The survey received 53 responses and provided the auditors with employee input. The auditors also spent a significant amount of time gathering and reviewing other pertinent documents and information, such as state and national best practices in turnpike operations and ethics practices, and reports from the OIG and information from the OEC.

The following six turnpike agencies were selected as peers to provide benchmark comparisons: Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, and the West Virginia Parkways Economic Development and Tourism Authority.

The performance audit process involved significant information sharing with the management from OTC, including preliminary drafts of findings and recommendations as they were developed. Furthermore, periodic status meetings were held throughout the engagement to inform OTC's designated liaison and management staff of key issues impacting the selected areas, and proposed recommendations to improve and enhance operations. OTC management was provided numerous opportunities to contribute comments on key issues. OTC management also provided written comments on the various report sections which were taken into consideration in the reporting process.

The Auditor of State and staff express appreciation to the Interim Director of the Ohio Turnpike Commission and OTC staff for their cooperation and assistance throughout the audit.

Comparative Statistics

In order to gain a general understanding of OTC's performance in relation to peer turnpike agencies, information has been gathered for comparison in a variety of areas. **Tables 1-1** through **1-6** benchmark the performance of OTC against the operations of the peer turnpike agencies.

Table 1-1 compares OTC revenues to the peers.

Table 1-1: Comparison of Revenues

| State | Tolls | Concessions | Other ¹ | Total Operating Revenues | Operating Revenue per Lane Mile |
|---------------------|----------------------|--------------------|---------------------|--------------------------|---------------------------------|
| Ohio | \$174,326,000 | \$11,547,000 | \$3,576,000 | \$189,449,000 | \$147,100 |
| Indiana | \$81,336,000 | \$6,529,000 | \$652,000 | \$88,517,000 | \$140,100 |
| Kansas | \$63,700,000 | \$1,493,000 | \$699,000 | \$65,892,000 | \$65,900 |
| New Jersey | \$433,869,000 | \$14,580,000 | \$37,837,000 | \$486,286,000 | \$398,900 |
| New York | \$411,792,000 | \$13,892,000 | \$16,258,000 | \$441,942,000 | \$159,500 |
| Pennsylvania | \$365,900,000 | \$10,221,000 | \$12,741,000 | \$388,862,000 | \$163,300 |
| West Virginia | \$53,631,000 | \$4,887,000 | \$2,765,000 | \$61,283,000 | \$149,500 |
| Peer Average | \$235,038,000 | \$8,600,300 | \$11,825,300 | \$255,463,700 | \$179,500 |

Source: OTC, Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, West Virginia Parkways Economic Development and Tourism Authority

Note: Data for FY 2001. Figures have been rounded to the nearest 100.

¹ Includes special toll permits, leases, licenses, income from investments and miscellaneous revenue.

OTC appears to collect an average amount of total operating revenue and operating revenue per lane mile when compared to other toll road operations. Although OTC generates a larger dollar amount in concession revenues, toll revenues are below other Northeast toll road operations. This can be attributed to a significantly higher amount of traffic managed by the peer turnpike systems (see **Table 1-5**).

Table 1-2 compares OTC and peer expenditures.

Table 1-2: Comparison of Expenditures

| State | Maintenance | Toll Operations | Patrol | Total Operating Expenditures ² | Operating Expenditures per Lane Mile |
|---------------------|----------------------------|---------------------|---------------------|---|--------------------------------------|
| Ohio | \$62,418,000 ¹ | \$29,654,000 | \$11,402,000 | \$128,255,000 | \$99,600 |
| Indiana | \$14,930,000 ¹ | \$8,718,000 | \$3,287,000 | \$45,411,000 | \$71,900 |
| Kansas | \$7,419,000 | \$10,093,000 | \$3,721,000 | \$65,329,000 | \$65,300 |
| New Jersey | \$37,670,000 | \$48,549,000 | \$20,380,000 | \$176,876,000 | \$145,100 |
| New York | \$86,629,000 | \$68,642,000 | \$32,859,000 | \$229,127,000 | \$82,700 |
| Pennsylvania | \$198,980,000 ¹ | \$43,169,100 | \$22,179,100 | \$368,545,000 | \$154,700 |
| West Virginia | \$43,306,000 ¹ | \$9,025,000 | \$2,410,000 | \$62,171,000 | \$151,600 |
| Peer Average | \$64,822,300 | \$31,366,000 | \$14,139,400 | \$157,909,800 | \$111,900 |

Source: OTC, Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, West Virginia Parkways Economic Development and Tourism Authority

Note: Data for FY 2001. Figures have been rounded to the nearest 100.

¹ Includes depreciation expense.

² Includes additional categories (e.g., administration and insurance, depreciation, interest and major repairs).

OTC's expenditures for maintenance, toll, and patrol operations are commensurate with the peer average. Furthermore, OTC ranks fourth in total operating expenditures, spending less than higher volume systems (see Table 1-5). OTC's operating expenditures per lane mile also falls below the peer average.

Table 1-3 shows OTC and peer infrastructure.

Table 1-3: Toll Road Infrastructure

| State | Interchanges | Toll Plazas | Service Plazas | Other Structures (Maintenance and Administration) |
|---------------------|--------------|-------------|----------------|---|
| Ohio | 31 | 30 | 16 | 11 |
| Indiana | 21 | 21 | 10 | 5 |
| Kansas | 20 | 21 | 6 | NR |
| New Jersey | 28 | 27 | 12 | NR |
| New York | 52 | 10 | 27 | 30 |
| Pennsylvania | 39 | 55 | 22 | 22 |
| West Virginia | 18 | 4 | 3 | 8 |
| Peer Average | 30 | 23 | 13 | 16 |

Source: OTC, Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, West Virginia Parkways Economic Development and Tourism Authority

NR: Not Reported

Note: Data for FY 2001.

OTC maintains 31 interchanges, the third highest of the peers. Interchanges are points of access to the road; therefore, it is essential to maintain a sufficient number of interchanges to encourage usage. OTC also operates the second highest number of toll plazas, well above the peer average. OTC maintains a high number of service plazas as well, operating 16, the third highest of the peers. The comparison of these areas reveals that OTC has a greater range of infrastructure than similar toll road operations in the Northeast and Midwestern United States and, as a result, may provide a higher level of service and convenience to turnpike motorists.

Table 1-4 compares a variety of operating statistics based on turnpike lane mileage.

Table 1-4: Lane Mile Statistics

| State | Lane Miles | Employees per Lane Mile | Patrol Force per Lane Mile | Annual Traffic per Lane Mile ¹ | Accident Rate (per 100 million vehicles) |
|---------------------|--------------|-------------------------|----------------------------|---|--|
| Ohio | 1,288 | 1.0 | 0.11 | 36,000 | 77 |
| Indiana | 632 | 0.8 | 0.09 | 83,000 | NR |
| Kansas | 1,000 | 0.5 | 0.05 | 29,800 | NR |
| New Jersey | 1,219 | 1.7 | 0.18 | 167,800 | 118 |
| New York | 2,771 | 0.7 | 0.12 | 93,700 | 99 |
| Pennsylvania | 2,382 | 1.0 | 0.10 | 68,200 | 52 |
| West Virginia | 410 | 1.3 | 0.08 | 80,400 | NR |
| Peer Average | 1,402 | 1.0 | 0.10 | 87,200 | 90 |

Source: OTC, Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, West Virginia Parkways Economic Development and Tourism Authority

Note: Data for FY 2001.

¹ Figures have been rounded to the nearest 100.

NR: Not reported.

OTC manages the third largest lane miles of toll road of the peer group with 1,288 lane miles. As shown in **Table 1-4**, staffing and patrol levels of the OTC system are commensurate with the average of the peer turnpike agencies. Although OTC maintains a higher number of interchanges (access-points) than the peer average (see **Table 1-3**), it handles significantly less traffic per lane mile than the peer average. Additionally, OTC's accident rate falls below the peer average, indicating that OTC maintains a relatively safe road which may be the result of higher traffic enforcement rates or lower volume than similar operations in New York and New Jersey.

Table 1-5 compares operating revenue and expenditures on a per vehicle basis.

Table 1-5: Vehicle Transaction Statistics

| State | Vehicle Transactions ¹ | Vehicle Transactions per Employee ¹ | Operating Revenues per Vehicle Transaction | Operating Expenditures per Vehicle Transaction | Revenues Over (Under) Expenditures per Vehicle Transaction |
|---------------------|-----------------------------------|--|--|--|--|
| Ohio | 46,302,000 | 37,800 | \$4.09 | \$2.77 | \$1.32 |
| Indiana | 52,458,200 | 101,700 | \$1.69 | \$0.87 | \$0.82 |
| Kansas | 29,785,700 | 59,600 | \$2.21 | \$2.19 | \$0.02 |
| New Jersey | 204,572,700 | 101,100 | \$2.38 | \$0.86 | \$1.52 |
| New York | 259,721,900 | 134,900 | \$1.70 | \$0.88 | \$0.82 |
| Pennsylvania | 162,311,000 | 68,500 | \$2.55 | \$2.27 | \$0.28 |
| West Virginia | 32,951,000 | 61,700 | \$1.78 | \$1.89 | (\$0.11) |
| Peer Average | 123,633,400 | 87,900 | \$2.05 | \$1.49 | \$0.56 |

Source: OTC, Indiana Department of Transportation, Kansas Turnpike Authority, New Jersey Turnpike Authority, New York State Thruway, Pennsylvania Turnpike Commission, West Virginia Parkways Economic Development and Tourism Authority

Note: Data for FY 2001.

¹ Figures have been rounded to the nearest 100.

Vehicle transactions include both passenger car and commercial vehicles which travel the turnpike. The greatest fluctuations occur in the amount of traffic handled by each system. New Jersey, New York and Pennsylvania manage a significantly higher level of vehicle traffic. OTC's number of vehicle transactions falls significantly below the peer average; consequently, OTC's number of vehicle transactions per employee is also well below the peer average. Furthermore, OTC's operating revenues and expenditures per vehicle transaction are nearly two times larger than the peer average. Although OTC's operating expenditures per vehicle transaction significantly exceeds the peer average, it generates nearly two times more revenue per vehicle transaction than the peer average to cover expenditures.

Table 1-6 compares operating revenues and expenditures as well as staffing on the basis of vehicle miles traveled.

Table 1-6: Vehicle Miles Traveled (VMT) Statistics

| | Vehicle Miles Traveled (VMT) ¹ | Miles Per Vehicle Trip | Operating Revenues Per VMT | Operating Expenditures Per VMT | VMT per employee ¹ |
|----------------------|---|------------------------|----------------------------|--------------------------------|-------------------------------|
| Ohio | 2,717,742,200 | 59 | 0.07 | 0.05 | 2,218,600 |
| Indiana | 1,138,735,600 | 22 | 0.08 | 0.04 | 2,206,900 |
| Kansas | 1,312,294,200 | 44 | 0.05 | 0.05 | 2,624,600 |
| New Jersey | 5,843,629,600 | 29 | 0.08 | 0.03 | 2,802,700 |
| New York | 10,167,643,400 | 39 | 0.04 | 0.02 | 5,281,900 |
| Pennsylvania | 5,308,609,000 | 33 | 0.07 | 0.07 | 2,210,100 |
| West Virginia | 880,006,000 | 27 | 0.07 | 0.07 | 2,227,900 |
| Peer Average | 4,108,486,300 | 32 | 0.07 | 0.05 | 2,892,400 |

Source: OTC

Note: Data for FY 2001.

¹ Figures have been rounded to the nearest 100.

OTC ranks fourth in vehicle miles traveled per year when compared to similar toll road systems. This is consistent with expectations since OTC manages the fourth largest toll road system of the peer group with 1,288 lane miles. In terms of vehicle miles traveled, OTC also appears to maintain operating revenues and expenses that are consistent with the peer average. However, OTC maintains a vehicle mile traveled to employee ratio that is well below the peer average. If New York is excluded from the employee per vehicle miles traveled, the revised peer average is 2,414,400 vehicle miles traveled per employee. OTC exceeds the revised peer average by 8 percent. Even though OTC currently maintains a level of expenditure consistent with the peer average, this ratio could potentially be improved through increased operational efficiencies.

Issues Requiring Further Study

Government Auditing Standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS has identified three such issues.

Efficiency of Toll Plaza, Service Plaza and Maintenance Operations

It was not within the scope of this project to evaluate the operational efficiency and effectiveness of OTC field operations. However, the statistical analyses presented above may indicate opportunities to enhance efficiency and effectiveness through an operational review.

OTC Technology

OTC has explored but not begun implementation of automated toll collections, even though this technology was used in most of the toll road operations selected for comparison. Some investigation was performed in this area yet OTC management stated that they were not comfortable with the technology's reliability. However, since that time, the technology has matured and become significantly more reliable and new technology is evolving. During the course of the audit, the interim director expressed interest in moving forward with this technology. OTC recently implemented a pre-pay card pass that uses existing OTC technology. However, the current limited application of available and emerging technology in toll collections may increase operating costs for OTC. OTC should pursue further studies in this area and include studies, pilot projects and future plans in its strategic plan and annual report.

OTC/Bargaining Unit Relationship

OTC and its bargaining unit should increase cooperation and interaction. Until OTC and its bargaining unit can reach agreement on several key issues, the efficiency and effectiveness of OTC operations will be adversely affected.

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Policies and Procedures

Overview

A recent report issued by the Ohio Inspector General (OIG) revealed that certain members of OTC's staff, including the former executive director, accepted a significant number of gratuities and were not diligent in their hiring practices. Following the release of this report, an interim executive director was appointed to guide the agency until a permanent executive director could be hired.

Pursuant to an OIG recommendation, OTC developed a draft ethics policy and submitted it to the Ohio Ethics Commission (OEC) for review. The draft policy included elements of Ohio's ethics statutes, as well as procedures for notifying OTC's approximately 1,000 active vendors of the new ethics policy. However, in October 2002, OEC unanimously approved a motion indicating its preference that OTC adopts the OEC's model ethics policy - a policy recently adopted by the Ohio School Facilities Commission (OSFC). In November 2002, OTC adopted OEC's model policy and participated in an OEC-sponsored training seminar on ethics. Although the OEC policy does not include vendor-notification stipulations, OTC implemented a vendor notification procedure, including signed receipts of notification, in December 2002 (See **Recommendation 2**).

