

Table of Contents

	Page
Transmittal Letter	1
Scope	3
Objective	3
Methodology	4
Conclusions	4
Findings and Recommendations	
Transfers of Appropriations	5
Compliance with Purchasing Regulations	5
Overhead and Profit Multiplier	6
Supplementary Data	
Bond Issued and Status of Bonds	9
Investment Status	9
Projects Financed by Proceeds	9
Future Bond Issues	9
Schedules	11
Departmental Response	21

This page was intentionally left blank.

The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

We have completed an audit of the Department of Transportation, New Jersey Transportation Trust Fund Authority Appropriations for the period July 1, 1995 to June 30, 1996.

Our report is transmitted herewith.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
February 7, 1997

This page was intentionally left blank.

Department of Transportation New Jersey Transportation Trust Fund Authority Appropriations

Scope

We have completed an audit of the expenditures made by the Department of Transportation for the period July 1, 1995 to June 30, 1996 for transportation projects funded from revenues of the New Jersey Transportation Trust Fund Authority. Our scope did not include the project expenditures for New Jersey Transit Corporation since this entity and its financial activities are audited by an independent certified public accounting firm.

Total expenditures of the projects during the 12 month audit period were \$484.2 million. The prime responsibility of the New Jersey Transportation Trust Fund Authority is to provide the payment for and financing of all, or a portion of, the costs incurred by the Department of Transportation for the planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation system. These activities are accounted for in the State Transportation Fund, which is a capital projects fund.

In addition, we are to report on the status of the bonds and projects financed from the proceeds of the bonds. The report shall include the investment status of all unexpended bond proceeds and provide a description of any bond issues expected during a fiscal year. Accordingly, we have included this supplementary data in our report. This information has not been audited and we do not express an opinion on the information.

Objective

The objective of our audit was to determine the extent to which funds are expended for costs directly related to the projects, including but not limited to salaries and other administrative expenses.

This report is issued pursuant to the State Auditor's responsibilities as set forth in N.J.S.A. 27:1B-21.1e and N.J.S.A. 27:1B-21.1f.

Methodology

Our audit was conducted in accordance with Government

Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends and interviewed agency personnel to obtain an understanding of the projects, the internal control structure, status of bonds, projects financed by the proceeds and the investment status of the bond proceeds.

A nonstatistical sampling approach was used. Our sample of financial transactions was designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were examined. Other transactions were judgmentally selected.

Conclusions

We found that the financial transactions included in our testing related to the objectives of the projects, were reasonable, and were properly recorded in the accounting system. In making this decision we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention. Details of our findings and recommendations follow.

Transfers of Appropriations

Transfers of appropriations should be approved by the Legislative Budget and Finance Officer when transfers are between different general capital construction program headings.

In accordance with the annual appropriation acts for fiscal years 1996 and prior, the Commissioner of the Department of Transportation is required to apply to the Department of the Treasury's Director of the Division of Budget and Accounting for permission to transfer funds among projects within different general program headings. If the Director of the Division of Budget and Accounting approves the request, the transfer is to be forwarded to the Legislative Budget and Finance Officer (LBFO) for approval or disapproval.

Our review of the transfers of appropriation disclosed that the department routinely does not request approval by the LBFO when transferring funds from one general program heading to another. During fiscal year 1996, we found that the department transferred \$6.3 million among projects within different general program headings without approval. Since the funds stayed within the transportation capital construction programs, the department did not seek approval. We also found that the Document Control Section within the Department of the Treasury was not submitting these transfers requiring approval to the LBFO.

We recommend the Department of Transportation obtain the approval of the Legislative Budget and Finance Officer when transfers of appropriations are among projects within different general capital construction program headings.

1/4/2

Compliance with Purchasing Regulations

The department could have achieved more competition had the Purchase Bureau been involved.

The Department of Transportation is responsible for all work on state highways and, in accordance with Title 27, is allowed to hire certain architectural and engineering consultants. However, the department acted out of the scope of its authority when it hired a consultant to perform an organization review and analysis of its Office of Capital Program Management at a cost of \$1.3 million. Treasury Circular Letter 92-12 cites specific services, for example, organizational review and analysis, which must be procured

through the Purchase Bureau. Senior management in the Department of Transportation believed that this type of professional service was related to capital programs and as such handled the procurement themselves. The department, by following Treasury Circular Letter 92-12, could have obtained more competition.

