



U.S. Department  
of Transportation

**Federal Highway  
Administration**

Washington Division

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November 12, 2003

HDA-WA/331

Mr. Douglas B. MacDonald  
Secretary of Transportation  
Department of Transportation  
Olympia, Washington

### **2003 Performance Letter**

Dear Mr. MacDonald:

The Washington Division of the Federal Highway Administration (FHWA) is responsible for stewardship and oversight of the federal-aid highway funds allocated to the State of Washington. Your agency, the Washington State Department of Transportation (WSDOT), is the state agency responsible for delivering these federal-aid funds. Annually hundreds of millions of dollars of federal highway aid flow into Washington State. In federal fiscal year (FY) 2003 (October 1, 2002 – September 30, 2003), Washington State obligated \$562,310,950 in formula and discretionary federal-aid funds. These funds are used to improve mobility and safety and reduce congestion through the construction of new roads and bridges, as well as the enhancement and preservation of existing infrastructure. Approximately 36 percent (\$202,474,111) of those federal highway funds were obligated by cities and counties for road projects during FY2003.

Annually, we conduct project inspections, program evaluations, systematic reviews, and financial audits of WSDOT and cities and counties. For federal FY 2003, we conducted numerous reviews of WSDOT's procedures and practices in project development and implementation. Following are the reviews conducted and a brief synopsis of the findings. The full reports are available in our office.

**National Bridge Inspection Standards (NBIS) Review** –The review conducted in July in the South Central and Eastern Regions (including interviews with Yakima and Spokane Counties) found that WSDOT is in substantial compliance with the requirements of the NBIS. WSDOT's support for local agencies on complex types of bridge inspections is commendable, as are the procedures for follow-up on critical deficiencies. An area in need of improvement is scheduling reviews to ensure inspections are completed within the 24-month frequency requirement of the regulation.

**Asphalt Paving Placement Operations Review** – This review which began in FY2002, found that the projects reviewed were completed in reasonably close conformity with the approved

plans and specifications. During the review we noted that innovative techniques such as the density differential specification and the use of infrared cameras to meet specification were being used to enhance the quality and placement of the asphalt concrete material. An area in need of improvement is emphasizing and ensuring more consistent use of the pavement smoothness specification throughout the state. Our office will be conducting a review of pavement smoothness during FY2004.

**Financial Billing Review-Local Agency** – The billing charges of \$41.3 million for the months of October 2002 and January 2003 for highway construction found that appropriate documentation existed for these charges and that payments made for highway construction were properly supported. Internal control weaknesses were found in some local agencies in the supporting documentation process for Traffic Control and Lump Sum items. Both of these were discussed with each Local Agency and it was recommended that the Regional Highways & Local Programs (H&LP) Office staff follow up on our findings during their next Project Monitoring Review. In addition, we recommend WSDOT H&LP staff discuss available matching strategies with Local Agencies and suggest WSDOT relax some of the billing restrictions placed on Local Agencies. Your staff agreed with this suggestion and will allow Agencies to recoup their costs on a timelier basis.

**Financial Billing Review-State** – The billing charges of \$44.5 million for the months of October 2002 and January 2003 for highway construction and utilities found that contract documentation was adequate to support contract payment and subsequent federal reimbursement. Payments were fair, reasonable, and properly supported.

**Surface Transportation Program (STP) Programmatic** – The objective of this review was to determine whether WSDOT complied with all applicable federal regulations and the provisions of the agreement signed in February 2000 between the FHWA Washington Division and WSDOT implementing programmatic management of STP projects. Generally we found WSDOT had followed the process as approved in the agreement. However, we found several instances where WSDOT did not exercise sufficient care to ensure that all federal requirements were fulfilled. These were discussed with appropriate WSDOT staff and corrective actions have been taken.

