

Performance Audit Report

Washington Department of Transportation Administration and Overhead

Report No. 1000007



November 15, 2007



Washington State Auditor Brian Sonntag, CGFM

A letter from State Auditor Brian Sonntag



Brian Sonntag, CGFM
Washington State Auditor

In 2006, the Washington Legislature asked the State Auditor's Office to take a comprehensive look at the economy, efficiency and effectiveness of Washington's transportation system. This report looks at the administration and overhead operations of the state Department of Transportation.

Our Office conducted extensive citizen outreach in 2006, in which they expressed concern about administrative expenses across all areas of government. Citizens overwhelmingly cited transportation as one of their top three priorities for performance audits, along with education and health and social services. Citizens' main concerns about transportation are congestion relief and overall efficiency and effectiveness at the Department of Transportation. Studying administrative and overhead operations at the Department is a cornerstone of measuring its efficiency and effectiveness.

This report makes recommendations that, if the Department implements them, free up to \$23.5 million over the next five years that the Department can add to its existing resources to address the issues citizens have identified as priorities, such as congestion relief and overall Department efficiency and effectiveness.

The Department's administrative and overhead report, taken in context with our performance audits of Washington State Ferries, Puget Sound congestion and Sound Transit's light rail construction management, provide a comprehensive

picture of transportation systems and the performance of transportation agencies in Washington. Our next transportation-

related performance audit reports will be the Port of Seattle's construction management, the Department of Transportation's highway maintenance and construction management and Sound Transit's long-term financial viability.

The legislation that authorized transportation-related audits requires us to hire a contractor to perform the work. This audit was performed by Ernst and Young, an internationally known firm that brought more than 100 years of collective experience in process improvement and performance auditing. We appreciate Ernst & Young's professionalism and wealth of experience.

We also appreciate the cooperation and courtesy the Department extended to us during the audit. We look forward to further discussions with the Legislature about this audit and the others we will release in the coming months.



A handwritten signature in black ink, appearing to read 'Brian Sonntag'. The signature is fluid and cursive, with a large initial 'B' and 'S'.

Why did we conduct the audit?

Citizens gave the State Auditor the authority to conduct performance audits when they passed Initiative 900 in November 2005. The Legislature gave us the authority to conduct performance audits of transportation-related agencies when they passed Engrossed Substitute Senate Bill 6839 during the 2005 session.

The State Auditor's Office conducted outreach with Washington citizens in 2006 to find out what their priorities were for performance audits in general and within certain areas of government. They told us their top priorities in transportation were congestion and overhead expenses.

This performance audit report, taken with our other transportation performance audits, give an overview of how the Department of Transportation is functioning and serving citizens.

The State Auditor has the authority to conduct follow-up performance audits of any government entity. Future performance audits of the Department of Transportation will evaluate the Department's performance and its response to this and other performance audits.

Overall conclusion

This audit makes recommendations that focus largely on streamlining and centralizing operations within the Department, resulting in \$18.2 million to \$23.5 million in cost savings in the next five years. Those resources can be redirected to make improvements at the Department that we recommended in our other performance audits and that echo citizens' priorities.

The audit contract cost \$659,100.

Objectives and scope

Objectives

The objective of the audit was to identify opportunities, strategies and best practices along with recommendations that:

1. Identify potential cost savings.
2. Eliminate, reduce, or enhance services.
3. Transfer services to the private sector.
4. Address gaps and overlaps in programs or services that can be corrected or streamlined.
5. Pool information technology systems.
6. Change or eliminate roles or functions.
7. Improve performance data, performance measures, and self-assessment systems.
8. Change statutes, rules, and policy directives.
9. Improve planning, budgeting, and program evaluation policies and practices.
10. Improve personnel systems operation and management.
11. Improve purchasing operations and management polices and practices.
12. Improve organizational structure and staffing levels, particularly in terms of the ratio of managers and supervisors to nonmanagement personnel.
13. Improve efficiency, effectiveness, and economy in all areas of administrative and overhead services or operations.
14. Improve revenue from operations.

Additionally, Initiative 900 directs the State Auditor's Office to address the following elements:

1. Identification of cost savings.
2. Identification of services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.
5. Feasibility of pooling the entity's information technology systems.
6. Analysis of the roles and functions of the entity and recommendations to change or eliminate roles or functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions.
8. Analysis of the entity's performance data, performance measures and self-assessment systems.
9. Identification of best practices.

Scope

The audit evaluated the Department's administration 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.

Audit results

The audit focused on six operational areas within the Department:

- Human Resources
- Expenditure accounting
- Payroll
- Cash receipts
- Internal audit
- ONE-DOT

The last finding is called ONE-DOT. The Department currently is operating the Washington State Ferries division as its own entity. The finding makes recommendations for the Department to operate as one unit.

The table on the next page shows the audit areas; finding numbers; findings, associated recommendations and quantifiable cost savings; and total cost savings.

Audit results

Finding number, operational area	Findings	Recommendations	Five-year cost savings
Finding 1: Human Resources	Inconsistent use of HR tools	Develop standard checklists for use by all WSDOT organizations	\$2,833,687
	Inconsistent processing of employee changes	Centralize personnel administration processing to WSDOT Headquarters (HQ)	
	Lack of HR management system (HRMS) expertise in the regions		
	Lack of independent review of employee information entered into HRMS	Implement an independent review of all information entered into HRMS	
	Duplication of efforts in the Northwest region	Remove or modify Citrix system, used for processing personnel changes	
Finding 2: Expenditure accounting	Inconsistent review of vendor payments across WSDOT	Centralize processing of vendor payments	\$3,304,097 to \$7,335,727
	Excessive mailing of materials (vendor payment packages)		
	Increased risk of late payment		
	Increased risk of employee fraud	Refer to ONE-DOT finding and recommendation 6 (section 8 of the report)	
Finding 3: Payroll/time reporting	Excessive time spent entering payroll data	Develop and implement a new labor system for WSDOT agency-wide	\$11,404,128 to \$12,755,108
	WSDOT can strengthen controls surrounding the accuracy of time reporting		
	Duplication of efforts exist as WSDOT uses two separate labor systems		
	Payroll processing errors frequently occur	Do not allow midperiod changes	
Finding 4: Cash receipts	Inefficient cash receipts processing	Implement a bank lockbox for department-wide cash receipts	\$651,147
	Inconsistent procedures in applying cash receipts to customer accounts across WSDOT		
Finding 5: Internal audit	Lack of an “ideal” Internal Audit reporting structure	Change the WSDOT Internal Audit reporting structure	Unquantifiable
Finding 6: ONE-DOT	WSDOT can improve its operational efficiency by more thoroughly aligning and integrating WSF operations and administrative functions	Fully integrate both current and future business functions performed by Washington State Ferries and WSDOT	Unquantifiable
Total five-year cost savings: \$18,193,059 million to \$23,575,669 million			

Legislative recommendations

The report contains recommendations that require legislative action or that require changes to collective bargaining agreements.

Legislative Action

- Payroll/Time Reporting: 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.
- Internal Audit Reporting Structure: RCW 43.88.160 must be considered when changing the reporting structure. Other specific RCWs will depend on the outside organization selected. For example, if the Commission is selected, RCW 41.01.071 must be considered.

Collective Bargaining Agreement Changes

- HR Personnel Administration: Centralize the personnel administration function at Department headquarters.
- ONE-DOT: Changes made toward fully integrating the business functions currently performed by WSF and WSDOT must be considered individually. Each action must consider the potential requirement to alter current bargaining agreements.

I-900 cross-reference table

Initiative 900 Elements	Finding reference
1. Identification of cost savings.	1, 2, 3, 4,
2. Identification of services that can be reduced or eliminated.	1, 2, 3, 4, 6
3. Identification of programs or services that can be transferred to the private sector.	4
4. Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps.	1, 2, 3, 6
5. Feasibility of pooling information technology systems	3, 6
6. Analysis of the roles and functions and recommendations to change or eliminate Departmental roles or functions.	1, 2, 3, 4, 5, 6
7. Recommendations for statutory or regulatory changes that may be necessary to properly carry out its functions.	3, 5
8. Analysis of performance data, performance measures and self-assessment systems.	1, 2, 3, 5, 6
9. Identification of best practices.	1, 2, 3, 4, 5, 6

Our audit authority

Washington voters approved Initiative 900 in November 2005, giving the State Auditor's Office the authority to conduct independent performance audits of state and local government entities on behalf of citizens. The purpose of conducting these performance audits is to promote accountability and cost-effective uses of public resources.

Additionally, the Legislature passed Engrossed Substitute Senate Bill 6839 in 2006. The legislation required the Auditor's Office to hire contractors to conduct performance audits of transportation-related agencies.

The State Auditor's Office engaged Ernst & Young to conduct this performance audit in accordance with Government Auditing Standards. Those standards require that the auditor plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for the findings and conclusions based on the audit objectives. The audit team believes that the evidence provides a reasonable basis for the findings and conclusions based on the audit objectives.

In planning the audit, the auditors gained an understanding of internal controls that relate to the audit objectives. The results of the internal control work were considered when establishing the nature, timing and extent of the audit procedures.

No privileged or confidential information was omitted in this report.

The complete text of Initiative 900 is available at www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf.

The full text of ESSB 6839 is available at www.sao.wa.gov/PerformanceAudit/PDFDocuments/6839-SL.pdf.

After the performance audit

The release of this audit report triggers a series of actions by the Legislature. The appropriate committee or committees will:

- Hold at least one public hearing within 30 days of this report's issuance to receive public testimony on the report.
- Consider the findings and recommendations contained in this report during the state budgeting process.
- Issue an annual report by July 1 detailing the Legislature's progress in responding to the State Auditor's recommendations. The report must justify any recommendations the Legislature did not respond to and detail additional corrective measures.

Follow-up performance audits of any state or local government entity or program may be conducted when determined necessary by the State Auditor.

Additionally, Engrossed Substitute Senate Bill 6839:

- Requires the State Auditor to provide performance audit reports to the Governor, the audited entity, the Joint Legislative Audit and Review Committee, appropriate legislative committees, interested parties and to post them on the Internet.
- Makes the audited entity responsible for follow-up and corrective action on all performance audit findings and recommendations.
- Makes the Office of Financial Management responsible for tracking and achieving audit resolution. The Office must report the status of the audit resolution to the appropriate legislative committees and the State Auditor by December 31 of each year. The Legislature is responsible for considering performance audit results during the appropriations process.

Notices of public hearings are posted with the report at www.sao.wa.gov/PerformanceAudit/audit_reports.htm.

Original

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Performance Audit of the Washington State Department of Transportation Administrative and Overhead Operations

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EXECUTIVE SUMMARY

This report contains findings, conclusions, and recommendations for improvement of the Washington State Department of Transportation (WSDOT) Administrative and Overhead operations.

Throughout the performance of our procedures, we were alert to areas where WSDOT can improve efficiency, effectiveness, and economy of operations.

There are six summary findings and related recommendations:

- Finding 1: WSDOT can improve the efficiency of its Human Resources Personnel Administration functions. We recommend centralizing the Human Resources Personnel Administration function. Potential cost savings in this area could result from a shift of resources to WSDOT Headquarters (HQ) from the other WSDOT organizations.
- Finding 2: WSDOT can improve internal controls and efficiency in its Expenditure Accounting process. We recommend centralizing the Expenditure Accounting function. Potential cost savings in this area could result from a shift of resources to WSDOT HQ from the other WSDOT organizations.
- Finding 3: Opportunities to improve the payroll and timekeeping functions and related internal controls exist due to current manual, labor-intensive processes. We recommend implementation of a new timekeeping process.
- Finding 4: Opportunities to improve efficiency and effectiveness exist in the Accounts Receivable (AR) Cash Receipt process due to use of a manually intensive process and internal control weaknesses surrounding the receipt of cash and checks. We recommend increasing lockbox usage across WSDOT.
- Finding 5: WSDOT's Internal Audit function can improve its independence by changing its reporting structure. We recommend that WSDOT change the Internal Audit functional and administrative reporting lines.
- Finding 6: WSDOT can improve its overall operations by aligning and integrating Washington State Ferries (WSF) with the rest of WSDOT. We recommend that WSDOT develop ONE-DOT practices and implement new policies, procedures, systems, and practices that consider all organizations within WSDOT.

Potential cost savings from the recommendations provided in this report are presented either in terms of calculated figures or in terms of derived benefits of improved performance or reduced risk.

Recommendation	Potential Cost Savings	
	1 Year	5 Years
Finding 1 (Section 3)	\$552,043	\$2,833,687
Finding 2 (Section 4)	\$643,686--\$1,429,106	\$3,304,097--\$7,335,727
Finding 3 (Section 5)	\$2,221,689--\$2,484,879	\$11,404,128--\$12,755,108
Finding 4 (Section 6)	\$126,853	\$651,147
Finding 5 (Section 7)	<ul style="list-style-type: none"> • Comply with “ideal” reporting structure per Institute of Internal Auditors (IIA) standards • Improved appearance of independence • Accountability for management corrective action 	
Finding 6 (Section 8)	<ul style="list-style-type: none"> • Increased operational efficiency • Better use of existing resources • Improved communications and processes • Elimination of duplicate efforts 	
Total	\$3.54–\$4.59 million	\$18.19–\$23.58 million

We recognize that implementation of the recommendations will require resources. Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

1. INTRODUCTION

BACKGROUND

In 2005, the voters of Washington State passed Initiative 900 (I-900) authorizing the State Auditor's Office (SAO) to begin conducting performance audits of various state and local government entities. The purpose of these performance audits is to promote accountability and cost-effective uses of public resources through identification of opportunities for potential cost savings. These savings can be achieved in a number of ways, such as reduction or elimination of services, implementation of best practices, change or elimination of roles and functions, and pooling of information technology. In addition to these opportunities, I-900 seeks recommendations for statutory or regulatory changes that may be necessary for the entity to carry out its functions properly.

Also in 2005, the Washington State Legislature granted the SAO the authority to audit transportation agencies through the passage of ESSB 6839. The legislation states: "Citizens demand and deserve accountability of transportation-related programs and expenditures. Transportation-related programs must continuously improve in quality, efficiency, and effectiveness in order to increase public trust."

Both ESSB 6839 and I-900 require performance audits conducted on behalf of the SAO to meet Generally Accepted Government Auditing Standards (GAGAS). The performance audit of WSDOT Administrative and Overhead functions was completed in accordance with GAGAS. The Washington State Legislature regularly performs studies of the capital, operational, and financing aspects of WSDOT. These studies are not subject to GAGAS but were considered during the planning of this audit.

OBJECTIVE

The objective of the audit was to identify opportunities, strategies, and best practices along with recommendations that:

- Identify potential cost savings
- Eliminate, reduce, or enhance services
- Transfer services to the private sector
- Address gaps and overlaps in programs or services that can be corrected or streamlined
- Pool information technology systems
- Change or eliminate roles or functions
- Improve performance data, performance measures, and self-assessment systems
- Change statutes, rules, and policy directives
- Improve planning, budgeting, and program evaluation policies and practices
- Improve personnel systems operation and management
- Improve purchasing operations and management policies and practices

- Improve organizational structure and staffing levels, particularly in terms of the ratio of managers and supervisors to nonmanagement personnel
- Improve efficiency, effectiveness, and economy in all areas of administrative and overhead services or operations
- Improve revenue from operations

METHODOLOGY

To achieve the audit objectives, we developed a multiphased statement of work. The project was conducted in six phases:

- Phase 1 – Conduct a broad view performance and risk assessment to identify improvement opportunities.
- Phase 2 – Identify areas that have the greatest opportunity to reduce costs and improve efficiency.
- Phase 3 – Develop a work plan to identify and quantify root causes of the highest risk areas identified in Phase 2.
- Phase 4 – Execute the work plan.
- Phase 5 – Develop the draft report of our findings to discuss with WSDOT management and obtain management’s input and feedback.
- Phase 6 – Issue the final audit report to the SAO and assist the SAO in presentations to state legislators or legislative committees.

We identified 43 issues during Phase 1 as potential opportunities for improvement in efficiency, effectiveness, and economy. These issues were discussed and prioritized during Phase 2 in order to select the issue or issues to examine further in the duration of the performance audit.

The conclusion of Phase 2 resulted in selection of four key issues for detailed review, which were consolidated further into three areas. These issues were selected because they were given a high impact rating for potential improvement if audit recommendations are implemented. The issues selected for detailed review include the following:

- *WSDOT can streamline its operations to increase efficiency, improve performance, and reduce costs.*
- *WSDOT collects revenue via credit card transactions but does not collect credit card transaction fees. Each credit card transaction includes separate third-party fees and results in increased expenses.*
- *An independence issue may exist in that the Internal Audit office reports directly to the auditee – the WSDOT Secretary.*

For the first key area, streamlining operations, we focused on the functions and activities performed by WSDOT Finance and Administrative operations. More specifically, we looked at Human Resources (HR), Expenditure Accounting, Payroll, and Cash Receipts. Our approach included an examination of the organizational structure to identify any duplication of efforts

across area functional lines, overlapping of resources, and full time equivalent (FTE) utilization. As we conducted interviews across the WSDOT organizations, our scope was narrowed further, ultimately resulting in a focus on HR Personnel Administration, Accounts Payable, Cash Receipts, and Timekeeping/Payroll.

For the second key area, credit card transaction fees, we focused on determining the root cause of current credit card transaction procedures, evaluating applicable RCWs, comparing this practice to other states, and determining whether implementation of new practices can offset the effect of the increase in electronic transactions and related fees.

For the third key area, internal audit independence, we focused on reviewing the effect of shifting WSDOT Internal Audit reporting responsibility away from the WSDOT Secretary.

Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

SCOPE

We have completed a performance audit in accordance with generally accepted Government Auditing Standards of the WSDOT Administration and Overhead operations. Those standards require that we plan and perform the audit to:

- Obtain an understanding of the area to be audited
- Consider legal and regulatory requirements
- Identify and review management controls applicable to the area
- Identify criteria needed to evaluate matters subject to audit
- Identify and examine relevant sources of data to satisfy the audit objectives
- Determine the need for technical specialist assistance
- Identify significant findings and recommendations from previous audits that could affect the audit objectives, and determine if WSDOT has corrected the conditions leading to those recommendations

We tested data and records mainly related to fiscal year 2006 actual expenses and budgetary data for the current biennium, although we also obtained data related to historical bienniums for certain tests and analysis. We began the audit in October 2006 and completed fieldwork in May 2007.