OTC has expressed an interest in improving internal policies and procedures in the areas of human resources, ethics and travel. Recent publicity regarding OTC's policies and procedures, as well as an upcoming change in leadership has prompted an examination of the content of its employee manuals. Assessments of the following OTC policies were conducted but did not warrant any changes or yield any recommendations¹:

- Code of bylaws;
- Ethics;
- Employee manual;
- Non-harassment;
- Purchasing;
- Purchasing card;
- Chemical handling;
- Family and Medical Leaves of Absence (FMLA);

¹ OTC maintains extensive operational policies and procedures for areas such as toll collections. These policies and procedures were not reviewed as a component of this audit.

- Drugs and alcohol;
- Information technology usage; and
- Complaint and Grievance policies.

Recommendations

Ethics Policy

- 1. OTC should comply with the Ohio Ethics Commission's (OEC) recommendations regarding the adoption and implementation of the model ethics policy. Furthermore, OTC should periodically consult OEC to ensure the effective implementation of various ethics-related administrative procedures.**

OEC prefers the model over OTC's draft due to its simplicity in summarizing required statutory standards (Ohio Revised Code §102 and §2921). In a letter to OTC, OEC recognized the importance of incorporating OIG's vendor-notification recommendations into practice, and maintains that the standards of law should control the conduct of OTC's Commission members and personnel (See **Recommendation 2**). Moreover, OEC believed OTC could readily adopt the model and separately implement those administrative procedures required to execute it, including OIG's recommended vendor-notification procedures.

In November 2002, Commission members approved a resolution adopting OEC's model policy. Additionally, OTC trained employees by videotaping and presenting an OEC-sponsored ethics seminar and supplementing new employee orientation packets with information provided by OEC regarding golf outings, financial disclosure statements and gratuities.

Compliance with OEC recommendations will help formalize OTC's intent to reduce potential instances of ethical violations. Consistent application of these recommendations throughout the organization will increase OTC's protection from legal liability should violations occur.

- 2. OTC should reduce potential conflicts of interest by implementing policies that define hiring and contracting processes. These policies should address issues such as nepotism and vendor notification of OTC ethics policies.**

In August 2002, the Inspector General reported that OTC's executive director created a new position for the relative of a sitting Commission member. (See **human resources** for more information regarding OTC's hiring practices.) Additionally, the executive director approved a contract for service with a firm in which one of the partners was a personal friend. Consistent with OIG recommendations, OTC should develop and implement policies that define hiring and contracting procedures.

According to Ohio Revised Code (ORC) §102.02, a potential conflict of interest exists if the private interests of the person, as indicated by the person's disclosure statement, might interfere with the public interests the person is required to serve in the exercise of the person's authority and duties in the person's office or position of employment. The Pennsylvania Turnpike Commission's (PTC) employee handbook explicitly prohibits employees from having an adverse interest in any contract with the PTC and from influencing, or attempting to influence, the making of a contract (including employment). PTC defines *adverse interest* as "being a party to a contract or being a stakeholder, partner, member, agent representative or employee of such party."

In November 2002, OTC developed and implemented a vendor-notification procedure, including an acknowledgement of receipt of the form, for inclusion in contracts and Request for Proposal (RFP) affidavits. These practices will help formalize OTC's intent to reduce future conflicts of interest and to limit the risk of legal liability should violations arise.

- 3. OTC should consider creating a committee to address the implementation of its ethics policy and accompanying monitoring procedures. Spearheaded by Commission members, this committee should consist of senior management representatives from general counsel, internal investigations, human resources, internal auditing, purchasing and other departments. Furthermore, OTC should link the efforts of this committee to its strategic plan, and include the committee in the development of the agency's overall objectives and mission, vision and value statements.**

OTC recently adopted OEC's model ethics policy to govern the actions of employees and vendors. Along with this policy, administrative monitoring procedures must be established and communicated to all employees and vendors to effectively communicate OTC's accountability standards and to ensure consistent behavioral expectations and methods of measurement.

According to the Society for Human Resource Management (SHRM), an organization should have a code of ethics, as well as mission, vision, and value statements that establish a core value or sense of direction in meeting agency objectives. Ethical behavior must permeate the organization and it must be communicated through formal policies and training programs.

Implementation of the following monitoring procedures will ensure a more formalized and consistent focus on ethics related issues:

- Require potential new hires to formally list any relatives currently employed with OTC to reduce instances of nepotism;
- Require employees to annually re-certify (via signature) their compliance with the ethics policy and track employees who do not certify their acceptance of the policy or are found to be non-complaint with the policy;

- Track vendors who fail to sign the ethics policy acknowledgement form or commit ethics policy violations; (See **internal controls**.)
- Provide regular ethics training to all employees (OEC offers training, and private consultants are also available);
- Review gratuities received by employees and report any potential problems to OEC;
- Send ethics policy reminders to employees during the holidays;
- Reinforce ethical conduct and values as a component of the performance evaluation process; (See **human resources**.)
- Enable human resource officials and the general counsel to respond confidentially to employee concerns and offer legal advice; and
- Enable the internal auditor and general counsel to conduct independent investigations in the event of non-compliance.

Connecticut's Department of Transportation (CDOT) reaches beyond Connecticut statutory guidelines on gratuities by prohibiting employee acceptance of any gifts and gratuities from organizations doing business with the agency. Although OTC's current policy does not incorporate a zero-tolerance stipulation, the Commission has the option to exercise such language, via resolution, should ethics violations occur.

By creating an ethics committee that is representative of major departments, OTC can more easily establish formalized guidelines for monitoring ethical conduct and encouraging principles of public service that strengthen public confidence in the integrity of OTC. Employees who disregard the policy should be subject to disciplinary action, and offending vendors should lose the privilege of doing business with OTC. Disciplinary action should be appropriate to the level and duration or frequency of the violation, as is common in other State agencies. Additionally, by linking efforts in this area to its strategic plan, and its mission, vision and value statements; OTC can more effectively communicate its objectives to the Commission and the community as a whole.

Agency Policies and Procedures

4. **OTC should update and consolidate all non-bargaining unit policies and procedural booklets into one handbook. This effort should include input from staff, management and Commission members. The employee handbook should also incorporate OTC's mission, vision and value statements. Finally, OTC should continue to require personnel to sign an acknowledgement of having received, read and understood the handbook's contents.**

OTC has separate policies and procedures for bargaining and non-bargaining unit staff. Bargaining unit members receive policies and procedures in the form of the contractual

agreement between the bargaining unit and OTC management. Non-bargaining unit policies and procedures are contained in several separate handbooks and pamphlets, and are not consolidated in one, centralized handbook.

The policy development administrator for the Ohio Department of Administrative Services' (ODAS) Human Resources Division offers the following benefits for the consolidation of policy and procedures handbooks:

- Easy distribution of policies and procedures to all staff;
- Improved tools for the orientation of new employees; and
- Increased protection against legal liability.

As a result of its current, decentralized system, OTC's non-bargaining unit policy manuals may not effectively address all necessary conditions for employment. For example, The Pennsylvania Turnpike Commission's (PTC) employee handbook more effectively reduces the risk of legal liability by establishing formal and consistent policies for many of its employment conditions including, but not limited to, discrimination, smoking, political activity, outside employment and the carrying of weapons.

According to SHRM, the goals of the organization and its philosophy should be stated at the beginning of the employee handbook. The purpose of the handbook is to clearly communicate important and relevant information to all employees. Additionally, it provides management an opportunity to educate employees about agency outputs, customers, commitment to the community, and competitors by illustrating agency organization and activities, as well as articulating the governing principles of the organization. The goal is to establish a positive image as an employer, responsible citizen, and provider of goods and services. Written documentation, such as a handbook, can provide consistency in administering the organization's policies and procedures, as well as its mission, vision and values.

OTC should supplement its employee handbook with the following conditions of employment:

- Americans with Disabilities Act;
- Equal Opportunity Employer statement;
- Smoking;
- Performance Evaluations; (See **human resources**.)
- Disciplinary Procedures;
- Termination;
- Political Activity;

- Carrying of Weapons; and
- Outside Employment. (See **human resources**.)

Once a consolidated handbook has been developed, it should be reviewed by all levels of management, and by a group of employees to ensure adequate inclusion of stakeholder input. A Commission-approved copy should be provided to current and incoming employees. Furthermore, OTC management can take the following steps to ensure all personnel are aware of policy and procedures updates:

- Inform all personnel of policy decisions;
- Design and create an intranet site to publish the employee handbook online;
- Post notices (send e-mails) of impending changes;
- Issue new policies to all personnel *prior* to the date they take effect;
- Base new employee orientation packets on the employee handbook;
- Indicate that changes in policy supercede all previous agreements; and
- Review and update policies on an annual basis.

An up-to-date, consolidated policy and procedures manual will enhance the communication of OTC expectations to all personnel and reduce the risk of legal liability.

Mission, Vision and Planning

- 5. OTC should develop concise mission, vision and value statements. These statements should be developed by a representative group of OTC staff and management and approved by Commission members, to ensure adequate inclusion of stakeholder input.**

According to OTC staff, the mission of the agency is to fulfill the requirements set forth by ORC §5537. OTC management indicated that formalized mission, vision and value statements would have to come from the Commission or the executive director. By maintaining an increasingly pro-active role in the development of OTC initiatives, Commission members can set the direction of the agency and provide leadership and oversight to management personnel. This will become more important as a new executive director is hired and a new ethics policy is implemented. Comprehensive changes in both administration and organizational culture will require guidance and direction from the highest levels of the agency.

While compliance with Ohio law is a necessary objective, the absence of formalized mission, vision and value statements may result in the ineffective communication of the agency's purpose and functions to the general public. Since OTC's administration will soon change with the hiring

of a permanent executive director, it is important that these statements be formalized as early as possible and reinforced through frequent oral and written communication (e.g., bylaws, website, brochures, employee handbooks, annual reports, and strategic plan).

SHRM recommends that the mission, vision and value statements reflect the purpose, intent and core principles of an organization. Additionally, these statements should be stated at the beginning of the employee handbook. These statements can guide behavior, strategic planning and implementation by providing organizational direction both internally and externally. PTC publishes the following mission statement on its website, strategic plan, employee handbook, annual report and business cards: *To operate and manage a safe, reliable, cost effective and valued toll road system.*

According to the American Public Works Association (APWA), an agency's value statement establishes the core values that assist in fulfilling its mission. This statement answers the questions of what culture the leadership of the agency wants to create and how all employees are to act. OTC should consider incorporating elements of its new ethics policy into its mission, vision and value statements. The Ohio Department of Transportation (ODOT) publishes the following value statements online and in its strategic plan:

- **Customer Focus:** We are committed to understanding and meeting the needs of our customers;
- **Integrity:** We will maximize the effectiveness of the public resources entrusted to us;
- **Respect:** We respect the diversity, talent and ideas of all ODOT team members;
- **Excellence:** Excellence is the standard for the quality of our work and should be rewarded. We will strive to achieve excellence through hard work, innovation, creativity and prudent risk taking; and
- **Teamwork:** We are dedicated to working together and to supporting each other.

A formalized value statement will help ensure the effective communication of OTC's new ethics policy throughout the organization's culture, thus alleviating potential instances of ethical violations and conflicts of interest.

6. OTC should adopt a formal strategic plan. The plan should include OTC's mission, vision and value statements, concise and measurable objectives, strategies, action plans, responsible parties, timelines, as well as a process for implementing, monitoring and updating the plan.

OTC has not prepared a formal strategic plan to serve as a guide for the long-term development and enhancement of agency functions. According to staff, OTC's primary goals include the following:

- **Safety:** presence of dedicated Ohio State Highway Patrol district, creation of a third lane, installation of the rumble-strip alert system, creation of the Safety Services Department, and promotion of *Car Care* and *Safety Days* events;
- **Accessibility:** creation of additional toll plazas, expansion and reconstruction of existing toll plazas, and development of the *Ready Toll* program; and
- **Economic Development:** construction of new interchanges to spur development in areas bordering the turnpike.

Although OTC incorporates its goals as themes in annual reports, they can be more effectively used for the purposes of planning, budgeting and monitoring outcomes if they are published and distributed to staff, management, Commission members and the public in the form of a strategic plan. Additionally, a strategic plan should be used as a formal vehicle to effect change at OTC (e.g., developing an ethics-related committee and ethics procedures, implementing performance audit recommendations, etc.).

Specific OTC employees should be identified in the document as accountable for each goal, giving them the authority to implement procedures or action plans, create reporting mechanisms through the hierarchy of the organization, and if possible, permitting them to make decisions within a predetermined budget. Employees responsible for implementing the strategic plan should have the authority to explain non-performance and identify actions needed to meet outstanding goals.

The strategic planning process should include Commission members, management, as well as bargaining and non-bargaining unit personnel to ensure adequate representation from each area of OTC's operations. OTC should revise the plan annually to reflect accomplishments and changes in priorities.

Both ODOT and PTC have strategic plans (*Vision 2006* and *A Road to the Future*, respectively). These plans link each agency's mission, vision and value statements to various initiatives and each plan is published through the agencies' web sites. Furthermore, ODOT's five-year initiatives comprise that agency's primary goal of "providing a modern and safe transportation system which meets Ohio's needs. A copy of PTC's strategic plan is reprinted in its employee handbooks.

By implementing a strategic plan, OTC will be in a better position to communicate key initiatives to Commission members, employees and the community as a whole. Furthermore, the strategic planning process can help to strengthen the relationship between management and staff through teamwork, feedback and goal-sharing.

