



OFFICE OF THE STATE AUDITOR

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LAWRENCE F. ALWIN, CPA
State Auditor

August 3, 1998

RE: A Follow-Up Audit Report on the
Department of Transportation

Members of the Legislative Audit Committee:

The Department of Transportation (Department) has made significant progress in addressing the recommendations from eight prior State Auditor's Office reports issued between 1995 and 1997. The Department has implemented or partially implemented 87 percent of the recommendations from these reports. A list of these reports is included on page 1 of the attachment.

Of the recommendations not implemented, four relate to the areas of contractor selection and monitoring. The Department has indicated that it disagrees with the findings and recommendations that would enhance standard contracts by including right-to-audit clauses and require district offices to develop controls to ensure data reliability. The Department has not taken action on the findings and recommendations that would require the allowances for contractor markups on force accounts to be reevaluated and impose controls over selection and monitoring of design contracts. We believe addressing these findings and considering these recommendations are still important to reduce the risk to the State associated with contractor selection, contract monitoring, and data reliability.

The attached table contains detailed information about the original recommendations and the Department's progress in implementing them. The Department's management concurs with the audit follow-up results.

The objective of the follow-up review was to determine if the Department had addressed previous audit findings and implemented previous recommendations made by the State Auditor's Office.

The scope of this audit included a broad overview of the Department's efforts to address previously identified findings and recommendations and to comply with related state statutes.

SAO Report No. 98-052

Members of the Legislative Audit Committee
August 3, 1998
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We appreciate the courtesy and cooperation Department management and staff showed during the course of this audit. If you require additional information, please contact Frank Vito, Audit Manager, at (512) 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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attachment

cc: Department of Transportation
Mr. Charles W. Heald, P.E., Executive Director
Mr. Owen Whitworth, CPA, Director of Internal Audit
Texas Transportation Commission

Overall Conclusion

The Department of Transportation (Department) has made significant progress in addressing the recommendations from eight prior State Auditor's Office (SAO) reports issued during the previous three years. The Department's efforts have focused on addressing the most important recommendations.

As of May 1998, the Department had implemented 22 of 39 (56.4 percent) recommendations, had partially implemented 12 of 39 (30.8 percent) recommendations, and had not yet implemented 5 of 39 (12.8 percent) recommendations. Those recommendations were from SAO reports issued between January 1, 1995, and December 31, 1997 (see table below).

Report No. and Release Date	Report Title	Portions of Report Included in Follow-Up
97-091 August 1997	A Report on Contract Administration at The Texas Department of Transportation	All Sections
97-077 August 1997	An Audit Report on Performance Measures at 26 State Agencies (Phase XI of the Performance Measures Reviews)	Department's Section Only
97-073 July 1997	A Report on The Effectiveness of Internal Audit	Department's Section Only
97-069 July 1997	A Review of the Right-of-Way Acquisition Process at the Texas Department of Transportation	Section 1-A, 1-B, 1-C
96-052 February 1996	An Audit Report on Performance Measures at 21 State Agencies and 1 Educational Institution (Phase VIII)	Department's Section Only
96-037 January 1996	An Audit Report on The Uniform Statewide Accounting System (USAS)	Department's Section Only
96-027 December 1995	An Audit Report on Improving the State's Accounts Receivable and Cash Receipting Processes	Department's Sections Only (Section 3-A, 3-B)
95-137 June 1995	An Audit Report on Reimbursements to the General Revenue Fund for Unemployment and Workers' Compensation Benefits Paid to State Employees	Department's Section Only (Section 2)

Management Response:

We concur with the audit follow up results.

