

*A REPORT BY THE NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER*

**Alan G. Hevesi
COMPTROLLER**



***NEW YORK STATE THRUWAY AUTHORITY
TRAVEL PLAZA OPERATIONS***

2001-S-50

DIVISION OF STATE SERVICES

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Report 2001-S-50

Mr. John Buono
Chairman
New York State Thruway Authority
200 Southern Boulevard
Albany, NY 12201

Dear Mr. Buono:

The following is a report of our audit of the New York State Thruway Authority's travel plaza operations.

This audit was performed pursuant to the State Comptroller's authority, as set forth in Article X, Section 5 of the State Constitution. Major contributors to this audit report are listed in Appendix A.

Office of the State Comptroller
Division of State Services

June 26, 2003

EXECUTIVE SUMMARY

NEW YORK STATE THRUWAY AUTHORITY TRAVEL PLAZA OPERATIONS

SCOPE OF AUDIT

In the 1990s, the New York State Thruway Authority (Authority), which owns and operates the New York State Thruway (Thruway), did renovations at its 27 travel plazas (plazas) to better serve the needs of Thruway customers. Plazas feature a variety of food vendors, gift shops and customer services. The Authority contracts with Marriott Corporation (HMS Host) and McDonald's Corporation (McDonald's) to operate 16 and 11 plazas, respectively. HMS Host and McDonald's each pay annual rent that equals either a percentage of gross sales or a guaranteed minimum, with increases over the life of the contracts. Sun Refining and Marketing Company and Mobil Oil Company have contracts to operate plaza gas stations, and pay the Authority rent based on gallons of fuel delivered to each station. The Authority reduced gas prices in a pilot program begun in May 2000. When gas prices were lowered, the amount of fuel sold increased significantly, and the Authority made the gas price reduction program permanent.

The Authority administers the contracts with plaza operators to make sure plazas are in good condition and operated as intended. Nine Authority Service Area Representatives (SARs), who work under the direction of the Office of Travel Services (OTS), have the primary responsibility for inspecting plazas and monitoring food vendors and gas stations for contract compliance. Responses to Authority customer satisfaction surveys conducted in 1998 and 2000 indicated that travelers wanted the Authority to lower food and gas prices at the plazas.

For the period April 1, 1999 through July 31, 2002, our audit addressed the following questions about selected financial and operating practices at Thruway plazas:

- Does the Authority have adequate processes to assess contractors' operation of the plazas and their compliance with concession contracts?
- Does the Authority take effective steps to make sure its plazas remain in good condition and meet customer needs?

AUDIT OBSERVATIONS AND CONCLUSIONS

The Authority needs more effective processes to verify compliance with contract terms that require concessionaires to spend specific amounts for plaza repairs and improvements, charge approved prices for food and gas, and maintain plazas in good condition. The Authority should also work more actively with plaza operators to address consumer complaints about high food prices, to increase revenue from plaza sales, and to meet consumers' changing demands.

The Authority does not adequately track the required spending by concessionaires for capital repairs and operational improvements, inform concessionaires of the status of spending proposals, or review the proposed spending to verify that it meets Authority standards. We recommend the Authority properly track and review spending proposals and communicate results to concessionaires. (See pp. 7-11)

The objective of the Authority's plaza renovation was to provide better services for Thruway customers, which would result in higher plaza sales. However, we found the Authority does not actively partner with plaza operators to make sure plazas provide travelers with the services they need and products travelers want to buy at competitive prices. Thruway plaza food prices are higher than prices of the same food at similar vendors off the Thruway. For example, four typical lunch items purchased at a plaza food vendor cost about 30 percent more than they would at a similar off-Thruway vendor. Toll systems in three neighboring states price plaza food to be competitive with local off-highway vendors. Since the volume of fuel sold increased as a result of lower gas prices, we believe lower plaza food prices would increase food sales - and increase customer satisfaction. We recommend the Authority work with operators to price plaza food competitively, and that it actively partner with operators in managing plazas by tracking sales data and identifying changes in customer demand. (See pp.13-17)

Contracts with HMS Host and McDonald's require that food be sold at Authority-approved prices and set standards for plaza cleanliness, including requiring operators to maintain specific numbers of cleaning staff. SARs conduct plaza inspections to monitor compliance with these requirements. However, in visits to 12 plazas, we found instances in which concessionaires sold food above approved prices, operated unsanitary restrooms and hired fewer cleaning staff than the contract required. We attribute these compliance problems, in part, to ineffective monitoring. For example, we found most SARs did not perform the number of inspections required by Authority standards nor focus on plazas with poor inspection records. Further, OTS did not follow up to determine why SARs did not meet inspections standards. To improve contractor compliance, we recommend the Authority conduct the required number of inspections, take steps to make inspections more effective and work with plaza managers to identify and remove the causes of repeated inspection failures. (See pp. 19-29)

We also recommend the Authority consider pursuing other customer service enhancements on the Thruway, including providing more amenities for truckers, convenience stores at plazas and highway signs to indicate the business hours of plaza food vendors. (See pp. 31-32)

COMMENTS OF AUTHORITY OFFICIALS

A draft copy of this report was provided to New York State Thruway Authority officials for their review and comment. While Authority officials offered numerous reasons for the conditions we reported, they generally agreed with our recommendations and indicated they have or will implement most of them. Their comments have been considered in preparing this final report, and are included as Appendix B.

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Exhibit A

Thruway Travel Plaza Directory

Appendix A

Major Contributors to This Report

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INTRODUCTION

Background

The New York State Thruway Authority (Authority) owns and operates the New York State Thruway (Thruway). In the early 1990s, the Authority began to renovate or reconstruct the Thruway's travel plazas (plazas) to provide improved service to the public, including improved restrooms and better food service. The total cost for this plaza modernization effort was \$179 million (not including the cost of renovating plaza gas stations). In 1991, the Authority entered into its current contracts with the Marriott Corporation (later named HMS Host) and McDonald's Corporation (McDonald's). The contracts stated that these vendors would help finance the modernization costs and then operate the plazas. Travelers now find a variety of different restaurants at each plaza, as well as gift shops and customer services.

HMS Host operates the food service facilities at 16 of the Authority's 27 plazas. HMS Host paid \$35 million toward the total renovation cost and pays the Authority annual rent that equals either a percentage of gross sales or a guaranteed minimum amount. The guaranteed minimum, which was \$7.5 million in 1991, increased to \$8.63 million in 2000, will be set at \$9.92 million in 2005. Based on its gross sales, HMS Host has not paid the Authority more than the minimum rent. Any of 17 different vendors are located at HMS Host plazas, and include vendors such as Burger King, Roy Rogers, Pizza Hut, Sbarro's, TCBY Treats, Starbucks and Carvel. HMS Host employees operate all the businesses in HMS host plazas. (See Exhibit A for a list of the businesses at plazas statewide.)

McDonald's operates the food service facilities at 11 of the Authority's 27 plazas and paid \$32.75 million toward the cost of renovations. McDonald's pays the Authority an annual rent based on a sliding scale (from 6 percent of gross sales up to \$45 million to 10 percent of gross sales over \$90 million) with a guaranteed minimum payment of \$2.05 million. This contract provided for the minimum amount to increase to \$2.36 million in 2000, and to \$2.71 million in 2005 (which assumed that all planned McDonald's travel plazas are built and operating). However, two of the planned McDonald's travel plazas were not

built and one was not completed until late 1999. Accordingly, the Authority did not hold McDonald's to these contract minimums. The contract was amended in 1998 and the minimum payments were changed to \$1.4 million for 2000, \$1.5 million for 2001, and about \$1.58 million for 2002 through 2004. McDonald's paid more than the minimum rental for 2000 and 2001. Any of 14 vendors are featured at McDonald's plazas, and include McDonald's, Arby's, Mamma Ilardo's, Ben & Jerry's and Gourmet Cup. Businesses at McDonald's plazas are operated by individual franchisees or by subcontractors. (See Exhibit A.)

The Authority also contracts with Sun Refining and Marketing Company (Sunoco) and Mobil Oil Company (Mobil) to operate gas stations at plazas. Sunoco and Mobil pay the Authority rent based on the gallons of fuel delivered to each station. These companies sell gasoline, diesel fuel, automotive parts and supplies. In response to traveler complaints about high gas prices at Thruway plazas, the Authority initiated a Fuel Price Abatement pilot program between May 2000 and February 2001. The Authority subsidized the lower gas prices by exempting Mobil and Sunoco from paying rent during the pilot program. Since lower prices significantly increased the volume of fuel sold, the Authority established lower gas prices as a permanent feature at Thruway stations, and required Mobil and Sunoco to resume paying rent.

Between calendar years 1997 and 2001, HMS Host and McDonald's saw gross sales increase 21 percent (from \$48.2 million to \$58.4 million) and 26 percent (from \$27 million to \$34.1 million), respectively. Sunoco and Mobil increased fuel volume in this period from 26.3 to 37.0 million gallons (41 percent), and from 24.6 to 33.2 million gallons (35 percent), respectively. Increases in guaranteed minimum rent, sales, and fuel deliveries increased Authority rent income from nearly \$12 million in 1997 to nearly \$14 million in 2001, as shown in Table A.

Table A: Thruway Authority Travel Plaza Rental Revenues: 1997-2001 (in millions)					
Year	HMS Host	McDonald's	Sunoco	Mobil	Total
1997	\$7.50	\$1.84	\$1.20	\$1.26	\$11.80
1998	7.50	1.92	1.31	1.37	12.10
1999	7.50	2.00	1.37	1.46	12.33
2000	8.63	2.12	*.40	*.45	11.60
2001	8.63	2.28	*1.50	*1.50	13.91
Total	\$39.76	\$10.16	\$5.78	\$6.04	\$61.74
Source: New York State Thruway Authority's Financial Reports 1997 through 2001 (Unaudited).					
* Lease revenues in 2000 (8 months) and 2001 (2 months) were affected by the Fuel Price Abatement program.					

About two-thirds of the total rental income came from HMS Host and the remaining one-third came from the other three concessionaires. HMS Host also paid for more of the total increase in rent because it pays a much higher minimum rent than does McDonald's, Sunoco or Mobil. HMS Host also operates five more travel plazas than does McDonald's.

The Authority administers the contracts with plaza operators to make sure the plazas remain in good condition and are operated as intended. The Authority has a headquarters office in Albany and four division offices: New York, Albany, Syracuse and Buffalo. Authority headquarters personnel in the Office of Travel Services (OTS), the Chief Engineer's Office, the Finance Office and the Internal Audit Office are responsible for managing concessionaire contracts.

Authority Service Area Representatives (SARs) have the primary responsibility for inspecting Thruway plazas and monitoring food vendors and gas stations for contract compliance. The 9 SARs work under the general direction of OTS and under the day-to-day supervision of a Division Facilities Engineer or Director of Operations. The Albany, Buffalo and New York Divisions are each assigned 2 SARs, and the Syracuse Division has 3 SARs. Depending on their location, the SARs in a Division are responsible for inspecting anywhere from 5 to 11 plazas. During inspections, SARs monitor for contract compliance, cleanliness and service. In September 2001, the Authority began to require SARs to perform at least 9 travel plaza inspections weekly and at least 2 full inspections (examination of the entire plaza) at each plaza monthly. In addition to performing inspections, SARs monitor tourism information centers; spot-check off-road fuel prices; do bi-annual off-road surveys of automotive supply prices; assess

customer satisfaction with plaza operations; investigate customer complaints; and coordinate special programs, such as farmers markets. SARs can also be assigned duties unrelated to plaza inspection by the Division Facilities Engineer.