Personnel Policies

7. **OTC should review existing differences between its Collective Bargaining Agreement (CBA) and non-bargaining unit employee handbooks. When these differences have been identified, OTC should target those which may negatively impact its operations and work with the bargaining unit, via negotiation, to ensure its employees receive consistent treatment in specific areas through standardized policies and procedures.**

Several inconsistencies exist between the CBA and non-bargaining unit employee handbooks. For example, the CBA references OTC's non-discrimination policy by explicitly stating its compliance with the Americans with Disabilities Act. Such references do not appear in the employee handbook. Also, the bargaining agreement is worded in a manner that implies that bargaining unit employees receive reasonable advance notice of random drug testing. The policy for non-bargaining unit employees is clear in stating that they are subject to random drug testing without advance notification. The non-bargaining unit drug testing policy is in full compliance with the Federal DOT drug testing recruitments for commercial vehicle operators, while the wording in the CBA may be interpreted as being out of compliance with Federal requirements. Other inconsistencies were noted but were not identified as having potential detrimental impact on OTC operations. Specifically, the CBA calls for performance evaluations of bargaining unit staff while non-bargaining unit handbooks do not. (See **human resources**.)

According to a labor relations administrator with the State Employment Relations Board (SERB), ORC §4117 permits inconsistencies between bargaining and non-bargaining unit agreements, such as those listed above. However, according to the administrator, these inconsistencies do not foster an orderly and constructive relationship between management and staff, and between bargaining and non-bargaining unit personnel, since dissimilar standards for employee conduct exist.

By working alongside the bargaining unit to reduce inconsistencies within the CBA and non-bargaining unit employee handbooks in selected areas, OTC's management will be better able to provide consistent treatment and expectations for all employees. However, OTC management should be cautious when replacing more stringent requirements for non-bargaining unit employees with those that may be more lax per the CBA. OTC should, whenever possible, advocate for the highest standards and requirements for all OTC employees.

8. **OTC's management and staff, with Commission approval, should update the travel reimbursement policy to include guidelines established by the Ohio Office of Budget and Management (OBM) and PTC.**

OTC has developed a detailed travel reimbursement policy. However, in several areas, the OTC policy does not stipulate threshold dollar amounts for common expenditures. OBM and PTC

have more detailed travel policies which indicate maximum allowable rates. PTC uses General Services Administration (GSA) Continental United States (CONUS) rates while OBM has developed maximum amounts exclusively for the State of Ohio. Some of the major differences between the policies are shown below:

- **Mileage:** OTC's allowable rate is set at the Federal rate and is consistent with PTC rates but is above OBM rates.
- **Lodging:** OTC does not have maximum rates for lodging stipulated in its policy. OBM reimburses for no more than \$75 plus taxes per night. PTC uses GSA and CONUS maximum allowable rates.
- **Meals:** OTC's policy does stipulate maximum amounts for meal allowances when no overnight travel is required. However, OTC's only limitation on overnight meal expenses is that any expense over \$5 be accompanied by a receipt. The executive director approves all expenditure limits prior to travel and OTC managers can disallow purchases that appear excessive. OBM reimburses for no more than \$40 per day. PTC uses GSA and CONUS maximum allowable rates.
- **Transportation:** OTC's policy is similar to OBM and PTC's policies.
- **Prohibitions (non-reimbursable expenses):** OTC's policy does not include explicit statements enumerating disallowed activities, as is stipulated in the OBM and PTC policies. The OTC policy states that alcohol and non-business expenses will not be reimbursed.
- **Other:** OTC and PTC list other items, including exemptions made by the executive director. PTC's policy stipulates that all exemptions be accompanied by receipts.

OTC should incorporate several standards from OBM and PTC into its travel reimbursement policy. For example, PTC explicitly encourages car-pooling for business trips and OBM recommends a reimbursement rate of \$0.30 per mile for travel in personal automobiles. Additionally, OBM articulates prohibitions on entertainment expenses including, but not limited to, golfing fees and movies. By adopting similar guidelines and prohibitions, OTC can potentially reduce its travel reimbursement expenses and increase public accountability, per OIG's recommendations.

Internal Controls

Overview

Internal control is broadly defined as a process, affected by an agency's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal controls are tools that help agencies be effective and efficient while avoiding serious problems such as overspending, operational failures, and violations of law. Internal controls are the structure, policies, and procedures put in place to provide reasonable assurance that management meets its objectives and fulfills its responsibilities. Internal controls also facilitate the achievement of management objectives by serving as checks and balances against undesired actions.

A well-designed internal control structure reduces improper activity. Designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated and inadequate. Management must anticipate that certain procedures will become obsolete and modify internal control systems in response to these changes.

The internal control process has five components, control environment, risk assessment, control activities, information and communication, and monitoring. Major internal control areas include budget management, payroll administration, procurement and disbursement, property management and personnel (e.g. conflicts of interest, acceptance of gifts, and employment of relatives). Most internal controls are classified as either preventive or detective. Preventive controls are designed to discourage errors or irregularities, while detective controls are designed to identify an error or irregularity after it has occurred.

OTC is responsible for establishing and maintaining internal controls to protect against the loss, theft or misuse of its assets, as well as to reduce errors. OTC has established internal controls in several key areas. Internal controls and risk assessment measures are also reported in the OTC's Comprehensive Annual Financial Report (CAFR). However, the controls are largely procedural and have not been formalized in written form. OTC maintains its own Internal Audit (IA) department, which is responsible for reviewing and strengthening OTC's internal controls. The IA department performs operational and financial audits and provides technical assistance to staff.

Like many government entities, OTC could strengthen its internal control processes by compiling written policies and procedures for all functional areas. The strongest internal controls were identified in the area of budgeting. OTC met all GFOA requirements for internal controls in budgeting. Similarly, cash reconciliation of toll collections was highly detailed and well defined. The segregation of the IA department from other OTC functions also heightens the independence of the internal auditors, although the Commission does not have a documented mechanism for receiving and reviewing internal audit reports.

The areas with the greatest potential for improvement were found in personnel. Several of the issues identified with internal controls over personnel are addressed in the **policies and procedures** and **human resources** sections. Although OTC's payroll administration process includes segregation of duties, IA's role in payroll oversight could be increased. (See **Recommendation 10**.) Likewise, procurement and disbursement internal controls could be improved, as could property management controls. Purchasing card controls use detective reviews, are limited in their distribution through OTC and also use vendor controls. OTC conducts regular annual inventories, but has limited physical controls in some field areas. Property management was not included in the scope of this performance audit. Finally, management reporting to the Commission is regular, but IA reporting has had some limitations that precluded the receipt of IA management decision-making information by the Commission.

Recommendations

General Internal Controls and Internal Audit Functions

9. **OTC management should formally communicate its commitment to internal controls. Senior agency management and the Commission should articulate the importance of internal controls in writing to employees at all levels of the agency. OTC management and the Commission, with direction and assistance from the Internal Audit Department, should prepare formal internal control objectives. Statements on the importance of internal controls could be issued in conjunction with communications regarding the newly adopted ethics policy.**

OTC management has expressed its commitment to internal controls during interviews with audit team personnel. Likewise, the Commission articulates its use of internal controls and risk management principles in its Comprehensive Annual Financial Report (CAFR). However, management's commitment to internal controls has not been articulated in writing to all members of the agency. Also, the OIG's report cites several examples of ineffective internal controls, including controls over personnel. OTC management has implemented procedures to address these issues but has not formally stated its support for implementation of a strong internal control environment within the agency.

Internal controls are likely to function more effectively if management believes that those controls are important and communicates that view to employees at all levels. An effective internal control environment:

- Sets the tone of an organization, influencing the control consciousness of its people.
- Is an intangible factor that is the foundation for all other components of internal control, providing discipline and structure.
- Describes the organizational culture.
- Includes a commitment to hire, train, and retain qualified staff.
- Encompasses both technical competence and ethical commitment.

However, if management views controls as unrelated to agency-wide objective achievement, or even worse, as an obstacle, this attitude will also be communicated. Despite policies to the contrary, employees will then view internal controls as procedures that should be circumvented to expedite work processes.

Management support of internal controls is best measured by the operational practices and outcomes of an agency. In agencies with effective internal controls, programs and functions achieve their

intended results (they are effective). Likewise, resource use is consistent with the agency mission (it is efficient) and laws and regulations are followed (it meets compliance requirements). Finally, accurate and timely information is prepared and reporting is reliable.

Effective internal controls begin with written goals and objectives including:

- Operational objectives;
- Financial reporting objectives; and
- Compliance objectives.

Objectives should be formalized and documented in writing. Also, objectives should be included in formal planning documents and should be taken into account when developing the agency's vision and goals. (See **Recommendations 5** and **6** for more information regarding mission, vision and planning.)

In light of the recent OIG report on OTC activities, formal management support for identifying internal control needs, implementing internal control procedures and monitoring those procedures is an important component of ensuring agency compliance with all laws and regulations. Furthermore, a formal declaration supporting strong internal controls would bolster the recently adopted ethics policy.

- 10. OTC should develop a formal risk assessment program in accordance with the overall mission of the organization. (See Recommendation 5.) The risk assessment program should include an annual self-evaluation to identify possible deficiencies within each specific area of responsibility and should identify the source and any contributing factors of potential risks facing OTC. As a result of these findings, internal control policies may need to be revised to appropriately address any new or previously uncontrolled risks as they are identified. OTC should also use its ethics policy and previous internal and external audits as criteria toward establishing a formal risk assessment program.**

OTC's IA department has not formalized risk assessment processes and procedures. OTC uses various types of controls, including preventive and detective controls. Examples of internal audit procedures and controls include the following:

- Payroll audits are used to reduce the likelihood of checks being issued to non-existent employees.
- Purchasing cards are only issued to certain employees and vendor controls have been implemented.

- Purchasing card audits are performed to identify those employees who may have already made unauthorized purchases or have not provided necessary receipts.
- Inventory audits are performed to determine if supplies have been used for non-OTC business.

The IA department is actively involved in auditing areas determined to be problematic in OTC operations. The IA department also assists in developing controls for certain OTC programs and performs some risk assessment functions by reviewing new policies and programs for possible risks prior to implementation. However, the IA department has not implemented formal proactive risk assessment programs for all areas of OTC operations. Also, several years ago, each department developed written policies and procedures to illustrate its functions. Because many of the documents compiled were overly cumbersome, most have not been used and have become outdated.

Risk assessment is the process used to identify, analyze, and manage the potential risks that could hinder or prevent an agency from achieving its objectives. Risks can arise or change for a number of reasons, including the following:

- Risk increases during a time of change, for example, turnover in personnel, rapid growth, changes in the operating environment, new technology or establishment of new services.
- Other potential high risk factors include complex programs or activities, cash receipts, direct third party beneficiaries, and prior problems.

Additionally, the following factors should be used to measure risks and evaluate existing internal controls:

- Recognition of crime aspects other than money (time, information, threat to safety, gratuities, conflict of interest, or other unethical activities);
- Recognition of vulnerability to other serious criminal activities, like the abuse of influence, corruption, secret commissions and dishonest advantage;
- Past history of crime or unethical activity in the organization; and
- Results of internal and external audits of the organization.

Connecticut's Office of the State Comptroller, Office of Policy and Management, and Auditors of Public Accounts cooperatively developed a formal risk assessment program to help Connecticut State agencies evaluate and strengthen their internal controls. Part of the formal risk assessment program includes the development of an annual self-evaluation, which is performed between regular audit cycles. Connecticut's comprehensive risk assessment program takes the form of internal control questionnaires, written narratives and flow charts (purchasing, cash receipts, property control, payroll and personnel and receivables and revenues). The intent of the questionnaire is to obtain a working knowledge of the existing internal control structure. The existence of flow charts

of agency functions and narratives describing the transaction cycles gives management an opportunity to better understand operations in their area of responsibility, however simple or complex. Connecticut's self-evaluation process allows each agency to discover what has changed and how that change has affected the potential for negative implications. The self-evaluation process also allows Connecticut to identify and address potential problems before they occur.

The New York State Thruway Authority (NYSTA), Department of Audit and Management programs reflect the following attributes of a strong risk management program:

- Consistently applied across the organization's operations;
- Provides a risk rating for each type of fraud;
- Amenable to fine tuning;
- Capable of being replicated;
- Examines risks as if there are no controls in place; and
- Measures the effectiveness of existing controls.

The risk management assessments used by NYSTA help ensure that internal controls are effectively implemented across the organization.

From an internal control perspective, a risk assessment program should identify and evaluate the internal and external factors that could adversely affect the achievement of OTC's operational, informational and compliance objectives. To establish a risk assessment program, OTC should set organizational goals and objectives to help identify, measure and set limits on possible risk exposures that OTC will accept in order to achieve its objectives. The formal internal control processes should be developed from risk assessments to ensure that objectives and policies are communicated and implemented, that compliance is monitored, and that deviations are corrected in accordance with management's policies. Establishing a formalized risk assessment program will provide OTC with the planning and communication mechanisms for identifying risks before circumstances occur. Additionally, a formal risk assessment program will eliminate any ambiguity and provide the means by which effective internal controls can be established, maintained and communicated.

OTC should revisit its risk assessments on an annual basis. An annual self-assessment will allow OTC to discover what has changed and how that change has affected the agency's mission and internal control system. Whatever the findings from an annual self-evaluation, it is a beneficial process to identify and become aware of potential internal control problems before such problems become overwhelming and even embarrassing.

- 11. The IA department should assist departments in developing formal, written Standard Operating Procedures (SOPs) or policies and procedures for all functions. SOPs will allow OTC to effectively standardize and communicate internal controls to be implemented in all departments. Furthermore, the IA department should oversee and assist in implementing formal SOPs and their corresponding internal controls.**

SOPs were identified and developed for all OTC departments several years ago. The SOPs were designed to provide a step-by-step description of how certain job tasks were to be performed. However, many SOPs were written in an overly detailed manner and were deemed too complex for everyday use. As a result, most of the written procedures were never used and have since become outdated.

Several OTC departments have some formalized procedures, most of which include a component of internal controls. The most complex and rigorous SOPs have been developed for the toll collector functions and include job duties, emergency procedures, toll collection controls and several other areas of operations. However, the existence of formal SOPs is inconsistent and the level corresponding internal controls is also inconsistent throughout the agency. (See **Recommendation 22.**)

Organizations establish policies and procedures so that identified risks do not prevent an organization from reaching its objectives. Policies and procedures provide operational direction but should also provide the following:

- Clear identification of activities to minimize risk and enhance effectiveness.
- Built in internal controls that are not separate from the policies and procedures but an integral part of them.
- Preventive and detective processes to support strong internal controls.
- Sufficient but not onerous control as excessive controls result in increased bureaucracy and reduced productivity.

