

Idaho Transportation Department Performance Audit

Follow-up Report
March 2012

Office of Performance Evaluations
Idaho Legislature



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Idaho Transportation Department Performance Audit *Follow-up Report*

Executive Summary

In 2008, the Idaho Legislature asked our office to conduct a comprehensive performance audit of the Idaho Transportation Department. Our audit report, released in January 2009, found that the department had no comprehensive long-term vision or strategy to address increasing capital and operational demands, and it lacked unified performance measures driven by strategic goals. The audit contained 45 recommendations to address these findings.

In a 2011 follow-up review, we found that the department had responded in a positive and aggressive way to the many performance audit recommendations. The department had taken action on all of the recommendations to a large degree. Since then, the department has completed implementation of nearly all of the recommendations from our initial report. The department has developed and the board adopted a new strategic plan, acquired a financial planning system, and implemented the Transportation Asset Management System. Implementation of the few remaining recommendations is well underway and will be completed as the new systems mature.

Overview of the 2009 Performance Audit

In 2008, the Idaho Legislature asked our office to conduct a comprehensive performance audit of the Idaho Transportation Department using independent, third-party consultants. We focused the audit on assessing the department's performance in three areas of the highway division: construction, preservation, and maintenance.

Our audit report, released in January 2009, found that the department lacked unified performance measures driven by strategic goals. At the time of the audit, the department had no comprehensive long-term vision or strategy to address increasing capital and operational demands. The department either lacked performance measures or its measures were not linked to key standards. In addition, the department did not have any uniformly reported or evaluated measures. The audit contained 45 recommendations to address these findings.

Audit Results

After the 2009 performance audit, the department underwent several changes. In January 2010, about a year after the release of the initial audit, a new director was named to lead the department. Furthermore, the department's financial constraints were exacerbated by a downturn in the national economy, which limited available funding for a wide range of transportation efforts.

In March 2009, as a direct result of our performance audit, Governor Otter issued Executive Order 2009-08 "requiring the Idaho Transportation Department to publish an Annual Accountability Report." The executive order required the department to provide regular status updates, starting July 1, 2009, for the Governor and chairs of the Senate Transportation and House Transportation and Defense Committees on the progress of implementing the findings of the audit.

The executive order also required the implementation of a financial planning system and estimated cost of implementation; and the development of requirements for a statewide pavement management system, maintenance management system, and project scheduling system.

The executive order required the department to complete three tasks by January 1, 2011:

- Complete a statewide plan and present the plan to the Governor and the Legislature
- Report on the data for all strategic performance measures
- Issue an RFP for a financial planning system; and design and implement pavement management and maintenance management systems

By January 1, 2012, the executive order required the department to complete the following additional tasks:

- Set goals for strategic performance measures using data from 2011
- Link the statewide plan with strategic performance measures
- Integrate the maintenance management system, the pavement management system, and the project scheduling system into the financial planning system
- Complete the necessary training for staff

The Legislature overwhelmingly supported our performance audit recommendations and granted the department \$8.3 million to secure a new maintenance and pavement system, an additional \$800,000 for a project

scheduling system, and funds for an enhanced financial planning system. Furthermore, during the 2009 legislative session, 21 pieces of legislation were introduced relating to transportation. Five of those bills passed, raising various motor vehicle fees, eliminating fuel tax exemptions, and limiting temporary permits.

Overview of the First Follow-up Report

In January 2011, we conducted a follow-up review that was designed to assess how the previous performance audit recommendations had been addressed by decision makers and program implementers; identify factors affecting the implementation of audit findings and recommendations; examine any impact of the audit on the department's program development; and provide recommendations to enhance implementation.

In order to provide a streamlined discussion of the implementation of our recommendations, we consolidated the original 45 recommendations into 32. We then divided the 32 consolidated recommendations into the following six categories and provided a high-level status of the recommendations within each category:

1. Strategy and performance management
2. Preservation and maintenance
3. Data and information management
4. Organization and human resources
5. Project, contractor, and consultant management
6. Financial planning and budgeting

We reported the status of each recommendation as one of four conditions: considered and rejected, under consideration, partially implemented, or implemented completely.