Follow-Up Audit Results on:

A Report on Contract Administration at the Texas Department of Transportation

SAO Report No. 97-091, August 1997

Recommendations	Implementation Status	Follow-Up Audit Results
<p>Section 1: Past and Present Performance Were Not Considered as Part of Contractor Selection Criteria</p>		
<p>Controls over contractor selection and monitoring as required by Senate Bill 370 should continue to be strengthened. The Department should develop a formal implementation plan with specific milestone dates for each segment of the selection criteria.</p> <p>A prequalification process for maintenance contractors should be developed and implemented.</p>	<p>Underway/ Partially Implemented</p> <p>Implemented</p>	<p>The Department has not fully implemented the recommendation to develop standards for timeliness, safety, and quality needed to review bidder capacity as required by Senate Bill 370. The timeliness component has not been addressed.</p> <p>The Department has recently developed and implemented a prequalification process for maintenance contractors.</p>
<p>Section 2-A: Strengthen and Standardize the Controls Over Change Orders</p>		
<p>The Department should include documentation for change orders for new items of work without bid history in current policies and procedures.</p> <p>The Department should generally perform quality take-off surveys of material quantities or units to determine the validity of estimates.</p> <p>The Department should consider revising policy statements to include approval authority for negative change orders.</p>	<p>Underway/ Partially Implemented</p> <p>Underway/ Partially Implemented</p> <p>Implemented</p>	<p>The guidelines on price justification on new bid items (where sufficient bid history was not available) were reviewed by the Department to determine if clarification was needed. The Department is drafting guidelines on how to properly price new bid items. In addition, Departmental policy is being drafted which will allow for sufficient documentation from the contractor to justify his or her costs.</p> <p>Written procedures governing validity testing of cost estimates have been developed and will be implemented within the next 60 days.</p> <p>The Department has reviewed current policy statements and determined that approval levels for negative change orders are not required.</p>

Recommendations	Implementation Status	Follow-Up Audit Results
Section 2-B: The Department Could Enhance Standard Contracts by Including Right-to-Audit Clauses		
<p>The Department should include a special provision to all construction and maintenance contracts for access to contractors' records for change orders. The <i>Standard Specifications</i> should be modified to include a right-to-audit clause for change orders.</p>	<p>Not Implemented</p>	<p>The Department did not change its position on this recommendation from its original response. The Department considers conducting audits of contractor and subcontractor records to be unnecessary, inefficient, expensive and duplicative. The Department contends that it does not have the resources to conduct such audits.</p>
Section 2-C: Standardize Markup Allowances on Change Orders		
<p>The Department should apply the Force Account markup allowances to all change orders for new items of work without bid history.</p>	<p>Underway/ Partially Implemented</p>	<p>The Department has drafted policy to address markup allowances for new items of work.</p>
Section 2-C-1: Allowances for Contractor Markups on Force Account		
<p>The Department should reevaluate the existing markup percentage rates to identify opportunities for additional cost reductions.</p>	<p>Not Implemented</p>	<p>The Department has not implemented this recommendation. However, the Department has not determined whether or not it should implement this recommendation.</p>
Section 2-D: Rate for Labor Burden on Change Orders May Be Excessive		
<p>The Department should consider using an option of a modified flat rate for labor burden.</p>	<p>Underway/ Partially Implemented</p>	<p>The Department indicates that this recommendation is still under consideration.</p>
<p>The Department should consider periodic labor burden reviews to determine the accuracy of the stated rates.</p>	<p>Underway/ Partially Implemented</p>	<p>The Department indicates that this recommendation is still under consideration.</p>

Recommendation	Implementation Status	Follow-Up Audit Results
Section 3: (Continued) Improve Controls Over Selection and Monitoring of Design Contracts		
The Department should include past and current contract performance as a factor in the consultant selection process.	Implemented	Recently the Department incorporated past and present performance as a factor in the consultant precertification and selection process.

Follow-Up Audit Results on:

An Audit Report on Performance Measures at 26 State Agencies – Phase XI
 SAO Report No. 97-077, August 1997

Recommendation	Implementation Status	Follow-Up Audit Results
Adequate Summary Documentation Available to Perform Calculations and Testing		
The Department should retain proper documentation for calculating and reporting the number of Right-of-Way (ROW) parcels that were not acquired in a timely manner.	Implemented	The Design/Construction Information System now generates documents and reports to perform calculations and testing to determine if ROW parcels are being acquired on schedule.