When developing policies and procedures for functional areas not currently covered under existing documents, or reviewing existing policies and procedures, OTC managers should ensure that the following areas are included in the policies:

- **Personnel Information** including skill requirements, competencies, lines of authority and responsibilities.
- **Authorization Procedures** including a review of supporting information to confirm the validity of transactions.

- **Segregation of Duties** because an individual should not have responsibility for more than one of the three transaction components (authorization, custody and recordkeeping) to reduce the likelihood of errors and irregularities.
- **Physical Restrictions** which are the first line of protective measures and include safe combinations, critical forms and documents and alarms systems.
- **Documentation and Record Retention** which is used to provide reasonable assurance that assets are controlled and transactions are correctly recorded.
- **Monitoring of Operations** which is essential to verify that controls are operating properly. Reconciliation, confirmations, and exception reports can provide this type of information.

NYSTA has formalized its internal control procedures within a comprehensive manual for the department of audit and management services. The manual identifies specific policies and procedures for management and operational audits, informational systems audits, investigations, roles and responsibilities of audit and security personnel. In addition, NYSTA annually develops an internal control initiative report for all state agency and authority supervisors. According to NYSTA, formal internal control policies and procedures help determine if they have achieved their objective and to ensure that all proper controls are identified.

The purpose of SOPs is to ensure a uniform decision-making process and to routinize daily operations so that staff members have a reference tool. Access to operating procedures ensures that there is continuity and consistent application of all OTC regulations. The lack of written procedures is particularly problematic for the IA department because of the important role that internal audit plays in maintaining a strong control environment and a positive ethical climate within OTC.

12. SOPs should be reviewed on an annual basis in conjunction with annual risk assessments. (See Recommendation 10.) The IA department should review all SOPs to ensure that weaknesses do not exist or have not materialized during the previous year.

Formal policies and procedures manuals for several OTC departments are not in use and have become outdated. Once OTC completes an update of its SOPs, annual reviews are critical to ensure that stated procedures match current practices and that no internal control weaknesses exist or have materialized over the prior year.

While many circumstances may compromise the effectiveness of the internal control structure, the IA department should ensure that all assessments include following basic areas:

- **Inadequate Segregation of Duties:** Separating responsibility for physical custody of an asset from the related record keeping is a critical control.
- **Inappropriate Access to Assets:** Internal controls should provide safeguards for physical objects, restricted information, critical forms, and update applications.

- **Inadequate Knowledge Policies:** Managers must stay abreast of changes and understand their responsibilities.
- **Form Over Substance:** Controls can appear to be well designed but still lack substance, as is often the case with required approvals.
- **Control Override:** Exceptions to established policies are sometimes necessary to accomplish a specific task, but can pose a significant risk if not effectively monitored and limited.
- **Inherent Limitations:** There is no such thing as a perfect control system. Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. A limitation inherent in any system is the element of human error (e.g., misunderstandings, fatigue and stress).

By focusing on common problem areas, the IA department will be in a better position to identify potential weaknesses within the constraints of its time and budget limitations.

- 13. The OTC chief auditor should provide the executive director, the deputy executive director and the Commission a quarterly report on all internal audits performed. Quarterly reports will help solicit input and increase oversight from top administration and the Commission regarding special areas of concern. Likewise, monthly management reports should be provided to OTC senior management by department supervisors to ensure adequate management information for decision making purposes.**

In the past, the chief auditor has developed management reports for the executive director despite an absence of formal procedures requiring him to do so. The last management report developed by the chief auditor was in January, 2002, and included a summary of goals, objectives and the outcomes of particular programs and completed internal audits.

In general, there is an absence of formal policies or procedures on internal audit reporting practices for all departments. OTC's policies are silent regarding the frequency, timing and scope of management reporting requirements for all departments. Without a formally established reporting program, results of internal control procedures and internal audits may not be effectively communicated to management personnel.

The Government Finance Officers Association (GFOA) establishes standards for the reporting of management audit findings to ensure effective communication of the results of internal audits and to provide clear communication through a comprehensive planning process. Reporting must meet several criteria to be effective and useful in management decision making. These criteria include the following:

- Information must be reliable.
- Information must be communicated to those who need it.

- Information must be communicated both internally and externally.
- Communication must be ongoing, both within and between various levels and activities of the agency.

Regular management reporting can be used effectively for external communication. OTC has developed a model CAFR which includes information on management reporting mechanisms. The agency has the potential to expand its reporting of internal controls by sharing additional management reporting information. Sharing management reporting information has the following benefits:

- Communicates how the agency provides an effective system of internal controls.
- Discusses how the agency uses internal controls to help protect its resources and reaches its strategic goals.
- Points out the ways internal audit assures overall goals and objectives are being met.
- Clarifies the audit committee's role and its enhanced functions.
- Highlights what is unique about the agency.

OTC should identify ways to increase opportunities to present management reporting information to stakeholders and constituents. Likewise, OTC management, with the assistance of the IA department, should develop and enforce regular reporting schedules for all divisions to ensure that management information is available for decision-making purposes.

14. The IA department should develop an annual audit plan for the purpose of communicating annual internal auditing objectives to OTC management. The audit plan should include an allocation of hours for the chief auditor to assist the external auditors in the annual financial audit.

The IA department performs several regular internal audits as a component of its operating practices. These audits include the following:

- **Inventory audits:** review all equipment and materials in all facilities. An annual spot check inventory (equipment and materials) is performed in all warehouse buildings;
- **Payroll audits:** review all data required to be maintained and updated on employee payrolls.
- **Purchase Card audits:** review five cardholders purchasing card purchases each month and trace them back to the receipts and the statement entries. Items purchased with the cards are reviewed to identify those supplies bought in volume to ensure appropriate discounts are provided;
- **Non Revenue Card audits:** review all non-revenue card accounts for appropriate usage by reviewing actual movements in comparison to authorized movements; and

- **Toll Revenue audits:** reconcile the previous day's deposits to the bank's report of deposits. In addition, a toll collector's audit report is taken from the toll information system and compared to deposits. This report provides statistical information per interchange.

In prior years, the chief auditor and executive director planned the IA department's audit cycle in January of each year. However, the IA department has not independently developed formalized annual audit plans to outline the proposed audit areas for the year. A critical component of a strong internal control environment is planning and regularly monitoring various control weaknesses and problem areas which may hinder agency-wide objective achievement. After internal controls are put in place, their effectiveness should be periodically monitored to ensure their continued adequacy and functionality. Furthermore, previously identified problems must also be monitored to ensure that they are corrected.

Audit plans are usually based on risk assessments and include the following elements:

- **Audit Frequency:** In many organizations, all units should be audited on a three to five-year cycle. In general, riskier audit units should be audited more frequently, although the actual audit frequency can be fixed or conditional (triggered by abnormal activity).
- **Audit Intensity:** Riskier units should be audited more intensely; however, audit intensity may be a complex function of time, sample sizes, seniority, skill, and other factors.
- **Audit Timing:** No audit department has the resources to audit all of its auditable units simultaneously. In the absence of other considerations, the riskier audit unit should be audited sooner than the less risky audit units. There are three main alternatives for scheduling audits: fixed, random or conditional timing.
- **Internal Audit Department Size and Capability:** A fundamental principle of internal audit administration is that the internal department be of a sufficient size and capability to address the areas of concern to management, with an adequate frequency, over a reasonable time horizon of three to five years. If risk factors reflect management concerns, then they can be used as a basis for establishing the department size required to address the most important audit units.

As shown by the audited areas listed, the IA department has performed well in identifying areas of high risk and addressing them on a frequent basis. Inclusion of less risky departments and the development and use of an annual audit plan will serve to strengthen the role of the IA department in safeguarding OTC resources.

- 15. OTC departments should be instructed to perform annual self-evaluations of internal controls in the absence of a regular annual internal audit. As the IA department cannot audit all departments annually, department managers should evaluate and fine tune internal controls in the interim. The IA department should be available to serve as a**

resource to assist department supervisors in developing the evaluation process and modifying any internal controls that are determined to be weak.

OTC does not have a formal procedure for department managers to assess risks and evaluate internal controls on an annual basis. Annual self-assessments are important to evaluate the effectiveness of internal controls between regular internal audits.

Best practices suggest that managers document internal controls in the form of internal control questionnaires, written narratives or flow charts. The traditional method of describing an internal control structure is to complete a standardized internal control questionnaire. Most internal control questionnaires are designed so that a "no" answer to a question indicates a weakness in internal control. The review of these questions should be documented by a report noting weaknesses and recommending solutions. Whenever remedial action is required, the department should prepare and implement an action plan to correct any identified deficiencies.

By reassessing internal controls on an annual basis, department supervisors can help provide OTC senior management with reasonable assurance of the functioning of the control environment and achievement of agency-wide objectives.

- 16. The Commission should establish an Audit Committee as a standing subcommittee of the Commission. The audit committee should be responsible for overseeing internal and external audit functions and should be comprised of Commission members who collectively possess the expertise and experience in accounting, auditing and financial reporting. The Commission may choose to include professionals, such as attorneys and bankers, who are knowledgeable of OTC operations. The audit committee should meet regularly to monitor OTC's reporting and internal control activities. Finally, the chief auditor should report directly to the Audit Committee to eliminate any potential reporting conflicts.**

On November 21, 2002, the Commission modified the current reporting structure of the IA department so that the chief auditor reports directly to the Commission on audit related matters. Previously, the chief auditor had reported to the executive director which, in some cases, has the potential to create a reporting conflict. During the Commission meeting, the chief auditor also recommended that the Commission consider creating an audit committee. Subsequently, the Commission adopted the chief auditor's recommendation to establish an Audit Committee.

The National Committee on Fraudulent Financial Reporting (the Treadway Commission) has stated that audit committees can serve as "informed, vigilant and effective overseers of the...reporting and internal controls process." The Securities and Exchange Commission also recommends the implementation of audit committees (particularly in the private sector) and has furnished guidance on what the proper and effective functioning of an audit committee should constitute. An audit committee must have three important qualities:

- Control of its agenda;
- Ability to exercise diligence; and
- Ability to ask the hard questions.

The agenda control should cover the following:

- The criteria used to evaluate the competence and independence of the outside auditor.
- Accounting issues of concern to management or internal or external auditors.
- The effectiveness of internal controls and the internal audit staff.
- The scope of the work that the outside auditors are to perform as a result of the assessment of the internal controls and internal audit.
- An annual review of the agency code of conduct or ethics policy.
- Candid assessments of the competence of the financial professionals.
- Necessary unrestricted access to management, the internal audit staff and the outside auditors.

The audit committee should be informed about the financial and operational aspects of the agency and, therefore, should receive sufficient and timely information. Audit committee members must devote sufficient time to obtain an adequate understanding of what the agency's financial statements represent. To be vigilant, the audit committee should ask probing questions about the quality of the agency's internal controls. This task requires the committee to keep abreast of reporting developments affecting the agency.

To be an effective independent overseer, the audit committee must be positioned between senior management and the external auditors. This organizational structure allows the audit committee to question management's judgments about financial reporting matters and to suggest improvements in the internal control system. The committee's charter defines its mission, duties, and responsibilities; and describes the processes for planning its annual agenda; and documenting its findings and conclusions.

KPMG's Audit Committee Institute (ACI) recommends that audit committees be designed to fit the needs of the agency. Members of the committee should be selected with particular attention to those members with the skills and vigilance to be effective and objective. The Committee should continually evaluate the tone projected by management to ensure that agency ethics and integrity are foremost in financial and operational reporting. Furthermore, the committee must continually reinforce the accountability of internal and external auditors to the committee members who serve as stakeholder representatives. ACI also recommends that audit committees develop processes that support internal controls, transparency and reporting.

The development and implementation of an audit committee as a sub committee of the Commission will help the Commission ensure the integrity of OTC internal controls and the quality of OTC financial and operational reporting.

Procurement and Revenue Collection Internal Controls

17. **OTC’s general counsel should work with the Commission to enact a resolution authorizing a change to the procurement approval limit (Section 1.00 of the Commission’s *Code of Bylaws*) from \$500,000 to \$100,000. By reducing the approval limit, the Commission would have more oversight on all procurement contracts over \$100,000.**

Table 3-1 illustrates purchasing approval thresholds for OTC and peer turnpike commissions.

Table 3-1: Purchasing Approval Thresholds (Construction & Goods and Services)

| | OTC | New Jersey | New York | Pennsylvania | Peer Average |
|---|--|----------------------------|--|---|----------------------|
| Division Managers | < \$10,000 | < \$5,000 | < \$25,000 | < \$50,000 | < \$26,000 |
| Executive Director | \$10,000 to \$500,000 | \$5,000 to \$35,000 | \$25,000 to \$150,000 | \$50,000 to \$100,000 | \$26,000 to \$95,000 |
| Number of Purchases Approved at Executive Director level (approximately) | 57 | 17 | 50 | 350 | 139 |
| Commissions/Board | > \$500,000 | > \$35,000 | > \$150,000 | > \$100,000 | > \$95,000 |
| Number of Purchases Approved at the Commission/Board level (approximately) | 15 | 81 | 35 | 175 | 97 |
| Reviewed by Others | \$1,000 - \$10,000 CFO >\$10,000 Legal Department | > \$5,000 Legal Department | < \$25,000 Division Managers, > \$25,000 State Controllers Office | > \$50,000 the Legal Department and deputy executive director | N/A |

Source: OTC and peers for FY 2001

Note: OTC had a total of 15 construction and goods and services contracts approved by the executive director between \$100,000 and \$500,000.

OTC maintains a higher threshold for the approval of the procurement of goods and services at the executive director levels than peer commissions. Furthermore, the average approval threshold for the peer commissions is \$95,000 or approximately 80 percent less than OTC. As a result, there is more oversight responsibility at the executive director level and comparatively less oversight at the Commission level. The Commission’s *Code of Bylaws*, section 1.00 titled “Executive Director” states:

The executive director shall have authority to enter into all contracts on behalf of the commission and to take any and all action necessary thereto except contracts which require an expenditure of more than \$500,000 shall not be entered into or terminated without Commission action.