To solicit feedback from Thruway travelers about plaza operations, the Authority conducts customer satisfaction surveys. In the 1998 and 2000 surveys, customers noted that the food now available at plazas is a vast improvement over previous Thruway food choices. However, in both surveys, the overall theme of customer complaints about plaza operations was the lack of cleanliness in restrooms, the high food and gas prices, the lack of food choices and the lack of parking, particularly for trucks. Common statements included: "Restrooms could be cleaner," and "Why do McDonald's and Burger King charge quite a bit more than they do off the Thruway?" The Authority introduced lower-priced fuel in a pilot program, and now maintains competitively priced fuel at plaza stations on a permanent basis. The Authority revised its inspection process to focus more on customer service areas, including restroom cleanliness, but it did not take action to lower food prices.

Audit Scope, Objectives and Methodology

We audited selected financial and operating practices at the New York State Thruway Authority's travel plazas for the period April 1, 1999 through July 31, 2002. The objectives of our audit were to determine whether the Authority has adequate processes to assess contractors' operation of the plazas and their compliance with concession contracts, and whether the Authority has an effective process to make sure its plazas remain in good condition and meet customer needs.

To accomplish our audit objectives, we interviewed Authority officials, reviewed policies and procedures related to the travel plazas, and reviewed concessionaire contracts. We also visited almost all (24 of 27) of the Thruway's plazas, stopping at these plazas at various times of the day and on various days of the week. A judgmental sample of 12 plazas was selected for more detailed review to examine concessionaires' compliance with contract requirements, the level of customer service provided and overall plaza conditions. We selected these plazas because they had frequently failed in certain inspection areas. During our visits, we looked for evidence that compliance or

customer service problems had been addressed. We also interviewed managers at other toll highway systems (Massachusetts Turnpike, New Jersey Turnpike, Garden State Parkway and Ohio Turnpike).

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Authority operations that are within our audit scope. Further, these standards require that we understand the Authority's internal control structure and compliance with those laws, rules and regulations that are relevant to our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified as having the greatest potential for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient and effective. As a result, we prepare our audit reports on "an exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Comments of Authority Officials to Audit

A draft copy of this report was provided to New York State Thruway Authority officials for their review and comment. Authority officials state that they have already implemented several of our recommendations and have plans to implement many others. Their comments were considered in preparing this final report, and are included as Appendix B. In addition, the State Comptroller's Notes to the Department's response are included as Appendix C.

Authority officials offered numerous explanations for the conditions we found in their inspection and compliance programs, including newly-instituted policies and work

standards as well as many new staff. They stated that there are significant differences in the operations and maintenance of travel plaza and similar off-road restaurants. Travel plaza operators are required to be open 24 hours a day; restrooms are much larger; and the building facilities and parking lots are much larger than off-road facilities. Authority officials contend that the concession-pricing structure complies with the current contract language, and contract amendments would be required to change the pricing method.

Auditor's Comment: We continue to maintain that the existing contract language gives the flexibility of making prices comparable with other specified toll highways or at similar restaurants adjacent to the Thruway. Notwithstanding, Thruway officials hope to move towards bringing market food pricing to its customers.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the New York State Thruway Authority shall report to the Governor, the State Comptroller and leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CAPITAL REPAIRS AND OPERATIONAL IMPROVEMENTS

Authority contracts require both operators to spend a certain percentage of their gross receipts for capital repairs at plazas and HMS Host to spend specified amounts of money on operational improvements. The Authority monitors operators' compliance with these contract terms to make sure plazas are kept up-to-date and in good condition. However, we found the Authority does not adequately track whether requirements are met or inform concessionaires about the status or sufficiency of their spending. Moreover, the Authority's Chief Engineer does not review spending proposals, as required, and the Authority does not verify the support for concessionaires' claimed expenditures. As a result, concessionaires do not know if they are meeting Authority spending requirements; further, the Authority does not know if operators' claimed expenditures are legitimate, or if operators' capital repairs and operational improvements meet Authority standards.

Accruals and Proposed Spending

Authority contracts with concessionaires require that operators spend specific percentages of gross receipts on capital repairs within set timeframes. HMS Host (but not McDonald's) must also spend specified amounts for operational improvements by stated dates. Operators submit proposals for spending to satisfy these contract requirements for the Authority to review and approve. To monitor operators' compliance, the Authority should track operators' spending for capital repairs and operational improvements and keep operators informed of the status of both their accruals and approved expenditures. However, we found the Authority did not adequately track spending or communicate with operators.

For example, based on its sales, HMS Host was required to spend more than \$2.5 million for capital repairs by December 31, 2002. As of December 31, 2001, HMS Host spent approximately \$1.2 million; however, the Authority questioned or disallowed about \$481,000 of these expenses. Therefore, HMS Host had to spend up to \$1.77 million during 2002 to meet the

contract requirement. HMS Host was also required to spend \$1 million for operational improvements by September 30, 1997, and another \$1 million by September 30, 2002. However, the Authority only accepted about \$907,000 of the \$2.24 million in operational improvement costs HMS Host claimed for the period ending September 30, 1997. The Authority disallowed about \$940,000 of the claimed costs and questioned the allowability of another \$393,000. HMS Host therefore may owe the Authority as much as \$93,000 in unspent allowable operational improvement costs less any of the \$393,000 of questioned costs that may be allowable and the amount of any eligible operational improvements made in 2002. Any unspent amounts must be paid to the Authority within 30 days of the contract's expiration in 2005. During 2002, HMS Host submitted additional costs totaling \$2.7 million for repairs and operational improvements. Authority officials advised us that they were reviewing the allowability of these costs, as well as the costs that they previously questioned.

Based on its sales, McDonald's was supposed to pay \$358,000 for capital repairs through April 1, 2000, but spent only \$238,000 of this amount through April 1, 2001 (including more than \$5,000 which the Authority had questioned). McDonald's must pay the underspent \$120,000 to the Authority by contract expiration in 2008.

When we examined the Authority's accrual calculations and its process for approving operators' spending, we found there was a lack of documentation about the status and disposition of spending proposals and overall lack of communication between the Authority and the operators. The Authority's Office of Fiscal Audit and Budget (Audit), OTS, and the Authority's Chief Engineer can approve, question or disallow proposed spending. Disallowed proposals do not count toward satisfying contractors' capital expenditure requirement, and questioned proposals need more explanation for a determination to be made. Of the almost \$5.6 million in submitted spending proposals over the life of the existing contracts, Audit disallowed proposals valued about \$944,000 (17 percent) and questioned proposals with a value of about \$887,000 (16 percent).

However, there was no record of how the questions about proposals were resolved, and no documentation of the results of a 1999 meeting the Authority says it held with contractors to review the status of proposed spending. Further, the Authority

did not assign anyone the responsibility of keeping operators informed about their total accruals, and the spending proposals the Authority had accepted, questioned or disallowed. We believe that lack of communication has resulted in contractors needing to pay unspent accruals to the Authority instead of doing eligible work, or in spending substantial funds in 2002 to meet contractual requirements.

The Authority should also routinely verify that claimed expenditures – in this case, expenditures to meet Authority contract requirements – are legitimate and accurate. The concessionaires submitted expenditure listings to the Authority for their capital repair and enhancement projects. However, the Authority did not verify these expenditures by periodically visiting operators' offices to review documentation (e.g., invoices, cancelled checks) that would support these expenditures. Thus, the Authority has little assurance that expenditure amounts claimed are accurate or were incurred to satisfy required spending.

Review and Approval of Capital Repairs and Operational Improvements

After the end of each fiscal year, McDonald's and HMS Host must submit a list of proposed spending for capital repairs and (for HMS Host) operational improvements. According to concessionaire contracts, the Authority's Chief Engineer must grant prior approval for proposed spending above \$10,000, and should be informed of proposed spending of any amount, to confirm that work done at plazas meets Authority standards, including safety code and other requirements. However, we found that, while Audit and/or OTS received operators' annual lists, they did not routinely forward them to the Chief Engineer, as required.

We also found no evidence that the Chief Engineer gave prior approval to (or reviewed at any time) 78 proposals that HMS Host submitted between 1991 and 2000. However, each proposed spending in excess of \$10,000 and totaled more than \$3 million. (McDonald's did not claim any individual proposed spending items over \$10,000.) Concessionaire contracts state that approval is deemed granted if the Authority does not act within 60 days. Thus, there is a risk that the capital repairs and operational improvements in these 78 proposals, which were

completed without the required pre-approval, did not meet Authority standards.

Recommendations

1. Properly track operators' accruals and expenditures for capital repairs and operational improvements.
2. Assign an Authority staff the responsibility of timely informing operators of any spending proposals that are questioned or disallowed, and of documenting the disposition of such proposals.
3. Establish a receivable from McDonald's for unspent capital repair funds.

(In their reply to our draft report, Authority officials indicate that, in the absence of specific terms in the agreement as to how the capital repair funds should be reported and the fact that the agreement does not require the return of unspent funds until December 2008, it will not take any action to implement the recommendation. They added that they plan to have the operator invest these funds and cite recent audits as a means of ensuring contract compliance.

Auditor's Comment: As noted in the report, when we examined the Authority's records we found there was a lack of documentation about the status and disposition of spending proposals. In addition, the audit questioned or disallowed proposals valued at about \$1.8 million. Both of these conditions lead us to conclude that the Authority should reconsider its position and establish a receivable and properly document this information and the final resolution. Without documentation, it is unlikely that the Authority can account for funds which, by its own admission, do not have to be spent for another five years.)

4. Direct the Chief Engineer to review all spending proposals, and remind operators that prior approval is needed for spending proposals over \$10,000.

Recommendations (Cont'd)

5. Periodically visit the operators' offices to review supporting documentation for capital repairs and operational improvement expenditures claimed.

MANAGING PLAZA OPERATIONS

The Authority spent over \$100 million in funds, financed by Authority bonds, to modernize and renovate Thruway plazas. The objective of this renovation was to provide better services for Thruway customers, including a variety of food vendors, which would result in higher plaza sales. However, we found the Authority is not actively involved in the management of Thruway plazas to make sure operators provide travelers with the kinds of services they need and products they want to buy at competitive prices. Concessionaires' food prices are higher than prices of the same food at similar vendors off the Thruway; in contrast, neighboring States toll systems have adopted competitive pricing for plaza food to increase sales and customer satisfaction. By becoming more actively involved in plaza management, the Authority can work with concessionaires to price food competitively and offer food choices that meet changing consumer demands. In this way, the Authority can address customer concerns about high food prices and also help generate higher food sales at plazas. Higher food sales can potentially increase Authority rent revenues from concessionaires, especially from McDonald's.

Competitive Pricing at Plaza Food Vendors

The contracts with McDonald's and HMS Host state the Authority must approve all food prices and that prices should be comparable to those at the same kinds of food vendors on other toll roads or to prices at similar local food vendors in areas adjacent to the Thruway (similar local food vendors). Thruway plaza food vendors use other toll highways as the basis in setting prices. However, our tests found that the prices of Thruway plaza food are relatively high - as pointed out by Thruway customers in Authority surveys - and that toll systems in three neighboring states price their food to be competitive with local food vendors. When the Authority lowered Thruway fuel prices to make them comparable with local fuel prices, fuel sales volume increased substantially. We believe setting plaza food prices based on the prices charged at similar off-highway restaurants would similarly increase food sales at plaza restaurants. Increased vendor sales could potentially generate

more rent revenue for the Authority. Lowering food costs would also demonstrate the Authority’s responsiveness to its customers, the traveling public.