In conducting the 2011 follow-up review, we found that the department had responded in a positive and aggressive way to the many performance audit recommendations. The department had taken action on all of the recommendations to a large degree. None of the recommendations had been ignored by the department and some were still under consideration. Many recommendations had been completed, and a number were in process and on schedule.

In addition to status updates on the 2009 recommendations, the 2011 follow-up report provided four additional recommendations for future focus.

2012 Status Update

During the 2011 follow-up review, we found that overall the department had begun the process of implementing most of our recommendations. However, because some of the recommendations were designed for long-term change, full implementation of all recommendations needed additional time. The remainder of this report discusses the status of those recommendations and the status of the four additional recommendations that we made in the 2011 follow-up report.

Strategic and Performance Management

Our overall recommendation for strategic and performance management called on the department to develop strategic performance goals and outcomes that originated with the Board of Transportation and flowed through the department's central office to the districts—linking all to a comprehensive vision and strategy. During the 2011 follow-up review, we found that the department carried over its strategic plan from the previous management's administration but had scheduled a new strategic plan for review in 2011.

The department had also carried over nine performance measures that predated the current director's tenure. During the 2011 follow-up review, the department was in the process of developing relevant department-level performance measures. A performance measures group was formed in late 2010 to define meaningful department performance measures designed to cascade down the organization. The board adopted the department's new strategic plan and goals in November 2011. The department is in the process of developing strategies to achieve its goals and objectives. Much of the data the department uses for performance measures comes from the Transportation Asset Management System (TAMS).

Status: These recommendations are **partially implemented**. The department will completely implement the recommendations once strategies are in place to achieve its goals and objectives.

Preservation and Maintenance

We concluded in our 2011 follow-up review that the department had completely implemented all recommendations for preservation and maintenance. Two overarching recommendations, which addressed the majority of shortfalls in this category, tasked the department with the following:

- Develop and implement a comprehensive approach to asset management as a strategy
- Establish a district-focused business-planning process, guided by departmental performance goals, that provide a mechanism to track and report on project and program target operational goals

The department had adopted a preservation-first strategy, which is an indispensable practice for achieving cost-efficiencies and developing the capabilities to move away from its previous worst-first approach. We expect the department's preservation-first strategy will continue to provide financial benefit from the use of operational and capital planning, including:

- Sustaining asset-condition databases statewide
- Proactively maintaining asset condition
- Applying the systems' capabilities to lifecycle cost, level-of-service scenarios, and other operational and capital planning uses

In addition, the department had successfully demonstrated progress in implementing a business planning process by using district and department-wide business plans to communicate goals and levels of performance.

Status: These recommendations were considered **implemented** in the 2011 follow-up report.

Data and Information Management

During the 2011 follow-up review, we found that the department had made the following progress implementing recommendations for the data and information management systems:

- Completed the implementation phase of the Transportation Asset Management System (TAMS) and in process of populating it with data
- Fully implemented a pavement management system and trained district staff—the system was in startup use statewide
- Installed a maintenance management system and was in process of implementing it statewide

The final component needed to complete implementation of the data and information management recommendations was the integration of the pavement and maintenance management system with a financial planning system. The department completed implementation in September 2011 with the acquisition of the financial planning system Whitebirch Enterprise Planning (WEP).

These integrated systems—the pavement management system, the maintenance management system, and the financial planning system—will identify, register, monitor, and track corridor assets. TAMS will capture maintenance activities and their cost. It will have the ability to forecast expected deterioration and, based on predetermined operating assumptions, will recommend the most cost-effective treatment applications. It will also have the ability to track life-cycle

assessments. The largest benefit is expected to take place in the districts—TAMS will build a consistent statewide database, optimized by the districts, and will be connected with the Statewide Transportation Improvement Plan (STIP).

The combination of technologies will link input resources with output achievements when all management systems are integrated, and will facilitate improved decision making at the department.

Status: These recommendations are **implemented**.

Organization and Human Resources

In our 2011 follow-up review, we reported that the department had initiated an organizational analysis in late 2010 to determine an optimal human resource structure. The department had also been pursuing other organizational improvement initiatives and changes. As a result of the organizational analysis, the department completed an organizational realignment designed to reduce layers of management, reduce duplication between districts and headquarters, and increase accountability and efficiency.