In FY 2001, OTC had 15 formal bids for construction and goods and services between \$100,000 and \$500,000. Therefore, the additional requirements on the Commission to approve contracts at a lower threshold would likely be minimal. The review of 30 formal contracts per year would still amount to 69 percent less than the peer average, as shown in **Table 3-1**.

According to representatives from the peer turnpike commissions, a lower purchasing approval threshold forces them to be mindful of frivolous purchases and unethical activities and more attentive to the needs of each department.

In the OIG report, there were allegations of questionable business practices involving the previous executive director. In this specific instance, special meetings were held with a company that gave the appearance that there was an attempt to circumvent the normal contracting process and exert influence over decisions regarding potential vendors. Although OIG did not find any wrongdoing in this area, decreasing the purchasing approval threshold of the Commission will provide OTC with greater oversight and will diminish the appearance of any improprieties at the executive director level.

18. The IA and purchasing departments should work together to consolidate the purchasing and the purchasing card manual into one comprehensive purchasing policy and procedure manual. The purchasing policy should be reviewed by all employees who have purchasing authority and signed to acknowledge understanding.

OTC currently has two purchasing policy and procedures manuals; one for standard purchases and the other for purchasing cards. OTC's purchasing and purchasing card policies are not consistent with each other. For example, OTC's purchasing card policy states,

Price quotations or approval from the purchasing department are not required prior to making purchases with the purchasing card. However, it is a good business practice to obtain at least two price quotes whenever you estimate that potential cost savings could likely justify the effort.

Conversely, the purchasing policy states:

Small purchases over \$300, but under the \$10,000 limit for competitive formal sealed bids, shall require the solicitation of quotations from no less than three vendors. Under \$300 may be made by verbal quotations.

The inconsistency in policies may be confusing to employees who purchase items over \$300, whether through a purchase requisition process or with a purchasing card. By consolidating the two purchasing policies into one comprehensive purchasing manual, OTC will provide clear expectations and guidance to employees involved in purchasing.

19. The Commission should pass a resolution authorizing OTC to join the Ohio Department of Administrative Services' (DAS), General Services Administrative

pricing (GSA) program and ODOT's cooperative purchasing program to receive discounts on materials and equipment in accordance with ORC § 5513.01 (B).

OTC is not part of the State cooperative purchasing program. Consequently, OTC does not benefit from some of the lower costs associated with the higher volume purchases made by the members of the GSA pricing program. Members can purchase supplies and equipment, such as salt, asphalt, snow plows, dump trucks, pick-up trucks, and computers through the Internet. The bundling of member purchases allows for discounts in purchase prices. DAS stated that because OTC is a "special board" agency, the annual membership fee would be \$294. By enrolling in the State's cooperative purchasing program, OTC would be exempt from locally bidding on any item being offered by the State of Ohio. In addition, OTC would experience a savings in administrative time commonly associated with the formal bidding process such as, pre-qualifying contractors and consultants and retrieving and investigating maintenance bonds.

According to the New Jersey Turnpike Authority (NJTA), approximately 40 percent of its purchases are made through the state cooperative purchasing program. Although, sometimes the state price is not competitive with the local price, NJTA saves significant administrative time associated with not having to formally bid.

Ohio cooperative purchasing program members reported that they saved a combined total of \$7 million in FY 2000 on \$28 million in orders; and \$8 million in FY 2001 on \$32 million in orders, by using the DAS's GSA pricing. This translates into 25 percent to 27 percent discounts off the amounts members reported that they would have spent without using the State's contracts. In FY 2001, OTC procured \$93.5 million of construction, goods and services. However, it should be noted that the State's cooperative purchasing program may not always provide the lowest prices for specific equipment or supplies. Yet, as a member, OTC would have the option to bid locally or use the State program to get the best price.

- 20. Since OTC meets a substantial number of GFOA recommended practices, it should consider implementing formal financial policies to meet the remaining recommended practices in two key areas. OTC should develop formal policies that identify the manner in which fees and charges are set and adopt the limitation on the use of one-time revenues for subsidizing expenditures. The establishment of financial policies will help establish additional accountability measures in accordance with GFOA recommended standards.**

GFOA has developed 10 minimum requirements for the establishment of formal policies and procedures regarding revenues, financial planning and expenditures. OTC maintains 8 out of the 10 policies required by GFOA through its master trust agreement with Huntington Bank. OTC has not implemented GFOA recommended formal policies in two revenue related functions. The remaining two areas of GFOA recommended practices include fees and charges and use of one-time revenues, as explained below.

- **Fees and Charges** - OTC should adopt a formal policy that identifies the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. The cycle of updating charges and fees (based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates) should be included in the formal policy. The policy should also state the manner in which information on charges and fees will be available to the public. This includes the government's policy regarding full cost recovery and information about the amounts of charges and fees, current and proposed, both before and after adoption. Establishing a detailed, formal process on how fees and charges are derived will allow for effective internal controls by increasing accountability.
- **Use of One-time Revenues** - A jurisdiction should adopt formal policy(s) discouraging the use of one-time revenues for ongoing expenditures. Financial policies should be consistent with broad government goals and should be the outcome of sound analysis. Additionally, financial policies should be an integral part of the development of service, capital, and financial plans and the budget. Understanding the revenue stream is essential to prudent planning. Establishing financial policies will promote stability to avoid potential service disruptions caused by revenue shortfalls.

Through the adoption of additional policies governing fee structuring and the use of one-time revenues, OTC can further improve its cash management processes and heighten accountability.

21. **OTC should develop a formal vendor performance monitoring program. The monitoring program should include the development of formal policies and procedures to guide the work review process. Invoicing in particular, should be reviewed to ensure completeness, accuracy, and compliance with contract terms. All reviews should be formally tracked and documented for future use. Information that should be gathered includes the quality of goods and services, the timeliness of deliveries and work performed, the supplier's responsiveness to problems, instances when goods are continually out-of-stock, instances of price variances between catalog and invoice, and complaints concerning vendors expressed by the user division.**

OTC does not have formal methods in place to monitor supplier performance on a department-wide basis. Therefore, the potential exists for a department to make a purchase from a vendor who may have caused significant problems in other departments. Monthly reviews are made prior to any payment to ensure that charges are appropriate and consistent with the contract. However, these reviews are not formally documented. It is important that all vendors be formally monitored to ensure services are rendered in the most efficient and effective manner. Industry and public contract management standards indicate that monitoring is best accomplished through frequent communication with the vendor and should be summarized in periodic status reports. While it appears OTC frequently communicates with vendors, there are no formal status reports or other documentation regularly prepared on vendors' performance. Also, OTC does not have a formal

policy for tracking all vendors' performance by commodity, or for the annual consolidation of volume purchases to negotiate discounts.

According to GAO's statement for *Contract Management*, the following are national best practices for purchasing and asset management:

- Clearly defined roles and responsibilities are established for staff involved in contract bidding, purchasing and requisitions;
- Purchasing policy and procedure changes are disseminated to appropriate personnel on a timely basis with instructions and means for follow-up education, if necessary;
- Emergency purchasing procedures are clearly defined;
- A list of recommended or preferred suppliers (including minority vendors) is maintained;
- Supplier performance is monitored;
- Volume purchases are consolidated annually and discounts are negotiated; and
- Auctions of surplus furniture and equipment are conducted.

By implementing formal monitoring procedures, linking these responsibilities to job descriptions, and formally documenting all monitoring efforts, OTC staff can ensure services are delivered in a timely and cost efficient fashion. In addition, should questions regarding vendor selection or performance be raised, OTC staff will have ample documentation on which to base and justify contracting decisions. Furthermore, developing a formal vendor monitoring process will help to eliminate the appearance of misconduct, impropriety, favoritism and bias.

Human Resources

Overview

OTC's human resources (HR) department was established in 1998. Previously, OTC maintained a personnel department which carried out all human resources functions. OTC's HR department is comprised of a manager, assistant, and coordinator. The primary functions of the department are to develop policies and procedures, recruit staff, train employees, administer the benefits plan, conduct compensation planning, maintain employee and labor relations, resolve problems and process grievances, participate in labor contract negotiation, and human resources information system (HRIS) administration.

The HR department serves approximately 1,200 employees, 900 of whom are bargaining unit employees including toll collectors and roadway and trades employees. These individuals are governed by the Collective Bargaining Agreement (CBA) between OTC and Teamsters Local Union No. 436. Non-bargaining unit employees include approximately 100 administrative employees who work at OTC's administrative office in Berea, Ohio and 200 supervisors, assistant supervisors, managers, and supervisory and clerical employees who work in various toll plazas or on the turnpike itself. An Employee Manual and other personnel-related policies and procedures govern non-bargaining unit employees.

The following assessments were conducted but did not warrant changes or yield any recommendations:

- Hiring process for bargaining unit and non-bargaining unit employees;
- Salary and benefits compensation;
- Employee grievance process;
- Drug and Alcohol Policy;
- Family and Medical Leave Policy; and
- Non-Harassment Policy.

Recommendations

Human Resources Department Operations

- 22. OTC should develop Standard Operating Procedures (SOPs) for the HR department that formally articulate the majority of HR functions and associated duties. Critical processes should be assessed, formalized and documented in the form of SOPs. In addition, HR staff should be cross-trained to ensure the functionality of the department.**

OTC's HR department is relatively new and the documentation of its functional processes is in a developmental stage. The HR manager was not able to provide a list or index of all of the procedures currently used by the HR department. However, the following functional procedures have been developed:

- Employee Manual;
- Hiring procedures and necessary forms;
- Payroll handbook;
- New hire data entry procedures;
- Rehires procedures;
- Promotion/demotion procedures; and
- Job requisition process.

In the absence of the HR manager, two support staff members maintain the majority of the department's workload. However, it is not possible for the department to function without the manager's assistance and oversight on several issues and proceedings. The HR department also does not formally cross-train staff to ensure the continued functionality of the department.

Agencies often use SOPs as a means to ensure the continued functionality of various departments. These procedures are typically maintained in handbooks and provide clear direction to personnel on how to carry-out designated job duties. SOPs enable agencies to maintain service level continuity during managerial turnover. HRnext, an organization dedicated to the study of human resources practices, recommends personnel policies be formalized and accompanied by procedures, rules and practices to instruct employees on departmental practices.

According to the Society of Human Resources Management (SHRM), cross training is an effective method that may be used to align the values and needs of both the employees and the organization. In addition to the traditional benefits of broadening employees' skills to reduce

costs and provide job coverage, SHRM provides the following as ways an organization can benefit from cross training:

- Creates a more flexible and versatile workforce;
- Enables organizations to reduce the number of different jobs reducing work jurisdiction;
- Prevents stagnation;
- Improves productivity;
- Allows for effective succession planning;
- Leads to better coordination and teamwork;
- Motivates the workforce and instills commitment;
- Enables employees to understand organizational goals and objectives;
- Increases retention and avoids recruiting costs;
- Increases organization marketability and supports recruiting initiatives; and
- Helps create a learning organization.

OTC's HR department cross-trains employees in most areas. However, SOPs are not available for all operational areas and the HR director has not trained a backup for her position in higher level areas of functionality, such as harassment and problem resolution. By developing formal, written SOPs which provide direction on all critical HR processes and by cross-training staff in these critical areas, the HR department will be able to maintain service levels in the event of managerial and staff turnover. Additionally, an effectively designed and implemented cross training program can reduce costs associated with excessive time spent performing unfamiliar tasks. Cross training programs also help to avoid discrepancies in experience and specialized knowledge in the event of unforeseen absences. Finally, by cross-training and documenting critical HR processes, OTC can increase staff's overall understanding of a relatively new department and can help to ensure that HR services continue at current levels.

- 23. OTC should identify HR responsibilities based on industry standards which could be strengthened and/or centralized within the HR department. As shown in Table 4-1, certain HR functions are diffused throughout OTC's operational units or are not currently performed. OTC's HR department could improve service levels by centralizing several typical HR functions within its department. Additional staff may be required to manage the additional duties.**

Currently, OTC employs three staff members in its HR department including a manager, an assistant and a coordinator. On average, OTC's HR personnel earn approximately \$56,000 annually, including benefits. Based on a comparison with SHRM recognized functions and recommended staffing levels, general HR department duties and actual OTC HR department

functions, OTC's HR department could improve service levels through the centralization of several typical HR functions within its department. Based on industry standards, **Table 4-1** shows select HR responsibilities that could be either centralized or strengthened within OTC's HR department:

Table 4-1: Decentralized, Limited or Absent HR Functions within OTC

| Process | Current Status |
|---|--|
| <u>Recruitment and Hiring</u> | |
| Recruitment of personnel | Decentralized, limited in HR |
| Hiring | Decentralized |
| <u>Personnel Development</u> | |
| Performance evaluations | Performed for toll operators only, decentralized |
| New hire orientation and training | Performed on a limited scale |
| Workforce training and career development | Decentralized |
| Cross-training within the HR department and other OTC departments | Performed on a limited scale |
| Monitoring of all training, seminar, and conference attendances | Performed for internal training only |
| Implementation and maintenance of an organization-wide performance evaluation process | Not currently performed |
| <u>Internal and OTC Policies and Procedures</u> | |
| HR policy and procedure development | Performed inconsistently |
| Standard operating procedures of HR department functions | Not completed |
| Maintenance of records of new and current positions and accompanying job descriptions | Performed inconsistently |
| Creation and monitoring of policies and procedures for the following areas: <ul style="list-style-type: none"> - Application and approval of training, seminar and conference attendance - Creation of new positions and accompanying job descriptions - Disciplinary policy - Outside employment policy - Supervisory attendance monitoring guidelines - Leave application guidelines - Labor contract negotiation policy | Not currently developed |
| Early retirement incentive policy | |
| <u>Labor Relations</u> | |
| Complaint and grievance management (bargaining unit issues) | Decentralized |
| Disciplinary policy and associated procedures | Decentralized |
| Ombudsman | Not currently performed |
| Workers' Compensation | Current legal department function |