SUMMARY OF AUDIT RESULTS

Our audit focused on the six areas mentioned above (HR Personnel Administration, Expenditure Accounting, Payroll, Cash Receipts, Credit Card Fees, and Internal Audit). We also developed a general ONE-DOT finding at the conclusion of the audit. The findings and recommendations related to these areas are summarized as follows:

HR Personnel Administration

Finding 1	Recommendation 1
Inconsistent use of HR tools	Develop standard checklists for use by all WSDOT organizations
Inconsistent processing of employee changes	
Lack of HR management system (HRMS) expertise in the regions	Centralize personnel administration processing to WSDOT HQ
Lack of independent review of employee information entered into HRMS	Implement an independent review of all information entered into HRMS
Duplication of efforts in the Northwest region	Remove or modify Citrix

Expenditure Accounting

Finding 2	Recommendation 2
Inconsistent review of vendor payments across WSDOT	Centralize processing of vendor payments
Excessive mailing of materials (vendor payment packages)	
Increased risk of late payment	
Increased risk of employee fraud	Refer to ONE-DOT Issue (Section 8 of the report)

Payroll/Time Reporting

Finding 3	Recommendation 3
Excessive time spent entering payroll data	Develop and implement a new labor system for WSDOT agencywide
WSDOT can strengthen controls surrounding the accuracy of time reporting	
Duplication of efforts exist as WSDOT uses two separate labor systems	
Payroll processing errors frequently occur	Do not allow midperiod changes

Cash Receipts

Finding 4	Recommendation 4
Inefficient cash receipts processing	Implement a bank lockbox for departmentwide cash receipts
Inconsistent procedures in applying cash receipts to customer accounts across WSDOT	

Internal Audit

Finding 5	Recommendation 5
Lack of an "ideal" Internal Audit reporting structure	Change the WSDOT Internal Audit reporting structure

ONE-DOT

Finding 6	Recommendation 6
WSDOT can improve its operational efficiency by more thoroughly aligning and integrating WSF operations and administrative functions	Fully integrate both current and future business functions performed by WSF and WSDOT

2. WASHINGTON STATE DEPARTMENT OF TRANSPORTATION OVERVIEW

BRIEF HISTORY

WSDOT is responsible for planning, building, and operating a complex highway, ferry, freight, and passenger rail system. WSDOT's purpose is "to keep people and business moving by operating and improving the state transportation systems vital to our taxpayers and communities."

WSDOT maintains over 20,000 lanes of highway and 3,555 bridges and tunnels. The ferry system includes a fleet of 28 vessels as well as terminals throughout the Puget Sound transporting more than 23 million people annually. WSDOT also helps local transit agencies throughout the state providing bus, vanpool, and other transit services. In addition, WSDOT runs 89 freight railroad cars that carry grain in Eastern Washington and operates 16 emergency airfields. Per the 2005–07 biennium, based on the 2006 supplemental budget, capital funds are \$3.3 billion.

"Title 47 of the Revised Code of Washington (RCW) defines the duties and responsibilities of Washington State's Department of Transportation. RCW 47.01.011 states the purpose of the Department of Transportation as follows:

The legislature hereby recognizes the following imperative needs within the state: To create a statewide transportation development plan which identifies present status and sets goals for the future; to coordinate transportation modes; to promote and protect land use programs required in local, state and federal law; to coordinate transportation with the economic development of the state; to supply a broad framework in which regional, metropolitan, and local transportation needs can be related; to facilitate the supply of federal and state aid to those areas which will most benefit the state as a whole; to provide for public involvement in the transportation planning and development process; to administer programs within the jurisdiction of this title relating to the safety of the state's transportation systems; and to coordinate and implement national transportation policy with the state transportation planning program. The legislature finds and declares that placing all elements of transportation in a single department is fully consistent with and shall in no way impair the use of moneys in the motor vehicle fund exclusively for highway purposes. Through this chapter, a unified department of transportation is created. To the jurisdiction of this department will be transferred the present powers, duties, and functions of the department of highways, the highway commission, the toll bridge authority, the aeronautics commission, and the canal commission, and the transportation related powers, duties, and functions of the planning and community affairs agency."

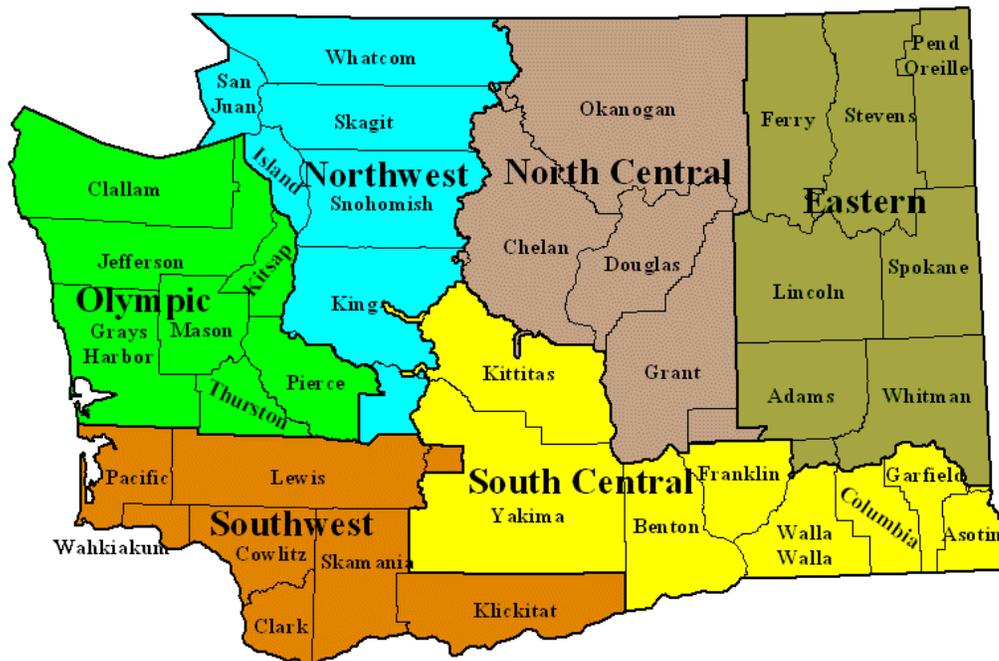
ORGANIZATION AND STAFFING

WSDOT has approximately 6,500 employees to maintain the transportation system. On July 1, 2005, WSDOT became a cabinet agency. As a result of this change, the Secretary of Transportation is now appointed by and reports directly to the governor of Washington State.

Exhibit 2.1 below illustrates the geographic distribution of WSDOT's regional boundaries. It displays each of the counties located in the six regions. Central HQ are located in Olympia, with

a regional HQ location present in each region as well. The Urban Corridors Office (UCO) is responsible for WSDOT's largest, most visible projects. UCO is located in Seattle, within the Northwest Region. WSF offices are also located in Seattle.

Exhibit 2.1 - WSDOT Regional Map



Source: WSDOT¹

CAPITAL ASSETS

For fiscal year 2006, WSDOT added 96 lane miles and six bridges. WSDOT's highway system increased in value by \$1 billion during the fiscal year. (WSDOT CAFR report)²

WSDOT's existing inventory consists of nearly 800 buildings and related sites, with a replacement value of almost \$500 million. WSDOT operates over 130 roadway maintenance facilities and 40 mountaintop radio communication sites in the state. (WSDOT CIPP summary)³

¹ <http://wsdot.wa.gov>

² 2006 Comprehensive Annual Financial Report – Infrastructure Reporting Information

³ 2006 Capital Improvement and Preservation Program

3. HUMAN RESOURCES PERSONNEL ADMINISTRATION

BACKGROUND

As part of Phase I of the performance audit, we identified potential areas for improvement within the HR function at WSDOT. We expanded on this analysis during Phase IV, conducting various interviews across the WSDOT HR Departments and developing a questionnaire for WSDOT HR personnel. We sent the questionnaire to all WSDOT HR organizational offices, including WSDOT HQ, the regional offices, WSF, and UCO. The questionnaires asked for information regarding duties and responsibilities of the various HR Departments. The questionnaire was completed by WSDOT and returned for analysis.

Interviews were conducted at the HQ office in Olympia, the Northwest Region office in Shoreline, the Eastern Region office in Spokane, and the WSF office in Seattle. We judgmentally selected these four offices to obtain a thorough understanding of the HR processes across the state, which are documented below.

In addition to the interviews and questionnaires, we analyzed HR statistical information obtained from HRMS. HRMS was implemented statewide by DOP in July 2006 and is used to track personnel information. The statistical information obtained for analysis details the number of transactions processed by WSDOT HR employees in HRMS.

Upon completion of the interviews and analysis of the completed questionnaire, our focus narrowed to the personnel administration process. The personnel administration process refers to the entry and maintenance of employee information in HRMS. This includes processing new hires and terminations, as well as any other employee changes such as promotions, address changes, name changes, demotions, etc.

Current HR Personnel Administration Process

The Personnel Administration process refers to the processing of employee information in HRMS. Processing of personnel information occurs when new employees join WSDOT and current employees are terminated, and as the result of various other personnel changes, such as promotions, raises, change of address, etc.

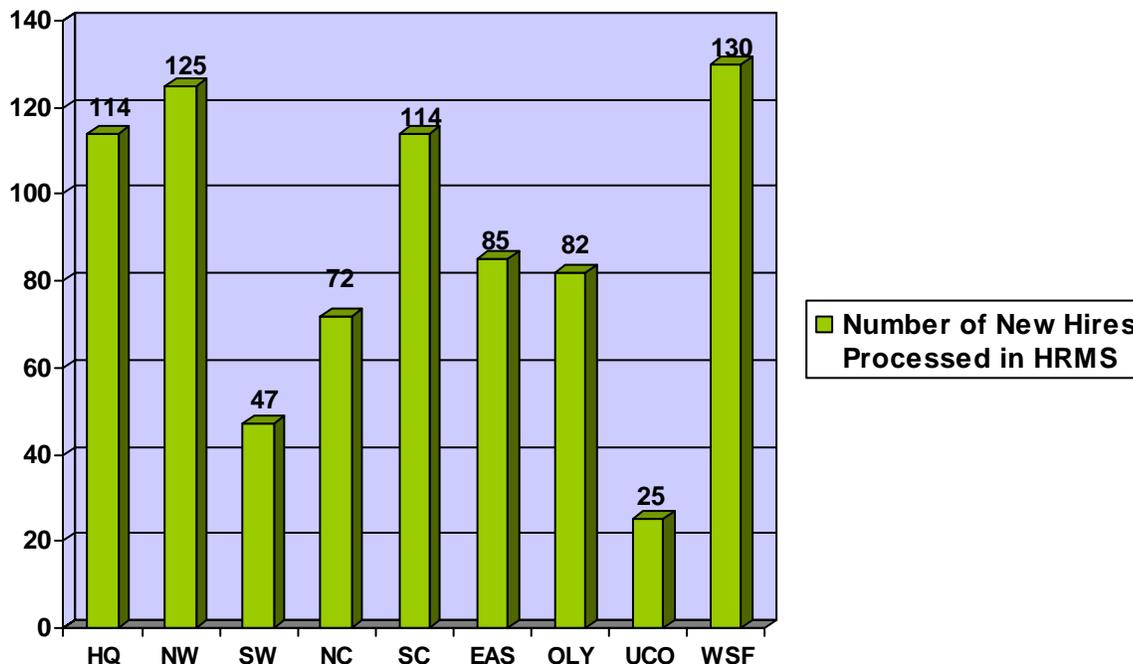
New Hires

New hires are processed by the hiring office, including the following offices listed below. Also note that for purposes of this finding, any reference to “regions” includes this listing except for HQ.

- WSDOT HQ
- Northwest Region (NW)
- Southwest Region (SW)
- North Central (NC)
- South Central (SC)
- Eastern (EAS)
- Olympic (OLY)
- UCO
- WSF

Exhibit 3.1 below depicts the number of new hires processed by WSDOT offices since the implementation of HRMS on July 16, 2006 through February 28, 2007.

Exhibit 3.1



We found the following inconsistencies for processing WSDOT new hires:

- Washington Management Services (WMS) employees and Executive Management Service (EMS) employees are not entered into HRMS by the regional offices. The regional office HR departments obtain all necessary information to enter the employee into HRMS and then send the information, along with the Personnel Action Form, to HQ for processing of the employee in HRMS.
- Some regions conduct an independent review of new employees' setup in HRMS, while others do not conduct a review.
- Regions may or may not create their own New Employee Checklist.
- The Northwest Region uses a system called Citrix to process any type of employee change in HRMS. Managers at the NW Region submit a request via Citrix, which is automatically routed to HR for processing. HR will not process a change to an employee account in HRMS unless it comes through Citrix.

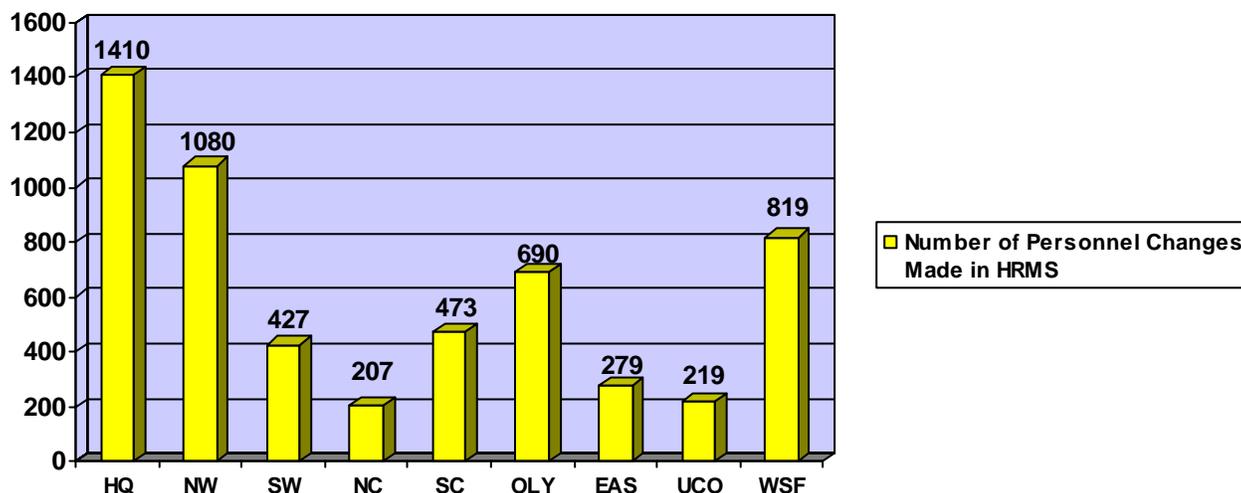
Refer to Appendix B for a detailed flowchart of the new hire process.

Personnel Changes

Personnel changes are processed at the office where the employee is located, with the exception of EMS and WMS employees. EMS or WMS personnel changes are performed at HQ.

Exhibit 3.2 depicts the number of personnel changes processed by WSDOT organizations since the implementation of HRMS on July 16, 2006 through February 28, 2007.

Exhibit 3.2



The HR office is informed by the appointing authority of the following types of personnel changes:

- Promotions
- Reassignments
- Nonpermanent appointment (to a higher classification)
- Change from a nonpermanent to a permanent appointment
- Demotions

Refer to Appendix B for a detailed flowchart of the personnel changes process.

Terminations

WSDOT uses two categories to classify terminations:

1. Termination by retirement
2. Termination by resignation, separation, layoffs, disciplinary action, and disability separation

All terminations are handled in the office of occurrence, but are processed in HRMS by HQ, with the exception of Merit 5 employees. Merit 5 employees are processed in HRMS by WSF. The different termination categories involve slightly different pre-HRMS processes, but the processing of the termination in HRMS is the same for all categories.

Refer to Appendix B for a detailed flowchart of the termination process.

FINDINGS AND RECOMMENDATIONS

FINDINGS

We found that WSDOT organizations are following HR policies; however, the policies allow the organizations to create different tools and practices for various HR operations. In addition, the policies do not require a verification of data entered into HRMS. We identified the following opportunities for improvement surrounding the Personnel Administration process.

Inconsistent Use of HR Tools

We found that the regions do not utilize the same tools to process new hires. For example, some regions use a new hire checklist developed by their particular regions, while others do not use a checklist at all. The lack of a consistent new hire processing methodology increases the risk that the related HRMS data may not be accurately and timely processed. This can ultimately affect a broader range of areas such as payroll and job or project accounting accuracy. WSDOT does have step by step procedures for processing information in HRMS; however, this finding relates to steps taken outside of HRMS.

Inconsistent Processing of Employee Changes (New Hires, Terminations, and Personnel Changes)

We found that the regions process some personnel changes in HRMS for the employees in their regions, while other changes must be sent to HQ for processing in HRMS (i.e., WMS and EMS employees and terminations). Because of the different methods employed, we obtained HRMS statistics related to employee changes. Our analysis of the data indicates that HQ is more accurately and efficiently processing employee changes than the other WSDOT organizations. The data indicates that inconsistent processing methodologies may result in inefficient use of best practices and inefficient communications between the organizations. It also increases the risk that the related HRMS data may not be accurately and timely processed.

Concentration of HRMS Expertise at HQ

Our analysis of HRMS personnel administration tasks indicates that HRMS expertise is concentrated at WSDOT HQ. Employee interviews indicate that a significant amount of the HQ HRMS experts' time is spent in a help desk role answering questions from the regional HR personnel. HQ HRMS personnel also train regional employees (i.e., new employees) in the use of HRMS, requiring the use of WSDOT labor hour and travel budget resources. Finally, the HRMS statistics for personnel changes also indicate that HQ personnel are more proficient at HRMS tasks when compared to the other WSDOT organizations.

Lack of Independent Review of Employee Information Entered Into HRMS

An independent review of information entered into the HRMS system is not conducted consistently throughout WSDOT, thus increasing the risk of inaccurate entry of employee information. This control weakness also increases the risk of inaccurate payroll data.

Duplication of Efforts in the Northwest Region

In addition to HRMS, the Northwest Region uses a system called Citrix to track and process all personnel changes. Terminations, new hires, promotions, demotions, etc. are entered into Citrix and routed for proper approval within the system. Once the information in Citrix is complete and all the approvals are obtained, the HR group will process the change in HRMS. To process the change, the HR group completes a Personnel Action Form based on the information in Citrix and then processes the information through HRMS. The employee information entered into Citrix by the managers is the same information entered into the Personnel Action Form by the HR group, creating a duplication of efforts.

RECOMMENDATIONS

Develop Standard Checklists for Use Departmentwide

We recommend that WSDOT develop standard checklists for use across all of its organizations, including the following processes:

- New hire
- Termination
- Personnel changes

The checklists should include the necessary steps to sufficiently and accurately complete the processing and recording of the personnel action in a timely manner. Policies and procedures should also be developed and implemented accordingly. (Note: These checklists are in addition to the procedures currently included in the HRMS manual.)

