



COLORADO

Department of Transportation

Office of the Chief Engineer

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MEMORANDUM

TO: TRANSPORTATION COMMISSION
FROM: JOSHUA LAIPPLY, CHIEF ENGINEER 
DATE: SEPTEMBER 16, 2015
SUBJECT: FASTER PERFORMANCE AUDIT UPDATE

Purpose

The purpose of this memo is to provide information to the Transportation Commission (TC) related to CDOT's response and recommended actions to address the recent Colorado Office of the State Auditor's (OSA) FASTER performance audit. The attached Policy Brief provides a summary of the specific recommendations and CDOT's responses.

Action

The TC is being asked to review the attached Policy Brief (see Attachment A). CDOT staff is also responding to questions asked during the hearing (see Attachment B). Questions regarding specific recommendations and CDOT's responses will be addressed during the September TC meeting.

Background

On Monday, August 31, 2015, the TC Chairwoman and Department staff members participated in a Legislative Audit Committee hearing scheduled to address OSA audit findings. The Department acknowledges the recommendations and is working quickly to develop implementation timelines for each recommendation.

Next Steps

Department staff will regularly update the TC and Audit Committee on progress made towards implementing the recommendations.

Attachments

Attachment A: Policy Brief - Collection and Usage of the FASTER Motor Vehicle Fees; Performance Audit by the Colorado Office of the State Auditor

Attachment B: CDOT Audit Division Outstanding Recommendation OSA FASTER as of 9/4/2015



ATTACHMENT A - POLICY BRIEF

September 1, 2015

Collection and Usage of the FASTER Motor Vehicle Fees: Performance Audit by the Colorado Office of the State Auditor

Background

In 2009, the legislature approved HB 09-108, known as “FASTER” (Funding Advancements for Surface Transportation and Economic Recovery). FASTER created or increased six motor vehicle fees generating about \$200 million per year to CDOT to repair and replace poor bridges, and provide funding for road safety and transit projects. Additionally, FASTER created the Bridge Enterprise, the High Performance Transportation Enterprise, and a lesser known Efficiency & Accountability Committee.

The audit was prompted by a legislative audit request which expressed concerns about whether FASTER fees have been used for their intended purpose. The Audit was performed from July 2014 through July 2015, and primarily reviewed data and policies through fiscal year 2014.

The Audit & Summary Findings

Per the language of the audit, it was found that *“CDOT should improve its oversight and management of the State's allocation of FASTER motor vehicle fee revenue to ensure effective and appropriate usage.”* Further, the audit *“found deficiencies in some of the processes used for collecting three of the six FASTER fees at CDOT, the Department of Revenue, and the Judicial Department.”*

The findings resulted in eight specific recommendations to CDOT and the Transportation Commission that will improve how we utilize FASTER fees. CDOT agrees with each of the recommendations as specified in the next section, and is intent on improving the overall FASTER program. It is our intent to improve the program so that if the state auditor performed this same audit on the program in two years, there would say we implemented the audit in the timeframe we committed to.

Specific Recommendations

#1, Bridge Project Prioritization (Pages 24-32): In FY 2014, the Bridge Enterprise created a “prioritization plan” to identify bridges most in need of repair or replacement. The prioritization score was based on multiple factors, including sufficiency rating, whether the bridge was functionally obsolete or structurally deficient, bridge traffic, and cost. Bridges with higher prioritization scores were identified as being in more urgent need of repair. Of the 37 bridges on the prioritization plan at the time of the audit, 10 bridges, noted in the audit as bridges “A-J” were identified as being a higher priority than other bridges that received funding. The audit correctly found that no specific documentation was available to justify why these seemingly higher priority bridges did not receive funding over other bridges, and questioned the transparency of the department’s funding decisions (but not necessarily whether we selected the *wrong* bridges for funding).

CDOT agrees and will work with the Bridge Enterprise to improve our transparency process to clearly document our rationale used to strategically prioritize bridges to repair, and document through a Bridge Enterprise memo why a bridge is being programmed and where it falls in the prioritization plan. Additionally, though not included in CDOT’s official audit response, CDOT will, in the spirit of transparency, work with the Bridge Enterprise to retroactively explain why each of the “A-J” bridges from the audit were funded. Full implementation of this new process and the retroactive justification will be completed in December, 2015.

#2, Bridge Project Budgeting and Closure (Pages 33-41): For Fiscal Years 2010 through 2014, the audit found instances of bridge projects that were over-budgeted on the front end, and not closed in a timely manner upon project completion. Of 23 projects completed and closed between FY 2010 and 2014, \$13.2 million was budgeted in those projects that went unused, and budgeted funds exceeded the actual expenditures by 19%. This was concerning due to the desire to utilize all FASTER dollars as efficiently and effectively as possible to move needed projects forward in a

ATTACHMENT A - POLICY BRIEF

timely manner. In addition to the 23 closed bridge projects during this time, 34 bridges were “substantially complete” yet still had \$19.1 million in funds budgeted in the project but unexpended.