Source: OTC HR department and SHRM

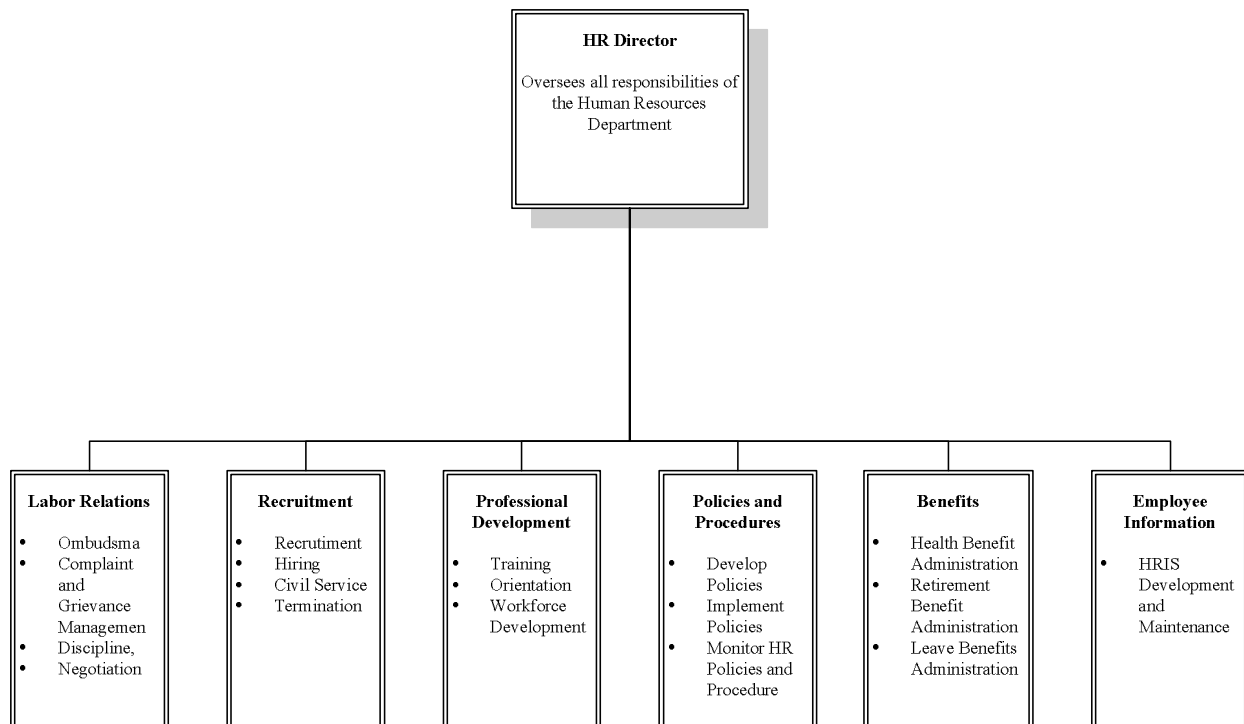
Note: Other functions currently performed by the HR department include compensation administration, benefits administration, HRIS maintenance and administrative staff labor relations.

Also, similar sized agencies employ substantially greater numbers of HR department employees. The Bureau of National Affairs (BNA), in conjunction with SHRM, annually surveys employers to determine median HR staffing levels. Throughout the survey's 26-year history, the median HR staff ratio has never fallen below 0.9 or climbed above 1.1 for every 100 employees. Thus, the BNA-SHRM recommended HR staffing ratio is 1 HR staff member to every 100 workers. OTC's HR ratio (1:400) is significantly below the BNA-SHRM recommended ratio (1:100), as

well as that of other turnpike commissions (median 1:110). Based on BNA—SHRM ratios and taking into account the size and complexity of the OTC organization, OTC’s HR department could be staffed with up to 11 employees.

A sample configuration of duties within an HR department is shown in **Chart 4-1**.

Chart 4-1: Sample Organizational Chart and Duties for Expanded HR Department



By centralizing HR functions within the HR Department, the HR director will be better able to ensure that all HR functions are fulfilled in a consistent and complete manner. Furthermore, improving HR functions through centralization may provide opportunities to improve OTC’s relationship with its bargaining unit. (See **Recommendation 35**).

- 24. The HR department should monitor all training, seminar and conference attendance by OTC employees. Employee requests should be forwarded to the HR department following approval. Once the information is received by HR, attendance of the event should be recorded in personnel files and compiled in a database or spreadsheet.**

OTC should review employee training information on a regular basis to assess the effectiveness of the training, seminars and conferences to help determine whether other staff should attend. The HR manager should also develop a survey to assess the effectiveness of training sessions. Following training attendance, this survey should be distributed to employees and the results recorded and reviewed.

Typically, the HR department is not formally involved in approving requests for training, conferences and seminars. Additionally, the HR department does not formally track employee training needs nor does it assess the effectiveness and utility of completed training via evaluation or survey. OTC's supervisors follow-up with employees who have attended training by asking what information was learned; however, formal procedures do not exist for documenting, evaluating and tracking completed training.

OTC can more effectively track employee training needs by involving the HR department in its training approval process. Following approval by the executive director, the HR department should compile employee training history information in either a database or a spreadsheet that contains the following information:

- A description of the training taken;
- The cost of the training course;
- The length and location of the course;
- An explanation of how the training will improve job performance;
- An explanation of what has been gained from the training session (based on survey responses); and
- The number of training sessions attended in the fiscal year.

By implementing formal procedures for documenting, evaluating and tracking employee training, OTC can more effectively track training costs and determine any potential training needs, while enhancing the skill-sets of its personnel.

25. The HR department should formalize its current process for creating new policies and procedures. The formalized process should include an avenue for employee input into new policies and procedures.

Currently, OTC does not have a formal process for the creation of new policies and procedures. According to the HR manager, the following process is used to develop and implement new policies and procedures:

- A temporary committee is formed comprised of OTC personnel;
- Benchmarking and any peer information is reviewed;
- Policy and any accompanying procedures are written;
- Policy is sent to the executive director for approval; and
- Policy is distributed to employees, upon approval, with instructions for placing the new document within the Employee Manual.

SHRM recommends that HR policies be reviewed annually to reflect changes in the law. Likewise, they should be closely tied to employee performance and accountability, be responsive to the realities of the labor market, and be compatible with an organization's strategic plan. OTC can accomplish this by formalizing its current process and including a method to ensure employee input into the process.

By formalizing its process and obtaining employee input, OTC can ensure consistency and uniformity of management expectations. This will help to strengthen the relationship between management and staff and reduce OTC's risk of legal liability. Additionally, by including the HR department in the process, policies and procedures will be able to maintain a uniform format and style for the policies and procedures and allow for efficient distribution to all personnel.

26. OTC, in conjunction with the HR department, should formalize its process for creating new positions and accompanying job descriptions.

OTC's current process for the creation of new positions has not been formalized in its policies and procedures. In some instances, the HR department is not consulted or informed of newly created positions. According to the HR manager, the decision to create new positions currently resides with the executive director. This process typically involves the following steps:

1. A supervisor recommends the creation of a new position;
2. Position compensation is budgeted for the following year;
3. Detailed responsibilities and associated costs are presented to justify the recommended position; and
4. Executive director approves or disapproves the recommended position.

PTC uses a personnel committee to create new positions. Committee membership includes the PTC's executive director, associate executive director, directors of operations and projects, and one additional member appointed by the executive director. An HR representative serves as a non-voting member of the personnel committee.

OTC should formalize its current process for creating new positions and include input from the HR department. The establishment of a personnel committee, similar to PTC, is one option for

OTC to consider. By formalizing its position creation process, OTC can reduce any potential appearance of impropriety in its hiring practices. Furthermore, by including input from the HR department, OTC can ensure uniform maintenance of job descriptions and related files.

- 27. Position descriptions should be reviewed and updated on an annual basis. This review can be built into OTC's annual performance evaluation process. (See Recommendation 28.) Following supervisory update and review, all job descriptions should be assessed by the HR manager to ensure uniformity and clarity. Furthermore, position descriptions should be electronically stored and marked with their effective dates; any changes should be processed by human resources and approved by the executive director. In instances where positions descriptions change, OTC should work with its collective bargaining unit to ensure that, where appropriate, all parties agree to the required changes.**

Currently, OTC job descriptions are updated on an as-needed basis. Though job descriptions appear accurate and reflect actual duties, there is a lack of uniformity resulting from their creation by individual departments. Typically, as position vacancies arise, the accompanying job description is reviewed and updated. For example, if new technology creates substantial changes within a particular job description, it is revised to reflect changes in responsibilities. Supervisors spearhead job description revisions and the HR manager provides counseling, upon request.

Position descriptions should be put into a consistent format that presents the information with brevity, accuracy and objectivity. Furthermore, job descriptions should provide enough information to differentiate the major functions and activities of the job from those of other jobs. However, only 60 percent of employees who responded to the Auditor of State (AOS) survey agree that current job descriptions reflect actual responsibilities. Additionally, employees commented that it would be difficult for supervisors to promote or offer raises based on the assignment of duties, as job descriptions are not clearly defined.

According to SHRM, up-to-date job descriptions foster a greater understanding of duties and responsibilities, and can be used by employees as a reference in performance evaluations. Position descriptions help employees understand the responsibilities of their positions and provide a sense of where jobs fit into the agency as a whole. Accurate position descriptions provide a reliable and defensible foundation for performance evaluations and other compensatory procedures, such as promotions and salary adjustments. All job descriptions should include the following elements:

- Job title;
- Salary information;
- Summary of duties (including supervisory responsibility);
- Primary interactions (including reporting relationships);

- Equipment operation requirements;
- Level of decision making;
- Knowledge, skills and ability requirements; and
- Qualifying education, training, and experience.

Additionally, human resource best practice organizations recommend that agencies establish a formal schedule for the annual review of all job descriptions. A job description should also be reviewed and revised under the following conditions:

- Job content changes;
- Organizational structure changes;
- Commission, management or staff request;
- Vacancies arise, resulting in significant departmental change; and if
- Significant performance issues exist.

The HR department should work with supervisors to formalize OTC's procedure regarding job description update and review. Accordingly, the HR manager should link job descriptions to annual performance evaluations. As changes become necessary, they should be submitted to the HR department. Annual reviews and regular updates foster an increased awareness of actual job duties and can also be used to assess employee progress and productivity.

28. OTC should work with its bargaining unit to implement a formal and annual employee performance evaluation process that applies to both bargaining and non-bargaining unit personnel. Additionally, OTC should more clearly define critical concepts, such as *merit*, contained in § 2.1.1 of the Employee Manual.

OTC does not have a formal process for the evaluation of employee performance for all OTC employees. Only toll collectors, the largest group of OTC employees, have a formalized evaluation process. Furthermore, only 39 percent of AOS survey respondents agree that they are aware of the criteria upon which performance evaluations are based. According to OTC, employees are reviewed following a six-month probationary period and annually, thereafter, with accompanying promotions and step increases based on attendance and performance. Supervisors are responsible for monitoring employee performance and the HR department is not involved unless substandard performance has been identified and requires documentation.

The Ohio Department of Administrative Services' (DAS) Ohio Performance Review System (OPRS) offers a process designed to assist agencies in evaluating employee performance. Though OTC does not fall under the jurisdiction of DAS, this system can potentially benefit

Ohio governmental entities in the planning, monitoring, evaluation and development of its employees. OPRS calls for:

- Establishing specific, measurable performance goals that correlate directly with job duties;
- Observing and documenting employee performance over a period of time (annually);
- Conducting a private, face-to-face conference to review the evaluation, approximately 60 days prior to the date of a pay increase.

Additionally, OPRS contains highly detailed instructions and timelines, which assist in the establishment of organizational and personal goals, objectives, and improvement opportunities. OPRS performance evaluations use a detailed, target-based rating system, whereby performance is measured as being above, on or below target. OPRS also allows room for written feedback which is important in establishing a formal connection between employee performance, job duties, set objectives and pay increases.

According to OTC's Employee Manual,

Level increases (promotions) are not automatic, but are based upon longevity (a minimum of one year between each level) and merit. Level increases will not be granted unless the employee's immediate supervisor recommends the increase and the respective supervisor concurs with the recommendation.

Although the Employee Manual indicates that merit is used a basis for conducting performance evaluations, it does not provide a clear definition or accompanying examples of meritorious conduct.

By implementing a formal performance evaluation system with clearly defined expectations of conduct, OTC can provide more consistent criteria by which employees are evaluated, reduce perceived subjectivity in the process and facilitate employee development and productivity.

Human Resources Management Policies and Procedures

- 29. The HR department should develop a formalized, progressive disciplinary policy and associated procedures for the Employee Manual. The policy and associated procedures should provide guidance for supervisors in assessing, managing, and documenting situations of inappropriate conduct among non-bargaining unit personnel. Additionally, supervisors should consult the HR department to update personnel files and to seek assistance in dealing with inappropriate conduct.**

Although the CBA contains a disciplinary policy which covers bargaining unit staff, OTC does not maintain a formalized policy and procedure to direct supervisors in dealing with inappropriate conduct among non-bargaining unit personnel. Currently, disciplinary issues for

non-bargaining unit personnel are not handled consistently. According to the HR manager, supervisors can be counseled regarding the appropriate discipline to be issued and situations of misconduct are documented and added to employee personnel files. However, supervisors are not provided with criteria or action steps (in the form of policies and procedures) to discern inappropriate conduct and to guide them in addressing situations of inappropriate conduct.

SHRM has established a recommended policy for employee conduct which includes a purpose statement, employee and supervisor responsibilities, and examples of misconduct. According to SHRM, a list of inappropriate actions should not be construed as exclusive causes for discipline but only as examples which cannot replace sound judgment or common sense behavior. SHRM provides the following examples of misconduct which could warrant disciplinary action:

- Creating conflict with co-workers, supervisors, clients, visitors or volunteers;
- Contributing to unsanitary or unsafe conditions;
- Leaving the assigned work area or using facility equipment inappropriately or without the supervisor's permission;
- Failing to report injuries, or damage to, or an accident involving company equipment;
- Treating customers or co-workers in a discourteous, inattentive or unprofessional manner;
- Demonstrating insubordination through refusal to do an assigned job, refusal to work overtime when required, refusal to render assistance, refusal to accept holiday work when assigned, insolent response to a work order, or delay in carrying out an assignment; and
- Soliciting gifts or tips from business-related contracts.