Centralize HRMS Processing

We recommend centralizing the HRMS personnel administration function to HQ. Centralization will change the new hire and personnel changes processes; however, the terminations process, as well as all processes for EMS and WMS employees, will not change. To accomplish centralization, WSDOT regions should develop processes similar to what is currently used for terminations and processes involving EMS and WMS employees.

Centralizing all HRMS processing will concentrate WSDOT's HRMS expertise in one area, which will increase productivity and efficiency and decrease the risks associated with inaccurate or untimely data entry.

Refer to Appendix B for a flowchart of the recommended process.

Implement an Independent Review of HRMS

Along with centralizing the HRMS personnel administration function, we also recommend implementing an independent review to test the validity of employee information keyed into HRMS. This independent review may be conducted internally but must consider appropriate segregation of responsibilities. WSDOT should also maintain documentary evidence of the periodic reviews. Implementing an independent review will strengthen process controls and decrease the risk of inaccurate data entry.

Remove or Modify Citrix

This report offers two recommendation options to eliminate the duplication of efforts resulting from the use of Citrix in the Northwest Region:

1. Build the Personnel Action Form in Citrix so the Citrix entry is the only requirement. This will eliminate the current duplication of efforts by the HR staff.
2. Remove the use of Citrix to process personnel changes, which would also eliminate the duplication of efforts. Personnel changes in the Northwest Region may be processed similar to all other regions (i.e., notification by the appointing authority via e-mail, phone call, etc.). (Note: Citrix is used for recruiting efforts as well. Our recommendation does not include the recruiting use of Citrix. We are only discussing personnel changes.)

POTENTIAL COST SAVINGS

Note that potential cost savings related to centralization include a shift of resources to WSDOT HQ from the other WSDOT organizations. See the details below and Appendix A, page A-3 for recommended resources at WSDOT organizations.

Centralization of HRMS Processing

Centralizing HRMS personnel administration processing at HQ will result in a more efficient process. HRMS statistics indicate the number of processing errors will be reduced and the amount of processing time per personnel action will decrease as the HRMS proficiency is concentrated at WSDOT HQ. Pertinent information follows.

Exhibit 3.3 identifies the number of Actions performed by WSDOT organizations. Actions are initial HRMS entries and include items such as new hires, terminations, promotions, address changes, etc.

Exhibit 3.3

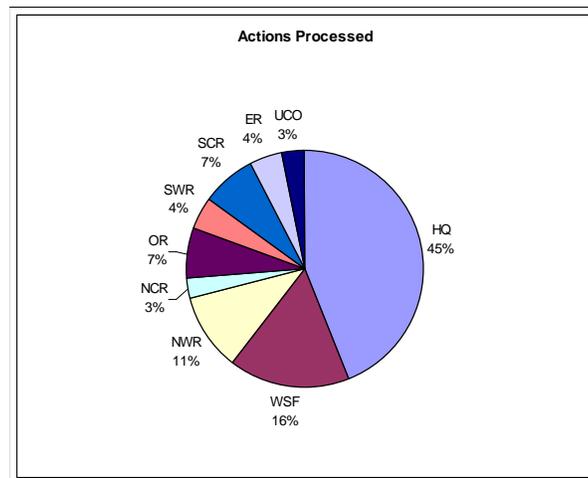
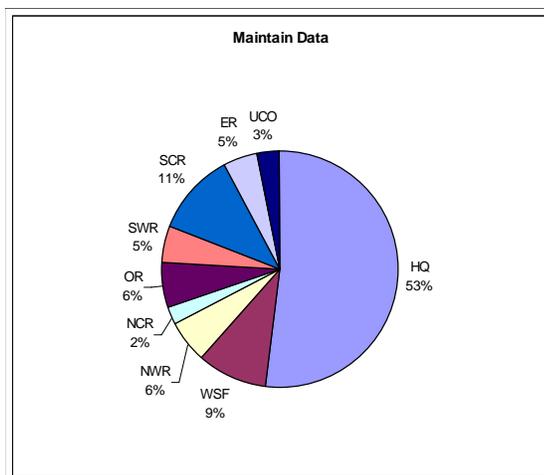


Exhibit 3.4 shows the number of Maintain Data process items. Maintain Data is defined as an action that requires correction of an initial entry (Actions).

Exhibit 3.4



HQ currently performs 45% of Actions and 53% of Maintain Data processes; a composite 49% of all items processed in HRMS. Our recommendation will require HQ to process the remaining 51% of HRMS transactions. HQ is currently using three FTEs to process HRMS transactions. Centralization will require HQ to process the other 51% of the HRMS transactions and a corresponding increase in HQ FTEs to a total of six. In addition, we also recommend an independent review of information entered into HRMS, which will require one additional FTE, bringing the total number of FTEs to process data in HRMS to seven.

Currently, there are 15.27 FTEs processing HRMS data. Upon centralization of HRMS processing, WSDOT HQ would keep seven of the 15.27 FTEs, thereby, releasing 8.27 FTEs. Exhibit 3.5 details the current and recommended FTEs per WSDOT organization.

Exhibit 3.5

Region	Total HRMS FTEs per Org Chart	# of FTEs Dedicated to HRMS Processing	
		Current	Recommended
HQ	5.50	3.00	7.0
NW	4.00	2.18	0
OLY	3.50	1.91	0
EAS	2.00	1.09	0
SC	2.50	1.36	0
NC	2.00	1.09	0
SW	3.50	1.91	0
UCO	2.00	1.09	0
WSF	3.00	1.64	0
Combined Regions & HQ		15.27	7.0

We note that our recommendations benchmark an aggregate WSDOT, including all organizations, against only HQ employees. We also compared the aggregate organization against an APQC benchmark and found that WSDOT is operating above the median benchmark level. Implementation of the recommendation will increase WSDOT efficiency and allow it to continue to operate in the upper level of the benchmark.

These FTE calculations are related to excess or duplicate effort. This effort may or may not be performed entirely by one individual; in most cases, our calculations include a portion of the tasks performed by many individuals. Figure 3.5 identifies the FTE calculations by organization. These calculations are an estimate of the total hours incurred for HRMS processing by all WSDOT employees within each organization. Implementation of the audit recommendations will release or free up the excess hours related to the identified FTE totals. The released hours may then be used for productive tasks elsewhere, a reduction in headcount. or a combination of these options.

The potential cost savings associated with the centralization of HRMS is:

One Year	\$ 531,844
Five Years	\$2,730,003

Refer to Appendix A for additional potential cost savings detail.

Removal or Change of Citrix Information

WSDOT can eliminate duplicate efforts by either removing Citrix or changing the template in Citrix for use as the actual Personnel Action Form. WSDOT employees indicate it takes approximately 15 minutes to enter a personnel change, and can take up to 45 minutes for new hire entry in Citrix and to obtain the proper approvals. It takes approximately the same amount of time to enter a personnel action into HRMS.

Our analysis indicates this duplicate effort equates to .29 FTE per year. Elimination of the duplicate effort will result in a potential cost savings of:

One Year	\$ 18,650
Five Years	\$ 95,733

Refer to Appendix A for additional potential cost savings detail.

Travel to Regions for Training on HRMS Is Eliminated

Centralization of HRMS personnel administration will eliminate the corresponding training requirements and required travel resources. We estimate a total travel savings of:

One Year	\$ 1,549
Five Years	\$ 7,951

Refer to Appendix A for additional potential cost savings detail.

Potential Cost Savings Summary

We recognize that implementation of the recommendations will require resources. Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

Recommendation	One-Year Savings	Five-Year Savings
Centralization of HRMS Processing	\$ 531,844	\$2,730,003
Modification or Removal of Citrix	\$ 18,650	\$ 95,733
Elimination of Travel	\$ 1,549	\$ 7,951
TOTAL	\$ 552,043	\$2,833,687

MANAGEMENT RESPONSE

Finding 1: WSDOT can improve the efficiency of its Human Resources Personnel Administration functions.

Recommendation 1:

- (a) We recommend that WSDOT develop standard checklists for use across all of its organizations.*
- (b) We recommend centralizing the Human Resources Personnel Administration function.*
- (c) Along with centralizing the HRMS personnel administration function, we also recommend implementation of an independent review to test the validity of employee information keyed into HRMS.*
- (d) This report offers recommendation options to eliminate the duplication of efforts resulting from the use of Citrix in the Northwest Region.*

WSDOT Response: We agree that using standard checklists for HRMS processing is a sound practice, and have worked to assure consistency in human resources personnel administration. The Department has developed agency procedures, including checklists, for use across all of its organizations. These procedures are refined as new information is provided and effective and efficient processes are developed. We will review our current procedures to determine where efficiencies and streamlining opportunities may be achieved.

While we agree that centralization of the Human Resource Personnel Administration function may achieve efficiencies, the Department will determine the full impact of centralization and develop necessary process flows to ensure the timely and accurate processing of personnel actions. We note that the audit's stated savings are estimates, and represent small segments of numerous employees' time. Further analysis will determine a more precise estimate of savings by reducing or redirecting FTEs, and when these savings may occur.

We agree that an independent review of information keyed into HRMS is necessary, and have established an internal process to accomplish this function. We will continue to evaluate the internal process and make the appropriate refinements as required.

The Department agrees that eliminating the duplication of effort in entering employee data into HRMS is a desirable practice. The Department will explore methods to ensure that information provided in Citrix can be imported into HRMS or that all employee data be directly input to the HRMS system. However, it should be noted that Citrix is also used for other business applications in the Northwest Region, such as developing job specifications and recruitment efforts, and that those applications will be maintained.

OFM Response: Washington State has experienced many changes since the Personnel Service Reform Act which have likely impacted efficiencies at WSDOT. Once their analysis is complete, WSDOT should be in a better situation to make informed decisions surrounding improvements around the efficiency of Human Resource Personnel Administrative functions.

Action Steps and Time Frame:

- Review and update procedures. Ongoing.
- Complete a detailed evaluation and implementation plan by July 2008. The plan will include the following:
 - Evaluation of the current processes performed in the different organizations and determine what functions and processes can be centralized.
 - Identification of process flows to ensure timely transmittal of data.
 - Communication of the new process to affected organizations and consideration of logistical issues.
- Evaluate the current entry into Citrix and establish processes to eliminate the unnecessary duplication into HRMS, while assuring that other business applications of Citrix continue to meet regional needs. Complete by July 2008.

4. EXPENDITURE ACCOUNTING

BACKGROUND

As part of Phase I of the performance audit, we identified that potential areas for improvement within the Expenditure Accounting function at WSDOT may exist. We expanded on this analysis during Phase IV, conducting various interviews across the WSDOT Expenditure Accounting Departments and developing a questionnaire for department personnel, since WSDOT does not track the amount of time employees spend on the tasks reviewed in this area. We sent the questionnaire to all regional offices, including WSF and UCO. The questionnaire asked for information regarding monthly estimates of time spent performing duties and responsibilities of the various Expenditure Accounting Departments. The questionnaire was completed by WSDOT employees in the field and returned for analysis.

Interviews were conducted at the HQ office in OLY, the NW Region office in Shoreline, the EAS Region office in Spokane, and the WSF office in Seattle. We judgmentally selected these four offices to obtain a thorough understanding of the Expenditure Accounting processes across the state.

In addition to the interviews and questionnaire, we analyzed expenditures payable statistical information obtained from TRAINS. TRAINS is WSDOT's enterprisewide accounting system.

Upon completion of the interviews and analysis of the questionnaires, we narrowed our focus to the Expenditure Accounting processes at WSDOT HQ and the six regional offices. Although we reviewed the WSF processes, we found that WSF has a separate Expenditure Accounting process when compared to the rest of WSDOT. Currently, WSF generates purchase orders for all items, which allows for a three-way match to occur in the Expenditure Accounting process. The rest of WSDOT does not use an automated purchasing system, and therefore does not have an automated three-way match. Purchasing is excluded from our scope because it is the subject of a separate audit. Therefore, our findings and recommendations do not address WSF.

Current Expenditure Payable Process

The expenditure payable process includes the processing of payments to vendors and contractors, employee reimbursements, and the payment of purchase cards (P-cards):

- Vendor Payments: the payment of purchases made by the different offices/departments on an agencywide basis.
- Contract Payments: predetermined payments (based on a contract) to a contractor providing services to WSDOT. Contract payments are not discussed in this report.
- Employee Reimbursements: payments related to travel, but can cover other expenses incurred by the employee for business-related expenses.
- P-cards: payments made to a WSDOT purchasing card that is used by employees as another form of completing a purchase. As an example, some P-cards are used for air travel expenses and are paid by WSDOT without the need for the employee to submit receipts for reimbursement. P-cards have a predetermined spending cap based on the employee's position at WSDOT. The P-card statements are reviewed and approved prior to payment.

Vendor Payment Process

Vendor payments are processed at the office where the purchase was made. Offices and organizations where a vendor payment (payment voucher) can take place include:

- WSDOT HQ
- Northwest Region (NW)
- Southwest Region (SW)
- North Central (NC)
- South Central (SC)
- Eastern (EAS)
- Olympia (OLY)
- Urban Corridors (UCO)

Processing of a payment voucher is very similar across all offices and regions. There are, however, some differences surrounding the review process of the payment vouchers prior to approval and release of the payment. These differences, which do not preclude WSDOT policy, will be discussed in more detail below. Refer to Appendix B for a detailed process flowchart.

Differences Between the Regions

The review process is the main difference among the regions in processing payment vouchers. Once the invoices are entered in the system, the payment voucher package is sent to the expenditure accounting group (EAG) at each region. The regional EAGs process the payment voucher packages differently. Some EAGs spot-check the package for potential errors, while other EAGs send the package through two detailed levels of review prior to submitting it for the TRAINS system edit check.

Employee Reimbursements Process

In addition to the vendor payment process, the expenditure accounting offices across WSDOT also handle employee reimbursements for travel or any other work-related expenses. The process of issuing a warrant to reimburse employee expenses follows the same steps as the vendor payment process. Refer to Appendix B for a detailed process flowchart.

P-Card Payment Process

WSDOT currently has a P-card agreement with JP Morgan Chase. WSDOT employees use four different credit card instruments to complete various purchases. P-cards are generally used for instances in which vendors require a payment in advance or for small dollar purchases. Use of P-cards in these situations accelerates the procure-to-pay cycle and typically reduces the expenses associated with these types of transactions. Refer to Appendix B for a detailed process flowchart.

FINDINGS AND RECOMMENDATIONS

FINDINGS

Upon completion of our interviews and analysis, we identified the following opportunities for improvement surrounding the Expenditure Accounting process.

Inconsistent Review of Vendor Payments

We do note that there are inherent controls within TRAINS, for example certain fields are required to be complete, and a number of edits require specific conditions to exist or a payment voucher will not process. However, the review process of vendor payment vouchers varies among regions. Some regions perform multiple detailed reviews of the vouchers prepared by the field offices, while others spot-check the voucher to identify obvious errors. The lack of a consistent review process increases the risk of undetected data entry errors. We did not perform a detailed review of the accuracy of payment data; however, erroneous data can affect multiple areas such as project reporting or inaccurate warrants.

Opportunity to Reduce Mailing of Materials

The mailing of documents between the field offices, the regions, and HQ occurs daily. The Consolidated Mail Services (CMS) handles all of the mailing. WSDOT pays the mail service in full with its mail center budget. This cost is calculated as \$4,680 annually, as documents are mailed twice: from the field offices to the regions and from the regions to HQ. Hard copies of payment vouchers and all supporting documentation are sent in each mailing.

Late Payments

Our correspondence indicates that WSDOT has undertaken efforts to improve payment timeliness and reduce errors. For example, WSDOT uses electronic data from the P-card program for amounts owed and an upload process to electronically enter transactions into the payment process. However, the current process facilitates payment delays because documents are mailed multiple times rather than to one central location. HQ will not send out the warrant to the vendor unless it has received all payment documentation. These delays affect WSDOT's performance in following the policy of completing vendor payments within 30 days of the receipt of the invoice/goods.

Increased Risk of Fraud

The lack of an automated purchasing system and, therefore, the lack of an automated expenditure payable system (i.e., three-way match) increases the potential for transactional errors and fraud. Specifically, the risk of fraud is significantly increased, as payables can be created for unauthorized or nonexistent purchases. The lack of an automated three-way match to pay invoices also significantly increases the risk of overpayment to vendors and payment of duplicate invoices.

RECOMMENDATIONS

Centralize Processing of Vendor Payments

We recommend that WSDOT centralize its Expenditure Accounting function at HQ. Currently, the vendor payment group at HQ is responsible for processing payments from HQ Departments and for filing all payment documents (from HQ and all regions). They also handle the mailing of all warrants to the vendors, contractors, and employees. Therefore, the vendor payment group at HQ is capable of handling all payments across WSDOT.

Upon entry of the invoices into the system, the recommended vendor payment process would require field offices to send all of their payment information (i.e., the copy of the payment voucher and all supporting documentation) directly to HQ, bypassing the regional HQ office. The vendor payment group at HQ will review the payment information and approve the payment in TRAINS. Prepared warrants will be matched with the payment voucher and mailed to the vendor. Centralizing the payment documentation at one location will streamline the process and should decrease the number of days it takes to pay an invoice.

Refer to Appendix B for a detailed process flow of the recommended vendor payment process.

Implementation of this recommendation will result in the following:

- (1) WSDOT will increase the efficiency of the process by handling all payment vouchers at one location and avoiding waiting times for payment vouchers to be reviewed and released in the system by the regions. Supporting documentation is to be maintained at HQ. This will decrease the amount of time required to pay invoices.
- (2) WSDOT will realize potential cost savings related to postal expenses. The cost of mailing the documentation will be reduced, as there will only be one mailing involved in the process. Note that the cost per piece (i.e., packages, envelopes) increased to \$1.00 on July 1, 2007.
- (3) WSDOT will improve internal control via a consistent review process for all payment vouchers. This process will also allow for a consistent review of the payment documentation sent by the regions. A consistent review process will reduce the risk of undetected errors.

POTENTIAL COST SAVINGS

Note that potential cost savings related to centralization include a shift of resources to WSDOT HQ from the other WSDOT organizations. See the details below and Appendix A for recommended resources at WSDOT organizations.

Centralizing Vendor Payments

Centralization will increase the efficiency of the vendor payments process and allow WSDOT to perform better against accounts payable benchmarks.