CDOT agrees that establishing and implementing a budgeting process that avoids routinely approving project budgets that are significantly larger than necessary, and also agree a more effective and efficient project closure process is necessary to utilize available funds as quickly as possible. In fact, beginning the spring of 2014, we revised our bridge budgeting process to reduce contingency and will continue to work towards full implementation of additional ways to reduce the over-budgeting of projects by December, 2015. Further, the Department has already implemented a new program and cash management process for the entire construction program that includes steps like incremental encumbrances. Those processes will also assist by ensuring only necessary budget for each fiscal year is programmed into projects to further minimize over-budgeting of projects. On the “back-end” of a project, it is true that CDOT needs to implement ways to shorten our close-out process for FASTER projects. This will take some time, but the department plans to have that process completed in June, 2016.

#3 & #4, Selection of FASTER Safety Projects (Pages 42-52): FASTER legislation requires that FASTER Safety revenue only be expended on construction, reconstruction, and maintenance projects. The audit looked at FASTER safety revenue and projects from Fiscal Years 2010 through 2014. During that time, the Commission divided FASTER Safety revenue among each of the CDOT engineering regions annually, and as a new and developing program, the method of project selection was not uniform each year, and resulted in a number of projects being funded that were not eligible for funding per statute. Two projects were towing programs that did have safety benefit, but still did not meet the eligibility criteria, but several other projects not only did not meet the technical criteria but had questionable safety benefits (such as the oversight of improvements to communications lines and cell phone coverage, which was allocated \$81,000 in FASTER Safety revenue).

CDOT agrees with the audit that too often we asked for and relied on only informal guidance from the Commission on eligibility and project selection criteria, and the result was a process that did not ensure the approximately \$87 million annually dedicated to FASTER Safety projects was utilized in a transparent and clearly appropriate way. In 2014, CDOT had already revamped the project selection process for FASTER Safety projects, but did not memorialize that process through an official Policy Directive adopted by the Commission. We plan to draft that policy and present it to the Commission for adoption by January, 2016. Further, at the recommendation of the audit, the Department will adopt internal Procedural Directives for project selection in the same timeframe, and will ensure appropriate staff is trained and familiar with the new procedures by May, 2016. While not required by the audit, management is also exploring options to “pay-back” the FASTER program the funds to cover the projects that the audit listed as ineligible for FASTER funding.

#5, Oversight of FASTER Safety Revenue (Pages 53-67): While recommendations #3 and #4 focused on project selection, recommendation #5 centered on the financial tracking of the FASTER Safety projects and found a number of improvements need to be made for the program, including: the need to develop the ability to accurately aggregate data on allocation and expenditures; track “pool” projects; itemize cost center data in SAP reports; maintain supervisory control over region management of FASTER safety revenue; and establish adequate performance measures. The audit found these problems occurred primarily because there was not sufficient “ownership” of the FASTER Safety program overall within the department and CDOT management did not routinely track or monitor the program.

CDOT agrees with the findings and will “establish” the FASTER Safety program and designate staff responsible for monitoring the program by January, 2016. CDOT has already established a number of controls being recommended by the audit. For example, the Chief Engineer and Chief Financial Officer now monitor on a monthly basis the FASTER Safety revenue and expenditures. This process, as well as additional new controls will be memorialized with the Commission adoption of a formal Policy Directive in January, 2016.

#6: FASTER Transit (Pages 68-76): CDOT is responsible for expending \$15 million of FASTER revenue on transit-related work each year. The audit reviewed 6 regional and two headquarters-managed transit contracts and found that many of them did not comply with specific elements of the State Procurement Code related to performance standards, missing performance schedules, lack of contracting monitoring requirements, and failure to enter the contracts into the state’s Contract Management System. Additionally, the Transit and Rail Division failed to maintain complete and accurate information on FASTER transit revenue and expenditures.

CDOT agrees and commits to continuing our effort to establish sufficient controls within the Transit and Rail Division and routinely reconciling revenue, expenditures and transfers in and out of the transit fund. This will be accomplished by July, 2016.

ATTACHMENT A - POLICY BRIEF

#7: Efficiency and Accountability Committee (Pages 78-80): FASTER legislation established an “efficiency and accountability committee” made up of appointed CDOT staff members, industry stakeholders and a member of the Transportation Commission to identify ways to “maximize” its operations. State law requires annual reports regarding the committee’s actions, including their recommendations to the Executive Director and whether CDOT has taken action to implement the recommendations. CDOT established the committee and met all statutory requirements for three years until 2013, when the committee was disbanded because members questioned the need and value of the committee, particularly after the establishment of an internal office dedicated to the same purpose as the committee. Despite the statutory requirement that the committee exist and report on their activities, CDOT has neither continued the committee nor sought legislation to eliminate the requirement.