SHRM recommends documentation of inappropriate conduct to include the following elements:

- Who, what, where, when and how;
- The effect of the conduct as it relates to performance, job related behavior or company interest;
- What action will be taken because of the incident;
- What action will be taken in the future if another infraction occurs; and
- The employee's recourse if there is disagreement with the action.

Including the HR department in the disciplinary process allows for proper maintenance of all employee records which can be used for future work references, level increases, transfers and position promotions. Furthermore, by formalizing a disciplinary policy, OTC can provide the proper steps to supervisors for addressing inappropriate conduct. Examples of misconduct will help supervisors identify actions that warrant discipline. A formal disciplinary policy and associated procedures will help OTC communicate its expectations of employee conduct and

help mitigate liabilities associated with punitive action by consistently addressing instances of inappropriate conduct by non-bargaining unit personnel.

30. OTC should establish a formal policy regarding outside employment and include it in the Employee Manual and CBA (subject to negotiation).

Recently, OIG found reasonable cause to believe an act of wrongdoing occurred when an employee received compensation from OTC while working as an agent for another organization. OTC does not have a formal policy regarding outside employment.

As part of PTC's employee manual (Rules of Conduct), outside employment is acceptable providing it does not interfere with, or pose a conflict of interest with, Commission duties. Moreover, a second job should not interfere with an employee's availability for overtime, training, traveling, etc., related to Commission duties.

OTC should consider the following guidelines when developing a formal outside employment policy:

- No employee may work for a vendor with which the agency conducts business;
- Employees with performance problems, low leave balances, or disciplinary problems may not be eligible for outside employment;
- Employees are cautioned to consider carefully the demands that additional work activity will create before requesting permission to seek or accept outside employment. Outside employment will not be considered an excuse for poor job performance, absenteeism, tardiness, leaving early, refusal to travel, or refusal to work overtime or different hours. If outside work activity does cause or contribute to job-related problems, it must be discontinued; and, if necessary, the disciplinary procedure will be followed to deal with the specific problems;
- Any employee interested in pursuing outside employment should submit his or her request in writing to the HR department and his or her supervisor, allowing ample time for response;
- The request should include any pertinent information about the outside employer, the nature of the job, and the hours of employment;
- Holding an outside employment position without prior approval will result in appropriate disciplinary measures by the agency; and
- The definition of outside employment includes unpaid jobs, volunteer jobs, and community appointed positions.

According to Business and Legal Reports, certain negative aspects of outside employment could include the following:

- Employees may be tired, accident-prone, or marginally productive;
- Workers may abuse sick-leave benefits in order to work additional hours at a second job;
- Employees may inappropriately use agency-rendered office equipment and supplies for a second job; and
- Workers may refuse to work overtime citing conflicts with a second job.

By formalizing an outside employment policy and accompanying procedures, OTC can avoid potential instances of wrongdoing and ensure the productivity of its workforce.

Time, Attendance and Payroll

- 31. OTC should enhance its attendance policy for non-bargaining unit employees by including formalized, written procedures to guide supervisors in monitoring employee attendance. Furthermore, OTC should supplement its leave policy with procedural guidelines for employees to follow when applying for any type of leave. As instances of abuse occur with either policy, supervisors should follow OTC's disciplinary policy. (See Recommendation 29.)**

Although OTC maintains an attendance policy outlining hours of operation, the policy does not include formal procedures for monitoring attendance, nor does it provide steps for supervisors to address instances of abuse among administrative (non-bargaining unit) personnel. Currently, an informal process exists by which supervisors monitor instances of absenteeism among non-bargaining unit employees. For example, several, but not all departments use wipe-boards that list each employee's name and require individuals to record a working location when away from the office. According to OTC, individual departments are considered small enough that supervisors can adequately manage an area and be aware of an employee's work location, if off-site.

Typically, bargaining unit employees are monitored by supervisors in the field. Maintenance supervisors, for example, physically check project work and are in constant radio contact with employees who are in the field. Written time-in and -out logs are used at all maintenance buildings similar to the wipe-boards used in the administrative office. Due to OTC's diverse operational functions, there are a variety of ways in which employee attendance is monitored.

Additionally, OTC does not provide written procedures to employees outlining the leave process. Employees are required to fill out a Leave Slip to apply for various leave types, including personal, sick and vacation. Once employees have filled out the slip, leave is approved or disapproved by a supervisor, who records the request. When approved, the slip is forwarded to the HR department and placed in employee files. Although an informal process exists for leave requests, OTC has not articulated it to employees in a formalized policy document. By

enhancing current leave policies to include formalized leave request procedures, OTC can ensure its expectations for employee leave are met.

SHRM suggests effective attendance and leave policies contain the following elements:

- **Employee Scope:** Employees covered under the policy;
- **Notification:** The person to be notified if an employee is unable to arrive at work on time or at all. An alternate contact should also be identified. A reason for the delay or absence is to be expected;
- **Attendance:** The manager is responsible for maintaining a daily attendance record;
- **Medical Absences:** Employees who are absent due to injury or illness must, when requested, furnish a physician's statement indicating the reason for absence. Employees who refuse to provide documents when requested may be denied medical absence pay and could receive disciplinary action;
- **Voluntary Resignation:** Employees who are absent for two consecutive days without notifying their manager or another member of management in their work area are considered to have terminated their employment;
- **Guidelines Changes:** Some departments or divisions may have more specific attendance guidelines that supplement this policy. Before these guidelines can be implemented, they must be approved by the senior division head with approval of the HR director;
- **Schedule:** If employees are tardy or absent from work, or leave work early for reasons other than at the manager's request, their minimum weekly schedule is canceled;
- **Performance Improvement:** Excessive absenteeism or tardiness, or pattern of absence or tardiness, regardless of the cause, may be considered a performance deficiency; and
- **Failure to Report:** Employees who fail to report to work for hours that are not part of their regularly scheduled shift (i.e., voluntary hours or assigned additional hours) may be subject to disciplinary action under either the Performance Improvement or Acceptable Conduct policies.

Although OTC policies include some of these elements, greater consistency in formalizing policies and communicating them to employees could improve adherence to and understanding of the policies. According to the AOS survey, 85 percent of respondents indicate that work hours and the attendance policy are regularly monitored in their respective departments. However, 15 percent of respondents indicated that they felt that the work hours and attendance of employees were not consistently monitored. According to the HR manager, instances of attendance abuse occur and are appropriately handled by department supervisors. The HR manager did not provide specific procedures for how leave and attendance abuse is consistently managed. Reportedly, supervisors will sometimes request that the HR department address an attendance issue and provide suggestions for appropriate discipline. Attendance abuse is addressed first by

oral counseling, followed by a written warning. It is at the department supervisors' discretion to require administrative employees to make-up lost time either during lunch or after regular working hours. It was conveyed that lean administrative staffing levels provide for adequate monitoring by supervisors.

Although informal disciplinary procedures are followed to address instances of attendance and leave abuse, OTC does not address disciplinary issues consistently. (See **Recommendation 29**.) By enhancing attendance monitoring procedures within its various operational areas, OTC can ensure consistent supervisory application of its attendance policy and reduce instances of abuse. Moreover, by implementing a formalized procedure for monitoring attendance, OTC could more effectively control costs related to absenteeism.

32. OTC should consider ways to merge its payroll processing cycles so all employees are paid two weeks following the end of the pay period. Although subject to negotiation, OTC should work with the collective bargaining unit to determine an agreeable method that would allow for a reasonable merger of the payroll cycles, resulting in a negligible impact on employees.

All OTC employees, with the exception of part-time toll collectors and maintenance employees are paid on a current pay schedule. Paychecks are issued the first week of the pay period and distributed to employees on the second Friday of the pay period. The HR manager has recommended changing this process because employees who leave OTC or are absent before the end of the pay period may receive payment for the entire pay period. This is an imprudent business practice since compensation should reflect actual hours worked. OTC has suggested several methods of shifting to an arrears-based pay cycle, including removing one day of pay for 16 weeks prior to the change.

In order for OTC to change its payroll schedule, the HR and payroll departments should devise a number of options to present to the bargaining unit. The following options offered in **Tables 4-2** through **4-3** are based on the annual \$37,731.20 salary of a full-time toll collector working 80 hours per pay period at \$18.14 per hour. For simplicity, taxes and other payroll deductions will not be included in the analyses.

Table 4-2 illustrates one method of shifting to a two-week arrears-based pay cycle in which the financial impact would be negligible for employees.

Table 4-2: Three and One-Thirds Option

| Pay Period | Current Pay Schedule | Re-Distributed Pay Schedule | Difference in Pay ¹ |
|--|----------------------|-----------------------------|--------------------------------|
| Pay Period 1 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 2 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 3 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 4 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 5 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 6 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 7 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 8 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 9 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 10 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 11 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 12 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 13 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 14 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 15 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 16 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 17 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 18 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 19 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 20 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 21 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 22 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 23 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 24 | \$1,451.20 | \$1,390.79 | (\$60.41) |
| Pay Period 25 | \$1,451.20 | \$1,451.20 | \$0 |
| Pay Period 26 | \$1,451.20 | \$1,451.20 | \$0 |
| First Pay Period Following Date of Conversion | \$0 | \$1,451.20 | \$1,451.20 |
| Total Annual Salary | \$37,731.20 | \$37,731.20 | \$0 |

¹ Actual difference in pay for three and one-third hours is \$60.406.

By exercising this option, three and one-third hours of pay are withheld each pay period for the first 24 pay periods of the year. For these 24 pay periods, approximately \$60 is discounted from each paycheck for redistribution to the toll collector upon the first pay period following the conversion to a standard two-week arrears-based pay cycle. Therefore, after 24 pay periods, the toll collector will receive a normal rate of pay on a two-week arrears-based pay cycle.

Table 4-3 illustrates another option by which OTC can migrate to a two-week arrears-based pay cycle.

Table 4-3: One Day Later Option

| Pay Period | Day of Pay (14-day pay period) | Current Pay Earned | Day of Pay (15-day pay period) | Lagged Pay Earning Schedule |
|--|--------------------------------------|-----------------------|--------------------------------------|--------------------------------|
| Pay Period 1 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 2 | Friday | \$1,451.20 | Saturday | \$1,451.20 |
| Pay Period 3 | Friday | \$1,451.20 | Monday | \$1,451.20 |
| Pay Period 4 | Friday | \$1,451.20 | Tuesday | \$1,451.20 |
| Pay Period 5 | Friday | \$1,451.20 | Wednesday | \$1,451.20 |
| Pay Period 6 | Friday | \$1,451.20 | Thursday | \$1,451.20 |
| Pay Period 7 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 8 | Friday | \$1,451.20 | Saturday | \$1,451.20 |
| Pay Period 9 | Friday | \$1,451.20 | Monday | \$1,451.20 |
| Pay Period 10 | Friday | \$1,451.20 | Tuesday | \$1,451.20 |
| Pay Period 11 | Friday | \$1,451.20 | Wednesday | \$1,451.20 |
| Pay Period 12 | Friday | \$1,451.20 | Thursday | \$1,451.20 |
| Pay Period 13 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 14 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 15 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 16 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 17 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 18 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 19 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 20 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 21 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 22 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 23 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 24 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 25 | Friday | \$1,451.20 | Friday | \$1,451.20 |
| Pay Period 26 ¹ | Friday | \$1,451.20 | N/A | N/A |
| First Pay Period Following Date of Conversion | Friday | \$0 | Friday | \$1,451.20 |
| Total Pay for One Year | | \$37,731.20 | | \$37,731.20 |

Note: The toll collector would have to wait two additional days for each of the pay cycles ending on Sunday.

¹ Pay period 26 is eliminated in the One Day Later Option as two weeks are absorbed into the first twelve pay periods.

By using this option, the toll collector receives a normal rate of pay (80 hours) one day later than the previous pay period for the first 12 pay periods. In other words, each pay period shifts forward one day to create a lag in the time each paycheck is received. Although the toll collector must wait an additional day to receive a paycheck, a two-week arrears-based pay cycle is created after 12 pay periods. The toll collector will not experience a two week pay lag following the date of conversion.

Under the current pay schedule, employees do not receive pay after separation; however, when separation does occur before the end of a pay period, employees may owe OTC money for hours paid but not worked. Additionally, the current system does not allow OTC adequate time to process leave or overtime requests prior to the issuance of paychecks.

In negotiations with the collective bargaining unit, OTC should reiterate that employees will not experience reductions in salary. Rather, the disbursement of paychecks will be redistributed so that employees receive a regular pay check, instead of experiencing a two week lag, following the date of conversion. By exercising either of the aforementioned options, OTC can establish a two-week arrears-based pay cycle that ensures payment for actual hours worked. Furthermore, OTC will experience reduced costs in payroll by processing all payrolls on the same schedule.

Bargaining Unit Relations

33. OTC's HR department should formalize its current labor agreement negotiation process into a policy that includes procedures for preparation, negotiation and follow-up with the bargaining unit.

In March 2002, Teamsters Local Union No. 436 (Teamsters) became the representing unit for OTC's maintenance and toll collection employees. Negotiations between the bargaining unit and OTC occur every three years. The most recent negotiation committee included the HR manager, general counsel, deputy executive director, maintenance engineer, director of toll operations, superintendent of toll operations, CFO, as well as outside counsel and the district toll supervisor. Although this team usually represents OTC in labor negotiations, committee membership has not been formalized to include these specific positions.

Also, a written process has not been developed to guide management during labor negotiations. It was reported that negotiations are typically guided by the following process:

1. Preparatory meetings:
 - a. Decision of requests from the administrative side (three months prior);
 - b. Decision of the administration side's ground rules (i.e. meet twice per week, who will pay for which meetings, a neutral location);
2. Negotiation of ground rules with union representatives;
3. Presentation of proposals; and
4. Negotiation.

