

# PUBLIC TESTIMONY SUMMARY

## I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

### Washington Department of Transportation Administration and Overhead (11/15/07)

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As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits  
on December 5, 2007

*The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit and Review Committee. Staff to the Joint Legislative Audit and Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.*

#### **Title: Washington Department of Transportation Administration and Overhead**

#### **Audit Scope and Objectives:**

The audit evaluated the Department's administrative and overhead operations. The auditors tested data and records mainly related to fiscal year 2006 actual expenses and budgetary data for the current biennium. Data for certain tests and analysis related to previous biennia. The audit started in October 2006 and field work was completed in May 2007.

In terms of objectives, the report lists the nine objective elements of Initiative 900 and 14 elements based on ESSB 6839 (2006).

#### **SAO Findings:**

The report has findings in six operational areas:

#### **SAO Recommendations:**

The report has six recommendations with subcomponents, primarily to the Department of Transportation.

There are two recommendations identified as requiring legislative action:

- Change the current payroll structure to include 26 annual pay periods. Eliminate midperiod personnel changes by allowing changes only at the beginning of a pay period.
- Change the WSDOT internal audit reporting structure.

| <b>SAO Findings (cont)</b>  | <b>SAO Recommendations (cont)</b>   |
|---|---|
| <p>Finding 1: Human Resources</p> <ul style="list-style-type: none"> <li>• Inconsistent use of HR tools</li> <li>• Inconsistent processing of employee changes</li> <li>• Lack of HR management system (HRMS) expertise in the regions</li> <li>• Lack of independent review of employee information entered into HRMS</li> <li>• Duplication of efforts in the Northwest region</li> </ul> | <p>Recommendation 1:</p> <ul style="list-style-type: none"> <li>• Develop standard checklists for use by all WSDOT organizations</li> <li>• Centralize personnel administration processing to WSDOT Headquarters (HQ)</li> <li>• Implement an independent review of all information entered into HRMS</li> <li>• Remove or modify Citrix system, used for processing personnel changes</li> </ul> |
| <p>Finding 2: Expenditure Accounting</p> <ul style="list-style-type: none"> <li>• Inconsistent review of vendor payments across WSDOT</li> <li>• Excessive mailing of materials (vendor payment packages)</li> <li>• Increased risk of late payment</li> <li>• Increased risk of employee fraud</li> </ul>  | <p>Recommendation 2:</p> <ul style="list-style-type: none"> <li>• Centralize processing of vendor payments</li> <li>• Refer to ONE-DOT finding and Recommendation 6</li> </ul>  |
| <p>Finding 3: Payroll/Time Reporting</p> <ul style="list-style-type: none"> <li>• Excessive time spent entering payroll data</li> <li>• WSDOT can strengthen controls surrounding the accuracy of time reporting</li> <li>• Duplication of efforts exist as WSDOT uses two separate labor systems</li> <li>• Payroll processing errors frequently occur</li> </ul>                          | <p>Recommendation 3:</p> <ul style="list-style-type: none"> <li>• Develop and implement a new labor system for WSDOT agency-wide</li> <li>• Do not allow midperiod changes</li> </ul>   |
| <p>Finding 4: Cash Receipts</p> <ul style="list-style-type: none"> <li>• Inefficient cash receipts processing</li> <li>• Inconsistent procedures in applying cash receipts to customer accounts across WSDOT</li> </ul>   | <p>Recommendation 4:</p> <ul style="list-style-type: none"> <li>• Implement a bank lockbox for department-wide cash receipts</li> </ul>   |
| <p>Finding 5: Internal Audit</p> <ul style="list-style-type: none"> <li>• Lack of an “ideal” Internal Audit reporting structure</li> </ul>  | <p>Recommendation 5:</p> <ul style="list-style-type: none"> <li>• Change the WSDOT Internal Audit reporting structure</li> </ul>  |

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| <p><b>Finding 6: ONE-DOT</b></p> <ul style="list-style-type: none"> <li>WSDOT can improve its operational efficiency by more thoroughly aligning and integrating WSF operations and administrative functions</li> </ul> | <p><b>Recommendation 6:</b></p> <ul style="list-style-type: none"> <li>Fully integrate both current and future business functions performed by Washington State Ferries and WSDOT</li> </ul>                                       |
| <p><b>Agency Responses in Audit Report?</b></p>   | <p>Yes. Responses from the Department of Transportation and the Office of Financial Management are dispersed throughout the report rather than contained in a single appendix.</p>   |
| <p><b>Legislative Action Requested?</b></p>   | <p>Yes. As noted above, the report recommends the Legislature change the current payroll structure to include 26 annual pay periods, eliminate midperiod personnel changes, and change the internal audit reporting structure.</p> |

**Staff Summary of Testimony from Audited Agencies:**

We support the use of performance audits as an important tool to improve our agency. Of the five agency performance audits underway, this one has been the best in terms of communication. We appreciate the audit’s acknowledgement that we have made some improvements. Many of the recommendations involve significant investments in new technology systems. There are limitations with our current legacy systems. Any calculations of savings would have to take into account the cost of replacing our current systems. We appreciate SAO’s acknowledgement that the internal audit office complies with audit standards. We will carefully analyze what administrative functions need to be centralized. The estimates of savings in the report are based on small percentages of the time of numerous people; there will need to be further work to yield a more precise estimate of any savings from reducing or redirecting FTEs. We have already taken steps to implement some of the suggested changes. We will have implementation plans in place by July 2008. We think there needs to be further evaluation of centralizing the expenditure accounting function. We will work with OFM, DIS, and GA on options for upgrading our time and labor system and purchasing system. We will work with OFM to review the internal audit office reporting structure to maintain its independence. We suggest that internal audit means “internal”.

**Staff Summary of Testimony from Other Parties:**

The performance audit is well done and includes all nine required elements from Initiative 900. The audit identifies significant opportunities for improving efficiency. Streamlining, integrating, and centralizing functions at the Department of Transportation and directing appropriate internal audit procedures are critical for providing citizens with a return on their tax dollars. Any time an agency can eliminate duplicative functions, it should do so. This audit and other previous DOT audits offer a roadmap for improvement of DOT performance. Citizens’ main concerns about transportation are congestion relief, overall efficiency and effectiveness, and assurances that funds are being spent on the projects for which they are designated. If DOT aggressively

implements the audit recommendations, it can free up additional resources to address congestion relief. The Governor and Legislature should provide the appropriate oversight on implementing the recommendations.

**Agencies Testifying:**

The Department of Transportation (Bill Ford, Assistant Secretary for Administration)  
The Office of Financial Management (Sadie Rodriguez-Hawkins, Senior Assistant  
Director for Accounting)

**Other Parties Testifying:**

Scott Dilley, Evergreen Freedom Foundation