To determine how prices at plaza food vendors compared to prices at similar local food vendors, we did price comparisons for 207 Thruway plaza menu items at 32 non-Thruway restaurants. Although some items at plaza food vendors were priced at or slightly below the prices in similar local food vendors, we found the prices of 187 items (more than 90 percent) were higher: of the 207 items in our test, 106 items (51 percent) were priced more than 15 percent higher than the average price at similar local food vendors; 39 items were priced more than 30 percent higher than at similar local food vendors.

Several popular items were priced significantly higher than the average charged by similar local food vendors. For example, for the McDonald’s southbound restaurants, the approved price for a soft drink, depending on size, was from 19 to 39 percent higher than the average price for the same drinks at the eight McDonald’s we surveyed in the Kingston and the Harriman/Newburgh areas. For Burger King, the approved prices for plaza meals were from 16 to 43 percent higher than the average price for these items at the 16 Burger Kings we surveyed. To illustrate the impact of this cost difference for travelers, we compared the cost of four typical Burger King lunch items bought at a Thruway plaza to the cost of the same lunch purchased at a Burger King off the Thruway. We found that the average price for these four items purchased at Burger King would cost about 30 percent (\$4.51/\$15.13) more than they would if purchased at the Burger King off the Thruway. As shown in the following table, the premium for eating at a restaurant on the Thruway is about the price of one full meal.

Food Item	Thruway	Off-Thruway	Cost Difference
Large Whopper Combo	\$5.95	\$4.33	\$1.62
Medium Chicken Sandwich Club	5.65	4.53	1.12
Medium Big Fish Meal	5.05	3.94	1.11
Regular Kid Hamburger Meal	2.99	2.33	.66
Total	\$19.64	\$15.13	\$4.51

Further, we contacted officials at neighboring toll systems (the Massachusetts Turnpike, the New Jersey Turnpike, the Garden

State Parkway and the Ohio Turnpike), and noted that there is a general trend toward making plaza food prices generally comparable to those of similar local food vendors. In addition, to help plaza vendors recover their extra operating costs (serving round-the-clock and maintaining a relatively large food service area), some toll highway systems allow plaza food vendors to price food from five to ten percent higher than prevailing prices at similar local food vendors.

The Authority's contracts with HMS Host and McDonald's state that the Authority must approve any price increases sought by these concessionaires. The Authority approved a request for a price increase in 2000 based on the contention by HMS Host and McDonald's that prices had increased at comparable toll roads. However, the Authority did not validate food prices at other toll roads. During our audit, the Authority was reviewing another price increase request for both McDonald's and HMS Host. The Authority should independently review other toll systems' food prices before allowing concessionaires to increase the price of Thruway plaza food.

We believe lowering plaza restaurant prices - not raising them - is in the best interests of both the Authority and Thruway customers. Making Thruway restaurant food prices competitive with those of similar local restaurants, plus a limited markup to compensate vendors for additional operating costs they incur, would reduce costs for Thruway customers. More economical food prices should also generate more sales, as did the lower fuel prices, and increase customer satisfaction with Authority services.

(Authority officials replied to our draft audit report that they will take steps to bring market food pricing to customers; however, they would need to modify the concessionaire contracts to change the food pricing policy. In our view, existing contract language is sufficient to make price policy changes that would make Thruway food prices more competitive and improve food sales at the plazas.)

Plaza Management

The Authority undertook costly plaza renovation efforts to improve service to Thruway customers and to increase sales revenues at the plazas. The Authority is supposed to partner with HMS Host and McDonald's to manage plaza operations so

that Thruway customers receive the good service they expect and the food and other retail items they want to buy. However, we found the Authority is not an active partner in managing plaza operations. For example, the Authority asks for and receives only summary sales data from its concessionaires, rather than details about individual vendor or item sales. Thus, Authority officials cannot track the relative popularity of food items or individual vendors to help concessionaires determine how best to keep up with changes in consumer demand. Authority officials have little to do with decisions about the food choices and food vendors at its plazas because the Authority has delegated most plaza management responsibilities to its concessionaires. They explain their distance from such responsibilities by stating that its concessionaires are in the business of catering to the needs of their customers, the travelers who patronize plazas. However, travelers who patronize the plazas are actually Authority customers because it is the decision to use the Thruway that brings them into contact with the HMS Host and McDonald's facilities. Therefore, to help make sure plazas provide the food choices Authority customers want to buy, the Authority should become more actively involved in plaza operations, including tracking vendor sales data and identifying trends in customer demand.

Recommendations

6. Work with Authority concessionaires to make plaza food prices, where possible, competitive with prices charged by similar local food vendors.
7. Become active partners with HMS Host and McDonald's in managing plaza operations by tracking detailed plaza food sales data, determining food vendors relative performance, and working with operators to improve food sales at plazas.

(Authority officials replied to our draft audit report that they will not change their practices regarding plaza management to play a more active role as recommended. They added that the operators already track sales data and are the "experts," in determining customer food preferences. Therefore, it would not be productive for the Authority to do the same work.

Recommendations (Cont'd)

Auditor's Comment: We did not recommend the Authority supplant the efforts of the operators; however, we believe that the Authority needs to be more active in plaza management. For example, they do not have detailed sales information that can be used to identify the amount of sales generated by each item. In addition, in the two surveys, customers' comments indicated there was a need for a better choice of food items and cleaner restrooms. McDonald's also subcontracts with other companies or franchises to operate businesses at the travel plazas, but the Authority does not review/approve the subcontract agreements. As a result, the Authority has no assurance that the terms and conditions of the subcontractors' agreements represent the best value for the Authority.)

CONTRACT COMPLIANCE

Contracts with HMS Host and McDonald's require that the Authority approve prices for food selections sold at plazas, and that Mobil and Sunoco do weekly surveys of local gas prices to determine their fuel prices at plazas. Contracts also set standards for plaza cleanliness, including requiring concessionaires to maintain specific staffing devoted to cleaning tasks. However, on visits to 12 judgmentally selected plazas, we found that certain food items were sold above approved prices, that some food items were not on the approved item list, and that restrooms at some plazas were not clean. We attribute these compliance problems in part, to ineffective Authority monitoring of plaza operations. We found most of the SARs did not perform the number of inspections required nor focus their efforts on plazas with poor inspection records. To verify contract compliance and to provide Thruway customers with quality service, Authority SARs should confirm that prices are appropriate on a regular basis, perform inspections according to Authority standards and focus monitoring efforts on problematic plazas. The Authority should also confirm that concessionaires collect and report all the revenue generated by plaza sales.

Restaurant Menu Prices

Concessionaire contracts require that they sell an Authority-approved list of menu items at Authority-approved prices. To determine whether the concessionaires comply with these contract requirements, we visited 11 of the 12 judgmentally selected plazas. (We excluded the Angola Travel Plaza because this contract with McDonald's was negotiated separately and has a different pricing policy.) In total, we found 103 instances of overpriced items at 9 of the 11 plazas. The number of items that exceeded the approved price ranged from 1 item at one plaza to 41 items at another plaza. Four plazas (Ontario, Ulster, Clifton Springs and Indian Castle) had 10 or more items that exceeded the approved price list. To illustrate, the McDonald's restaurant at the Ontario Travel Plaza charged its customers \$2.19 for a super-sized soft drink, which is \$.30 more than the \$1.89 approved price; it also charged customers \$1.85 for medium French fries which is \$.30 more than the

approved price. The restaurant operators did not seek Authority approval to increase the prices for these items, and there was no documentation to indicate the Authority had validated the prices.

We also found that 9 of the 11 plazas sold items that were not on the approved list. For example, the Sbarro's at the Chittenango Travel Plaza sold 29 items that were not on the approved list, and the McDonald's at the Mohawk Travel Plaza sold 41 items that were not on the approved list. For McDonald's restaurants, lunch/dinner and breakfast meals, such as the Big Mac Meal or the Quarter Pounder with Cheese meal, were not included on the approved price list. Authority officials told us they allow McDonald's to set meal prices (without getting specific approval for them) as long as the meal price does not exceed the total price for each meal item purchased separately.

However, an objective of pre-approving menu items and their prices is to exert a measure of control over food prices at plazas. When an item is not on the approved list at an approved price, the vendor can set any price it chooses for the item. This practice can increase costs to customers. Although the Authority states that it sets certain parameters for McDonald's meal pricing, there is little evidence the Authority actually checks plaza food prices to make sure that McDonald's and other vendors offer approved menu items at approved prices. Moreover, operators are not penalized for failing to obtain Authority approval before increasing their prices.

The Authority needs to do regular and consistent monitoring of plaza food prices. For instance, although Authority officials told us SARs should perform price audits annually, we found there are no written procedures stating how to do price audits, how often SARs should audit prices at individual plazas, or how SARs should document the audits they perform. To provide for consistent and effective price monitoring, the Authority should develop such procedures.

Gas Station Prices

As fuel prices at Thruway service stations are based on fuel prices at stations in areas adjacent to the Thruway, each Mobil and Sunoco plaza operator is required to do weekly surveys to obtain this price data. Authority procedures require that Division SARs check at least one of these gas price

surveys within their respective regions each week to make sure that surveys are accurate and that fuel is priced according to Authority policy. We found that SARs do not always do these weekly spot checks, as required, and that there are significant differences among divisions in the number of surveys done by the SARs.

Effective September 2001, Authority procedures also require a Fall and Spring survey of automotive supplies (motor oil, wiper blades, etc.) to compare plaza prices with those at local off-Thruway gas stations. The Authority did not do a survey in Fall 2001. The Authority's first such survey done in Spring 2002 found that prices were higher at Thruway gas stations. Some gas stations reduced prices at the Authority's request while others did not. Authority officials advised us that in the past they did not insist that the fuel companies submit automotive supplies price lists for approval as provided in the contract, but they changed their process and now require such price lists for Authority approval.

Restroom Maintenance

The contracts between the Authority and the concessionaires state that maintaining the restrooms is of paramount importance. To achieve this end, Authority contracts require both HMS Host and McDonald's to keep a specified number of staff on duty to maintain the restrooms, lobby and grounds at each plaza. (The Angola contract does not specify staffing.) We visited the 12 judgmentally selected plazas on an unannounced basis and at various times, including evenings and weekends. At 4 of the 12 plazas we found the restrooms were not clean and/or the staffing for restroom cleaning did not meet contract requirements. Examples follow:

- Unsanitary restroom conditions were noted at two plazas during the 10 p.m. to 6 a.m. shift. At the Iroquois Plaza (weekday, 3:30 a.m.), the women's restroom was unsanitary and there was litter on floors throughout the building. The manager said no one was assigned to clean the restrooms during this shift, and that the cleaner for the prior shift had the day off. At the Mohawk Plaza, (weekday, 5:45 a.m.), both restrooms were unsanitary. An Authority supervisor said no one is assigned to clean restrooms in the winter on this shift because the plaza is not busy. For the 21 months ended December 2001,

SARs inspected the Iroquois Plaza just once, and the Mohawk Plaza five times, during the 10 p.m. to 6 a.m. shift.

- Our visits to the Clarence (weekend, 3:50 p.m.) and Modena (weekday, 12:05 p.m.) Plazas found that restrooms were clean, but that plazas were staffed with fewer workers assigned to cleaning than called for in the concessionaire contract.