We obtained accounts payable benchmark data from APQC OSBCSM for comparison to WSDOT. According to APQC's Web site, "APQC is a member-based nonprofit that provides benchmarking and best-practice research for approximately 500 organizations worldwide in all industries. APQC opened its doors in 1977. APQC (previously known as the American Productivity Center and the American Productivity & Quality Center) was backed by a powerhouse board of directors, including leaders from Fortune 1000 companies, union heads, and former senior government officials. APQC has made great strides in fulfilling its mission of increasing productivity in organizations worldwide."⁴

The benchmark we obtained to compare WSDOT is as follows:

"Number of invoices processed per accounts payable FTE"

⁴ <http://www.apqc.org/portal/apqc/site/?path=/aboutus/index.html>

APQC used a group of 58 companies to obtain benchmarking data. Exhibit 4.1 below shows the data that was obtained from the benchmark group.

Exhibit 4.1

<u>Top Performer</u>	<u>Median</u>	<u>Bottom Performer</u>
26,187	11,288	6,127

Fiscal 2006 invoice data discloses that WSDOT processed 102,913 invoices during the year. Most of these invoices represent multiple lines of account coding. We also obtained information that details the number of FTEs processing vendor payments. Using two separate methods, we identified a range of 19.8 FTEs to 33.15 FTEs processing vendor payments. Therefore, WSDOT’s vendor payment employees are processing anywhere from 3,104 to 5,198 invoices per year, well below the median benchmark. We note that it is likely the majority of the benchmark components use integrated purchasing and payment systems. WSDOT’s lack of an integrated system likely contributes to the identified processing rate inefficiencies.

By achieving the median level of the benchmark, WSDOT could save resources equivalent to a range of 10.78 FTEs to 24.03 FTEs per year.

These FTE calculations are related to excess or duplicate effort. This effort may or may not be performed entirely by one individual; in most cases, our calculations include a portion of the tasks performed by many individuals. Appendix A identifies the FTE calculations by organization. These calculations are an estimate of the total hours incurred for expenditure accounting by all WSDOT employees within each organization. Implementation of the audit recommendations will release or free up the excess hours related to the identified FTE totals. The released hours may then be used for productive tasks elsewhere, a reduction in headcount, or a combination of these options.

If implemented immediately, we calculated potential cost savings of:

One Year \$ 639,006 to \$1,424,426
 Five Years \$3,280,075 to \$7,311,705

Refer to Appendix A for additional potential cost savings detail.

Mailing Costs

Centralization of the Expenditure Accounting function will result in potential cost savings related to mailing expenses.

We calculated potential cost savings of:

One Year \$ 4,680
 Five Years \$ 24,022

Refer to Appendix A for a detailed description of the potential cost savings calculation.

Potential Cost Savings Summary

We recognize that implementation of the recommendations will require resources. Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

Refer to Appendix A for additional detail.

Recommendation	One-Year Savings	Five-Year Savings
Centralization of Vendor Payments	\$639,006–\$1,424,426	\$3,280,075–\$7,311,705
Reduction in Mailing Costs	\$4,680	\$24,022
TOTAL	\$643,686–\$1,429,106	\$3,304,097–\$7,335,727

MANAGEMENT RESPONSE

Finding 2: WSDOT can improve internal controls and efficiency in its Expenditure Accounting process.

Recommendation 2: Centralize its Expenditure Accounting function at HQ.

WSDOT Response: We agree that there are efficiencies and staff savings to be gained in revising how we process vendor payments and plan to conduct additional research into best practices. As the audit notes, reductions of duplicate and non-standardized business processes and practices are important to improve the Expenditure Accounting function. We note that the audit’s stated savings are estimates, and represent small segments of numerous employees’ time. Further analysis will be needed to determine a more precise estimate of savings by reducing or redirecting FTEs, and when these savings may occur.

WSDOT has undertaken efforts to improve payment timeliness and reduce errors. This includes the electronic data available from the purchasing card program for amounts owed and an upload process to electronically enter transactions into the payment process in TRAINS.

OFM Response: Documentation of back-office functions and common business processes was recently completed by the *Roadmap* Program. The *Roadmap* Program is a collaborative effort of state agencies to create a comprehensive plan to meet demands for better information, improved management systems and streamlined business processes and policies for financial and administrative functions. WSDOT’s continued participation in the *Roadmap* Program Advisory Group will provide additional information in their analysis around internal controls and efficiencies related to expenditure accounting.

The audit mentioned the lack of an automated purchasing system at WSDOT likely contributes to their identified process rate inefficiencies. The costs of implementing such a system have not yet been identified.

Action Steps and Time Frame:

- Complete a detailed evaluation and implementation plan by July 2008. The plan will include the following:
 - Evaluation of the current processes performed in the different organizations and determine what functions and processes can be centralized.
 - Identification of process flows to ensure timely transmittal of data.
 - Communication of the new process to affected organizations and consideration of logistical issues.
- Complete a similar evaluation of the current vendor payment process for the Ferries Division. Complete by July 2008.
- Work with the Department of General Administration (GA) and OFM to evaluate the options for a computerized purchasing system. This evaluation will follow the *Roadmap* Program's current efforts led by GA around procurement reform. Timing is in accordance with the GA project schedule for procurement reform.

5. PAYROLL

BACKGROUND

As part of Phase I of the performance audit, we identified potential areas for improvement within the payroll functions at WSDOT. We expanded on this analysis during Phase IV, conducting various interviews across the WSDOT Payroll Departments and developing a questionnaire for department personnel, since WSDOT does not track the amount of time employees spend on the tasks reviewed in this area. We sent the questionnaire to all regional offices, including WSF and UCO. The questionnaire asked for information regarding estimated average time spent performing duties and responsibilities of the various Payroll Departments on a monthly basis. The questionnaire was completed by WSDOT employees in the field and returned for analysis.

Interviews were conducted at the HQ office in Olympia, the NW Region office in Shoreline, the EAS Region office in Spokane, and the WSF office in Seattle. We judgmentally selected these four offices to obtain a thorough understanding of the payroll processes across the state, which are documented below.

Current Payroll Process

The payroll process refers to recording employee time worked, processing the time worked through the financial systems, and ultimately issuing a paycheck to the employee. Processing payroll at WSDOT occurs twice a month, and paydays are on the 10th and 25th of each month.

WSDOT currently utilizes the following five systems to process payroll:

1. Labor Collection and Distribution (LD) System — This system collects labor information for WSDOT Merit 1 employees. The system collects the hours worked for each employee and includes labor distribution reporting capabilities to identify labor hours to job or project codes.
2. Marine Labor (ML) System — This system collects labor information for WSF Merit 5 employees. The system collects hours worked for each employee, and also has labor distribution reporting capabilities.
3. HRMS — SAP module used to process payroll for the entire State of Washington; the Department of Personnel is responsible for the system. Both the LD and ML systems interface payroll information to HRMS.
4. PayOne — The State of Washington's old payroll system, which is still used to track employee benefits because HRMS does not have the capability to track various benefits. PayOne interfaces with HRMS.
5. TRAINS — WSDOT's financial system. The LD and ML systems interface with TRAINS. Labor information from LD and ML is transferred to TRAINS each payroll period.

Processing payroll at WSDOT is the same across the entire agency, with two exceptions:

1. WSF uses both LD and ML because it has both Merit 1 and Merit 5 employees. The rest of WSDOT employees are Merit 1 exclusively.
2. WSF collects and enters time at one central location; different from the rest of WSDOT.

Time Entry

WSDOT currently uses multiple types of hard copy time sheets that are manually completed by employees. The completed time sheets are sent to each office's designated timekeeper.

Time worked is recorded in either LD or ML by designated timekeepers at each responsible WSDOT office. The timekeepers key in the employee name, the work/project code, and the applicable hours for each employee. We noted that there is no specific review of the data keyed into the system by the timekeeper.

Refer to Appendix B for a detailed process flow of the current payroll process.

FINDINGS AND RECOMMENDATIONS

FINDINGS

Upon completion of our interviews and analysis, we identified the following opportunities for improvement surrounding the payroll process.

Excessive Time Spent Entering Payroll Data

The entry of time is a manual-intensive process and requires an excessive amount of time. WSDOT follows a two-step process where employees record their time, either by hand or by computer, followed by supervisory approval. The second step requires the timekeeper to enter the approved hours into the system. This means that labor hours are recorded a minimum of two times: once by the employee and once by the timekeeper. Currently, there are three different time sheets available, which all require dual entry along with other manual tasks, such as printing the time sheets and collecting them for entry.

Opportunities to Improve Internal Controls Surrounding the Time Entry Process

WSDOT is unique in certain respects when compared to other state agencies. Specifically, it must identify labor hours and related costs to final cost objectives (projects or jobs), and an accurate time entry process is paramount to this objective.

WSDOT has procedures surrounding the accuracy of labor accounting; however, the procedures only review time reporting for glaring or obvious errors. For example, WSDOT reviews total hours by employee to identify balances that are not within an acceptable range. This is effective in identifying employees who may not be paid because their time was not entered. However, the individual time sheet information is not specifically reviewed to validate the accuracy of data keyed into the system. Supervisors review and approve labor hours before they are entered into the system. The WSDOT Accounting Manual contains procedures requiring work order managers to review a monthly work order ledger for appropriateness. Managers are also required to certify payroll registers. This upper-level review is a good control that may or may not disclose expenditure errors, but it is not a specific test of labor hour data entry. The Accounting Manual also contains a procedure to review the labor distribution detail report, also designed to detect erroneous work order charges. This is also a good control, but it is not a specific validation of the labor hour data entry. This lack of validation or review increases the risk of time sheet entry errors and potential inaccurate payroll payments.

We found several other opportunities to improve controls in this area. Our observations mainly surround absent characteristics rather than errors in the execution of the current process. Refer to the recommendations section of this report for specific objectives related to time entry.

Duplication of Efforts

WSDOT uses two separate LD systems. Although both systems perform the same basic functions, separate resources are required for each system. For example, each system has separate IT staff for maintenance.

Payroll Processing Errors Exist

Employee interviews indicate a significant number of payroll processing errors occur each pay cycle. We found that many of these errors occur because of midperiod changes to employee data, which change the employees' pay information. This results in two separate pay rates for the same employee in the same pay period and often results in errors if the change is not appropriately communicated between the HR and Payroll departments.

RECOMMENDATIONS

Time Reporting and Labor Distribution System

We recommend implementation of a new LD system with electronic time entry and approval functionality. The system should be robust and capable of processing all WSDOT employees and should include attributes addressing the control objectives outlined below.

We also recommend a change to 26 annual pay periods rather than the current bimonthly process. The current format results in many different pay cycle hours throughout the year. Pay cycle hours are used to determine employee regular hourly rates and corresponding overtime or premium rates. These rates change as total pay cycle hours change. In addition, payroll cutoff can occur during the week, which causes additional administrative documentation of hours and contributes to the number of payroll errors.

We recognize that a change to 26 annual pay periods may require statewide adoption which means that cost savings and/or efficiency gains may be realized statewide. However, our findings and recommendations address WSDOT only.

Opportunities to Improve Internal Controls Surrounding the Time Entry Process

Our recommendation to implement one LD system for the entire agency considers several control objectives that will improve the current process. This recommendation is based on the requirements that differentiate WSDOT from other Washington State agencies. WSDOT must account for its expenses at a project or job cost level, meaning WSDOT must have detailed reporting of labor hours by project or job.

WSDOT receives a substantial amount of federal aid or funding through grants or other means. The state legislature also needs to track WSDOT spending by job or project costs. Therefore, WSDOT must have procedures to facilitate the accumulation and recording of labor costs to cost objectives, both for the purpose of determining proper cost reimbursement on government contracts and for other legislative reporting requirements. This capability is not supported by any current statewide system and is the reason WSDOT is using TRAINS. Regardless of the accounting system in place, WSDOT needs appropriate controls over its timekeeping and labor distribution processes to properly assign labor hours and costs to final cost objectives in TRAINS.

We recommend that the new timekeeping and labor distribution system include controls surrounding the following areas:

- Supervisory observation of employee arrival and departure to prevent improper recording of time in/time out where required.

- Restriction of access to charge codes. Employees should only be able to access authorized numbers.
- Direct labor employees record their time no less often than daily. Sufficient formal subsidiary records are maintained, if necessary, to ensure accurate time recording and allocating of labor costs to intermediate and final cost objectives when multiple jobs are worked in a day.
- Corrections are properly authorized, and provide a sufficient and relevant explanation for the correction.
- Employees and supervisors electronically sign the time cards/time sheets in accordance with procedures, verifying the accuracy of the recorded effort.
- Only the employee uses his/her labor charging instrument (e.g., user ID and password) to access the labor system.
- Changes are initialed, authorized, and dated by the employee and supervisor and include a description of the reason for the change. This may be done electronically.
- A verifiable audit trail process collects all initial entries and subsequent changes.

Time Entry and Approval

The new system should require WSDOT employees to electronically enter their own time sheet information on a daily basis. At the end of each pay period, the employee electronically signs the time sheet. The new LD system then automatically routes the electronic time sheet to the appropriate supervisor or manager (predetermined) for review and approval. Supervisory review and electronic approval of the time sheet will constitute an independent review of the data entered into the system. Once the time sheet is reviewed and approved by the appropriate supervisor or manager, the time sheet is automatically routed to the HQ Payroll Department for processing.

Payroll Processing

Our recommendation includes a shift to 26 pay periods per year, which is a significant change. However, given the current environment involving the statewide commitment to HRMS, we cannot recommend any further significant change to the current payroll processing system after data is interfaced to HRMS. It is unfortunate that the statewide system was implemented even though it cannot meet the WSDOT labor reporting requirements. Payroll processing will contain redundant tasks until either WSDOT moves to a stand-alone system or the statewide system is enhanced to include the reporting characteristics required by WSDOT. However, we did note that payroll processing can be improved through the elimination of midperiod personnel changes.

Refer to Appendix B for a detailed process flow of the recommended payroll process.

Eliminate Duplication of Efforts

Implementing one labor collection system for the entire WSDOT will eliminate duplicate efforts surrounding the maintenance of two different labor collection systems — Merit 1 (LD) and Merit 5 (ML).

Reduce Payroll Processing Errors

We recommend that WSDOT eliminate midperiod personnel changes in all systems. Compensation, benefits, or any other employee changes should only be allowed at the beginning of a pay period. The current system allows midperiod changes and these changes cause many of the payroll processing errors. Eliminating midperiod changes, will increase efficiency via a reduction in error correction and an improved data entry process, as personnel administrators will be accustomed to processing changes in a normal routine at the beginning of each pay period.

SUMMARY OF BENEFITS OF THE RECOMMENDATION

Overall, the implementation of a new Web-based labor system will significantly reduce the amount of time spent processing payroll and will strengthen the internal controls surrounding the process. WSDOT recognizes this and issued a report in 2001, *Information Technology Investment Plan for the Time Collection Automation System*. The report identifies the following benefits:

- Enables employees to submit time sheets electronically, and without direct assistance, resulting in more reliable, and less resource intensive time collection processes with significant “downstream” savings.
- Provides more timely data access for management; improvement in time reporting capabilities will provide more timely work order monitoring with the most current labor; and makes historical data available to managers and payroll staff. Data would be available for query from a server.
- Produces productivity gains for supervisors and timekeepers. The proof of concept demonstrated a reduced time requirement for supervisors and timekeepers.
- Provides improved employee leave tracking that eliminates the need for the labor intensive, home grown side systems that have been created to report leave in many offices. A portion of the time reductions for supervisors and timekeepers comes from eliminating side systems.
- Modernizes the labor system, reducing processing time, and eliminating duplication. The current labor system was installed in 1981.
- Improves auditability. Automated timekeeping systems include an automated transactions log, and provide secure access to auditable transaction history files and electronic approvals. Automated timekeeping systems typically have an alternative employee number so we do not need to use Social Security numbers as the primary employee system identifier.
- Improves information reporting capabilities for process services such as workflow, project management, and scheduling. Data in the client server environment is easier to interface than data that needs to cross platforms.
- Reduces costs for printed forms and paper and records storage. The department spent \$38,400 on time sheet forms during calendar year 1998. This does not include paper that was used to print the electronic forms from Filemaker Pro.
- Provides self service possibilities and enhances employee responsibility because employees can check their own hours, leave balances, and possibly check messages from their supervisors, HR, or payroll.
- Improves data accuracy, thereby reducing the time spent on labor and leave error corrections.”⁵

⁵ Washington State Department of Transportation, “Information Technology Investment Plan for the Time Collection Automation System” September 13, 2001.

POTENTIAL COST SAVINGS

Reduction in the Number of Hours Spent Entering Time Sheets Into the LD Systems.

Implementing one LD system for WSDOT that has electronic time entry and approval will eliminate hours required by timekeepers to collect time sheets and separately enter these time sheets into the system. We noted that there are approximately 37.11 FTEs entering time into the labor systems at WSDOT.

These FTE calculations are related to excess or duplicate effort. This effort may or may not be performed entirely by one individual; in this case, our calculations include a portion of the tasks performed by hundreds of individuals. Appendix A identifies the FTE calculations by organization. These calculations are an estimate of the total hours incurred for time entry by all WSDOT employees within each organization. Implementation of the audit recommendations will release or free up the excess hours related to the identified FTE totals. The released hours may then be used for productive tasks elsewhere, a reduction in headcount, or a combination of these options.

Implementation of the recommendation could result in resource savings equivalent to 37.11 FTEs. If implemented immediately, we calculated potential cost savings of:

One Year \$1,836,388
 Five Years \$9,426,343

Refer to Appendix A for additional details.

Benchmark

We obtained payroll benchmark data from APQC. The benchmark we obtained is:

“Number of FTEs for the payroll processes per 1,000 paid employees.”

APQC used a group of 30 companies to obtain benchmarking data. Exhibit 5.1 below shows the data that was obtained from the benchmark group.

Exhibit 5.1

<u>Top Performer</u>	<u>Median</u>	<u>Bottom Performer</u>
0.7	2.0	4.1

By achieving the median level of the benchmark, WSDOT could save resources equivalent to a range of 6.5 FTEs to 10.94 FTEs per year. Implementation of a robust automated time reporting and labor distribution system, along with a change to 26 annual pay periods, should increase payroll efficiency by streamlining the system and reducing payroll errors. This should ultimately allow WSDOT to achieve the median level of the benchmark.

These FTE calculations are related to excess or duplicate effort. This effort may or may not be performed entirely by one individual; in most cases, our calculations include a portion of the tasks performed by many individuals. Appendix A identifies the FTE calculations by organization. These calculations are an estimate of the total hours incurred for payroll processing by all WSDOT employees within each organization. Implementation of the audit recommendations will release or free up the excess hours related to the identified FTE totals.