We recommend that future management consulting contracts be handled through the Purchase Bureau.

1/4/2

Overhead And Profit Multiplier

The department could have saved \$300,000 by having their Bureau of Audit review the consultant's cost proposal prior to the contract being signed.

The department reimburses consultants for overhead and profit based on a rate audited by the Bureau of Audit. The rate is calculated as a percentage of direct labor and is based on actual costs. We noted that the department is reimbursing a consultant on a multiplier contract totaling \$5.2 million at 150 percent of direct labor. The Bureau of Audit was not included in the review of financial information contained in the cost proposal for this consultant. The department could have saved \$300,000 by having their Bureau of Audit review the consultant's cost proposal prior to the contract being signed.

We recommend the Bureau of Audit be included in the review of all consultant financial information for reasonableness of the overhead rate prior to a contract being signed.

SUPPLEMENTARY DATA

This page was intentionally left blank.

Bond Issued and Status of Bonds

On January 15, 1985 the Transportation Trust Fund Authority issued bonds for the purpose of financing the costs of planning, engineering, construction, repair and rehabilitation of the state transportation system. The 1985 Series A bond was the initial series of bonds issued by the authority under the bond resolution. The authority has issued bonds totaling \$3,549,505,000 as of June 30, 1996. As of June 30, 1996, the total outstanding was \$3,083,077,774. See Schedule I for the status of each bond issue.

$\frac{1}{4}/2$

Investment Status

All unexpended bond proceeds are invested in the State of New Jersey Cash Management Fund. The market value at June 30, 1996 was \$170,898,146.

$\frac{1}{4}/2$

Projects Financed by Proceeds

The projects financed by the proceeds of each bond issue are not determinable. The bond proceeds are commingled with other revenue sources: motor fuel taxes, commercial vehicle fees and taxes, and toll road authority contributions. A schedule of the current projects and the ending balances is provided on Schedule II.

$\frac{1}{4}/2$

Future Bond Issues

On October 15, 1996, the Transportation Trust Fund Authority issued 1996 Series B Serial Bonds in the amount of \$714,340,000. No further bond issues are anticipated until the second quarter of Fiscal Year 1997.

$\frac{1}{4}/2$

This page was intentionally left blank.

TRANSPORTATION TRUST FUND AUTHORITY
 BONDS PAYABLE
 SCHEDULE OF BONDS ISSUED AND STATUS OF BONDS
 FISCAL YEAR 1996 AS OF JUNE 30, 1996
 (UNAUDITED)

Schedule I

Bond Series	Amount Issued	Outstanding as of June 30, 1996		Total
		Principal	Interest	
1985 Series A	61,270,000.00	0.00	0.00	0.00
1986 Series A	200,000,000.00	0.00	0.00	0.00
1988 Series A	125,000,000.00	0.00	0.00	0.00
1992 Series A	275,000,000.00	0.00	0.00	0.00
1993 Series A	500,000,000.00	0.00	0.00	0.00
1993 Series B	61,470,000.00	0.00	0.00	0.00
1994 Series A	400,000,000.00	0.00	0.00	0.00
1995 Series A	804,475,000.00	778,635,000.00	487,114,631.36	1,265,749,631.36
1995 Series B	788,225,000.00	762,660,000.00	516,518,267.50	1,279,178,267.50
1996 Series A	334,065,000.00	334,065,000.00	204,084,875.14	538,149,875.14
Total	3,549,505,000.00	1,875,360,000.00	1,207,717,774.00	3,083,077,774.00

This page was intentionally left blank.

**NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY APPROPRIATIONS
DEPARTMENT OF TRANSPORTATION
SUMMARY OF APPROPRIATIONS, EXPENDITURES AND OBLIGATIONS
FOR THE FISCAL YEAR ENDING JUNE 30, 1996
(UNAUDITED)**

The seven pages of summary data are available by contracting this office in writing or by phone at the following address.