We also reviewed travel plaza inspection reports for the 21 months ended December 2001 and found that only 124 (3 percent) of the 3,786 inspections that occurred in this period were done during the overnight shift (10 p.m. to 6 a.m.). In fact, there were no inspections during this shift at seven plazas, and only one inspection during this time period at two plazas. Given the problematic conditions we observed, Authority officials should require SARs to perform more inspections during this shift.

Authority officials told us they allow McDonald's, through an informal agreement, to use fewer cleaning personnel than the contract requires, provided that McDonald's maintains its facilities at an acceptable level. (There was no similar agreement with HMS Host.) We take exception to this informal agreement. Each contract specifies that the Authority and operator cannot waive a provision unless it is done in writing. Further, we question whether McDonald's track record for restroom maintenance meets the agreed-upon "acceptable level:" we found that 3 McDonald's plazas failed more than 15 percent of their inspections. In our opinion, the Authority and its customers are not well served by the terms of this informal agreement.

Effective oversight can also result in improved restroom cleanliness. One plaza manager told us it is very important that managers check restroom conditions periodically. Of the 12 plazas we visited, 3 had restroom logs for managers to sign, but only 1 of them was kept current. To improve customer relations, the Authority should encourage concessionaires to post such logs, and managers to maintain them.

Inspection Standards

The main focus of Authority plaza inspections is on contract compliance, cleanliness and service. SARs perform two types of inspections: full inspections and “front” inspections. Although inspection time can vary with conditions, full inspections generally take about two hours to complete, whereas front inspection take about one and one-half hours. In full inspections, SARs examine the entire plaza (including outside areas, lobby and gift shop, restrooms, dining area and kitchen) and monitor food quality and maintenance levels. In front inspections, SARs concentrate on the plaza areas visible to the public (the outside area, lobby and gift shop, restrooms and dining area). The Authority began the less extensive front inspections in May 2001 because it wanted to do more inspections and concentrate on areas the public sees.

In September 2001, the Authority established its first standards for the numbers and types of inspections SARs were required to perform. This policy required SARs to do at least 9 inspections weekly, to conduct at least 2 full inspections each month at each plaza and to submit a monthly activity report. We tested to determine the extent to which SARs were meeting these inspection standards. Allowing for inspection time and travel time, we calculated, and the Authority agreed, that each SAR should be able to do at least 3 full inspections per day. Prior to September 2001, most SARs did fewer than 6 inspections per week. After September 2001, inspection performance improved but not enough to meet Authority standards. For the four months ended December 31, 2001, SARs made, on average, about 7 of the required 9 inspections per week, or more than 20 percent below the goal. Also, neither the Syracuse nor the New York Divisions did 2 full inspections monthly at each plaza.

Authority officials indicated that, although SARs are primarily responsible for inspections, they are also expected to perform non-inspection duties, as assigned by the Regional Facilities Engineer. Officials also said that decentralized operations make it difficult for them to manage the work expected of the SARs. However, thorough documentation can be very effective in monitoring decentralized operations, and in determining how much time employees spend on various tasks. For example, SARs should regularly report how many, and what type of inspections they did and at which plaza, how long it took to do them, and non-inspection activities they did. If SARs do not

meet the standard, Authority managers can follow up to determine the cause and then address this cause. The Authority does not document how much time inspections took, or whether there is any follow up to determine why SARs do not meet the standards. Further, SARs do not file the required monthly activity reports in a consistent manner, and reports that are submitted provide inadequate information.

Inspection Practices

The objectives of the inspections are to monitor contractor contract compliance and to enhance customer service at plazas. Therefore, it makes sense to concentrate discretionary inspection efforts (inspections done in addition to the two mandatory monthly inspections at each plaza) on plazas that fail inspections until compliance is achieved or service problems are corrected. However, we found that SARs do not focus on plazas with recurring inspection failures, and are not required to work with managers of problematic plazas to correct deficiencies. Thus, there is greater likelihood that deficiencies, and diminished customer service levels, will continue at such plazas.

Inspection records showed that, of the 3,786 inspections SARs performed between April 1, 2000 and December 31, 2001, 593 (about 16 percent) were inspection failures. Plaza inspection failure rates ranged widely, from 30 percent (Iroquois) to less than 2 percent (Ramapo). However, on examining inspection frequency, we found that Iroquois Plaza, with the highest percentage of failed inspections, was visited less often than many other plazas. Conversely, the most frequently inspected plaza (Plattekill) had one of the best inspection records. To make inspections an effective tool for improving compliance and service quality, OTS should instruct SARs to focus inspection efforts where improvement is most needed: that is, on plazas with high failure rates. We found no evidence OTS had requested SARs to inspect such plazas more often.

The Authority also needs to establish a better system for identifying and resolving the causes of inspection failures, especially at plazas with relatively high failure rates. For example, SARs are supposed to discuss inspection results with the plaza manager and notify OTS officials if the manager does not correct the problem(s). OTS does not have written procedures to guide SARs in dealing with recurring performance

problems, or guidelines to indicate when they should notify OTS about excessive failures or unresolved inspection problems. Further, although the SARs are required to meet with the managers when failures occur, they are not required to work with the plaza managers to identify the reasons for frequent failures and to develop a corrective action plan to address these issues.

OTS should develop a results-oriented process to resolve repeated performance problems as early as possible. OTS receives copies of SARs' inspection reports, and monitors inspection failures that occur within a three-month time frame. OTS has identified a trend of recurring problems at many plazas. However, we saw little evidence that OTS uses this information to focus inspection efforts on problem plazas or to identify and address the causes of deficiencies. The Authority can put a concessionaire on notice or terminate its contract in the event of serious recurring problems, and has taken strong action in the past: specifically, a concessionaire removed two franchise owners. However, a results-oriented process that includes focused inspections and written guidelines for SARs would enable OTS to deal with recurring inspection failures before they get to the critical stage, and before they seriously impact customer service.

Revenue Collection

The Authority's contracts with HMS Host and McDonald's require the concessionaires to pay a monthly rent equal to either the greater of an agreed upon percentage of gross sales, or a guaranteed minimum amount. When rent may be based on a percentage of gross sales, the Authority must have adequate controls to ensure the accuracy of revenue collections at the plazas. One concessionaire (HMS Host) has paid only the minimum rent due the Authority; however, increased food sales at plazas in the future could result in rent payments that are based on a percentage of gross sales. McDonald's is paying rent based on gross sales.

Existing Authority controls over revenue collections consist of activities performed by an independent public accounting firm. Firm auditors validate plaza sales by selecting a sample of days and locations and comparing cash register tapes to the accounting records. They also verify that sales recorded in financial records agree with sales reported for calculating rent

due. However, neither these outside auditors nor any Authority personnel (SARs or Authority internal audit staff) visit the plazas to verify that sales from all cash registers are recorded in the operator's records, or that cash registers are used for all sales. Authority officials told us that outside auditors' activities and operator vigilance over sales provide reasonable assurance that revenue reports are accurate. However, there is a risk that some sales, particularly those at certain franchise operations not connected to cash registers, may not be reported. Thus, the Authority should develop a means of verifying that cash registers are used for all sales, and that all sales are recorded in the operator's financial records. Authority officials could monitor operator compliance with food pricing and validate sales revenue if they regularly analyze sales data, as recommended earlier in this report.

McDonald's subcontracts with other companies or franchises to operate businesses at travel plazas. However, we found the Authority does not review/approve the subcontract agreements to examine the terms and conditions of the contract. We believe the Authority should review and approve these subcontracts to make sure the subcontractor is aware of McDonald's contract with the Authority, and its obligation as a subcontractor to meet some of the same terms and conditions as the primary contractor.

Recommendations

Enhance concessionaires' compliance with Authority contract terms regarding prices and restroom cleanliness by implementing the steps listed below:

8. Remind contractors to charge Authority-approved food prices and obtain Authority approval for all items sold at plazas.

(Authority officials replied to the draft report that the plaza operators are reminded that they have to obtain Authority approval for prices and they take corrective action if this is not done.

Recommendations (Cont'd)

Auditor's Comment: The results of our visits to 11 plazas indicate that the practice, if it is in place, is not effective because 9 of the 11 plazas sold items that were not on the approved list. In addition, at 11 plazas we found 103 instances of overpriced items. We also found that Authority officials did not have any written procedures for the annual price audits done by SARs. Therefore, the Authority should take action to implement the recommendation so that the conditions we found during the audit can be corrected.)

9. Create guidelines that specify the frequency of food price audits and how Authority staff should document these audits.
10. Establish provisions in future concessionaire contracts that assess penalties if restaurant operators increase prices without Authority approval or fail to maintain the number of staff required for restroom maintenance.
11. Validate price information furnished by concessionaires as support for price increases, verify operators' surveys of gasoline prices, and require operators to submit automotive supplies price lists for Authority approval.

(Authority officials responded that the above recommendation is already in place.

Auditor's Comment: We did not find that the Authority obtained information to validate the price increases requested by the plaza operators in April 2000. In addition, Authority employees did not always validate prices or conduct price surveys as required. For example, effective September 2001 the SARs were supposed to do fall and spring automotive fuel price surveys; however, the fall survey was not done. The spring 2002 survey was done. SARs are also required to do weekly surveys to obtain fuel price data. However, we found that these surveys are not always done, as required. These are just two examples of conditions we noted during the field work that led to the recommendation.)

Recommendations (Cont'd)

12. Require SARs to do more plaza inspections between 10 p.m. and 6 a.m.
13. Encourage plaza operators to have their managers keep a record inside restrooms where they can document their inspections of restroom conditions.
14. Specify restroom maintenance staffing levels in the Angola contract.

Make SAR inspection activity more effective by carrying out these steps:

15. Confirm that SAR inspections are done as frequently as required by Authority standards and follow up when SARs fail to meet these standards.
16. Require SARs to document the number, type, and duration of their inspection and non-inspection activity so that the Authority can assess how SARs spend their time and reallocate it, where appropriate, based on priorities and to meet inspection standards.

(In response to recommendations 15 and 16, Authority officials indicated that they already confirm that the SARs perform the required number of inspections and document all their activities.

Auditor's Comment: Our review of the weekly reports of inspections by the SARs for four months showed that the SARs averaged seven inspections per week and did not meet the requirement of nine inspections per week. We were advised that the lower number of inspections is due, in part, to other activities that SARs are required to do in addition to the inspections. However, the weekly reports we reviewed did not indicate the amount of time spent on work not related to their travel plazas. The results of our review are discussed in our report and support the recommendation.)

17. Have SARs inspect high failure-rate plazas more often than passing plazas.

Recommendations (Cont'd)

18. Develop a process that identifies both the causes of frequent inspection failures and the correction actions that can improve service quality.

Improve controls over plaza revenue collection and subcontractor compliance by:

19. Verifying that cash registers are required and used to record all sales, and that all sales are recorded in the operator's financial records and subsequent rental reports.
20. Reviewing and approving contracts for all subcontractors, including, but not limited to all those currently in place at plazas operated by McDonald's.

OPPORTUNITIES TO ENHANCE CUSTOMER SERVICE

The Authority's travel plaza modernization in the 1990s resulted in improved services to Thruway travelers. Our survey of plaza operations at four other toll highway systems found a number of opportunities for further improvements, including: more amenities for truckers; convenience stores and lodging reservation services at plazas; and signage to notify travelers of plaza restaurant hours. We believe the Authority should consider implementing these measures to further enhance customer service.