The released hours may then be used for productive tasks elsewhere, a reduction in headcount, or a combination of these options.

We calculated potential cost savings of:

One Year \$ 385,301 to \$ 648,491
 Five Years \$1,977,785 to \$3,328,765

Refer to Appendix A for additional potential cost savings detail.

Potential Cost Savings Summary

We recognize that implementation of the recommendations will require resources. Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

Refer to Appendix A for detailed potential cost savings calculations.

Recommendation	One-Year Savings	Five-Year Savings
Elimination of Timekeepers	\$1,836,388	\$9,426,343
Meet Benchmark	\$385,301–\$648,491	\$1,977,785–\$3,328,765
TOTAL	\$2,221,689–\$2,484,879	\$11,404,128–\$12,755,108

MANAGEMENT RESPONSE

Finding 3: Opportunities to improve the payroll and timekeeping functions and related internal controls exist due to current manual, labor-intensive processes.

Recommendation 3:

- (a) We recommend implementation of a new labor distribution system with electronic time entry and approval functionality.*
- (b) We also recommend a change to 26 annual pay periods rather than the current bimonthly process.*

WSDOT Response: The Department appreciates the auditor’s suggestions to improve the efficiency of our payroll and timekeeping functions.

We agree that opportunities for electronic timekeeping and labor system improvements exist and are essential to accurately process this information. We note that the audit’s stated savings are estimates, and represent small segments of numerous employees’ time. Further analysis will be needed to determine a more precise estimate of savings by reducing or redirecting FTEs, when these savings may occur, and the cost of purchasing and implementing a new system.

OFM Response: As mentioned under finding #2, OFM and other central service agencies are leading the *Roadmap* program, a collaborative effort to move the state toward a common set of integrated financial and administrative policies, processes, systems and data. We see a great opportunity to address the need for a labor distribution system from the state perspective that includes all agencies, not just WSDOT.

While we agree that a change to 26 pay periods would make it easier to calculate overtime for employees on a standard work week (Monday through Friday), it would afford no benefit for overtime calculations for employees on non-standard work weeks (24/7), such as employees at institutions operated by the Department of Corrections, Department of Veterans Affairs, and Department of Social and Health Services. Additional considerations include:

- Negative impact on investment earnings as funds would be leaving the state treasury sooner.
- Required modifications to the state's general government payroll processing system (HRMS) as well as the 5 state payroll systems used by the state's higher education institutions.
- Potential modifications to agency shadow systems including time keeping and labor distribution systems.
- Required modifications to accounting systems for payroll accruals.
- Potential impact on labor and the need for employees to work overtime to meet pay dates.

Before legislation is introduced to change existing laws on frequency of pay periods, additional analysis is needed. To this end, OFM will convene a workgroup comprised of individuals that represent all six of the state's payroll systems, agency fiscal offices, the State Treasurer's Office and the Office of Labor Relations.

The workgroup will explore the feasibility of the 26 payroll period proposal as well as other options to streamline the payroll process, such as eliminating the handling and distribution of payroll warrants by transitioning to electronic payment.

In the meantime, we believe the finding can be addressed by focusing efforts on staff training and process changes to incorporate reviews in areas where errors were noted in the audit.

Action Steps and Time Frame:

- Evaluate staff training and process changes. Complete by July 2008.
- OFM will convene a work group including WSDOT and other interested parties to explore statewide solutions to payroll processing and distribution issues. We will convene the workgroup by December 2007. Workgroup recommendations that require statute changes will be finalized in time for consideration in the 2009 legislative session.

6. CASH RECEIPTS

BACKGROUND

As part of Phase I of the performance audit, we identified potential areas for improvement within the accounts receivable functions at WSDOT. We expanded on this analysis during Phase IV, conducting various interviews across the WSDOT Accounts Receivable Departments and developing a questionnaire for department personnel, since WSDOT does not track the amount of time employees spend on the tasks reviewed in this area. We sent the questionnaire to all regional offices, including WSF and UCO. The questionnaire asked for information regarding monthly estimates of time spent performing duties and responsibilities of the various Accounts Receivable Departments. The questionnaire was completed by WSDOT employees in the field and returned for analysis.

Interviews were conducted at the HQ office in Olympia, the NW Region office in Shoreline, the EAS Region office in Spokane, and the WSF office in Seattle. We judgmentally selected these four offices to obtain a thorough understanding of the accounts receivable processes across the state.

In addition to the interviews and questionnaire, we analyzed accounts receivable statistical information obtained from TRAINS. TRAINS is WSDOT's enterprisewide accounting system.

Upon completion of the interviews and analysis of the questionnaires, we narrowed our focus to the cash receipts process at WSDOT HQ and at the six regional offices. Although we reviewed the WSF processes, we found that WSF has a separate accounts receivable process when compared to the rest of WSDOT. WSF currently uses a lockbox for its accounts receivable processing. The rest of WSDOT does not use the lockbox best practice, thus creating an entirely different process.

Current Cash Receipts Process

The cash receipts process includes processing (i.e., posting to customer accounts) cash and check payments in TRAINS and the actual bank deposits. This occurs on a daily basis.

Cash and Check Receipts

Cash and check receipts are processed at the regional office where the cash or check is received. Exhibits 6.1 and 6.2 below depict the dollar volume of cash/checks processed in TRAINS by HQ and the regions. Note that UCO is included in the NW Region because the NW Region processes cash receipts for UCO.

Exhibit 6.1

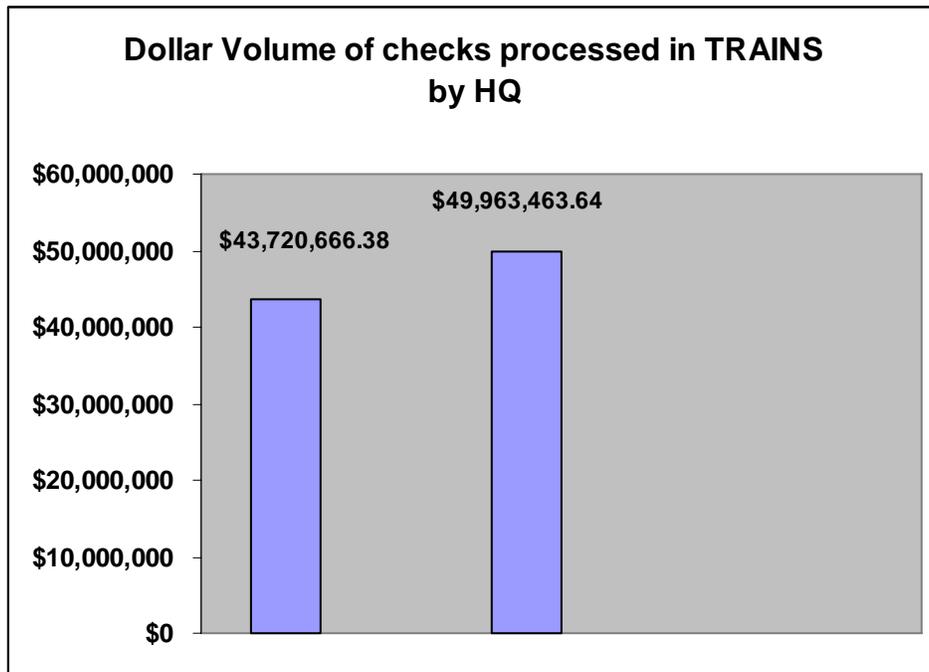
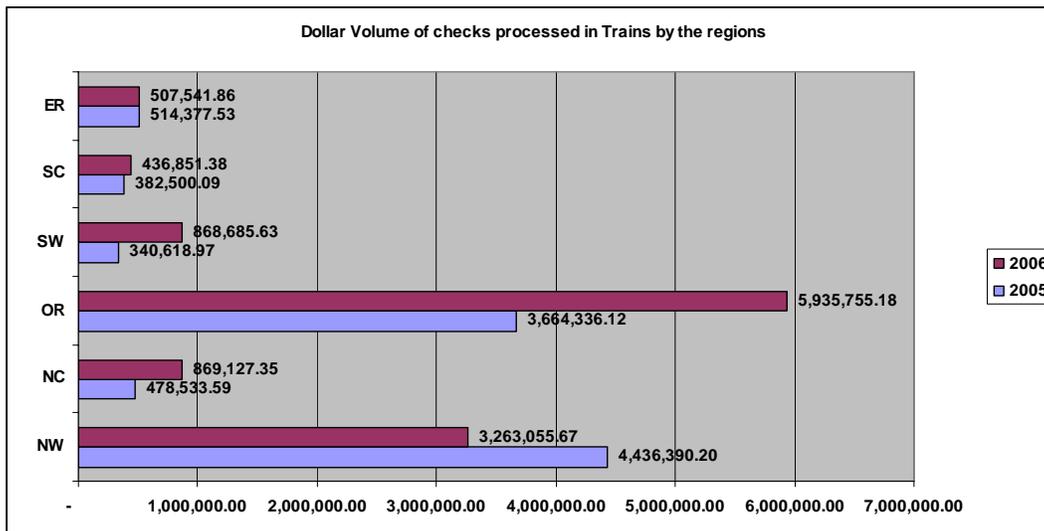


Exhibit 6.2



Refer to Appendix B for a detailed process flowchart.

Differences Between the Regions and HQ

We found the following differences between WSDOT organizations when processing cash receipts:

- Some of the regional Accounts Receivable Departments document payments received in a spreadsheet, separate from the mail room log.

- The regional financial services staff prepares the physical bank deposit slip and then deposits the checks along with the bank deposit slip into a regional bank account (different from HQ).
- Deposits made by regions are considered undistributed deposits until arriving at the concentration account handled by the Office of the State Treasurer (OST). OST sweeps the regional bank accounts into the main concentration account on a regular basis (some accounts are daily, others weekly).

FINDINGS AND RECOMMENDATIONS

FINDINGS

Current policies allow different WSDOT organizations to establish their own practices related to cash receipts. We identified the following opportunities for improvement surrounding the cash receipts process.

Inefficient Cash Receipt Process

The current cash receipt process requires the mail room employees to distinguish whether or not an envelope received in the mail contains cash receipts by holding the envelope up to a light. Due to the lack of controls in this process there is an increased risk of data entry error and opportunity for erroneous transactions or fraud. (Holding envelopes up to a light is not an effective method for determining the existence of cash receipts. A mail room employee may miss a cash receipt or may erroneously claim there is no cash receipt.)

The regions each utilize separate local bank accounts, which requires a daily and/or weekly sweep by OST. These local bank accounts incur additional bank fees and processing costs.

Inconsistent Processing of Cash Receipts

The regions receive cash/checks in the mail that do not belong to their region and record and process cash receipts for other regions or for HQ. The regions also apply individual procedures for recording and processing cash and checks received. This lack of consistent cash receipts processing increases the risk of data entry errors and lost payments and requires the cashier at HQ to monitor procedures at the regions in order to maintain consistent recording in TRAINS.

Additionally, departments at HQ record and process their own cash receipts in TRAINS. This inconsistent process increases the risk of data entry error and requires an additional independent review by the cashier at HQ.

RECOMMENDATIONS

Establish Lockbox Usage

We recommend that WSDOT establish a bank lockbox and require all cash receipts to be sent directly to the lockbox. A lockbox service will provide WSDOT quicker access to its receivables. Remittances will be mailed to a postal box established by the bank. On a daily basis, the bank will retrieve WSDOT's incoming remittances and process and deposit them directly into its bank account. This will provide both a solid audit trail and built-in quality control.

WSDOT can tailor the lockbox process to meet its needs, as many banks offer a variety of lockbox services.

Implementing lockbox usage will create a consistent cash receipts process across WSDOT and reduce the risk of inaccurate cash receipts. Additionally, bank lockboxes offer the following benefits:

- Accelerate cash flows through improved availability of funds
- Maximize investment opportunity and minimize borrowing expense
- Minimize processing cost of receivables
- Eliminate processing delays during peak periods
- Automate accounts receivable posting process.
- Increase security of receipts
- Enhance audit controls
- Reduce the risk of employee misappropriation of funds

Refer to Appendix B for a detailed process flow of the recommended cash receipts process.

Inconsistent Processing of Cash Receipts

Implementing the lockbox recommendation will provide corrective action for this issue.

POTENTIAL COST SAVINGS

Implementation of a Bank Lockbox

Generally, companies that utilize a bank lockbox need one FTE to process the lockbox reports and remittances. We noted that WSF currently employs one FTE for this function. However, we recommend that WSDOT HQ maintain two employees to process the lockbox information, based on our analysis of WSDOT's accounting structure and information obtained during the interview process. Our recommendation considers the following:

- WSDOT's accounting structure is complex in that it requires multiple funding sources and various account codes, which make posting cash receipts difficult.
- WSDOT often receives checks that do not contain information to identify the source of the funding. WSDOT spends a significant amount of time identifying appropriate accounting treatment of these items. This will continue after implementation of lockbox usage.

Currently, WSDOT has the following number of FTEs posting cash receipts in each region:

Exhibit 6.3

Organization	FTEs Posting Cash Receipts
HQ	2.00
NW	0.62
OLY	0.37
EAS	0.21
SC	0.14
NC	0.33
SW	0.47
UCO	0.00
TOTAL	4.14

Lockbox implementation would release resources equivalent to 2.14 FTEs (4.14 – 2.00).

These FTE calculations are related to excess or duplicate effort. This effort may or may not be performed entirely by one individual; in the regions, our calculations obviously include only fractions of the tasks performed by one or more individuals. These calculations are an estimate of the total hours incurred for time entry by all WSDOT employees within each organization. Implementation of the audit recommendations will release or free up the excess hours related to the identified FTE totals. The released hours may then be used for productive tasks elsewhere, a reduction in headcount, or a combination of these options.

Implementation of the recommendation could result in resource savings equivalent to 2.14 FTEs. We calculated potential cost savings of:

One Year \$126,853
 Five Years \$651,147

Refer to Appendix A for additional potential cost savings detail.

We recognize that implementation of the recommendations will require resources. Although this performance audit was not structured to include detailed implementation plans and related expenses, we feel that WSDOT has the experience and expertise to develop the specific steps necessary to implement the recommendations.

MANAGEMENT RESPONSE

Finding 4: Opportunities to improve efficiency and effectiveness exist in the Accounts Receivable (AR) Cash Receipt process due to use of a manually intensive process and internal control weaknesses surrounding the receipt of cash and checks.

Recommendation 4: Implement a bank lockbox for departmentwide cash receipts.

WSDOT Response: While we agree that a lockbox is a good practice for the Ferries Division, we feel our recently implemented mail stop for payments to Headquarters will address the finding with deposits to the State Treasurer, and at a lower cost than a lockbox. To meet

customer expectations, WSDOT will continue to collect cash in its field offices for customers who pay in person for services such as oversized and overweight permits.

OFM Response: We agree that it is important to incorporate efficiencies and controls in cash receipting processes.

Action Steps and Time Frame:

- Review cash receipting practice periodically to assure that strong internal controls and efficiency are maintained. Ongoing.

7. INTERNAL AUDIT

BACKGROUND

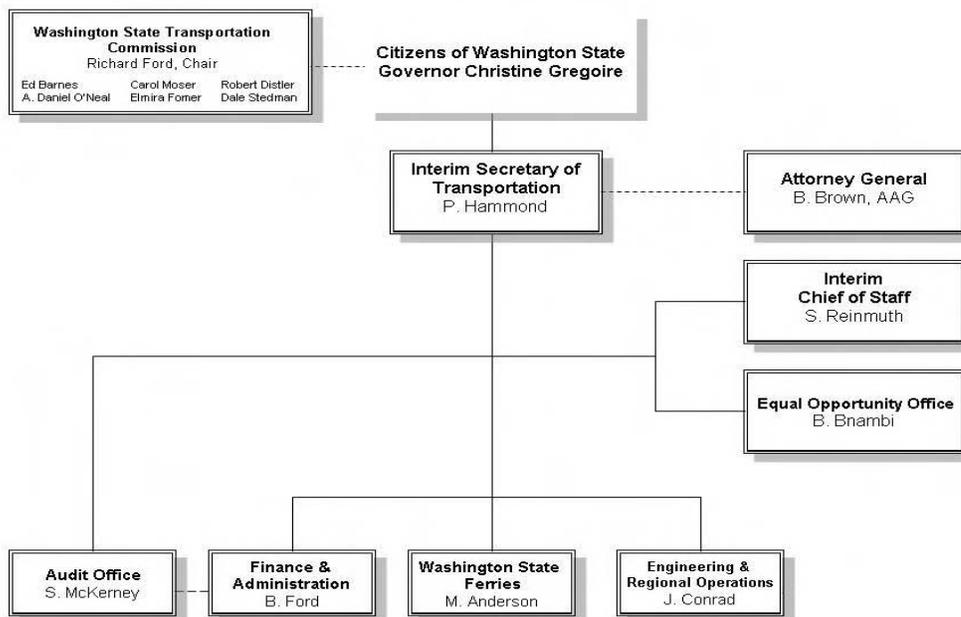
Washington State law requires state agencies to have an Internal Audit Department (IA) function that follows the standards set by the IIA. RCW 43.88.160, section (4) (a) states:

“Each agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining IAs following the standards of internal auditing of the institute of internal auditors.”

WSDOT complies with the above RCW and has an IA that performs audits, consulting services, and investigations. IA includes 17 FTEs and currently budgets over 18,000 billable/engagement hours. Core duties include evaluating and improving risk management, financial accountability, and internal governance processes.

The WSDOT IA reports administratively to the Assistant Secretary for Finance and Administration and functionally to the Secretary of Transportation (see definitions below for Functional and Administrative reporting). In addition, upon the discretion of the Audit Office, the director of IA may report separately to the Audit Committee of the Washington State Transportation Commission. Exhibit 7.1 illustrates the IA office relationship with other WSDOT departments, officers, and executives. Note that while the exhibit is an accurate depiction of the organization, it appears that IA’s relationship with the Transportation Commission has changed since 2005 for reasons discussed below.

Exhibit 7.1 — Washington State Department of Transportation Organization Chart



Functional Reporting

The functional reporting line for the IA function is the ultimate source of its independence and authority. As such, the IIA recommends that the chief audit executive (CAE) report functionally to the audit committee, board of directors, or other appropriate governing authority. In this context, report functionally means that the governing authority would:

- Approve the overall charter of the IA function.
- Approve the IA risk assessment and related audit plan. (Emphasis added.)
- Receive communications from the CAE on the results of the IA activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present.
- Approve all decisions regarding the appointment or removal of the CAE.
- Approve the annual compensation and salary adjustment of the CAE.
- Make appropriate inquiries of management and the CAE to determine whether there are scope or budgetary limitations that impede the ability of the IA function to execute its responsibilities. (Emphasis added.)