Status: These recommendations were considered **implemented** in the 2011 follow-up report.

Project, Contractor, and Consultant Management

The department initiated a multi-phase project scheduling system (PSS) in 2009 and completed its functional requirements in 2010. All six districts initiated pilot projects and the department developed work breakdown structures and schedules.

Using data from the work breakdown structures and schedules, the department generated a standard monthly project management report showing schedule slippage based on standard milestones during the statewide pilot program. The department upgraded the scheduling system software to Project Server 2010 for statewide use after the pilot program was complete.

The department plans to use a progress report to identify the following construction statuses: on schedule, behind schedule, or at risk of being delayed. The progress reports will be provided to the leadership team each month for review. After construction schedules have been published, the department plans to create a cash flow report for the project scheduling system.

A newly formed department section, Planning and Program Management, has overseen the development and delivery of a training program called Project

Management Academy. The 3-day academy training focuses on project management principles, techniques, and best practices that include basic risk management concepts. The training has been delivered to more than 150 employees. The academy training also teaches an advanced risk management module that provides a comprehensive overview of the risk management process, including how to perform qualitative and quantitative risk analysis on projects.

Our initial audit found that the department needed to improve its contract management in areas such as selection (pre-qualification), contract execution, process standardization, and streamlining. Further, the department needed to improve its supervision of consultants.

We recommended that the department implement proper tools and procedures to strengthen its procurement and supervision of contractors and consultants. The department indicates it is developing guidelines to streamline the consultant selection process and the reporting of consultant evaluations. It has revised the Term and Task Agreements to streamline the selection process and has included consultant administration in the curriculum of the Project Management Academy training. The processes and tools have not yet been fully implemented, including the development of a contractor prequalification process and a methodology to make a comparative analysis on whether to outsource work.

Overall, the department has made substantial progress on institutionalizing project management systems given the complexity of implementation and changes required statewide. These efforts will benefit the department and Idaho taxpayers in the near future.

Status: Although several components of the recommendations are in process, the department has met our intent. We consider these recommendations **implemented**.

Financial Planning and Budgeting

In our 2011 follow-up review, we found that the department had made significant progress implementing the recommendations for financial planning and budgeting. As mentioned in the recommendation category on data and information, the department acquired the financial planning system Whitebirch Enterprise Planning (WEP) in September 2011. The WEP system can provide reports that present financial implications of project completion, operation, maintenance, preservation, and restoration. The department plans to begin generating these reports in summer 2012.

Other audit findings and recommendations further addressed how the financing and budgeting choices and setting priorities could be improved. Specifically, the audit recommended that the department should partner with municipal planning organizations (MPO) in the development of the regional long-range

transportation plans and the statewide transportation improvement plan (STIP) to set priorities.

Since the 2011 follow-up report, the department has worked with municipal planning organizations to provide a 25-year financial plan that includes state and federal funding. The highway division is developing corridor plans with definitions of long-term needs and options to address them.

Our audit recommended that the department systematically capture data and calculate a department overhead rate to compare direct and indirect costs of consultants with employee rates. This cost-benefit comparison would help the department with outsourcing decisions. In the 2011 follow-up report, we indicated that the department had calculated an overhead cost for design activities but not for any other activity.

The Whitebirch Enterprise Planning system and both of the department's accounting systems carry a uniform program and activity structure that was refined during the department's zero-base budgeting process in August 2011. This revised program and activity structure provides for segregation of direct and indirect program and activity costs. Using the revised structure, reports can be developed to reflect indirect cost allocation among all programs and activity costs including both department-wide indirect cost pools and division indirect cost pools.

However, the department still needs to develop specifications for the cost allocation model. After the cost allocation model is defined, the department will design program activity reports for direct costs, overhead costs, and full costs (direct costs with overhead) for both historical and projected year values in the Whitebirch system.

Our audit recommended that the department develop a formal written evaluation of alternative financing structures for the remaining GARVEE projects and share this evaluation with key decision makers through the Idaho Credit Enhancement Committee. In the 2011 follow-up report, we concluded that this recommendation had been partially implemented in a modified form.