Truckstops. The trucking industry accounted for 40 percent of the Authority's toll revenues and 14 percent of Thruway traffic during 2001. However, the Thruway does not offer the kinds of services truckers often look for, and can find, at off-Thruway truckstops. Private truckstops nationwide typically provide services such as lounges, showers, laundries and barber shops in addition to restaurants. The Ohio Turnpike offers lounges with pay showers for truckers at all its plazas, and its new plazas also have coin-operated laundry services. Authority officials said plaza operators are not interested in providing amenities for truckers. However, given the toll revenues the trucking industry generates for the Thruway, we believe the Authority should consider expanding its services for truckers.

Convenience Stores. Many gas stations now feature convenience stores to provide for quick purchases of soft drinks, lottery tickets, etc. If convenience stores were located near plaza gasoline pumps, customers could make such purchases without entering the main area of the plaza. The Massachusetts Turnpike recently rebuilt all its plazas to include convenience stores at each one, since a customer survey revealed that customers preferred convenience stores to the gift shops traditionally found at plazas. There are gift shops at 23 of the Authority's 27 travel plazas and convenience stores at only two plazas (both operated by McDonald's). We believe the Authority should study the feasibility of expanding the convenience store option at more Thruway plazas.

Lodging Reservations. Toll highway travelers, particularly those from outside of New York State, are often seeking hotel accommodations. Regional tourism organizations operate Tourist Information Centers at 13 of the 27 Thruway plazas, but only 3 of these plazas offer free direct lodging reservation services. We found that each of the four visitor centers on the Massachusetts Turnpike provides free lodging reservation services. Providing interactive public computer kiosks where travelers can make on-line hotel reservations is another possibility. During our audit, the Authority implemented a telephone reservation system whereby callers at plaza pay telephones can be connected to a State Tourism office travel associate. We suggest the Authority consider working with the New York State Department of Economic Development's Tourism Office and hotel/motel associations to develop more lodging reservation services on the Thruway, particularly at gateway travel plazas and those near major metropolitan areas of the State.

Better Informational Signage. While Thruway plazas offer a range of food service selections, restaurants have various operating hours; only one restaurant at each plaza is open 24 hours a day. Since the Authority already uses a variable display to show current gas prices at one plaza, and regularly uses roadside signs to notify travelers of plaza restaurant options, we believe the Authority could expand its notification efforts by indicating (using electronic or other means) the operating hours of plaza restaurants, and identifying which restaurant is open 24 hours. Knowing about available food choices ahead of time may encourage more travelers to stop at plazas. Authority officials state that modifying signage as suggested may be impractical and possibly unsafe, but agree to study other ways to inform customers about which restaurants are open 24 hours.

Recommendation

21. Improve customer service and/or plaza sales by providing for: truckstop-type services for truckers; more convenience stores and free lodging reservation services; and roadside signs showing restaurant hours.

NEW YORK STATE THRUWAY AUTHORITY THRUWAY TRAVEL PLAZA DIRECTORY

I-90 EASTBOUND (Pennsylvania State Line to Albany)				
Plaza's Name	Between Which Exits	Fuel	Operator	Restaurants, Other Services
<u>Angola</u>	58 (Silver Creek) & 57A (Eden-Angola)	Mobil	McDonald's	McDonald's, Denny's, Snack Bar, Tourism Information, Gift Shop, ATM, TDD
<u>Pembroke</u>	48A (Pembroke) & 48 (Batavia)	Sunoco	HMS Host	Burger King, Popeyes, Gourmet Bean, Mrs. Fields, TCBY, Snack Bar, Starbucks Tourism Information, Gift Shop, ATM, TDD, History Kiosk
<u>Scottsville</u>	47 (Leroy) & 46 (Rochester)	Mobil	HMS Host	Dunkin' Donuts, Burger King, TCBY Treats cart (summer), Tourism Information, ATM, TDD, Gift Shop
<u>Clifton Springs</u>	43 (Manchester) & 42 (Geneva)	Sunoco	HMS Host	Roy Rogers, Sbarro's, Cinnabon/TCBY, Farm Market, Gift Shop, ATM, TDD
<u>Port Byron</u>	41 (Waterloo) & 40 (Weedsport)	Mobil	McDonald's	McDonald's, mamma ilardo's, Ben & Jerry's, Farm Market, Unisex Restroom, Gift Shop, ATM, TDD, Drive Thru
<u>DeWitt</u>	36 (Syracuse I-81) & 35 (Syracuse East)	Sunoco	McDonald's	McDonald's, Ben & Jerry's, Unisex Restroom, Gift Shop, Drive Thru, ATM, TDD
<u>Oneida</u>	33 (Verona-Rome) & 32 (Westmoreland- Rome)	Sunoco	HMS Host	Sbarro's, Burger King, Gourmet Bean, Cinnabon/TCBY, Farm Market, ATM, TDD, Gift Shop, TV News/Weather
<u>Indian Castle</u>	29A (Little Falls) & 29 (Canajoharie)	Sunoco	HMS Host	Roy Rogers, Cinnabon/TCBY, Snack Bar, Gift Shop, ATM, TDD
<u>Mohawk</u>	27 (Amsterdam) & 26 (Schenectady West)	Sunoco	McDonald's	McDonald's, Breyers Ice Cream, Fresh Fudge, Unisex Restroom, Gift Shop, ATM, TDD, Drive Thru
<u>Guilderland</u>	25 (Schenectady East) & 24 (Albany Northway)	Sunoco	McDonald's	McDonald's, Mr. Subb, Ben & Jerry's, History Kiosk, Playland, Unisex Restroom, Gift Shop, ATM, TDD, Drive Thru

I-90 WESTBOUND (Albany to Pennsylvania State Line)				
Plaza's Name	Between Which Exits	Fuel	Operator	Restaurants, Other Services
<u>Pattersonville</u>	26 (Schenectady West) & 27 (Amsterdam)	Sunoco	HMS Host	Roy Rogers, Bob's Big Boy, TCBY, Cinnabon, Tourism Information Center, Gift Shop, ATM, TDD, History Kiosk
<u>Iroquois</u>	29 (Canajoharie) & 29A (Little Falls)	Sunoco	HMS Host	Burger King, Dunkin' Donuts, TCBY, Juice Works, Hot Dog City Cart (summer), Gift Shop, ATM, TDD
<u>Schuyler</u>	30 (Herkimer) & 31 (Utica)	Sunoco	McDonald's	McDonald's, Breyers, Fresh Fudge, Tourism Information, Gift Shop, Unisex Restroom, Drive Thru, ATM, TDD
<u>Chittenango</u>	34 (Canastota) & 34A (Syracuse I-481)	Sunoco	HMS Host	Dunkin' Donuts, Sbarro's, TCBY/Snack Bar, History Kiosk, Gift Shop, ATM, TDD, TV/News/Weather
<u>Warners</u>	39 (Syracuse West) & 40 (Weedsport)	Mobil	McDonald's	McDonald's, mamma ilardo's, Ben & Jerry's, Farm Market, Tourism Information, Gift Shop, Unisex Restroom, Drive Thru, ATM, TDD
<u>Junius Ponds</u>	41 (Waterloo) & 42 (Geneva)	Sunoco	HMS Host	Roy Rogers, Dunkin' Donuts, Carvel, Farm Market, History Kiosk, Gift Shop, ATM, TDD, TV/News/Weather
<u>Seneca</u>	44 (Canandaigua) & 45 (Rochester I-490)	Mobil	HMS Host	Burger King, Sbarro's, Cinnabon, Gourmet Bean, Tourism Information, ATM, TDD
<u>Ontario</u>	46 (Rochester) & 47 (Leroy)	Mobil	McDonald's	McDonald's, Ben & Jerry's, Stouffers, LaVazza, Uncle Rick's Deli/Market, Unisex Restroom, Playland, Drive Thru, ATM, TDD
<u>Clarence</u>	48A (Pembroke) & 49 (Depew)	Sunoco	HMS Host	Burger King, Mrs. Fields Cart (summer), TCBY Cart (summer), Farm Market,

				Cinnabon/Pizza Hut, Tourism Information, ATM, TDD, Gift Shop
<u>Angola</u>	57A (Eden-Angola) & 58 (Silver Creek)	See above	See above	See above
I-87 NORTHBOUND (New York City to Albany)				
Plaza's Name	Between Which Exits	Fuel	Operator	Restaurants, Other Services
<u>Ardsey</u>	6A (Yonkers Toll Barrier) & 7 (Ardsey)	Sunoco	HMS Host	Popeyes, Burger King, TCBY/Cinnabon, ATM, TDD
<u>Sloatsburg</u>	15A (Suffern Rt. 17N) & 16 (Woodbury Toll Barrier)	Sunoco	HMS Host	Burger King, Sbarro's, Dunkin' Donuts, TCBY, Tourism Information, Gift Shop, Unisex Restroom, ATM, TDD, History Kiosk, Internet Kiosk
<u>Plattekill</u>	17 (Newburgh I-84) & 18 (New Paltz)	Mobil	HMS Host	Roy Rogers, Bob's Big Boy, Nathan's, TCBY, Cinnabon, Tourism Information, Gift Shop, Unisex Restroom, ATM, TDD, Farm Market
<u>Malden</u>	20 (Saugerties) & 21 (Catskill)	Mobil	McDonald's	McDonald's, Carvel, Gourmet Cup, Hot Dogs 'N More, Uncle Rick's Deli/Market, Playland, Unisex Restroom, Drive Thru, Farm Market, ATM, TDD
<u>New Baltimore</u>	21B (Coxsackie) & 21A (Berkshire Section/to Mass Pike)	Mobil	HMS Host	Roy Rogers, Bob's Big Boy, TCBY, Mrs. Fields, Starbucks, Tourism Information, Gift Shop, Unisex Restroom, ATM, TDD, Farm Market, Internet Kiosk
I-87 SOUTHBOUND (Albany to New York City)				
Plaza's Name	Between Which Exits	Fuel	Operator	Restaurants, Other Services
<u>New Baltimore</u>	21A (Berkshire Section/to Mass Pike) & 21B (Coxsackie)	See above	See above	See above
<u>Ulster</u>	20 (Saugerties) & 19 (Kingston)	Mobil	HMS Host	Roy Rogers, Nathan's, Big Apple Bagels, TCBY, Cinnabon, Gift Shop, ATM, TDD, Farm Market
<u>Modena</u>	18 (New Paltz) & 17 (Newburgh I-84)	Mobil	McDonald's	McDonald's, Arby's, mamma ilardo's, Carvel, Lavazza, Gift Shop, ATM, TDD, Unisex Bathroom, Playland, Drive Thru, Farm Market
<u>Ramapo</u>	16 (Woodbury Toll Barrier) & 15A (Suffern Rt. 17N)	Sunoco	McDonald's	McDonald's, Carvel, Lavazza Coffee Shop, Fresh Fudge, ATM, TDD

Notes: ATM – Automatic Teller Machine
TDD – Telephone Device for the Deaf

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John R. Platt
Executive Director
TDD/TTY 1-800-253-6244

March 20, 2003

Ms. Carmen Maldonado, Audit Director
Office of the State Comptroller
123 William Street, 21st Floor
New York, New York 10038

Dear Ms. Maldonado:

Per your February 21, 2003 draft audit report regarding the operations of the Authority's 27 travel plazas, attached is our response.

If you have any questions, please contact Lyn Warnick, Director, Office of Travelers Services' at (518) 436-2831.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Platt".