Follow-Up Audit Results on:

A Report on the Effectiveness of Internal Audit
 SAO Report No. 97-073, July 1997

Recommendation	Implementation Status	Follow-Up Audit Results
The Department Has Opportunities to Make Improvements in Its Internal Audit Function		
The Department met minimum criteria but could improve its internal audit function in three areas: board/management involvement, preparation of the audit plan, and compliance with audit standards	Underway/ Partially Implemented	The Department has recently increased board/management oversight through the use of benchmarks for the Internal Audit Office. However, the Department does not believe recommended changes in the remaining two areas would improve the results of Internal Audit.

Follow-Up Audit Results on:

A Review of the Right-of-Way Acquisition Process at the Texas Department of Transportation

SAO Report No. 97-069, July 1997

Recommendation	Implementation Status	Follow-Up Audit Results
<p>Section 1-A: Collect Better Information on the Right-of-Way Acquisition Process</p>		
<p>The Department should conduct a needs assessment that considers district, division, and statewide management needs.</p>	<p>Implemented</p>	<p>Before the recent implementation of the Right-of-Way Information System (ROWIS), the Department conducted a needs assessment to include district, division, and statewide management needs.</p>
<p>The Department should determine the cost/benefit of the needs identified so that the Department can implement systems to collect the most important information first.</p>	<p>Implemented</p>	<p>With the recent implementation of ROWIS, the Department has identified and started to collect information on Right-of-Way.</p>
<p>The Department should design a system for collecting the data, making sure that it is standardized, reliable, and interfaces accurately with existing systems.</p>	<p>Implemented</p>	<p>The recently implemented phase of ROWIS addresses collecting data that is standardized, reliable, and interfaces with existing systems.</p>
<p>The Department should create reports that meet users' needs and provide information needed for decision-makers.</p>	<p>Implemented</p>	<p>The recently implemented phase of ROWIS produces reports that meet user and decision-maker needs.</p>
<p>Section 1-B: Monitor and Evaluate Right-of-Way Project Management</p>		
<p>The Department should improve performance measures and data collection to enhance its management of Right-of-Way projects.</p>	<p>Implemented</p>	<p>The Department has recently made improvements in the areas of performance measures data collection.</p>
<p>The Department should establish statewide standards for the controllable tasks within the Right-of-Way acquisition process.</p>	<p>Underway/ Partially Implemented</p>	<p>Although it is part of ROWIS, the Department does not expect to implement this aspect until the second phase, September 1998.</p>
<p>The Department should include data and performance measures in regular management reports.</p>	<p>Underway/ Partially Implemented</p>	<p>The Department plans on implementing this recommendations in one of the two later phases of the ROWIS project.</p>

Recommendations	Implementation Status	Follow-Up Audit Results
Section 1-B (Continued) Monitor and Evaluate Right-of-Way Project Management		
The Department should make the performance measures available to all district engineers to encourage the prompt resolution of any identified problems.	Underway/ Partially Implemented	The Department expects to implement this recommendation by July 1999.
Section 1-C: Monitor and Evaluate Right-of-Way Inventory		
The Department should develop a process for monitoring and evaluating its Right-of-Way inventory to identify opportunities for improvement.	Not Implemented	The Department does not plan to implement this recommendation.

Follow-Up Audit Results on:

An Audit Report on Performance Measures at 21 State Agencies and 1 Educational Institution

SAO Report No. 96-052, February 1996

Recommendations	Implementation Status	Follow-Up Audit Results
Section 1: District Offices Do Not Have Adequate Controls to Ensure Data Reliability		
The Department should establish supervisory reviews of the pavement evaluations performed.	Not Implemented	The Department's position has not changed from the previous report in that it believes the establishment of a formal policy for supervisory review of pavement evaluation data would not provide significant improvements.
Section 2: Relevant Data Was Not Included in the Performance Measure Calculation		
The Department should correct the computer program to ensure that all relevant data is included in the reported performance.	Implemented	The computer program has been corrected to include the relevant data. In addition, the system now has the capacity to take a "snapshot" of information at any point in time and retrieve that information at a later date.

