

Status of Resolution of Audit Findings

December 2011

Department of Transportation (DOT)

Agency: 405

Audit Report: 2010 F

Finding Number: 011

Finding: The Department of Transportation does not have adequate controls to ensure that information the American Recovery and Reinvestment Act requires to be reported for its Highway Planning and Construction program is accurate.

Resolution: Prior to the audit, the Department identified and corrected the error reported as part of the March 2010 quarterly reporting cycle. Since the reporting process, at that time, only allowed for cumulative expenditures to be included in this American Recovery and Reinvestment Act (ARRA) report, correcting the next quarterly report for April through June 2010 was the only means of correcting the reported expenditures for January through March 2010.

Subsequent to the actions above, the federal ARRA reporting system now allows and facilitates correcting and updating prior quarter report filings, so the Department requested that the quarterly filing in question be corrected.

In addition, the Federal Highways Administration issued a management decision letter indicating that, "It should be emphasized that WSDOT's internal control processes identified and attempted to correct an error prior to the entrance of the audit team. No additional corrective action is necessary as WSDOT has internal controls in place to ensure proper reporting in accordance with federal requirements."

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Department of Transportation (DOT)

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Audit Report: 2010 F

Finding Number: 012

Finding: The Department of Transportation did not ensure highway construction contractor invoices were supported and approved before payment.

Resolution: As soon as the Department's project office became aware of the situation they conducted a full reconciliation of the force account payments associated with the contract, which at the time had approximately six months remaining on the project and had only been paid approximately 50 percent of the bid amount. "Force account payments" are a method of payment with a price established by the cost of material, equipment, and labor and are used for contracted or added work that is not easily quantifiable or measureable. The invoices addressed in this finding were for this type of payment. The Department recovered the overbilled amounts by reducing subsequent payments to the contractor.

Overall, the inconsistencies found on the payment in question appeared to be an isolated incident due to extenuating circumstances surrounding the particular billing request by the contractor. This was confirmed when the auditors expanded their testing, both in 2010 and 2011, and found no other payments with similar issues. In addition, the Federal Highways Administration (FHWA) also conducted a review of force account payments and "noted no other instances where the contractor was overpaid."

In addition to the increased awareness at the particular project office involved, the Department's Headquarters Construction Office issued a memorandum to all offices and construction project engineers reminding them of the importance of strong internal controls and related documentation for contractor payments, particularly force account payments. The Construction Office also included contractor payments as a major topic in the 2011 training season and sought feedback from all project offices on any suggestions that could further improve internal controls.

The FHWA responded to the finding in a management decision letter indicating the "FHWA agrees with WSDOT's corrective action" and that "no additional corrective action is necessary as WSDOT has taken appropriate measures to strengthen internal controls to ensure payments are properly supported and in compliance with federal requirements."

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Audit Report: 2010 F

Finding Number: 013

Finding: The Department of Transportation did not support over \$759,000 in payroll costs in accordance with federal regulations for the Formula Grants for Other Than Urbanized Areas.

Resolution: The Department is considered an innovative leader by the Federal Transit Administration (FTA) for its grant administration methods, which include administering a number of closely related grant programs.

In response to the initial audit finding for fiscal year 2009, the Department's Public Transportation Division developed and submitted a formalized direct payroll cost allocation plan to FTA (the Plan), known as a "substitute system," to meet federal regulations (OMB Circular A-87, 2CFR 225). Upon receipt of the Plan, FTA requested that the Department continue to allocate payroll costs under the current method, until such time as the new plan could be reviewed and approved. The Department complied with this request because the current allocation method had been approved by the FTA's Regional Office and to ensure continued federal grant funding.

Since the Plan was not reviewed by FTA during fiscal year 2010, the auditor was compelled to repeat the audit finding for 2010. The Plan was reviewed by the FTA, via a consultant, in January 2011 and a report was issued in June 2011. In June 2011, in response to this report, the Department's Public Transportation Division implemented the FTA recommendation of tracking and allocating direct payroll charges based on actual time worked, for an extended analytical period (four months or longer if required by FTA). Also per the FTA recommendation, the tracked data will be analyzed to substantiate the previous year's direct payroll allocations and be used as the basis for allocations moving forward through the 2011 - 2013 biennium.

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