John R. Platt
Executive Director

**RESPONSE TO THE OFFICE OF THE STATE COMPTROLLER
REPORT 2001-S-50**

**“NEW YORK STATE THRUWAY AUTHORITY
TRAVEL PLAZA OPERATIONS”**

**RESPONSE TO INTRODUCTION,
REPORT OBSERVATIONS AND CONCLUSION**

We agree that the Thruway Authority has made dramatic changes over the last 12 years in the operation of our travel plazas. Where once only government/concessionaire operated generic food services were available, we now offer modern services and buildings with expanded and better restrooms, larger variety of brand name food choices and better customer services. The lower fuel prices and upgraded appearance of our gas stations have added to the positive ambiance of the new travel plazas. The Thruway Authority believes that since the implementation of the new travel plazas we have made giant strides in improving overall customer services.

The Thruway Authority entered into two (2) agreements: one with HMSHost in 1990, and one with McDonald's in 1991, both considered experts in the food service industry, to operate the food concessions in the twenty-seven (27) travel plazas on our highway. All the travel plaza agreements, including the two (2) gas station agreements with Exxon/Mobil and Sunoco Corporations, were reviewed and approved by the Office of the State Comptroller and the Attorney General's office. Before offering the operation of the plazas for competitive bid the Thruway Authority hired industry consultants to advise us on modernizing our plazas. We heeded their advice and contracted with the largest and best toll road operators in the country. These companies operate the best-known food service businesses on and off toll roads and do regular market surveys and evolve their business to meet the changing needs of their customer.

Over the last 10 years our reports indicate that our travel plazas are being used much more regularly, with visitor counts going from 16,000,000 in 1998 to more than 20,000,000 visitors in 2002; about three quarters of a million travelers per site per year. HMSHost and McDonald's strive to keep the facilities attractive and clean, and to provide the food and services customers want. Over the years, foods such as fruit and yogurt parfaits and salads, and popular items, such as gourmet coffees have been added to the choices. They have recently added several popular concepts, including Starbucks coffee at two of our plazas, LaVazza coffee at three plazas, two convenience stores, and nine locations have added Cinnabons. Our operators are continually surveying travelers' preferences and assessing industry trends to keep their concepts current and popular.

The Thruway Authority regularly monitors the upkeep and maintenance of our travel plazas. While tracking of the operators' expenditures have improved under a new procedure we have developed, and expect to further improve; it is important to point out that the buildings are and will remain in excellent condition. In the last two years our

concessionaires spent more than \$1.2 million in upgrades, repairs and concept changes.

While our facilities may seem similar to off-road operations there are significant differences in travel plaza operations and maintenance responsibilities. Thruway Authority travel plaza operators are required to operate the plaza 24 hours a day, 365 days per year. They are also required to clean and maintain restrooms that are often 10 times larger inside than the average off road restaurant. In addition to maintaining the larger than normal building facilities, the operators are required to clean a parking lot 4 times larger than off road facilities. Because of these additional responsibilities, food/beverage pricing at their restaurants is designed to offset these costs.

Plaza pricing is in compliance with our current contract language, which states: "Prices shall be comparable to those at the same concept restaurant on other toll roads or those at similar restaurants in areas adjacent to the Thruway, provided, however, that prices shall not exceed the average price of the same item at the same food concept restaurants on toll roads in (names various toll roads in the vicinity of the Thruway)". To change the method by which prices are derived would require amendments to both contracts and could impact Thruway revenues adversely including possible reduction of our current rental rates.

In January 2002, the Thruway Authority began discussions with the Office of the State Comptroller to find ways to reduce food pricing by granting an extension to the HMSHost agreement, which is now scheduled to expire September 30, 2005. With a contract extension the Thruway Authority would have the opportunity to negotiate and hopefully adopt most of the State Comptroller's recommended changes to pricing methodology and plaza operations while maintaining the contract's rental rate and giving the operator enough time to absorb the costs associated with these changes.

The State Comptroller has pointed out some opportunities for the improvement of the Office of Travelers' Services (OTS) inspection and compliance programs. However, although we might agree with some of these observations, the Thruway Authority is always striving to improve our services to our customers with limited staffing due to budgetary constraints. Our nine (9) Service Area Representatives (SARs) continually inspect our twenty seven (27) plazas. In 2002 the SARs conducted 3,336 food service inspections and 971 fuel station inspections. This averages to more than 123 restaurant inspections and 35 fuel station inspections per plaza per year. (In addition, to SAR inspections and reviews, Thruway Authority and Canal staff including executive staff regularly visit these facilities at all hours of the day and night as they travel across the State to conduct business providing opportunities for many informal site visits to observe and report on conditions.) Additionally, when the SARs identify substandard trends they work with the respective concessionaire and OTS to develop action plans to resolve the problems. Concurrently, OTS Headquarters office maintains a "hot file" that is used to identify problem plazas over a three-month period. The file is monitored continuously and problem areas are followed up to make sure that conditions do not deteriorate further. Communication is ongoing with the SARs throughout this process.

In September 2001, one month prior to the State Comptroller's audit, the Thruway Authority initiated a new work policy standard for the SAR position. The new policy standard added to the SARs' overall responsibilities and required a period of time for adjustment to the new workload and schedules. After a brief learning curve we can report that the new policy has been fully implemented and is having a positive impact on restaurant and gas station conditions since it includes weekend inspections.

In addition to our aggressive inspection program we periodically check with our customers to assess how we are doing. We have a biennial Customer Satisfaction Survey and solicit their opinions through an extensive comment card program. The 2002 Customer Satisfaction Survey indicated that 80.2% of our customers rated the travel plazas as excellent or good, which represents a 4.6% increase over year 2000 survey, and 81.5% rated the gas stations as excellent or good, which represents a 3.4% increase over 2000. The Customer Satisfaction Survey audits customer reaction to all aspects of their travel on the Thruway, while the comment card program solicits comments from travelers concerning their experience within our travel plazas. In 2002 we received over 1,600 customer comment cards of which 89% were positive concerning the food, fuel and service provided in the travel plazas. Of the 11% negative comment cards, only 16 cards commented on the high prices of food. We take immediate action on each customer concern, investigate and take corrective action where possible and then communicate this with the customer.

We believe that we are on the right track and continually improving our program and service to our customers. The Thruway Authority would like to continue this positive trend and work with our concessionaires to bring such things as market pricing to travelers. We hope to continue our discussions with the Office of the State Comptroller to extend the HMSHost contract and incorporate additional positive changes in the new contract language.

**RESPONSE TO OSC REPORT 2001-S-50
CAPITAL REPAIRS AND OPERATIONAL IMPROVEMENTS**

To date the two Food Service operators have submitted \$5.6 million in spending proposals over the life of these existing contracts and the Thruway Authority's review questioned \$1.8 million of these expenditures. The Thruway Authority's ongoing actions at each site provide feedback on activities that are occurring at that site, that are in turn examined by code compliance and facility management staff. Additionally, the entire facility is examined and rated during the annual Superintendent's Service Area Inspection. We are and continue to be aware of any improvements and changes made to our facilities by the operators.

The Chief Engineer has delegated formally the prior approval of expenditures above \$10,000 to professional staff that report to him. The actions taken by the Chief Engineer in this regard are fully consistent with Thruway Authority policy and other concerns where approval action is required. To monitor the capital repairs and operational improvements more closely, as recommended in the report, a procedure has been established and implemented. Specific responses to recommendations follow:

1. Properly track operators' accruals and expenditures for capital repairs and operational improvements.

From beginning-of-contract to date audits were completed in 2001 and operators were advised of their obligations. Annual updates will be completed until the end of each agreement. A procedure has been implemented to receive, review and track operators' expenditures for capital repairs and operational improvements.

2. Assign Thruway Authority staff the responsibility of timely informing operators of any spending proposals that are questioned or disallowed and of documenting the disputes of such proposals.

The Thruway Authority provides staffing as appropriate for the expenditures being managed. Procedures have been implemented establishing the necessary responsibilities to ensure timely review and approval of spending proposals.

3. Establish a receivable from McDonald's for unspent capital repair funds.

The McDonald's agreement does not call for the Thruway Authority dictating what should be there; neither does it require the payment of unspent capital funds until December 2008. It is the Thruway Authority's intent to have the operator invest these funds into the facilities prior to the expiration of the agreement. Recent audits and agreed-to follow-ups should be sufficient to ensure contract compliance.

4. Direct the Chief Engineer to review all spending proposals and remind operators that prior approval is needed for spending proposals over \$10,000.

This responsibility has been delegated to the Director of Facilities Management and appropriate procedures have been implemented to ensure proper spending approval. The operators have also been reminded of their responsibility.

5. Periodically visit the operator's offices to review supporting documentation for capital repairs and operational improvement expenditures claimed.

We will timely implement this recommendation. An audit is scheduled for 2003.

**RESPONSE TO OSC REPORT 2001-S-50
MANAGING PLAZA OPERATIONS**

It has been and remains the policy of the Thruway Authority to privatize the management of restaurants and fuel concessions through a competitive process; the current operators were selected for their expertise. HMSHost, McDonald's, Sunoco and ExxonMobil are skilled at maximizing customer satisfaction, revenues and profitability, which is what they need to do to survive as viable commercial enterprises. All Thruway Authority concessionaires continually solicit customer feedback through the use of focus groups, periodic customer satisfaction surveys, and other means to determine industry trends and customers' concerns.

The Thruway Authority's role is to manage the contracts and oversee travel plaza operations to assure satisfactory service to our customers. One way we do so is through an inspection program, which is specifically designed to assess the concessionaires' compliance with contractual obligations and their ability to provide clean, safe plazas; reasonably priced palatable foods; and friendly customer-oriented service.

The Thruway Authority is also actively involved in seeking customer input and sharing it with the concessionaires through our "Eye on Main Street" program, which was not addressed in the OSC report. This program has two components directly involving customer; a comment card program and an interview program where SARs speak directly to customers about their plaza experiences and record their responses. SARs immediately address with management any concerns raised by either the comment cards or interviews. We compile data from these comment cards and interviews to share with the concessionaire corporate offices. We also respond to each customer who furnished his or her name and address.

COMPETITIVE PRICING AT PLAZA FOOD VENDORS

The report is correct that Thruway Authority travel plaza prices are higher than off-road. However, there are several explanations and justifications for the higher prices that the report does not address.

The report states that other neighboring states have toll roads with lower-trending prices. The Thruway Authority does, as specified in our contracts, use neighboring states to determine our prices, including the Ohio Turnpike, the Pennsylvania Turnpike, the Illinois Tollway, I-95 in Connecticut, the Garden State Parkway and New Jersey Turnpike. Recent comparisons of prices by Travelers' Services, in response to the 2002 HMSHost and McDonald's pricing initiatives, showed no significant trending towards lower prices, with some roads being higher than the Thruway. According to our contracts, if the aforementioned roads do develop lower prices, then the Thruway will also. However, even under the present contract language, we are making efforts with the vendors to obtain lower food prices.