Administrative Reporting

Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the IA function. Administrative reporting typically includes:

- Budgeting and management accounting.
- HR administration, including personnel evaluations and compensation (excluding the CAE).
- Internal communications and information flows.
- Administration of the organization's internal policies and procedures.

WSDOT Control Structure

In 2005 the legislature removed the authoritative powers of the Transportation Commission (the Commission) from the Department of Transportation and made the agency part of the governor's cabinet. This effectively removed operational authority from the Commission and changed the Commission's relationship with IA.

The remaining duties of the Commission include recommending a statewide transportation plan on a biannual basis, a 10-year investment program, and a biannual statewide multimodal transportation progress report. The Commission is also responsible for rule setting and project selection for the Transportation Innovative Partnerships (TIP). Furthermore, the Commission has the authority for setting fare and toll rates.

It is also within the Commission's authoritative powers to review performance and outcome measures of statewide transportation-related agencies.

FINDINGS AND RECOMMENDATIONS

FINDING

The WSDOT IAO reporting relationships should be modified to improve IA independence.

Methodology

We initially reviewed the most current WSDOT organizational structure to gain an understanding of the reporting relationships. We updated the organizational chart based on the job description of WSDOT IA director to better visualize the reporting relationships.

We reviewed the IIA standards to gain an understanding of guidance for internal audit independence and compared the IIA standards to the current WSDOT IA Department organizational structure.

We reviewed the WSDOT IA annual audit work program. We considered GAGAS and IIA standards for external peer reviews and examined the latest peer review. We used this analysis to further evaluate the independence of the IA organization.

Finally, we developed a recommended “ideal” reporting structure based on IIA standards that will improve the appearance of independence of the WSDOT IA Department.

Institute of Internal Audit Guidance

As Washington State law requires state agencies to have an IA function that follows the standards set by the IIA, it is important to know how IIA defines IA.

The IIA Web site (www.theiia.org) defines IA as follows.

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”
(Emphasis added)*

In the IIA Practice Advisory standards, it is recommended that the head of an audit department report functionally to an audit committee, a board of directors, or other appropriate governing authority (collectively, the board) and administratively to the chief executive officer (CEO) of an organization. Further, IIA notes that regular communication between the board helps facilitate independence.

IIA Practice Advisory Standards:

“The Institute believes strongly that to achieve necessary independence, the Chief Audit Executive (CAE) should report functionally to the audit committee or its equivalent. For administrative purposes, in most circumstances, the CAE should report directly to the CEO of the organization.”

The current reporting structure of the WSDOT IA Department is not aligned with the IIA’s “ideal” reporting structure (see Practice Advisory standard below), although it does adhere to the standards. Currently, WSDOT IA uses “professional judgment” to structure the IA reporting lines in order to comply with the standard noted below.

Practice Advisory, Number 1110-2, paragraph 3 states:

“Accordingly, while The IIA believes that there is an ideal reporting structure with functional reporting to the audit committee and administrative reporting to the CEO, other relationships can be effective if there are clear distinctions between the functional and administrative reporting lines and appropriate activities are in each line to ensure that the independence and scope of activities are maintained. Internal auditors are expected to use professional judgment to determine the extent to which the guidance provided in this advisory should be applied in each given situation.”

When there is not an identifiable committee, IA must use professional judgment to establish the best reporting relationship. WSDOT’s IA Department’s application of “professional judgment” to evaluate and design the audit department reporting lines provides gray areas and increases the possibility of influencing audit independence. The current requirement of the use of “professional judgment” may impair or be presumed to impair unbiased assessments. Guidance recommends that the internal audit function be unbiased and independent in fact and in appearance.

Attribute Standard 1110 — Independence and Objectivity

“The internal audit activity should be independent, and internal auditors should be objective in performing their work.”

Attribute Standard 1120 — Individual Objectivity

“Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.”

Reporting Line of Government Auditors

In a White Paper titled *The Role of Auditing in Public Sector Governance* dated November 2006, the IIA details the reporting line of government auditors:

“Reporting line refers to the organizational structure under which the chief audit executive is appointed and controlled relative to the activities subject to audit...auditors should only audit activities that are outside their own reporting line to preserve the independence of the audit activity... the organizational placement of the audit activity should provide sufficient safeguards to prevent the audited entity from interfering with audit’s ability to perform its work and report the results objectively.... Governments must establish protections to ensure that internal audit activities are empowered to report significant issues to appropriate oversight authorities. Safeguarding auditor independence is particularly needed when the internal audit activity reports to officials who may also be held accountable for any significant problems. Examples of such protections include statutory requirements that:

- Prevent the audited organization from interfering with the conduct of audit work, staffing of the audit activity, and publication of the audit report.
- Ensure the head of the audit activity reports to the highest executive level in the government organization and that report distribution requirements ensure the transparency of the audit results.

- Require notification to an external oversight entity in the event of plans to dismiss the chief audit executive.

The reporting line of the auditor is tied to the function's independence, which is the most fundamental element of an effective and credible government audit activity. "...Independence is achieved when the audit activity reports outside the hierarchy of the organization and activities under audit and when auditors are free to conduct their work without interference, restrictions, or pressures from the organization being audited..."

To comply with the practices outlined above, the WSDOT IA Office should change its current reporting structure.

2007 Internal Audit Program

We obtained IA's fiscal year 2007 audit work program and found that the plan was finalized by the CAE and approved by the secretary of WSDOT six months after the start of the 2007 fiscal year. Also, the 2007 IA plan was not presented to the Audit Committee of the Commission. Typically, internal audit work programs are completed prior to the beginning of a fiscal year and leading practices suggest work programs be approved prior to conducting any fieldwork. Creation and approval of the plan prior to the fiscal year improves the planning of resources, prioritizing audits, and budget-tracking and provides an internal control to measure the IA Department's performance.

Notwithstanding the loss of these benefits, completing an annual work program after the beginning of the year may affect the organization's independence. This is because the audit plan serves as a control measure which reduces management's ability to discretionally reassign IA resources. IA departments that do not have an audit program prior to the beginning of fieldwork are subject to perform tasks at management's discretion, which may pull IA resources away from their primary responsibility of evaluating and improving risk management, financial accountability, and internal governance processes.

Practice Advisory: 2240.A1-1 — Approval of Work Programs

"Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to the commencement of work, and any adjustments approved promptly." (Emphasis added.)

IA's current reporting structure increases the potential for management's influence of its activities when operating without a defined work plan. A functional reporting line outside the agency will reduce the potential for management influence.

Internal Audit Oversight of Performance Audits

Interviews with IA indicate that the delay in completing the audit work program was partially due to extensive demands to coordinate performance audits of WSDOT. We recognize that a substantial portion of IA's effort over the past several months was utilized to administer performance audits. The IA office has also contracted consulting services to help coordinate and manage performance audits.

WSDOT points out that IIA Practice Advisory 2050-1 considers it appropriate for IA to act as a liaison to outside auditors. However, we noted from our experience that this oversight function often puts IA in the role of defending WSDOT, which should not be its role, and thus hinders

IA's independence. The current reporting lines may also influence IA decisions while acting as a liaison. IA interaction with Ernst & Young (EY) during this audit was useful in identifying points of contact and obtaining pertinent data; however, when discussing potential findings, IA typically assumed a position opposite EY's. This defensive position suggests an impairment of independence that may be a result of the current reporting structure.

Management's guidance for IA to oversee performance auditors has limited the ability of IA to execute or develop an audit work program in a timely manner. Further, this oversight of performance audits does not directly align with the IA Department core duties of evaluating and improving risk management, financial accountability and internal governance processes. The IA Department has not been able to fulfill its chartered purpose because its resources are being redirected to tasks that may be influenced by management's interests. As a result of management's influence, there may be a reduced level of independence and effectiveness of the IA Department.

RECOMMENDATIONS

We recommend that WSDOT's IA change its reporting structure to better align with the IIA's "ideal" reporting structure. This change will address the areas identified in the *Findings* section.

The IIA ideal reporting structure suggests that the reporting relationship of the IA office should be as follows:

Functionally — Outside the WSDOT hierarchy
Administratively — WSDOT secretary

A functional reporting structure outside of WSDOT may be accomplished in multiple ways. The selected organization should establish an audit committee for WSDOT IA oversight.

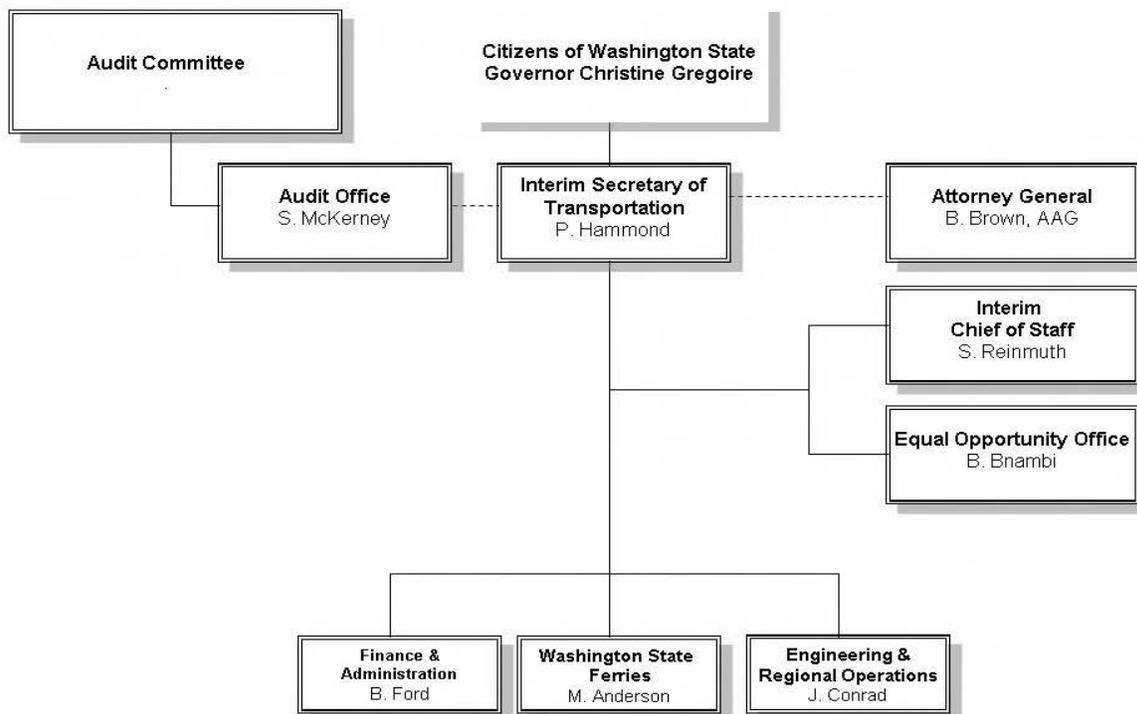
Audit committees help develop annual work programs and provide IA departments' direction and accountability to execute the work programs. In the current reporting relationship, this is not always accomplished; completion of the 2007 audit work plan was influenced by management, which suggests a lack of independence.

The audit committee does not need to be involved in the day-to-day operations; rather, the committee shall approve the audit work program, review any changes, hold IA accountable to execute on the audit program, evaluate the CAE's performance and compensation, and adhere to GAGAS and IIA standards.

Exhibit 7.2 illustrates this potential reporting relationship such that the IA office reports functionally to an audit committee and administratively to the Secretary of Transportation.

The results of this report address WSDOT IA only. We did not address the needs of internal audit departments for all state agencies. However, our recommended changes in the line of reporting for WSDOT IA should be considered for statewide application.

Exhibit 7.2 — Washington State Department of Transportation Organization Chart



The IIA recommends steps organizations can take to implement reporting relationships that provide effective and independent IA functions. These items are noted below for functional and administrative reporting (emphasis added):

Functional Reporting

- **“The functional reporting line should go directly to the Audit Committee or its equivalent to ensure the appropriate level of independence and communication.**
- The CAE should meet privately with the audit committee or its equivalent, without management present, to reinforce the independence and nature of this reporting relationship.
- **The audit committee should have the final authority to review and approve the annual audit plan and all major changes to the plan.**
- At all times, the CAE should have open and direct access to the chair of the audit committee and its members; or the chair of the board or full board if appropriate.
- At least once a year, the audit committee should review the performance of the CAE and approve the annual compensation and salary adjustment.
- The charter for the internal audit function should clearly articulate both the functional and administrative reporting lines for the function as well as the principal activities directed up each line.”

Administrative Reporting

- “The administrative reporting line of the CAE should be to the CEO or another executive with sufficient authority to afford it appropriate support to accomplish its day-to-day activities. This support should include positioning the function and the CAE in the organization’s structure in a manner that affords appropriate stature for the function within the organization. Reporting too low in an organization can negatively impact the stature and effectiveness of the internal audit function.
- The administrative reporting line should not have ultimate authority over the scope or reporting of results of the internal audit activity.
- The administrative reporting line should facilitate open and direct communications with executive and line management. The CAE should be able to communicate directly with any level of management including the CEO.
- The administrative reporting line should enable adequate communications and information flow such that the CAE and the internal audit function have an adequate and timely flow of information concerning the activities, plans and business initiatives of the organization.
- Budgetary controls and considerations imposed by the administrative reporting line should not impede the ability of the internal audit function to accomplish its mission.”

RCW Revisions

To implement these recommendations, current RCWs will need to be amended. At a minimum, RCW 43.88.160 must be addressed to change the reporting responsibilities. Other specific RCWs will depend on the outside organization selected for functional reporting. For example, if the Transportation Commission is selected, RCW 41.01.071 must be considered to create appropriate authority for the selected outside organization.

Other Considerations

Our recommendations are to improve the independence of the IA Department. The issues included in the *Findings* section suggest potential impairments to independence even though WSDOT’s current structure complies with applicable laws and standards. Implementation of the recommendations will better align the department with the “ideal” IIA standards and will improve the independence of the IA Department, which will also improve WSDOT as a whole.

POTENTIAL COST SAVINGS

There are no potential cost savings specifically tied to this recommendation; however, the following benefits do exist:

- Compliance with “ideal” reporting structure per IIA standards.
- Improved appearance of independence.
- Accountability for management’s corrective action.

MANAGEMENT RESPONSE

Finding 5: WSDOT’s Internal Audit function can improve its independence by changing its reporting structure.

Recommendation 5: We recommend that WSDOT change the Internal Audit functional and administrative reporting lines.

WSDOT Response: We appreciate the auditor’s recognition that the Department’s Internal Audit Office complies with professional auditing standards. We also appreciate the auditor’s emphasis on independence for the internal audit function and the suggestions to ensure that independence is maintained. The Department’s Senior Management and the Director of Internal Audit have taken careful measures to maintain independence in planning, performing, and reporting the results of internal audit engagements. Further, the Internal Audit Office is committed to following the standards for its profession.

We will work with the Office of Financial Management to review the Internal Audit Office’s reporting structure to ensure it maintains its independence. As we evaluate where the Internal Audit Office reports, we will need to consider that the Institute of Internal Auditors standards recognize that more than one reporting option can result in sufficient independence for internal audit.

OFM Response: We agree that it is important to comply with professional standards for internal audits and appreciate the auditor’s concerns related to independence of the Department’s Internal Audit (IA) function. Professional standards for internal auditing do allow for flexibility in reporting structure and note that the auditor recognizes that the use of “professional judgment” by the Department’s IA in establishing its reporting relationship does comply with the standards. In addition, the Department’s IA is comprised of qualified professional staff capable of exercising professional judgment in other matters as well. This is especially important due to Washington state’s long-standing emphasis on accountability that has created many other checks, balances and safeguards such as:

- Quality management, accountability, and performance systems and assessments as required by law (RCW 43.17.380-390).
- Performance audits mandated by the public through Initiative 900 (now codified in RCW 43.09.470-475).
- Governor Gregoire’s Government Management Accountability and Performance (GMAP) Executive Order.
- Periodic performance audits done by the Joint Legislative Audit and Review Committee.
- Performance measures incorporated in the state’s budgeting process and used heavily within the Priorities of Government process.
- Mandatory financial, compliance, federal and accountability audits by the State Auditor’s Office (RCW 43.09).
- A state employee Whistleblower Program (RCW 42.40) and toll-free hotline for recommending measures to improve efficiency and report waste, inefficiency or abuse as well as examples of efficiency or outstanding achievement (RCW 43.09).
- Effective open public meeting and public disclosure laws.

Action Steps and Time Frame:

- WSDOT and OFM will convene a work group to explore alternate reporting structures. Completed by June 2008.

8. ONE-DOT

BACKGROUND

Sixty years ago, WSF was a commercial organization operating independently and subject to economics and the laws of supply and demand. However, the business could not remain profitable and was taken over by the State of Washington in 1951. Since then, Washington State has operated WSF as part of its overall organization. When WSDOT integrated the WSF operations, it did not require a complete migration to WSDOT systems. Throughout the years, WSF has continued to operate as a stand-alone organization, including purchasing its own IT systems.

The WSF practice of operating as a stand-alone organization has facilitated a culture and environment that is not always conducive to coordinated communication and processes agency wide. For example, the HR and Finance operations did not always communicate with each other unless absolutely necessary. Although this has changed — in the past couple of years communications have greatly improved based on interviews at both WSDOT HQ and at WSF — more improvements are needed.

WSDOT executives recognize this and over the past few years have worked to better integrate policy decisions, procedures, and communication into a ONE-DOT philosophy. This has resulted in a more centralized and consistent approach to decision-making and protocols for agency initiatives, program delivery, performance reporting, and external coordination.

WSF, however, continues to operate as a mostly decentralized organization, with administrative functions outside the integrated approach of ONE-DOT. The administration of this division is located entirely in Seattle. Administrative functions such as system planning, fiscal planning and controls, budgeting, performance reporting, and HR are independently managed and supported within WSF without consistent coordination with the rest of WSDOT.

WSDOT has several different organizations located at its HQ along with several remote locations, including six regional offices and two other large offices similar to regional offices (WSF and UCO). This type of geographically diverse structure may allow the suborganizations to develop individual processes and methods of approach related to administrative and overhead operations. WSDOT is no exception. Each of the organizations within WSDOT has, at a minimum, subtle differences when compared to the other organizations. However, we observed the most significant operational discrepancies when comparing WSF to the other WSDOT organizations.