According to the department, the financing portion of GARVEE will be complete in summer 2012. The department indicated that it will continue to work with its financing partner Idaho Housing and Finance Association to ensure that the best financing structure is accomplished.

Status: These recommendations are **partially implemented**. The department had implemented nearly all recommendations in this category and acquired a financial planning system, which is a significant step toward complete implementation of the audit recommendations. The recommendations in this category will be implemented completely with the development and implementation of the planned program activity reports.

Additional Recommendations from the 2011 Follow-up Report

In the 2011 follow-up report, we provided four recommendations to improve implementation of our initial recommendations. These four recommendations will continue to remain important considerations for policymakers and the department beyond the implementation of the 2009 audit recommendations:

Finalize the Department Strategic Plan

The department has implemented a new strategic plan and goals and is in the process of developing strategies to achieve those goals. The targeted completion date is summer 2012. After the strategic plan is completed, we recommend the department make an ongoing effort to monitor progress and appropriately update the plan.

Integrate Separate Planning Processes and Documents

As implemented systems mature, we recommended that the department continue to link the goals, objectives, and projects of guiding documents, such as the Statewide Transportation Improvement Plan, the Long Range Transportation Plan, the Accountability Report, and the Strategic Plan, to department activities.

Pursue Oversight of Funding for Local Roads

We recommended an active initiative to address consistent oversight of funding for local roads to determine how the local funds are used and to establish comparative-use statistics that policymakers can use to refine and improve the revenue allocation formula at the local level. Legislative action is required to allow the department to provide oversight of funding for local roads.

Seek Alternative Funding Sources

Using the recommendations from the Governor's Task Force on Modernizing Transportation and Funding in Idaho as a starting point, policymakers should continue to seek out and identify traditional and nontraditional sources of revenues for funding preservation and maintenance of highways and bridges.

Office of Performance Evaluations Reports, 2009–Present

Publication numbers ending with “F” are follow-up reports of previous evaluations. Publication numbers ending with three letters are federal mandate reviews—the letters indicate the legislative committee that requested the report.

Pub. #	Report Title	Date Released
09-01	Public Education Funding in Idaho	January 2009
09-02F	Higher Education Residency Requirements	January 2009
09-03	Idaho Transportation Department Performance Audit	January 2009
09-04	Feasibility of School District Services Consolidation	February 2009
09-05F	School District Administration and Oversight	February 2009
09-06F	Use of Average Daily Attendance in Public Education Funding	February 2009
09-07F	Child Welfare Caseload Management	February 2009
09-08F	Public Education Technology Initiatives	February 2009
09-09F	Management in the Department of Health and Welfare	March 2009
09-10F	Governance of Information Technology and Public Safety Communications	April 2009
10-01	Operational Efficiencies in Idaho’s Prison System	January 2010
10-02	Increasing Efficiencies in Idaho's Parole Process	February 2010
10-03F	Use of Average Daily Attendance in Public Education	March 2010
10-04	Governance of EMS Agencies in Idaho	November 2010
10-05F	Governance of Information Technology and Public Safety Communications	November 2010
11-01	Distribution and Sale of Liquor in Idaho	January 2011
11-02	Coordination and Delivery of Senior Services in Idaho	February 2011
11-03F	Increasing Efficiencies in Idaho’s Parole Process	February 2011
11-04F	Idaho Transportation Department Performance Audit	March 2011
11-05	Delays in Medicaid Claims Processing	March 2011
11-06	Higher Education Funding Equity	November 2011
11-07	End-Stage Renal Disease Program	November 2011
11-08F	Distribution and Sale of Liquor in Idaho	November 2011
12-01	Reducing Barriers to Postsecondary Education	January 2012
12-02F	Delays in Medicaid Claims Processing	January 2012
12-03	Lottery Operations and Charitable Gaming	February 2012
12-04	Establishing an Efficiency Commission	February 2012
12-05F	Coordination and Delivery of Senior Services in Idaho	February 2012
12-06F	Operational Efficiencies in Idaho’s Prison System	February 2012
12-07F	Idaho’s End-Stage Renal Disease Program	March 2012
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