**Office of Legislative Services
Office of the State Auditor
CN-067
Trenton, NJ 08625-0067**

Phone (609) 292-3700

STATE OF NEW JERSEY
DEPARTMENT OF TRANSPORTATION
1035 PARKWAY AVENUE
CN 601
TRENTON, N.J. 08625-0601
609-530-3535

DEPARTMENTAL RESPONSE

January 31, 1997

Richard J. Fair
State Auditor
Office of the State Auditor
CN-067
Trenton, NJ 08625-0067

Re: Response to Audit of Department of Transportation
New Jersey Transportation Trust Fund Appropriations,
7/1/95 to 6/31/96

Dear Mr. Fair:

The New Jersey Department of Transportation (NJDOT) is pleased that your audit found the financial transactions of our Trust Fund program to be in order. Our specific comments are presented below.

Transfer of Appropriations

As you are probably aware, each year the annual Appropriations Act has included different program categories and different rules regarding approvals for the movement of funds between projects in the Transportation Trust Fund program. Since unspent project funding carries forward from one year to the next, there has been considerable ambiguity about how we can apply all those varying rules during the same fiscal year. In an effort to achieve a balance between operational efficiency and compliance with intent of the Appropriations Act, the Department met with OMB in August, 1994 to develop a common understanding of how those rules could be applied consistently across program years using the New Jersey Comprehensive Financial System (NJCFS). As a result of that meeting, both agencies agreed to a set of transfer approval criteria that we have applied consistently during both FY 95 and FY 96. Your report indicates that the rules DOT and OMB adopted, and your interpretation of how the various program rules should be applied, are inconsistent. We will meet with OMB immediately to discuss what process and system changes are required to ensure compliance with the rules as you have stated them. We are assuming that the new rules will be applied to FY 93-96 program years and not to FY 97 program year transactions since the reallocation language for that program is entirely different than previous years.

Compliance with Purchasing Regulations

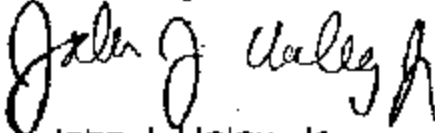
NJDOT's use of its own contract authority to issue professional services contracts that are unique to transportation and require technical engineering experience has been standard operating procedure for several decades. Examples of such contract types include road and bridge design, bridge inspections, right of way appraisals, and highway planning studies. The Department believes a contract specifically directed at applying the latest project engineering advancement techniques to DOT projects is consistent with transportation engineering and planning professional services. In reviewing Circular Letter 92-12 your report cited, it is clear some tasks included in the contract are similar to those defined under the category "advisory consultant services". However, the major tasks of this procurement involve the project delivery process and early action project delivery strategies which required transportation engineering services. Both the Department of Treasury and the Division of Law agreed that we could proceed with the procurement through the consultant selection committee based on the engineering requirement. As always, future non-engineering contracts that fit the "advisory consulting service" definition will be routed through the OMB and GSA process prescribed in the circular letter.

Overhead and Profit Multiplier

The Department uses several types of contracts with varying rates and formulas to control contract costs. Examples are fixed cost, cost plus fixed fee, and cost plus multiplier. The cost plus multiplier method was used on this project and many other Department projects as well. The audit analysis equates the consultant's overhead rate with the multiplier rate that was included in the final negotiated agreement. Overhead rate contracts and multiplier rate contracts are not the same thing; and a multiplier rate includes the overhead rate and other negotiable factors. The audit findings did not take this into consideration.

With respect to DOT's normal internal review process, NJDOT's procedures require that all professional service contracts be routed through the Bureau of Audit for pre-audit. However, the pre-audit is not the only check the Department has to ensure all costs charged to the contract are reasonable and match the terms of the agreement. This contract is subject to post audit before final payment is made. Therefore, it is premature to say that any savings or other cost adjustments (specifically the \$300,000 you cite) are appropriate until after the contract closeout audit is done. It should also be noted that one of the recommendations which resulted from the consulting contract in question included the establishment of a contract services administration unit within the Capital Program Management organization. This unit is now in place and is responsible for ensuring that all projects have the necessary approvals prior to contract signature, including the preaudit requirement.

We appreciate the opportunity to comment on these issues and we welcome your evaluations of our operating practices.

Sincerely,

John J. Haley, Jr.
Acting Commissioner