

TxDOT Internal Audit
Construction Contract Administration Follow-Up (1201-5F)
Department-wide Report

Introduction

This report has been prepared for the Transportation Commission, TxDOT Administration, and Management. The report presents the results of the Construction Contract Administration Follow-Up which was conducted as part of the Fiscal Year 2008 Audit Plan. The objective of the follow-up was to determine if management has taken appropriate action to address the original findings and if that action is achieving the desired results, or whether management has assumed the risk of not taking action. The original audit report, dated February 12, 2007, contained one finding of consequential non-compliance and two observations. Some issues that did not have consequential non-compliance were discussed with the Construction Division (CST) in the original exit and were also included in the follow-up audit work.

Scope

Audit team members included Karin Faltynek (Lead Auditor), Roger Stacy (Staff Auditor), Maria Alvarado (Staff Auditor) with oversight by Paula M. Bishir-Jensen (Auditor-in-Charge). The audit work was conducted during the period of January 1 – April 29, 2008. All work was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors. Audit work included interviewing personnel from the CST and examining various TxDOT policy manuals, CST Oversight and Monitoring Reports and other supporting documentation. An evaluation of CST's recently implemented Field Oversight and Monitoring process was performed to ensure that it covers the areas where the districts had findings. Because this new Field Oversight and Monitoring process is so thorough we concluded that follow-up work to the original district audit findings was not necessary.

Opinion

Overall, CST has taken appropriate actions to address the conditions that led to the original audit findings and observations. The majority of the actions involved updating the Construction Contract Administration Manual and the creation of a district Field Oversight and Monitoring process. Several minor actions have not yet been implemented, but CST does plan to implement them.

We commend CST for creating a Field Oversight and Monitoring process within a few short months after the release of the original audit report. The results of this oversight process are documented in a standard checklist report format at the conclusion of district visits by the CST Field Engineers. The CST Field Engineers perform a lot of work that is not necessarily reflected on the current report format used. The development of a less rigid report format would allow full documentation of the work performed and provide evidence of project oversight in accordance with the FHWA Federal Oversight Agreement.

Original Finding, Observations and Current Status:

Original Finding No. 1: Patterns of consequential non-compliance with the applicable requirements were identified in the following areas - change orders, partnering, traffic control, material on hand, payrolls, railroad insurance and bulletin board postings.

(Note: The detailed original finding is located on Attachment A.)

Current Status: Change Orders (COs)

This finding was addressed by TxDOT Administration issuing updated guidance on the construction change order process. CST also includes the review of pending change orders in the Field Oversight and Monitoring field visits. TxDOT Administration also issued guidance in a memorandum that discussed the use of change orders in conjunction with the Value Engineering Program.

Current Status: Partnering

TxDOT Administration addressed this finding by issuing a memorandum that provided clarification on the intended use of the Partnering Program.

Current Status: Traffic Control

CST substantially addressed this finding by updating the guidance pertaining to quarterly barricade inspections and by adding the appropriate check boxes and information on the form where the results of the inspection are documented. CST agreed to implement the remaining minor action of adding the quarterly review instructions to the back of the form. A review of the functional area is also included during Field Oversight and Monitoring field visits.

Current Status: Material on Hand (MOH)

CST addressed this finding by strengthening the guidance for monthly MOH spot checks that replaced the formerly required annual spot checks. A review of the functional area is also included during Field Oversight and Monitoring field visits.

Current Status: Payrolls

CST substantially addressed this finding by including additional contractor and sub-contractor payroll monitoring in the updated CCAM. CST agreed to implement the remaining minor action by adding guidance concerning securing contractor payrolls into the CCAM. The Field Oversight and Monitoring also includes the review of payroll documentation during field visits.

Current Status: Railroad Insurance

CST addressed this finding by including a discussion of railroad insurance in the CCAM's next updated release. CST also plans to perform periodic checks to determine if railroad insurance has been obtained for those contracts where a Notice to Proceed was issued without the railroad insurance.

Current Status: Bulletin Board Postings

CST addressed this finding by including the review of bulletin boards in the Field Oversight and Monitoring field visits.

Original Observation No 1: Potential conflicts of interest or harmful relationships between TxDOT's employees and the contractors' employees were identified in five districts.

Current Status:

This observation was addressed by including a reminder of current Conflict of Interest and Ethics policy in the Field Oversight Monitoring field visits.

Original Observation No. 2: The districts have training needs that should be addressed in the construction contract administration function. About half the districts indicated that the timing or scheduling of training was an issue. Also, a few districts requested more SiteManager training, construction records auditor training or that training be provided at the district in order to minimize travel. A list of the suggestions from each district was provided to CST during the exit.

Current Status:

This observation was addressed by making self paced SiteManager training available and by launching the Inspector Development Program.

Management Response

Traffic Control

Additional minor actions to be completed in concurrence with next scheduled update of CCAM.

Payroll

Additional minor actions to be completed with next scheduled update of CCAM.

Employee's Use of Contractor supplied computers

The department is in the process of implementing a Virtual Private Network (VPN) which will significantly reduce the need for internet access on contractor provided equipment. This VPN will provide for secure data communications through the departments Intranet. We will also add a reference to the Information Security Manual, Chapter 6, Section 2 "Purpose of Passwords" in the next update of the SiteManager Contract Administration Manual.

Closing Comments

The results of the follow-up audit were discussed with CST management on April 29th, 2008 and the Assistant Executive Director for Engineering Operations on May 7, 2008. This discussion included some issues that did not have consequential non-compliance that CST was asked to address in the original exit conference.

One of these issues was the need to monitor TxDOT employees' use of contractor supplied personal computers. This need still exists. The original recommendation was to require a separate log-on ID and password for each TxDOT employee to make individual user monitoring possible. The Assistant Executive Director for Engineering Operations suggested that the Technology Services Division (TSD) should add this requirement to the Information Security Manual, Chapter 6, Section 2 "Purpose of Passwords" in the next update of that manual. CST could then include a reference to the requirement in the next CCAM or SiteManager Contract Administration Manual update.