FINDINGS AND RECOMMENDATIONS

FINDINGS

WSDOT can improve its operational efficiency by more thoroughly aligning and integrating WSF operations and administrative functions. We found that there are significant differences between the WSF Administrative and Overhead operations and the other WSDOT organizations. Many of WSF's business processes are performed differently and use different IT systems when compared to the rest of WSDOT. These systems hinder the ability of WSDOT to eliminate duplicative functions performed at both WSDOT HQ and WSF. Because each organization is genealogically different, many of the functions were developed differently at WSF from the rest

of WSDOT. The different requirements and controls in place make it difficult to centralize processes that may be more efficiently administered in one place.

Differences between WSF and other WSDOT organizations are evident from the first look at the upper-level WSDOT organization chart. WSF has its own separate functions within the organizational chart (org chart), while the other organizations are “one box” only. WSF has its own Operations, HR, Finance, Engineering, and Maintenance functions on the org. chart, which does not facilitate a consistent and integrated reporting and communication structure. These functions all operate differently when compared to the other WSDOT organizations. WSF also has its own separate IT systems in many instances which may necessitate a different process for each particular area. For example, WSF has its own purchasing system software, while the remainder of WSDOT has no purchasing software at all.

During the performance audit, we evaluated the state of the current HR, Payroll, Expenditure Accounting, and Cash Receipts processes at WSDOT and WSF. A brief summary of our observations in each area, along with additional observations, follows:

HRMS and Payroll

WSF employees belong to 16 different unions; 14 of these are unique to WSF, and two are also represented at WSDOT HQ and the other regions (Federation and Local 17 Unions). Employees from the Federation and Local 17 Unions are grouped together as Merit 1 employees. Employees from the other 14 unions at WSF are grouped together as Merit 5 employees. The high number of union agreements adds complexity to the way new hires, changes to employee information, and terminations are handled at WSF. WSF also maintains a different Labor Distribution System and has different timekeeping procedures than the rest of WSDOT. Due to complex schedules and U.S. Coast Guard training regulations and requirements, WSF also has an Automated Operating Scheduling System (AOSS). Although the AOSS tracks certain HR information, it is used for other operational functions not supported by the HRMS.

The HR Department at WSF manages all employee information in the Labor Distribution System and AOSS. The only exception to this is the Merit 1 WMS (i.e., manager level) employees, whose information is processed and managed by WSDOT HQ personnel. WSDOT HQ also handles all terminations for Merit 1 employees.

The current HR process includes duplication of efforts between WSF and WSDOT HQ. The process at WSF calls for double entry of employee information into both the Labor Distribution System and AOSS. WSF must staff personnel, independent of WSDOT HQ, in order to fulfill the HR function for WSF employees. In addition, WSDOT HQ must staff personnel to perform some of the tasks related to handling Merit 1 employee information.

Cash Receipts (AR)

WSF utilizes Great Plains accounting software to record its revenues, which interfaces with TRAINS to record revenue information. All WSF payments are processed through a lockbox, which alleviates the handling of cash in-house, increases the level of control surrounding checks and cash, and allows for more prompt deposits. HQ and WSDOT regions do not have a lockbox agreement, so cash and checks are received and manually processed at each location for deposit and entry in TRAINS.

The AR process at WSF is unique to WSDOT from a transactional volume perspective, as the rest of the agency does not have significant revenue streams via daily customer receipts. This

will change though, due to the opening of toll bridges and HOT Lanes. This increased tolling authority will begin producing revenues from other areas within WSDOT. Current plans are to implement two new receivable systems in order to process the revenue. WSDOT would therefore be utilizing separate systems to perform the same business function.

Expenditure Accounting (AP)

The WSF vendor payment process varies significantly from the rest of WSDOT. WSF requires a purchase order (PO) for noninventory purchases, while the rest of the agency does not. WSF POs are created in its MPET (Inventory System) and printed out for manual approval. WSF has an EAG that performs a manual three-way match of the PO, receiving document, and invoice before setting up and approving the payment in TRAINS. Once the payment is approved, the system triggers the generation of warrants. The vendor payment group at HQ receives all warrants and mails the WSF warrants to WSF for final processing. WSF then releases the warrants to the vendors. Alternatively, for other regions, HQ matches all warrants with the payment voucher and then mails them directly to the vendors.

There is duplication of efforts between WSF and WSDOT, as personnel are staffed at both locations to fulfill the same function. Furthermore, WSF utilizes a separate system, MPET, to fulfill the AP function. In addition, HQ does not retain any information from WSF on payments made to vendors.

Other Areas

We also noted other potential duplicative functions during our cursory review of the budgeting, purchasing, capital and fiscal accounting, and the financial statement close processes performed at both WSDOT and WSF. The functions of these processes are staffed at both WSDOT HQ and WSF and should be addressed in order to fully integrate WSF with WSDOT.

RECOMMENDATIONS

Based on our observations, we recommend that actions be taken to consider fully integrating the business functions currently performed by WSF and WSDOT. This will improve the operational efficiency of WSDOT's operations and administrative functions. WSF should be further integrated as part of the agency and not as a separate entity. In order for this integration to occur, WSDOT should initially:

- Develop a comprehensive understanding of the differences between the administrative functions of WSF and the rest of WSDOT.
- Standardize its business processes based on this understanding.
- Implement robust IT systems that address the requirements of the entire organization.

All the business functions mentioned above are typically seen in other companies as part of a shared service center and centralized at the companies' HQ. WSDOT should consider the implementation of a shared service center in order to bring together all of the business processes that are currently decentralized within the agency.

HRMS

Centralization of the HR function is discussed in Section 3. Currently, however, WSF still maintains employee information in the AOSS, requiring duplicative entry of data as long as the HR system is not integrated with AOSS. WSDOT and WSF need to either identify an alternative to tracking training and other employee information in AOSS or use an agencywide system that would integrate with AOSS.

Cash Receipts (AR)

WSDOT plans to implement two new tolling systems: one each for the Tacoma Narrows Bridge and a HOT Lane fee for its main highways. Currently, the revenue management from the TNB tolls is planned to be outsourced, and the fees for the HOT lanes on highways are planned to be operated by a new system that will be implemented at HQ. WSDOT should consider implementing one robust revenue system that will address all its requirements, including WSF, and allow the integration and centralization of the revenue process in one location.

Expenditure Accounting (AP)

WSDOT should consider implementing a purchasing system for the entire agency to improve its operations and internal controls. The new purchasing system should allow WSDOT to create an electronic PO, which will be approved by an authorized party (i.e., supervisor) and perform an electronic three-way match upon receipt of the receiving document and the invoice. The use of a three-way match between the PO, receiving document, and the vendor invoice, along with proper segregation of duties, is universally recognized as a leading practice in private industry to reduce instances of fraud and duplicate payments. The implementation of a new purchasing system should also consider centralization of the AP process at HQ, as the process will be standardized across the entire agency. This implementation will improve efficiencies and increase the level of controls surrounding vendor purchases and payments.

Other Areas

Currently WSF uses Great Plains software for its revenue system, which interfaces with TRAINS. In an effort to make the financial statement close process more efficient, WSDOT should consider implementing an agencywide system that will allow for a more efficient financial statement close process.

WSF and WSDOT perform what appear to be the same functions independently in the capital and fiscal accounting processes. Centralization of these processes will improve efficiency and will improve communications between WSF and the rest of WSDOT in these areas.

It appears the Budget Department at WSDOT would benefit from a more standardized process and centralization at HQ. Currently, the WSF Budget Department appears to work separately from the rest of the agency and reports to the Finance Department within WSF. All other WSDOT organizations report budget issues directly to the HQ Budget Department. The integration of the Budget process between WSF and WSDOT will facilitate consistent budget operations at each WSDOT organization.

Finally, WSF has a Financial Accountability Group, which has a role similar to that of internal auditors. At this point, it makes sense for this group to remain at WSF, since most revenue from nongovernmental sources resides there. However, as tolling authority increases and expands throughout WSDOT, we recommend that WSDOT consider combining this group with the IA group at HQ to minimize duplication of efforts and increase organizational efficiency.

POTENTIAL COST SAVINGS

There are no potential cost savings specifically tied to this recommendation; however, the following benefits do exist:

- Increased operational efficiency
- Better use of existing resources
- Improved communications and processes
- Elimination of duplicate efforts

MANAGEMENT RESPONSE

***Finding 6:** WSDOT can improve its overall operations by aligning and integrating Washington State Ferries (WSF) with the rest of WSDOT.*

***Recommendation 6:** We recommend that WSDOT develop ONE-DOT practices and implement new policies, procedures, systems, and practices that consider all organizations within WSDOT.*

WSDOT Response: We agree that better alignment and integration of the Ferries Division within WSDOT is an important goal, and appreciate that the audit recognizes that much has been accomplished in recent years to further this goal. Since fieldwork for this audit was completed, we have reorganized and established the position of Chief of Staff/Deputy Director of the Ferries Division to improve communication within Ferries and with WSDOT headquarters in Olympia. Many functional areas, including Budget/Program Management, Planning, Contracts/Legal Services and Human Resources Services now report directly to this position. This position will facilitate closer working relationships, and the enhanced coordination reflects the overarching organizational importance of these areas and the need to provide a stronger alignment with WSDOT headquarters.

OFM Response: OFM agrees with the audit recommendation for better alignment and integration of the Ferries Division within WSDOT. We also recognize the added complexity of the Ferries Division related to their numerous union agreements and the lack of a common labor distribution system for the entire agency.

OFM will also work with the Department of Information Systems and WSDOT on IT investments to ensure they are in line with Washington State's enterprise direction for common financial and administrative systems.

Action Steps and Time Frame:

- In an ongoing effort to build more effective organizational relationships, WSDOT has been evaluating opportunities for stronger functional alignments between headquarters and the Ferries Division. Specifically, we are evaluating budget, human resources, labor relations, planning, project management, and communications functions. Results of this review are anticipated to be available in July 2008.

- As noted in Finding #3 (and in a separate performance audit released in September 2007), WSDOT will evaluate the costs and business needs of a new timekeeping system that also meets the Ferries Division's needs. This evaluation will consider an agency-wide timekeeping system, rather than a separate system for separate divisions or work units. We will work with OFM and the Department of Information Systems to ensure proposed IT investments fit within the statewide enterprise architecture and development timeframe.

APPENDIX A

POTENTIAL COST SAVINGS CALCULATIONS

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WSDOT LABOR PRICING TOOL

Labor Pricing Tool Usage

Our potential cost savings calculations include labor hour savings which equate to FTE totals. We used the WSDOT Labor Pricing Tool to calculate projected savings related to the FTE totals. The tool is used by the WSDOT Budget group to prepare annual budgets and contains salary and benefit information for WSDOT employees. Information required to use the tool includes the appropriate job code and the number of employees within the job code. After entering this information, the tool automatically populates applicable salary and benefit data and calculates total projected expenses. For each of our potential cost savings calculations, we reviewed the organizational charts for each region, including HQ, WSF, and UCO, to identify the appropriate job codes. We entered the job code and FTE data into the tool and used the results for this report.

HUMAN RESOURCE PERSONNEL ADMINISTRATION POTENTIAL COST SAVINGS

Section 3 of this report includes three recommendations that result in potential cost savings. Additional potential cost savings details follow.

Modification or Removal of Citrix Information

WSDOT can eliminate duplicate efforts by either removing Citrix or changing the template in Citrix to be the actual Personnel Action Form. The following steps outline our potential cost savings calculations:

1. We identified the total NW Region personnel actions during the period of June 16, 2006 – February 2007 processed in both HRMS and Citrix (see Exhibits 3.1 and 3.2).
2. We used employee interviews to identify the average amount of time to process the actions, which resulted in .29 FTE.
3. The average job code for FTEs related to this area is HRC2. We used this job code along with the calculated .29 FTE in the tool, which calculated total potential cost savings for one year at \$18,650.
4. We also calculated the potential cost savings over a period of five years. Our out-year calculations use a 3.3% cost-of-living adjustment every two years, which is consistent with escalation used by WSDOT in its budgeting process. The potential cost savings over a five-year period are \$95,733.

Travel to Regions for Training on HRMS Is Eliminated

Centralization of HRMS personnel administration will eliminate the corresponding training requirements and required travel resources. To calculate the potential cost savings associated with eliminating travel to the regions, we obtained a listing of all trips made by the HRMS specialists to the regions, as well as the expense reports associated with those trips. The trips were for the period from June 16, 2006 to March 26, 2007. We did not include the trips and associated costs for training for the implementation of HRMS. The total for these trips was \$1,161.75.

Annualizing this amount results in an estimated \$1,549 per year for HRMS training travel costs.

We also calculated the potential cost savings over a period of five years. Our calculations use a 3.3% cost-of-living adjustment every two years and results in a total potential cost savings of \$7,951.

Centralization of HRMS Processing

Centralizing HRMS personnel administration processing at HQ will result in a more efficient process. The number of processing errors will be reduced and the amount of processing time per personnel action will decrease as the HRMS proficiency is concentrated at WSDOT HQ.

Potential Cost Savings Calculation

As was shown in exhibits 3.4 and 3.5, HQ processes 45% of Actions and 53% of Maintain in HRMS, for a total of 49% of all items processed in HRMS. As discussed in the Section 3 narrative, there are currently 15.27 FTEs processing HRMS data (see Exhibit 3.3). Upon centralization of HRMS processing, WSDOT HQ would keep seven of the 15.27 FTEs, thereby saving 8.27 FTEs. This category also uses the HRC2 job code. The Labor Pricing Tool calculates the total potential cost savings related to the release of 8.27 FTEs for one year as \$531,844

We also calculated the potential cost savings over a period of five years. Our out-year calculations use a 3.3% cost-of-living adjustment every two years, which is consistent with the escalation used by WSDOT in its budgeting process. The potential cost savings over a five-year period are \$2,730,003.

	FY One	FY Two	FY Three	FY Four	FY Five
FTEs	8.27	8.27	8.27	8.27	8.27
Salaries	\$381,677	\$381,677	\$394,272	\$394,272	\$407,283
Benefits	\$150,167	\$150,167	\$155,123	\$155,123	\$160,242
Total	\$531,844	\$531,844	\$549,395	\$549,395	\$567,525
Five-Year Total					\$2,730,003

HR Personnel Administration Potential Cost Savings Summary

Recommendation	One-Year Savings	Five-Year Savings
Removal of Citrix	\$ 18,650	\$ 95,733
No Travel	\$ 1,549	\$ 7,951
Centralization of HRMS Processing	\$ 531,844	\$ 2,730,003
TOTAL	\$ 552,043	\$ 2,833,687

EXPENDITURE ACCOUNTING POTENTIAL COST SAVINGS

Section 4 of this report includes two recommendations that result in potential cost savings. Additional potential cost savings details follow.

Centralization of Vendor Payments

Centralization will increase the efficiency of the vendor payments process and allow WSDOT to perform better against accounts payable benchmarks.

We obtained accounts payable benchmark data from APQC OSBCSM for comparison to WSDOT. According to APQC's Web site, "APQC is a member-based nonprofit that provides benchmarking and best-practice research for approximately 500 organizations worldwide in all industries. APQC opened its doors in 1977. APQC (previously known as the American Productivity Center and the American Productivity & Quality Center) was backed by a powerhouse board of directors, including leaders from Fortune 1000 companies, union heads, and former senior government officials. APQC has made great strides in fulfilling its mission of increasing productivity in organizations worldwide."¹

The benchmark we obtained to compare WSDOT is as follows:

"Number of invoices processed per accounts payable FTE"

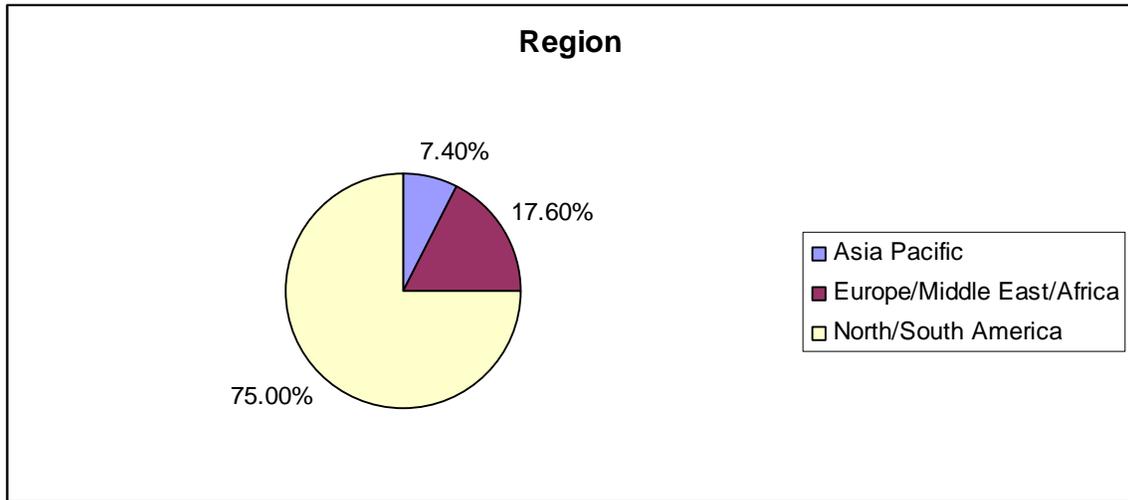
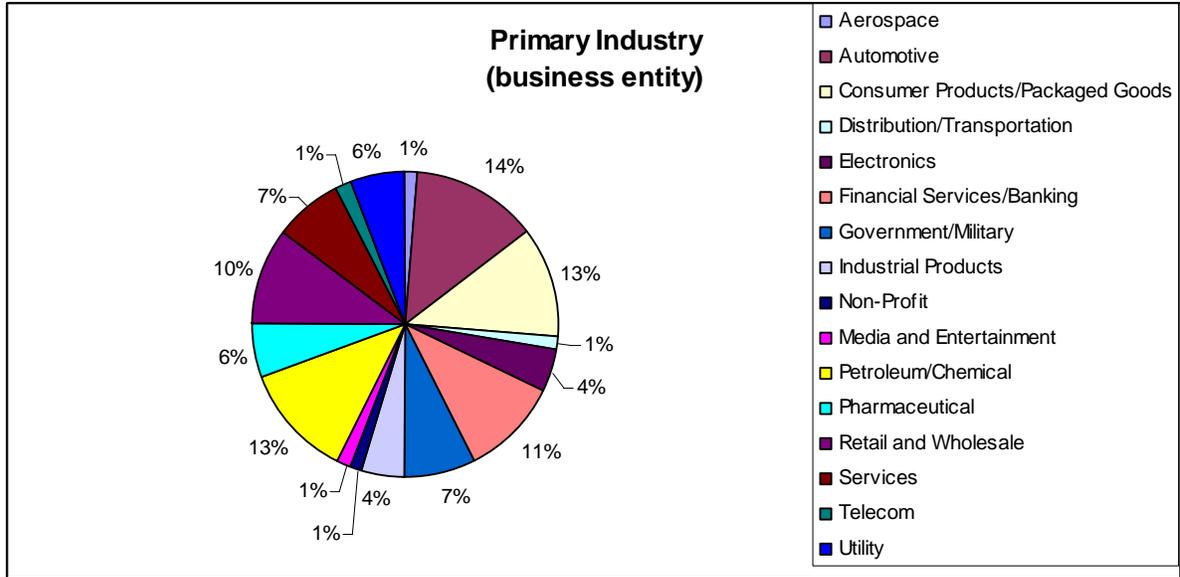
APQC used a group of 58 companies to obtain benchmarking data. Exhibit 4.1 below shows the data that was obtained from the benchmark group.