**Tracking Environmental Commitments in Construction Review** – This review of nine projects--three projects in each of three WSDOT Regions--found that the environmental commitments established in the environmental document were carried through design and the project plans and specifications through to construction of the project. We noted that establishing commitment tracking databases would provide greater assurance of completion and ensure commitments aren't affected by project changes.

**Construction Inspections** – We conducted 32 construction inspections of highway projects throughout the state—26 on state projects and 6 on Local Agency projects. These construction inspections on projects of various types and sizes found that WSDOT and the local agencies are constructing federal-aid highway projects in reasonably close conformity with plans and specifications. Findings and recommendations for these projects were discussed with the appropriate Project Engineer and shared with your HQ Construction Office via hardcopies of the reports.

**Design Stewardship Review** – This review conducted in the South Central and Southwest Regions involved a performance review using WSDOT’s Project Design Checklist to ensure sufficient design documentation, project file records, and adequate plans, specifications, and estimate (PS&E) content for a group of federal-aid highway projects. Based on the results of this review, the WSDOT South Central and South West Regions comply with Title 23 requirements and the WSDOT/FHWA Stewardship standards.

**Indirect Cost Review** – On January 27, 2003, the Division approved a provisional indirect cost rate of 12.15%. This provisional rate was to be used until a final rate was determined. On August 18, we initiated a Quality Financial Management Initiative review to evaluate WSDOT’s indirect cost rate and to determine the final rate. Our review disclosed that WSDOT failed to allocate nearly \$2.5 million in eligible indirect costs. In addition, we questioned the eligibility of approximately \$7 million of indirect costs. These eligibility issues were resolved with your staff. The final indirect cost rate will be adjusted to 11.85%.

**Inactive Projects Audit** – This audit was conducted as a follow-up to a September 2001 audit report from the USDOT’s Office of Inspector General (OIG) which found significant inactive obligations which represented financial liabilities. We found four inactive projects in Washington State with unexpended funds totaling \$6.37 million. With the assistance of your staff, project closure has begun, and invalid obligations on projects identified will be deobligated.

**Project Construction Costs Tracking** – We’ve been monitoring the growth of construction costs on WSDOT federal-aid highway funded projects over the past couple of years. As in FY2002, our data for FY2003 shows the growth of construction costs you have reported in your Gray Notebook are accurate and track closely with the data we have compiled.

**Highway Performance Management System (HPMS) Review** – A field review of randomly selected routes in the Olympic and NW Regions was conducted in September to verify the data in the 35 sample sections. The review revealed some minor areas for improvement, but overall the data submission was accurate. As we did last year, we ask that WSDOT address developing and implementing an adequate policy and procedure for acquiring IRI data on non-State owned facilities through the State’s Planning and Research (SPR) Work Program.

**Truck Size & Weight Review** – This annual review of WSDOT’s operation is conducted to ensure the State enforces vehicle size and weight laws. This is done to assure that violations are discouraged and that vehicles traversing the highway system do not exceed the limits specified by law. As in FY2002, we found in FY2003 the size and weight limits are based upon design specifications and safety considerations, and enforcement is developed and maintained both to prevent premature deterioration of the highway pavement and structures and to provide a safe driving environment. However, we ask for your assistance in working with the Washington State Patrol to provide us with the enforcement plan in a more timely manner for our review prior to its implementation.

With assistance from your staff, we also conducted the following reviews:

**Toll Credit Review** – This review was conducted to determine the reasonableness of WSDOT’s “maintenance of effort” and “toll credit” calculations. By working with your staff, Washington

State Ferries staff, and our HQ office, we were able to provide WSDOT with an additional \$569 million in toll credits. Although toll credits do not provide any new funds per se, they will allow WSDOT to match federal funds and better manage their existing funds.