The American Public Works Association (APWA) recommends that an organization establish a collective bargaining administration policy that includes the following items:

- Description of the role of the agency in the collective bargaining process;
- Identification of the collective bargaining team with one member being specified as principal negotiator;
- Description of the bargaining unit or units representing any given group of employees with which the agency will negotiate;
- Authorization of a negotiator to resolve disputes; and
- Definition of the relationship of the agency personnel with other members of the bargaining team;
- Decision of ground rules for bargaining in advance of the negotiating process, such as wages, hours, terms and conditions of employment, participating in negotiations based on the principle of “good faith” bargaining, and recording agreements resulting from collective bargaining;
- Ensuring representation of the agency on the bargaining team; and
- Provisions for the written record of agreement reached through negotiations to be in the form of a contract signed by representatives from both parties.

OTC should also document its procedures to specify rules for contract dissemination, to conduct a timely review of administrative amendments and to notify all management personnel of changes affecting their respective departments. Furthermore, OTC should consider reviewing the need for additional training as necessitated by changes in the contract.

Absent formal procedures which guide its negotiating process, OTC risks an inconsistent approach to contract negotiations. Such inconsistency may contribute to an already strained relationship with the bargaining unit and increase costs for OTC. The expectations of both bargaining parties can be established and met through increased communication prior to the start of the negotiation process. A formalized process that outlines procedures and offers instruction regarding the dissemination of contracts and accompanying policy changes will help to ensure that all employees are aware of alterations following negotiations, thus minimizing both legal liability and the number of potential grievances.

- 34. Members of OTC’s negotiating team and representatives from the bargaining unit should attend labor relations training such as that provided by Ohio’s State Employee Relations Board (SERB). In addition to facilitative assistance provided by SERB, collaborative training will help to condense negotiations and reduce grievances. Furthermore, as established in contract, both parties should participate in periodic labor/management committee meetings to improve communication and to discuss mutual concerns.**

According to the HR manager, previous negotiations with the bargaining unit have been strained and have resulted in an unconstructive stance between bargaining unit employees and OTC administration. A SERB representative also indicated that during the last negotiation, when the bargaining unit replaced its past labor organization with new representation, SERB received several phone calls from both parties seeking assistance and counsel to ensure their actions were permissible and legal.

To assist in negotiation procedures, SERB offers a Labor Management Committee Assistance program which includes training on group problem-solving techniques, effective listening, problem identification, brainstorming, consensus building, and group dynamics.

Article 15 of the CBA specifies that a labor/management relations committee should be established that shall meet up to three times per year to discuss matters, other than individual grievances. The HR manager reported that in 2002 no official labor/management relations meetings have taken place. The last official meeting took place on March 21, 2001, and occurred with the previous bargaining unit. Although negotiations were only recently concluded in September 2002, OTC management and bargaining unit representatives have not scheduled regular meetings, preferring instead to meet informally on an as needed basis. SERB indicated that through periodic labor/management committee meetings, improved communication and a more orderly and constructive relationship could be established between the parties. Oftentimes, grievance and unfair labor practice charges become the communication channels in the absence of regular labor management meetings.

By working cooperatively through periodic labor/management committee meetings and by participating in SERB-sponsored labor relations training, OTC will be in a better position to increase productivity, service, quality and morale. Improvements in the negotiating process will help to decrease grievances and strengthen OTC's relationship with the bargaining unit.

35. OTC should consider establishing an ombudsman position within the HR department to provide a more open environment and independent perspective to help resolve both non-bargaining and bargaining unit employee grievances. Although subject to negotiation, such a position would help alleviate the HR department's current workload relative to the bargaining unit and would help improve labor relations.

Section 4.2.1 of OTC's Employee Manual provides information regarding the agency's grievance policy and associated procedures for non-bargaining unit employees. These include procedural roles and responsibilities, required action steps and designated timeframes for grievance resolution. In addition, OTC's grievance process for bargaining unit personnel is commensurate with other peer turnpike commissions, including well-defined responsibilities and actions steps. Within the past four years, there has only been 1 non-bargaining unit grievance, but bargaining unit grievances numbered approximately 50 in 2001 and 30 as of October 2002.

SHRM recommends a grievance process that includes well-defined steps. OTC's current policy for non-bargaining units provides adequate instructions for filing a grievance. However, OTC does not offer an objective, third-party resource (e.g., ombudsman) to mitigate potential biases and uncomfortable situations. Without an ombudsman, employees may be hesitant to file grievances.

According to *Workforce*, a human resources best practice publication, an agency should employ an objective, third-party ombudsman position to assist in the resolution of labor-related disputes. Grievances can be a deterrent to a cooperative labor/management relationship. By employing an objective and independent third party, OTC can establish a confidential avenue for employees to file complaints and grievances.

- 36. OTC should initiate the necessary procedures to better track grievances filed by both bargaining unit and non-bargaining unit employees for purposes of assessing trends and determining areas requiring improvement. Furthermore, a centralized grievance database should be created and maintained by the HR department. All relevant information about grievances should be captured by the hearing officer, recorded on a recommended model, and entered in the developed grievance database by the HR department.**

Although OTC compiles basic grievance information in spreadsheets, statistics are not compiled regarding such relevant information as the type, severity, and time needed to reply or ultimate resolution of grievances. Written grievances received by OTC are processed and resolved on an individual basis and documented in their related case files. Following the review process, written grievances and subsequent decisions are retained by the HR department in a hard copy file.

The United States Department of Agriculture (USDA) exercises the Grievance/Arbitration Assessment and Resolution Model (GAARM) as a tool in determining the approximate cost and the risk of not prevailing in arbitration. The tool also assists the agency in deciding which grievances should be arbitrated and which should be settled. The GAARM provides a worksheet to be completed which documents grievance-related information including the issue in dispute, interests of the parties, costs of the grievance, and the value of risk involved. The GAARM worksheet allows decisions to be made regarding pre-arbitration resolution, and the information obtained from the worksheet can be used to justify the resources needed to obtain a settlement agreement.

By recording each grievance process in a model such as the one used by the USDA, OTC will facilitate the use of consistent and uniform grievance files and will enable grievance information to be transferred more easily to a database. A centralized grievance database allows management staff to regularly analyze data to produce meaningful statistics which could be used to identify areas that might require additional attention or modification. More importantly, OTC

administrators could use this statistical information to more effectively manage daily operations, respond to external concerns and bargaining unit resolutions.

Employee Fringe Benefits

37. Subject to negotiation, OTC should revise its tuition reimbursement policy for bargaining and non-bargaining unit personnel to explicitly require that reimbursable courses be work-related. Furthermore, a minimum employment period prior to and following course participation should be required.

OTC reimburses tuition costs for coursework approved in advance by supervisors, the HR manager and the executive director. Currently, the level of reimbursement is based principally upon the degree of relevancy of the course to an employee's job duties. In FY 2001, OTC implemented a revised policy requiring coursework to be work-related. However, the policy was repealed after an unfair labor practice was filed with SERB by the bargaining unit.

The Ohio Department of Transportation (ODOT) and DAS also have tuition reimbursement programs that have reimbursement criteria similar to OTC's. However, these agencies have implemented the following additional guidelines:

- Employees are required to repay the reimbursement to the agency should they separate from the agency within one year of course completion;
- Employees must have full-time and permanent status with one year service credit to be eligible;
- Coursework must be related to current job duties and should not be approved if the effect of the course is to promote a career change;
- Within 45 days of course completion, employees must submit legible copies of the following:
 - Official college/university invoice or statement indicating fees charged and the amount paid.
 - College/university grade card or report which indicates the employee's name, quarter/semester, course name(s) and grade(s) for the term; and
- Reimbursement checks are mailed directly to employees four to six weeks following receipt of all required documentation.

In 2001, OTC spent an average of \$930 on tuition reimbursement for 14 participating employees, totaling approximately \$13,000. Since OTC's revised policy has not been implemented, the agency may reimburse employees for training that does not enhance OTC operations. Additionally, without an employment requirement after reimbursement, OTC could not only lose the cost of the reimbursement, but the increased skill and knowledge gained by the employee.

By negotiating changes to its tuition reimbursement policy to include additional eligibility criteria, OTC can increase accountability while enhancing the overall skill-set of its workforce.

- 38. OTC should establish an early retirement incentive (ERI) consideration procedure with guidelines and timeframes to follow before ERIs are offered. A formalized procedure will help to ensure a profitable and reasonable buyout and provide an efficient and uniform process for conducting future early retirement incentive ERI opportunities.**

Additionally, OTC should create a policy that requires a financial assessment prior to offering an ERI. The duration of the window, estimated participation rates and the means of providing effective controls over hiring replacements should be considered, in addition to the allocation of costs associated with the incentive program. An explicit account of all costs, including future costs to retirement systems, is essential to evaluate the effectiveness of the incentive program. Employing an outside neutral source, like OBM, to assess the elements of an ERI program will help to ensure the effectiveness and profitability prior to implementation.

According to OIG, OTC approved a three-year ERI with an enrollment window from April 25, 1995, thru April 24, 1996. OTC subsequently approved a second three-year ERI window from June 1, 1999, thru February 1, 2001. These ERIs required OTC to pay a maximum of three years of Public Employee Retirement System (PERS) credits for eligible employees agreeing to retire during the established timeframes. Generally, the purpose of an ERI is to reduce payroll costs, prevent layoffs during difficult times, or to restructure. According to OIG, two three-year ERI programs within a three-year span may appear atypical, considering OTC's apparent economic situation at the time.

The decision to implement the 1999-2000 ERI was made by the executive director, Commission members and the CFO, none of whom are currently employed at OTC. OTC paid PERS a total of \$6.7 million for retirement and related health care costs, affecting approximately 100 employees. The Commission planned to recover these costs over time by eliminating certain positions, by delaying the hiring of replacement workers for other positions and by hiring replacement workers at lower compensation levels than those of the retirees. According to OTC, approximately \$6.5 million was recovered by the third year following the ERI based on internally developed information. However, OTC does not have a formal procedure for developing cost-benefit analysis prior to offering the buyout nor is there a standardized procedure for reporting and monitoring cost savings.

According to the Ohio Retirement Study Council (ORSC), participation rates in ERI plans are difficult to predict since it is unclear how individuals will react to retirement. Participation rates can be expected to vary depending on the value of the incentives offered, the perceived fear of

lay-offs, prospects of further salary increases or promotional opportunities, current economic and workplace conditions and individual health, financial and other personal reasons.

OBM has assisted non-state agencies in this area and has a formalized policy and procedure for organizations to follow when establishing an ERI. Voluntary ERI plans may be approved if they meet the following criteria:

- Provides a cost savings in the current or next biennium;
- Documents projected costs and savings, the time required to achieve intended savings, and required action steps (i.e., the elimination and replacement of positions held by retirees);
- Meets current budgetary requirements;
- Assists the agency in meeting management's goals;
- Impacts a minimum of five percent of the eligible workforce;
- Offers to purchase retirement time that does not exceed the lesser of three years or an amount of service credit equal to one-fifth of the total service credited to a participant, exclusive of service time purchased; and
- Remains in effect for one year.

ERI plans can be useful in avoiding lay-offs, downsizing government operations, and achieving payroll savings and can also provide a means to allow administrators more flexibility in managing their workforce and promoting better qualified employees. However, cost savings can be negligible or non-existent since in many cases the majority of the positions vacated under the ERI are filled, resulting in the ERI serving more as an additional retirement benefit. Additionally, the one-time loss of experienced workers may result in increased training costs and administrative problems such as a reduction in institutional memory (i.e., walking knowledge).

OBM is required to review a state agency's cost-benefit analysis and assess its affordability prior to implementation. However, OBM is not required to review OTC's cost-benefit analysis, as it is not directly supported by state appropriated funds. According to OTC, OBM was contacted with regard to the Commission's ERI but declined involvement. Nevertheless, OTC should formalize its ERI process and determine a timeframe under which analysis should be performed and completed. Specific steps should be prescribed to ensure uniformity. An outside party, such as OBM, should be engaged to perform a cost-analysis prior to implementation of the ERI to determine if the OTC is in a position to have a profitable ERI program. Documentation of the process will enable OTC to more effectively manage future ERIs.

*Commission Code of Bylaws***39. The Commission should consider strengthening its current *Code of Bylaws* through regular updates and by including standardized selection criteria as well as a formal procedure by which the executive director is appointed.**

The *Code of Bylaws* was last revised in 1996 and therefore, may not reflect actual Commission practices. Specifically, the Commission's current *Code of Bylaws* does not contain candidate-selection criteria or a formal procedure by which members appoint the executive director.

ORC requires that most Ohio commissions and governing boards establish and maintain a set of rules to govern Board or Commission member activity. Effective bylaws contain the following elements:

- A detailed description of member composition, including terms of office, compensation, reimbursement, appointing authorities, vacancies, successors and reappointment policies;
- Formal description of Commission and executive management duties;
- Quorum and meeting establishment requirements, including frequency and voting procedures;
- Procedures for the dissemination of minutes;
- A statement of indemnification; and
- Policy statements on committees, purchasing, financing, personnel needs, and permanent files.

Since the *Code of Bylaws* was officially revised over five years ago and the Commission is in the process of appointing a new executive director, Commission members should consider strengthening its current *Code of Bylaws* by establishing a schedule for regular reviews and by including standardized selection criteria as well as a formal procedure by which the executive director is appointed. The procedure, at minimum, should detail the steps of advertising the position, selection, interviewing, and hiring of a candidate. An appropriate timeframe should be established for the hiring process along with criteria of what education and experience is expected in a qualified candidate. An accompanying job description for the executive director position should describe the necessary qualifications and responsibilities. Lastly, the Commission should consider amending the *Code of Bylaws* to include an Audit Committee (**Recommendation 16**).

By expanding and strengthening the *Code of Bylaws*, the Commission can eliminate any appearance of impropriety (i.e., nepotism and conflicts of interest) by maintaining a formal and consistent approach to the appointment of its executive director. Furthermore, the inclusion of

specific expectations and additional subcommittee requirements would help the Commission strengthen its oversight role with the OTC.