CDOT agrees that while the creation of the Office of Process Improvement in 2011 changed the direction of the department on “LEAN” process improvements and it seemed the committee’s effort of time and resources was no longer necessary, the Department should have pursued a change to the statute first before ending the committee. CDOT will evaluate a legislative change to the committee in January, 2016 or will reestablish the committee as required by state statute.

#9: Oversize and Overweight Vehicle Surcharge (Note: Recommendations #8 and #10 are not CDOT-related recommendations and are therefore not included in this summary): Vehicles that exceed size or weight limits established in state statute must secure a permit from CDOT before travelling on the state’s highway system. FASTER legislation added a surcharge to the regular permit fee, yielding about \$1.2 million annually. It is CDOT’s responsibility to ensure that the fees are recorded properly and transferred to the Treasury as appropriate. The audit found the Department did not maintain adequate records and found discrepancies in Department recordkeeping. Of particular concern was how CDOT handled the \$53,200 in revenue collected by the Ports of Entry.

CDOT agrees that an overall improvement was needed for recordkeeping and monthly reconciliations, and with a new fee collection system in place, CDOT had already implemented the audit’s requirements in this area in June, 2015. However, as part of management’s overall review and compliance effort for the FASTER program, there will be a thorough review of the audit’s findings and our new permitting system to ensure we have taken all necessary steps to ensure compliance.

**ATTACHMENT B - CDOT AUDIT DIVISION
OUTSTANDING RECOMMENDATION OSA FASTER
AS OF 9/4/2015**

#	Auditor	Original Implementation Date	Audit Name	Finding	Recommendation	EMT
1	OSA	12/31/2015	FASTER Fees	Lack of process to strategically prioritize and program bridge projects.	Document process to strategically prioritize and program eligible bridge projects.	Chief Engineer
2a	OSA	12/31/2015	FASTER Fees	Ineffective management of FASTER bridge revenue.	Establish and implement a bridge project budgeting process that avoids approving project budgets that are significantly larger than necessary.	Chief Engineer / CFO
2b	OSA	6/30/2016	FASTER Fees	Ineffective management of FASTER bridge revenue.	Establish a bridge project closure process that effectively and efficiently leverages FASTER revenue by strategically and quickly completing bridge projects.	Chief Engineer
3	OSA	1/31/2016	FASTER Fees	Safety revenue was not used for allowable and approved projects, in accordance legislation and Commission resolutions.	Adopt resolutions that establish policy directives to clarify roles and responsibilities of TC and CDOT.	Transportation Commission
4a	OSA	1/31/2016	FASTER Fees	Inadequate oversight of FASTER safety revenue.	Develop and implement policies and procedures that defines eligible FASTER safety projects.	Chief Engineer / CFO
4b	OSA	5/31/2016	FASTER Fees	Inadequate guidance over FASTER safety revenue.	Provide training on the developed policies and procedures.	Chief Engineer / CFO
5a	OSA	1/31/2016	FASTER Fees	Inadequate oversight of FASTER safety revenue.	Create a FASTER Safety Program with appropriate policies and procedures with designation of specific staff and responsibilities.	CFO
5b	OSA	1/31/2016	FASTER Fees	Inadequate oversight of FASTER safety revenue.	Routinely track and monitor aggregate data on FASTER safety projects.	Chief Engineer / CFO
5c	OSA	3/31/2016	FASTER Fees	Inadequate oversight of FASTER safety revenue.	Update SAP to include specific coding for FASTER safety revenue.	Chief Engineer / CFO
5d	OSA	1/31/2016	FASTER Fees	Inadequate oversight of FASTER safety revenue.	Establish performance measures and goals to measure the impact of FASTER safety revenue.	Chief Engineer / CFO
6	OSA	7/31/2016	FASTER Fees	Insufficient oversight and controls of FASTER transit revenue and projects.	Ensure that transit funds are used effectively, comply with legislative requirements, through oversight and controls.	DTR Director
7	OSA	1/31/2016	FASTER Fees	The efficiency and accountability committee was disbanded.	Re-establish and re-implement an efficiency and accountability committee.	Government Relations & Policies Director
9a	OSA	6/30/2015	FASTER Fees	Inadequate record keeping and accounting controls.	Establish a recordkeeping process that accurately captures all surcharges assessed and revenue.	CFO
9b	OSA	6/30/2015	FASTER Fees	Inadequate record keeping and accounting controls.	Ensure year end accounting information for surcharge revenue is accurate and transactions and adjustments are reflected appropriately.	CFO
9c	OSA	6/30/2015	FASTER Fees	Inadequate record keeping and accounting controls.	Establish a periodic account balance review process to ensure that all surcharge revenue has been forwarded to Treasury dept.	CFO