* Note 1

* See State Comptroller's Notes, Appendix C

The report suggests that operators could recoup higher operating costs if prices were determined by adding a nominal cap to off-road average prices. This suggestion, however, fails to address the reality of operating a travel plaza. Costs to operate these plazas twenty-four hours every day of the year are considerable. To illustrate:

- The typical off-road McDonald's has parking space for roughly 45-50 cars. A travel plaza can have up to 180 car spaces, plus 20-40 spaces for trucks, tandems and buses. The costs associated just with litter control are much higher in the travel plazas due to the size alone.
- The typical off-road McDonald's has a men's room with one stall, one urinal, one sink and a hand dryer. The off-road ladies' room is similarly equipped. A travel plaza may have upwards of 10 stalls, 10 urinals, 8 sinks, 4 hand dryers and 4 towel dispensers in the men's room, and similar numbers in the ladies room. Keeping facilities of this size clean and stocked with supplies around the clock is much more expensive than off-road facilities.
- The typical off-road McDonald's opens at 6-7 AM and is closed by 10 PM, which is when a cleaning crew comes in and gives the bathrooms a scrubbing. This is, in most cases, the only time they're cleaned, other than when a customer complains to the manager who would send somebody in to take care of a particular problem. A travel plaza rest room needs regular, almost constant attention. During the course of a typical summer day, anywhere from 2,000 to 30,000 people will be using the facilities in the plaza.
- The typical off-road McDonald's has close to a 100% "capture rate", if you will, of people coming through the doors. If someone goes to McDonald's off-road, they do so to eat. Travel plazas, on the other hand, entertain a lot of transient traffic, e.g. travelers on their way to somewhere, who stopped just to use the restroom facilities. We have estimated, based on concessionaire input, that the typical plaza sells products to only 20-30% of plaza visitors. The rest of the travelers who do not spend any money still tax the plaza for utility costs, restroom supplies, cleaning supplies, and labor, etc., for twenty-four hours every day of the year.

While the report implies that the Thruway Authority does not independently verify other toll systems' prices before approving price increase requests, typically this is not the case. Although in 2000 the Thruway Authority did not verify HMSHost and McDonald's submitted prices, the administrator at the time considered the average increase reasonable (3-6%), especially in light of the fact that the prices remained the same for the previous 2 years. In researching the 2002 price initiatives, the Thruway Authority did, in fact, disallow the McDonald's west region request. We independently verified that their submission was flawed and reflected the highest prices charged on the Pennsylvania Turnpike, rather than the average price for the Ohio, Pennsylvania, and Illinois toll roads (as per contract.)

PLAZA MANAGEMENT

The report again implies that the Thruway Authority has no input in determining travelers' food preferences. Our response was and is that our concessionaires are running a business and have special expertise in determining these things. The Thruway Authority does not have the expertise to preempt their efforts. By the same token, we do work with the concessionaires to provide them customer feedback about all aspects of the plaza operations through our "Eye on Main Street" programs, as previously mentioned. Also, the very idea of choice played an integral part in our decision back in 1990 and 1991 to award separate contracts to HMSHost and McDonald's. The level of competitiveness in a split market guarantees that each operator will strive to the utmost to provide the choices the travelers want.

Recommendation Responses

6. Work with Thruway Authority concessionaires to make plaza food prices, where possible, competitive with prices charged by similar local food vendors.

Due to significantly higher operating costs for travel plazas, this would be extremely difficult to accomplish under our current agreements. Amendments to the contracts that allow operators to recover more of their operating costs would be required and would have to be approved by the OSC. We have met with the OSC to accomplish this recommendation.

7. Become active partners with HMSHost and McDonald's in managing plaza operations by tracking detailed plaza food sales data, determining food vendors relative effort, and working with operators to improve food sales at plazas.

The operators already track sales data. They are the experts, not the Thruway Authority, in most effectively determining customers' food preferences. The operators regularly replace concepts that are not meeting their sales expectations. For example, HMSHost recently replaced a failing food concept with a new Pizza Hut Express at Clarence Travel Plaza. The Thruway Authority provides customer input information to the concessionaires, but does not believe it would be cost-effective to do its own tracking. The Thruway Authority believes the best way it can be a "partner" to improve sales is to do exactly as it does: offer input on customer satisfaction that is intended to supplement, not supplant, the operators' efforts.

RESPONSE TO OSC REPORT 2001 – S – 50
Contract Compliance

The Thruway Authority contracts demonstrate its commitment to customer service. While OSC on-site visits disclosed some deviation from certain contract standards, we believe those deviations are not reflective of the overall high quality customer service delivered by the plazas on a daily basis. Further, while we are always striving to improve our monitoring capability, we believe it is inaccurate to suggest that current efforts are ineffective.

The Thruway Authority contracts specify standards that our contractors are required to meet as to pricing and cleanliness. The Thruway Authority employs nine (9) SARs, who work on a seven day 24 hour rotation schedule to monitor and inspect the travel plaza and resolve issues that may arise. Our SARs are scheduled to work at the times when the plazas have the most customers. Our high standards for inspection require that each travel plaza maintain a 90% or better score for cleanliness, service and contract compliance. Our plazas score 90% or better on the majority of inspections. With the plazas consistently scoring satisfactorily, McDonald's Corporation was allowed to try out reduced required utility staffing as long as the plazas were maintained to our standards. That trial reduction has been terminated, McDonald's has been directed to reinstate utility staffing called for by the original contract since our inspections revealed that our standards were not being met.

Our staff of SARs periodically audits prices and products at the plazas. There are hundreds of items in more than twenty-five (25) different food concepts to be checked. On occasion there may be some discrepancy, however, discrepancies are found and corrected on a timely basis. We agree we need a more formalized procedure for checking menu items and are in the process of developing such a procedure, given our limited staffing.

The SARs are responsible for monitoring all services at an entire travel plaza. Their responsibilities do go far beyond only inspections. They are also required to coordinate with Thruway Authority forces on snow removal, parking lot striping and lighting, construction plan and site review, and numerous other management and liaison activities. They also: schedule, plan and develop agendas for quarterly meetings with the concessionaires and Thruway Authority staff; coordinate tourism literature distribution, monitor farm markets, and various other special projects; inspect and monitor more than 400 public pay telephones across the system; do their own clerical work; and, if in training, are required to attend classes. Despite this workload they managed to perform more than 4,300 fuel station and food service inspections in 2002. The new September 2001 SAR policy was designed to help them manage their time and prioritize their extensive workload. Implementing this policy was ongoing during the OSC's audit.

The Thruway Authority contracts with an independent public accounting firm that routinely audits the travel plaza revenues. It is in the best interest of the travel plaza

operators to report all income to help them meet their Minimum Annual Guarantee (MAG). We feel the additional cost recommended by OSC for more stringent auditing would not be offset by the amount of fund recovery.

RESTAURANT MENU PRICES

The OSC report states that some prices were found to be above the approved prices and that the Thruway Authority needs to monitor food prices on a more consistent basis. While performing routine price audits is already in the SAR job description, OTS endorses the recommendation that written directives be used to perform price audits. We will draft a policy statement to send to Divisions for review. OTS regularly reminds SARs to audit prices at all plazas, to speak with the operators for corrections as necessary, and notify Headquarters of any discrepancies.

The report states some food items were available that were not on the approved price lists. It is important to note that there are twenty-five (25) food service concepts and hundreds of food items at the travel plazas. Through routine price audits the SARs do find these discrepancies and have them corrected. The OTS will advise concessionaires in writing that pricing documentation must be provided for all items sold in their restaurants.

The report states that we have no official price approval for "bundled" meals. OTS advises that McDonald's and HMSHost both submitted documentation supporting "bundled" meal pricing for the 2002 request and these prices were verified by contacting the respective toll roads for confirmation.

It is recommended that a procedure for regular and consistent monitoring of plaza food prices be developed. OTS is currently developing a pricing procedure to supplement its current program.

GAS STATION PRICES

The report points out that the SARs were not spot checking gas prices as often as the September 2001 SAR policy requires and that there are significant differences from division to division. During the audit period (January through December 2001), OTS underwent significant personnel changes, including four new SAR trainees as well as a new Program Administrator and Supervisor of Travel Plaza Operations. Various trainees needed to learn how to perform surveys and inspections; handle complaint investigations, customer and concessionaire interactions; and carry out a variety of other activities. During this same time frame, OTS instituted a new inspection program that required a significant amount of effort on the part of administrative staff and of SARs to get the program up and running.

As the inspection function is the cornerstone of our efforts to ensure concessionaire contract compliance and the operation of first-rate plazas, OTS believed attention to completing this aspect of our program took precedence over some other

activities. We did not expect program requirements to be met without exception during this period. While the various fuel spot checks and surveys were not performed wholly in accordance with the policy, our SARs did do a number of gas price spot checks, which we believe were adequate to ensure the oil companies were performing their obligation. Now that most of the new SARs are trained and the policy has been in effect for an extended period, further adherence to this policy has been possible.

The report implies that the Thruway Authority does not follow its procedure for Fall and Spring surveys of automotive supply prices. The biannual fluids survey became a policy requirement as of September 1st, 2001, at which time we designed a new survey form. As we were still in the process of training SARs, and also due to some absences for extended illness, we determined it would be appropriate to complete a survey and issue new policy prices for Spring 2002. This has been completed. Since then, we have been able to obtain cooperation from the oil companies, who recently submitted fluids pricing lists to us for review and approval, as per contract. Consequently, we have discontinued the policy of SAR-performed biannual fluid surveys.

RESTROOM MAINTENANCE

The auditors inspected twelve (12) selected plazas and found four (4) restrooms that were not clean and/or the staffing for the restroom cleaning did not meet contract requirements. The Thruway Authority considers restroom maintenance of the highest importance in our travel plazas. Our customers' comfort and enjoyment of the travel plaza experience is of the utmost importance to us. Our common goal with our operators is to keep the restrooms clean. The SARs work on a 24-hour rotation shift; however, the majority of their work schedule falls during the day and early evening when most travelers are on the road. Although SARs currently do work occasional overnight shifts, we are reviewing that policy to determine how to increase coverage at reduced business hours.

Our McDonald's contract requires more utility staffing than the HMSHost agreement. We informally reduced the McDonald's requirement to match the HMSHost agreement staffing levels. McDonald's agreed to maintain the restrooms to our standards with the reduced staffing levels. If the restrooms are kept clean, having idle utility staff is not cost effective and we understand our operators' need to keep costs reasonable. Our standards are being met the majority of the time. Of the 3,336 inspections the SARs performed in 2002 only one hundred and forty six (146) fell below our high standard of 90%. Forty-nine (49) of these inspections fell below 85%, which is below our standard but still quite a clean restroom.

There are occasions in the plazas when staff calls in sick or does not report to work for some reason. Although this is not an ideal situation, it is reality. We feel our restrooms are above standard most of the time as evidenced by our inspections and our customer feedback. However, the Thruway Authority has discontinued our trial staffing

arrangement with McDonald's Corporation and has directed them to resume original utility staffing.

The Thruway Authority is dissatisfied with the conditions encountered by OSC on its visits to the Iroquois and Mohawk travel plazas. We question whether you spoke with a Thruway Authority supervisor or a concessionaire manager. Staffing is required in the plazas 24 hours a day, 365 days a year regardless of the volume of customers. OSC experiences at Clarence and Modena support our earlier statement. If the restrooms are maintained in a clean manner why require idle staffing?

* Note 3

The report suggests the use of restroom logs to help managers monitor restroom conditions. HMSHost and McDonald's Corporations require their managers to do regular tours to inspect the entire facility, including restrooms. The operators keep their own records of these tours. Most managers do not utilize the restroom logs because they find them ineffective. This log is in view of the customer and if the manager forgets to mark it then it looks as though the manager did not inspect the facility. Often these logs are vandalized or stolen or simply filled out at the beginning of the shift. We will request that the operators consider utilizing restroom logs; however, it is not a requirement of the contract and the operator may choose not to do so.