**Local Agency Contract Administration/Construction Process Review** – The review of several Local Agencies (cities and counties) found they are satisfactorily administering contracts for federal-aid projects. Recommendations for WSDOT H&LP include improving Local Agency quarterly reporting of DBE Commitments, streamlining the training program approval process, strengthening the change order process with independent justifications, and tracking of environmental commitments. We also found the WSDOT H&LP staff is well organized and supportive of the construction aspect of the program and is carrying out their stewardship responsibilities.

**Local Agency Right-of-Way Process Review** – This review evaluated projects for compliance with the Uniform Relocation Act (URA) in all functional areas, including appraisal, appraisal review, negotiations, condemnation, and relocation assistance. The review found that although some deficiencies were noted and corrective actions identified, overall, the Local Agencies we reviewed are in compliance with the URA.

**Construction and Materials Joint Review** – This quality improvement activity evaluated the manufacturer's Certificate of Compliance process. Enhancements implemented as a result of this effort and other WSDOT staffs' concurrent activity to process to classify all materials accepted by WSDOT according to a risk assessment, will make the manufacturer's form easier to use and the process more efficient and effective.

**Annual Regional Work Zone Reviews** – We participated in several of these required statewide reviews of randomly selected construction project work zones conducted by your staff in the Olympic and North Central Regions. We found that overall WSDOT and its contractors meet federal work zone requirements. Improvement opportunities exist in continued emphasis on flagger training and proper use of flaggers and better use and maintenance of temporary pavement markings and signs.

**Transportation Management Area (TMA) Certification Review** - A FHWA/Federal Transit Administration (FTA) joint review found that the Spokane Regional Transportation Council's (SRTC) planning process meets federal requirements. Although WSDOT is not directly responsible for the planning processes in the three TMAs in Washington, we ask for your assistance and cooperation in resolving the findings, recommendations, and corrective actions developed.

**Air Quality Conformity Review and Determination** – An interagency group met in December 2002 and reviewed the Puget Sound Regional Council, Yakima Valley Council of Governments, and SRTC 2003-2005 Transportation Improvement Plans (TIP). The group found those TIPs conform with the State Implementation Plan to reduce the severity and number of national ambient air quality standards (NAAQS) violations and insure expeditious attainment of standards.

**Program Efficiencies** - In addition to the reviews we've performed we would like to thank your financial and programming staff for working with us in the following:

- federal-aid program management and
- sharing accounting system “best practices” with the Oregon DOT.

These efforts have improved the effectiveness of the processes and systems to more efficiently deliver the federal-aid funds allocated to Washington State.

As in FY2002, I commend you and your agency for continuing to strengthen your performance management initiatives such as the Gray Notebook and the Cost Risk Assessment (CRA) process. Application of the Cost Estimate Validation Process (CEVP) tools and techniques to lower cost and less complex projects is noteworthy. Your continued efforts in enhancing these tools provides further evidence that WSDOT is focused on being accountable for state and federal transportation funding.

**Finding** - Based on the inspections, reviews, program evaluations, and audits conducted in FY2003, it is my finding that WSDOT has complied with federal laws and regulations in expending the federal-aid highway funds allocated to the State of Washington.

We wish to thank you and your staff for their professionalism, integrity, and innovation in carrying out the delivery the federal-aid funds during federal FY2003. Members of my staff will be contacting your staff to set up reviews and financial audits for the current federal fiscal year (2004).

If you have any questions or need further information please feel free to contact me at (360) 753-9480.

Sincerely,



DANIEL M. MATHIS, P.E.  
Division Administrator

Cc: Governor Gary Locke  
Honorable James West, State Senate Majority Leader  
Honorable Lisa Brown, State Senate Democratic Caucus Leader  
Honorable Jim Horn, Senate Highways and Transportation Committee Chair  
Honorable Frank Chopp, Speaker, State House of Representatives  
Honorable Richard DeBolt, Minority Leader, State House of Representatives  
Honorable Ed Murray, House Transportation Committee Chair  
Aubrey Davis, Washington State Transportation Commission Chair  
Christine Johnson, Director of Field Services-West