Recommendations	Implementation Status	Follow-Up Audit Results
Section 3: Relevant Data Was Not Entered Into the Design and Construction Information System		
The Department should establish procedures to ensure that accurate contracted data is entered into the Design and Construction Information System (DCIS).	Implemented	There are now mandatory fields in the Project Evaluation screen that must be completed for the system to accept data entry. The procedures have also been established in the Design and Construction Information System User Manual.

Follow-Up Audit Results on:

An Audit Report on the Uniform Statewide Accounting System

SAO Report No. 96-037, January 1996

Recommendations	Implementation Status	Follow-Up Audit Results
Finding No. 1: Comply With Established Time Limits for Clearing and Posting Reconciling Items		
The Department should comply with the Comptroller's requirement for clearing reconciling items in a timely manner.	Implemented	The Department complies with established time limits for clearing and posting reconciling items.
Finding No. 2: Monitor Security Access to the Uniform Statewide Accounting System		
The Department should establish a process to review Uniform Statewide Accounting System (USAS) security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.	Implemented	The Department has established a process that monitors security access to the Uniform Statewide Accounting System.

Follow-Up Audit Results on:

An Audit Report on Improving the State's Accounts Receivable and Cash Receipting Processes

SAO Report No. 96-027, December 1995

Recommendations	Implementation Status	Follow-Up Audit Results
<p>Section 3-A: Enhance Revenues by Improving Controls Over Motor Vehicle Registration Fees</p>		
<p>The Department should evaluate the reasonableness of vehicle registration revenue.</p>	<p>Implemented</p>	<p>The Department implemented the Registration and Title System (RTS) which provides better information to help ensure the reasonableness of vehicle registration revenue. The Department is currently conducting an audit to determine if the system has improved revenue controls.</p>
<p>The Department should expand audit procedures over vehicle registration sticker inventory.</p>	<p>Implemented</p>	<p>The Department implemented the Registration and Title System (RTS) which provides control over vehicle registration sticker inventory. The Department is currently conducting an audit to determine if the system has improved controls over sticker inventory.</p>
<p>Section 3-B: Enhance Revenues by Improving Procedures for Collecting Motor Vehicle Registration Fees</p>		
<p>The Department should develop a system to identify counties not depositing vehicle registration fees in interest-bearing accounts and require them to do so.</p>	<p>Implemented</p>	<p>The Department has implemented the Registration and Title System (RTS) and is currently conducting an audit to determine if the system has improved revenue controls.</p>
<p>The Department should develop a system to identify counties not paying on time and assess appropriate interest.</p>	<p>Implemented</p>	<p>The Department has implemented the Registration and Title System (RTS) and is currently conducting an audit to determine if the system has improved revenue controls.</p>

Recommendations	Implementation Status	Follow-Up Audit Results
Section 3-B (Continued): Enhance Revenues by Improving Procedures for Collecting Motor Vehicle Registration Fees		
The Department should require certain counties to pay by electronic funds transfer in compliance with state statute and evaluate the benefits of lowering the limit for requiring electronic funds transfer methods to payments of \$250,000 or more.	Implemented	The Department requested that counties pay by electronic funds transfer to comply with state statute. As a result of the Department's request, most counties are in compliance with the statute. However, the Department does not have enforcement authority over counties that are not in compliance. In addition, the Department's evaluation of lowering the limit suggested minimal benefits.

Follow-Up Report on:

An Audit Report on Reimbursements to the General Revenue Fund for Unemployment and Workers' Compensation Benefits Paid to State Employees

SAO Report No. 95-137, June 1995

Recommendations	Implementation Status	Follow-Up Audit Results
Section 2: Nearly Half of Agency Reimbursements Did Not Occur Within the 30-Day Time Period Established by Statute		
The Department should monitor unemployment compensation reimbursements.	Implemented	The Department's implementation of the Comptroller's change in procedures ensures that payment of unemployment compensation reimbursements occurs within the 30-day time period established by statute.