INSPECTION STANDARDS

The State Comptroller's auditors point out that during the period of September 2001 through December 2001 the SARs were not meeting the inspection standard of nine (9) per week. To reiterate, in September 2001, the OTS implemented a new SAR policy to standardize our program Thruway-wide and to help our staff of SARs organize and prioritize their heavy workload. At this time we also had just implemented a new computerized inspection program, and four (4) of the nine (9) SARs were trainees. As mentioned earlier, the SARs are responsible for monitoring the entire travel plaza, and have a wide variety of responsibilities. Despite this workload they managed to perform more than 4,300 fuel station and food service inspections in 2002. Implementing this policy was ongoing during the State Comptroller's audit. The report points out that the thorough documentation of SAR activities will improve monitoring of the decentralized program. Under the new policy SARs are required to submit weekly summaries of their activities. This policy was just implemented when OSC's audit began and SARs were adjusting to their new workload. We feel the weekly reports are an effective tool. One full time supervisor is dedicated to tracking and monitoring SAR performance, and ongoing communication between the supervisor and the SARs occurs. In the future, we will document these communications with e-mail. Under decentralization the SARs report directly to the Division Facilities Engineer and may be assigned projects unrelated to the travel plaza program. We will review our weekly activity report form and make adjustments to capture all SAR work and more effectively monitor the OTS policy.

* See State Comptroller's Notes, Appendix C

INSPECTION PRACTICES

The report states that the SARs do not focus on plazas with recurring inspection failures, and are not required to work with managers of problematic plazas to correct deficiencies. The SARs are empowered, as outlined in their job descriptions; to identify substandard trends and work with the managers to develop action plans to resolve these problems. Concurrently, the Headquarters' office maintains a hot file that is used to identify problem stores and problem areas in a store over a three-month period. These files are monitored on a weekly basis to spot problem areas before they have gone too far. Communication with the SARs on these problems is ongoing. Also, OTS has established quarterly concessionaire meetings with corporate and local management to resolve problems as well as improve communication between all parties that interact with the travel plaza.

*
Note
4

SARs are required to work with the plaza managers to develop corrective action plans to address problem areas. Activity 1 of the SAR job description under the Contract Management function specifically addresses these issues. The OTS works closely with the SARs to resolve any recurring problems in a particular travel plaza. Our new policy has been in force for over one year now and we are extremely satisfied with the results. As pointed out in the report, the failure rate between April 1, 2000 through December 31, 2001 was approximately 16%. In 2002, with 3,336 inspections and 146 falling below our high standard of 90%, our below standard rate has dropped to less than 5%.

Over the last several years the Thruway Authority has been successful in having two unsatisfactory operators removed from service in particular plazas. This was accomplished by the teamwork of OTS, the Division Facilities Engineer, the SARs and our Legal Department utilizing existing contract language and procedures. To improve on our successes we are developing a formal written policy, in addition to the contract language, for the office and the SARs to follow when dealing with recurring performance problems in the plazas. This new procedure will be results oriented and focus on corrective action plans.

REVENUE COLLECTION

The OSC report states that the "Authority must have adequate controls to ensure the accuracy of revenue collections at the plazas." In our opinion, additional auditing would not be cost effective. Revenue is generated through a gross sales based rent at the food service facilities and sales of product to the operators at the gas stations. Presumably, corporate level profitability requires adequate controls on the service area operator to reasonably ensure accurate reporting of sales and inventory control. Further, multiple operators at each service area presumably limits unauthorized vendors because they would affect authorized operator profitability through lost sales.

Cart sales can only be authorized by the Thruway Authority through corporate level management. SARs are aware of the authorizations and check for unauthorized

* See State Comptroller's Notes, Appendix C

carts. Service area operators regularly contact Operations officials in response to authorized cart sales indicating that the above controls are in place and effective.

Monitoring for unauthorized cart sales is currently included in the SARs work plan. Additional sales monitoring will be added to the Fiscal Audit's Annual Audit Plan.

The auditors recommend that the Thruway Authority review/approve the McDonald's subcontract agreements with the other companies and franchises to make sure the subcontractor adheres to all standards of the Authority's contract. We will request copies of the subtenant agreements for our files; however, it is McDonald's responsibility to insure its subcontracts are in compliance with the underlying contract, and we do not believe it is necessarily cost-effective for the Thruway Authority to review and approve every subcontract.

Recommendation Responses

8. Remind contractors to charge Authority-approved food prices and obtain Authority approval for all items sold at plazas.

The Thruway Authority does this. As stated elsewhere, we also obtain relevant toll-road pricing to verify price increase requests, and we issue contract violation notices for pricing when necessary.

9. Create guidelines that specify the frequency of food price audits and how Authority staff should document these audits.

The Thruway Authority agrees and will draft a protocol for inclusion in the SAR procedure manual.

10. Establish provisions in future concessionaire contracts that assess penalties if restaurant operators increase prices without Authority approval or fail to maintain the number of staff required for restroom maintenance.

The Thruway Authority agrees with this concept. While "penalties" per se would not be enforceable, we will attempt to draft remedy provisions for inclusion in future contracts that will be enforceable.

11. Validate price information furnished by concessionaires as support for price increases, verify operators' surveys of gasoline prices, and require operators to submit automotive supplies price lists for Authority approval.

The Thruway Authority already does this.

12. Require SARs to do more plaza inspections between 10P.M. and 6A.M.

We agree and will include this in our SAR policy to be shared with Division program managers.

13. Encourage plaza operators to have their managers keep a record inside restrooms where they can document their inspections of conditions.

We will request this of the operators but, as stated elsewhere, we question its effectiveness.

14. Specify restroom maintenance staffing levels in the Angola contract.

We will attempt to negotiate this item with McDonald's.

15. Confirm that SAR inspections are done as frequently as required by Authority standards and to follow up when SARs fail to meet these standards.

We already do this. As stated elsewhere, we have a fulltime Supervisor who monitors SAR performance and follows up with the SARs and Division program managers as appropriate.

16. Require SARs document the number, type and duration of their inspection and non-inspection activity so that the Authority can assess how SARs spend their time and reallocate it, where appropriate, based on priorities and to meet inspection standards.

We already do this. SARs are required to submit weekly activity reports detailing number and location of plaza inspections, plus accounts of non-inspection activities. The Supervisor reviews these reports and follows up with SARs and Division program managers as needed. We will update the report form currently used for this process.

17. Have SARs inspect high failure-rate plazas more often than passing plazas.

We agree, and will advise Division program managers and SARs as needed.

18. Develop a process that identifies both the causes of frequent inspection failures and the corrective actions that can improve service quality.

We agree, and we already have in place a formal notification methodology. We will develop a results-oriented action plan process for our concessionaires' use.

**RESPONSE TO OSC REPORT 2001-S-50
OPPORTUNITIES TO ENHANCE CUSTOMER SERVICE**

TRUCKSTOPS

With regard to the report's statement that the Thruway Authority does not offer services to truckers that can be found at off-road locations, two points should be kept in mind:

1. In our 1990 RFP, we advised prospective bidders we would favorably entertain responses offering enhanced services to truckers, such as lounges, showers, truck washes, fax service and other amenities. Unfortunately, the only bidders able to satisfy major financial requirements offered little in the way of these services. We do have available some amenities, such as TVs at selected plazas. The concessionaires also feature "truckers' clubs", cards typically offering a discount on food and gift shop purchases. We are considering modifying spaces at a couple of plazas to provide additional services, such as a specialty c-store. However, without an extension to the HMSHost contract, it is unlikely that these additional services could be offered.
2. We are keenly aware of our historical relationship to the communities our road passes through. Some of these localities, such as Duanesburg, Fultonville, Bergen, Cheektowaga and Hamburg depend upon truckstops for employment and business opportunities. The policy of the Thruway Authority is to not directly compete with these existing services to the detriment of the local economies.

In addition, we are involved with a demonstration project for Truck Stop Electrification (TSE), in partnership with NYSERDA, Niagara Mohawk and IdleAire. This pilot program offers truckers the ability to shut off their diesel engines and still enjoy amenities such as heat, a/c, Internet access, music, TV, etc., all without leaving the comfort of their sleeper cabs. This demo is currently ongoing at our Dewitt plaza, and will soon begin operating at Chittenango, both in the Syracuse area.

CONVENIENCE STORES

The report states that the Thruway Authority has only two convenience stores at Ontario and Malden and should consider opening more. In our 1990 RFP, we also asked for proposals including c-stores, but the major responders again offered little enthusiasm for this amenity. Since then, one of our concessionaires, HMSHost, has indicated an interest in possibly developing such stores at their plazas. Our current gift shops do offer a variety of products, such as snack foods, beverages and Lottery tickets that are more normally associated with c-stores.

LODGING RESERVATIONS

The report mentions that the Thruway has lodging reservation systems in place at only three of our thirteen (13) Tourist Information Centers (TICs). While this is true, we have implemented a telephone reservation system working in conjunction with I♥NY at all plazas. Customers can call an 800# and be directly connected to an I♥NY lodging reservation specialist, during business hours. The Thruway Authority is also developing a public Internet access kiosk pilot program for our plazas. If successful, customers will be able to make online reservations at several of our plazas.

BETTER INFORMATIONAL SIGNAGE

The report suggests that the Thruway Authority arrange for mainline signage ahead of each plaza advising operating hours for each concept, and which one is the 24-hour eatery. We believe that, while admirable, this idea is impractical and possibly unsafe. We are mandated by federal law to limit the amount of information placed on roadside signage, so as not to distract motorists. The more words a driver is trying to identify, especially from a vehicle at speed, the more potential exists for tragic consequences. We probably could modify existing motherboard signage to at least identify the 24-hour concept by using a logo.

The Thruway Authority does advise travelers which concepts are available on a number of ways. We do require the concessionaires to post hours of operation signs at various spots in the plaza. We also publish a Thruway Travel Plaza Directory, including a simple map that pinpoints the location and concepts offered at each of our plazas, and identifying the 24-hour concept as well.

Recommendation Response

21. Improve customer service and/or plaza sales by providing for: truckstop-type services for truckers; more convenience stores and free lodging reservation services; and roadside signs showing restaurant hours.

We have already, or are looking into a number of these improvements. Safety considerations and Federal law limit our ability to respond to some suggestions.

State Comptroller's Notes

1. The Authority replied that our report indicates that neighboring states have tolls with lower-trending prices; however, this is incorrect. The report states that the toll systems in the neighboring states allow a lower differential between the prices charged by restaurants on the toll road, and the prices at restaurants off the toll road. Three of the toll-systems advised us that they allow restaurant operators at their plazas to charge 10 percent more than the average prices from the survey.
2. We do not state in our report that the operators could recoup higher operating costs if they add a nominal cap to the off-road average prices. However, we believe that if prices at the travel plazas were lowered, it could generate more sales and that the operators would then pay the Authority more rent revenues.
3. At the Iroquois and Mohawk travel plazas the auditors spoke to concessionaire employees.
4. The job description received during field work does not state "SARs are required to work with Plaza Managers to develop corrective action plans to address problem areas." The job description provides for the SARs to perform several activities where the "main focus is the operation of the travel plazas, particularly in the areas of contract compliance, cleanliness, service and pricing." It also states that SARs activities include "customer service-complaint resolution," and "facilities/concessionaire liaison," which involves coordination between concessionaire and Authority forces.