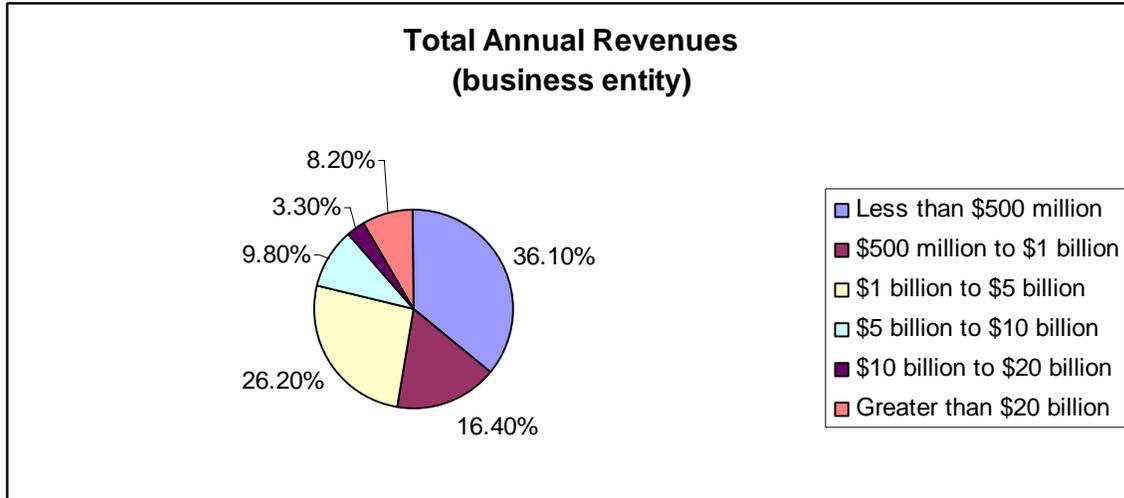
Exhibit 4.1

Top Performer	Median	Bottom Performer
26,187	11,288	6,127

The charts below include additional information regarding the 58 companies used to develop the benchmark.

¹ <http://www.apqc.org/portal/apqc/site/?path=/aboutus/index.html>





We used fiscal 2006 payments for comparison of WSDOT’s performance to the benchmark as discussed in the Section 4 narrative. We also used the questionnaire results to estimate the number of FTEs processing vendor payments. The regions were requested to list the individuals performing expenditure accounting functions and how much time is spent monthly performing those functions. These task lists were sent out a total of three times, each time with instructional clarifications, in an attempt to obtain accurate numbers.

Upon receipt of the final task lists we calculated the number of FTEs in each region. Our calculations use WSDOT’s budgeting assumption of 1,771 hours per year or 147.58 hours a month. This number and the completed task lists yield a total of 33.15 FTEs processing vendor payments, as shown in the exhibit below.

Organization	# of FTEs Processing Vendor Payments
HQ	6.00
NW	3.56
OLY	3.23
EAS	1.73
SC	4.64
NC	2.44
SW	10.76
UCO	0.79
Total FTEs	33.15

We note that the hours spent processing vendor payments varied significantly from region to region. Therefore, we also determined the number of FTEs processing vendor

payments using organizational charts for each region and the results of the employee interviews. This data indicates that WSDOT has 19.80 FTEs processing vendor payments, shown below.

Organization	# of FTEs Processing Vendor Payments based on Org Charts
HQ	6.00
NW	3.00
OLY	2.30
EAS	1.50
SC	2.50
NC	2.00
SW	1.50
UCO	1.00
Total FTEs	19.80

These two methodologies indicate a range of 19.80 FTEs to 33.15 FTEs processing vendor payments. Therefore, WSDOT’s employees are processing anywhere from 3,104 to 5,198 invoices per year, well below the median benchmark level.

By performing at the median level of the benchmark, WSDOT would need only 9.12 FTEs to process vendor payments for all of WSDOT. Therefore, WSDOT currently is operating with anywhere from 10.78 (19.90 FTEs – 9.12 FTEs) to 24.03 (33.15 FTEs – 9.12 FTEs) excess FTEs.

We used the Labor Pricing Tool to calculate expenses related to the FTEs using the FA2 job code. The total potential cost savings for centralizing vendor payments and becoming more efficient for one year is anywhere from \$639,006 to \$1,424,426:

# of FTEs Released	One-Year Savings
10.78	\$639,006 (10.78 x \$41,808 (FA2 salary) + (10.78 x 17,469 (benefits)))
24.03	\$1,424,426 (24.03 x \$41,808 (FA2 salary) + (24.03 x 17,469 (benefits)))

Finally, we calculated the potential cost savings over a period of five years. We used a 3.3% cost-of-living adjustment every two years to arrive at a total range of \$3,280,075 to \$7,311,705. See charts below for more information.

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	10.78	10.78	10.78	10.78	10.78
Salaries	\$ 450,690	\$ 450,690	\$ 465,563	\$ 465,563	\$ 480,927
Benefits	\$ 188,316	\$ 188,316	\$ 194,530	\$ 194,530	\$ 200,950
Total	\$ 639,006	\$ 639,006	\$ 660,093	\$ 660,093	\$ 681,877
Five-Year Total					\$ 3,280,075

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	24.03	24.03	24.03	24.03	24.03
Salaries	\$ 1,004,646	\$ 1,004,646	\$ 1,037,799	\$ 1,037,799	\$ 1,072,046
Benefits	\$ 419,780	\$ 419,780	\$ 433,633	\$ 433,633	\$ 447,943
Total	\$ 1,424,426	\$ 1,424,426	\$ 1,471,432	\$ 1,471,432	\$ 1,519,989
Five-Year Total					\$ 7,311,705

Reduction in Mailing Costs

Each region mails approximately three pieces of mail per day related to the vendor payment process, which equates to approximately 4,680 per year. Centralizing the vendor payments process will reduce expenses related to mailing costs because payment data will be mailed only once to HQ rather than multiple times. As stated in the narrative, the cost per piece is \$1.00, which equates to one year’s expense of \$4,680. We recognize that a portion of this total will still be required because some of the mail originates at the regions. However, we are including the total for multiple reasons. First, there are no available statistics to calculate this portion. We also did not feel the amount would materially affect the results. Finally, other options are available to eliminate these expenses, such as scanning and e-mailing the documents. Therefore, we included the total in this report.

We calculated the potential cost savings over a period of five years using a 3.3% cost-of-living adjustment every two years. The total five-year savings for mailing costs is \$24,022.

Year One	Year Two	Year Three	Year Four	Year Five	Five-Year Total
\$4,680	\$4,680	\$4,834	\$4,834	\$4,994	\$24,022

Expenditure Accounting Potential Cost Savings Summary

The table below summarizes the total potential cost savings for Expenditure Accounting over a period of one year and five years.

Recommendation	One-Year Savings	Five-Year Savings
Reduction in Mailing Costs	\$4,680	\$24,022
Centralization of Vendor Payments	\$639,006–\$1,424,426	\$3,280,075–\$7,311,705
TOTAL	\$643,686–\$1,429,106	\$3,304,097–\$7,335,727

PAYROLL POTENTIAL COST SAVINGS

Section 5 of this report includes two recommendations that result in potential cost savings. Additional potential cost savings details follow.

Elimination of Timekeepers

We note that there are approximately 37.11 FTEs entering time into the labor systems at WSDOT based on the results of task lists completed by those with access to the timekeeping system, including the following totals for each WSDOT organization:

Organization	# of FTEs (Timekeeping)
HQ	3.49
NW	9.69
OLY	5.84
EAS	4.36
SC	6.02
NC	1.57
SW	4.43
UCO	0.11
WSF	1.60
Total FTEs	37.11

We used the Labor Pricing Tool to calculate total expenses related to the FTEs. Per discussion with WSDOT, we used an average salary for a timekeeper at \$35,000. The total salary and benefits potential savings for the elimination of timekeepers for one year is \$1,836,388.

Finally, we calculated the potential cost savings over a period of five years using a 3.3% cost-of-living adjustment every two years. Total potential cost savings over five years is \$9,426,343 as shown below:

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	37.11	37.11	37.11	37.11	37.11
Salaries	\$ 1,298,850	\$ 1,298,850	\$ 1,341,712	\$ 1,341,712	\$ 1,385,988
Benefits	\$ 537,538	\$ 537,538	\$ 555,277	\$ 555,277	\$ 573,601
Total	\$ 1,836,388	\$ 1,836,388	\$ 1,896,989	\$ 1,896,989	\$ 1,959,589
Five-Year Total					\$ 9,426,343

Benchmark

We obtained payroll benchmark data from APQC. See the Personnel Administration section above for additional information related to APQC.

The benchmark we obtained is:

“Number of FTEs for the payroll processes per 1,000 paid employees.”

APQC used a group of 30 companies to obtain benchmarking data. Exhibit 5.1 below shows the data that was obtained from the benchmark group.

Exhibit 5.1

Top Performer	Median	Bottom Performer
0.7	2.0	4.1

WSDOT has roughly 7,928 FTEs, therefore, the ideal number of FTEs based on the median benchmark would be 15.86 FTEs.

We used the completed task lists to determine that WSDOT currently has 22.36 FTEs processing payroll. The following exhibit shows FTEs per WSDOT organization:

Organization	Number of Effective FTEs (Payroll)	Number of Employees
HQ	7.59	1458.2
NW	1.65	1504
OLY	0.27	936
EAS	0.39	509
SC	2.48	579
NC	1.07	325
SW	2.77	546.1
UCO	0.48	215
WSF	5.66	1856.1
Total FTEs	22.36	7928.40

The hours spent processing payroll varied significantly from region to region. Therefore, we also determined the number of FTEs processing payroll using organizational charts for each region, combined with what we had learned during interviews. Using this

information, we determined that WSDOT has 26.80 FTEs processing payroll, as shown in the exhibit below.

Organization	Estimated FTEs Based on Org. Chart	Number of Employees
HQ	8.00	1,458.2
NW	2.00	1,504.0
OLY	2.30	936.0
EAS	2.00	509.0
SC	3.00	579.0
NC	2.00	325.0
SW	1.50	546.1
UCO	1.00	215.0
WSF	5.00	1,856.1
Total FTEs	26.80	7,928.40

By performing at the median level of the benchmark, WSDOT would need only 15.86 FTEs to process payroll, as mentioned above. Therefore, WSDOT currently is operating with anywhere from 6.50 (22.36 FTEs – 15.86 FTEs) to 10.94 (26.80 FTEs – 15.86 FTEs) excess FTEs.

We used the Labor Pricing Tool to calculate the dollar value for the potential FTE savings and a job code of FA2 based on review of the organizational charts. Our calculated total potential savings is a range of \$385,301 to \$648,491.

Finally, we calculated the potential cost savings over a period of five years using a 3.3% cost-of-living adjustment every two years. The total potential cost savings range from \$1,977,785 to \$3,328,765. See charts below for more information.

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	6.50	6.50	6.50	6.50	6.50
Salaries	\$ 271,752	\$ 271,752	\$ 280,720	\$ 280,720	\$ 289,984
Benefits	\$ 113,549	\$ 113,549	\$ 117,296	\$ 117,296	\$ 121,167
Total	\$ 385,301	\$ 385,301	\$ 398,016	\$ 398,016	\$ 411,151
Five-Year Potential Savings					\$ 1,977,785

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	10.94	10.94	10.94	10.94	10.94
Salaries	\$ 457,380	\$ 457,380	\$ 472,474	\$ 472,474	\$ 488,066
Benefits	\$ 191,111	\$ 191,111	\$ 197,418	\$ 197,418	\$ 203,933
Total	\$ 648,491	\$ 648,491	\$ 669,892	\$ 669,892	\$ 691,999
Five Year Potential Savings					\$3,328,765

Payroll Potential Cost Savings Summary

The table below summarizes the total potential cost savings for Payroll over a period of one year and five years.

Recommendation	One-Year Savings	Five-Year Savings
Elimination of Timekeepers	\$1,836,388	\$9,426,343
Meet Benchmark	\$385,301–\$648,491	\$1,977,785–\$3,328,765
TOTAL	\$2,221,689–\$2,484,879	\$11,404,128–\$12,755,108

CASH RECEIPTS POTENTIAL COST SAVINGS

Section 6 of this report includes one recommendation that results in potential cost savings for the cash receipts process. Additional potential cost savings details follow.

We used the task lists to determine the number of FTEs processing cash receipts in the mail room and in TRAINS. We determined that WSDOT currently has 4.14 FTEs processing cash receipts, including the following FTEs for each WSDOT organization:

Organization	FTEs Posting Cash Receipts
HQ	2.00
NW	0.62
OLY	0.37
EAS	0.21
SC	0.14
NC	0.33
SW	0.47
UCO	0.00
TOTAL	4.14

We recommend that WSDOT maintain two employees to process cash receipts, meaning WSDOT currently has an excess of 2.14 FTEs (4.14 – 2.00) in this area. Implementation of the bank lockbox will release the excess 2.14 FTEs.

We used the Labor Pricing Tool to calculate potential cost savings related to the FTEs and a job code of FA2. The total potential cost savings for implementing a lockbox for one year is \$126,853.

We also calculated the potential cost savings over a period of five years using a 3.3% cost-of-living adjustment every two years. Our total potential cost savings potential over a five-year period is \$651,148.

	Year One	Year Two	Year Three	Year Four	Year Five
FTEs	2.14	2.14	2.14	2.14	2.14
Salaries	\$89,469	\$89,469	\$92,421	\$92,421	\$95,471
Benefits	\$37,384	\$37,384	\$38,618	\$38,618	\$39,892
Total	\$126,853	\$126,853	\$131,039	\$131,039	\$135,363
Five-Year Total					\$651,147

APPENDIX B – PROCESS FLOWCHARTS

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Human Resources Personnel Administration

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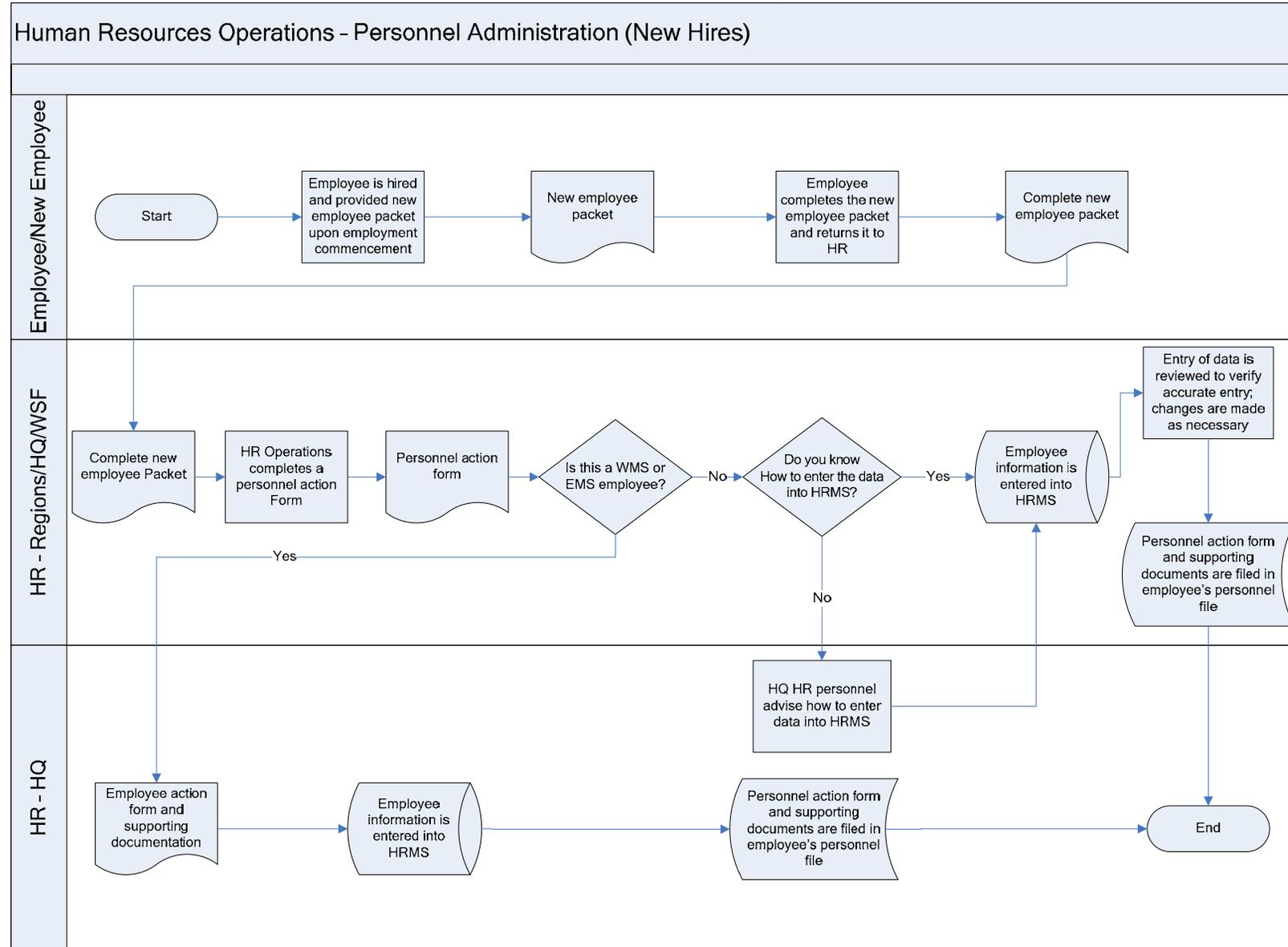
Payroll

Current Process	B.9
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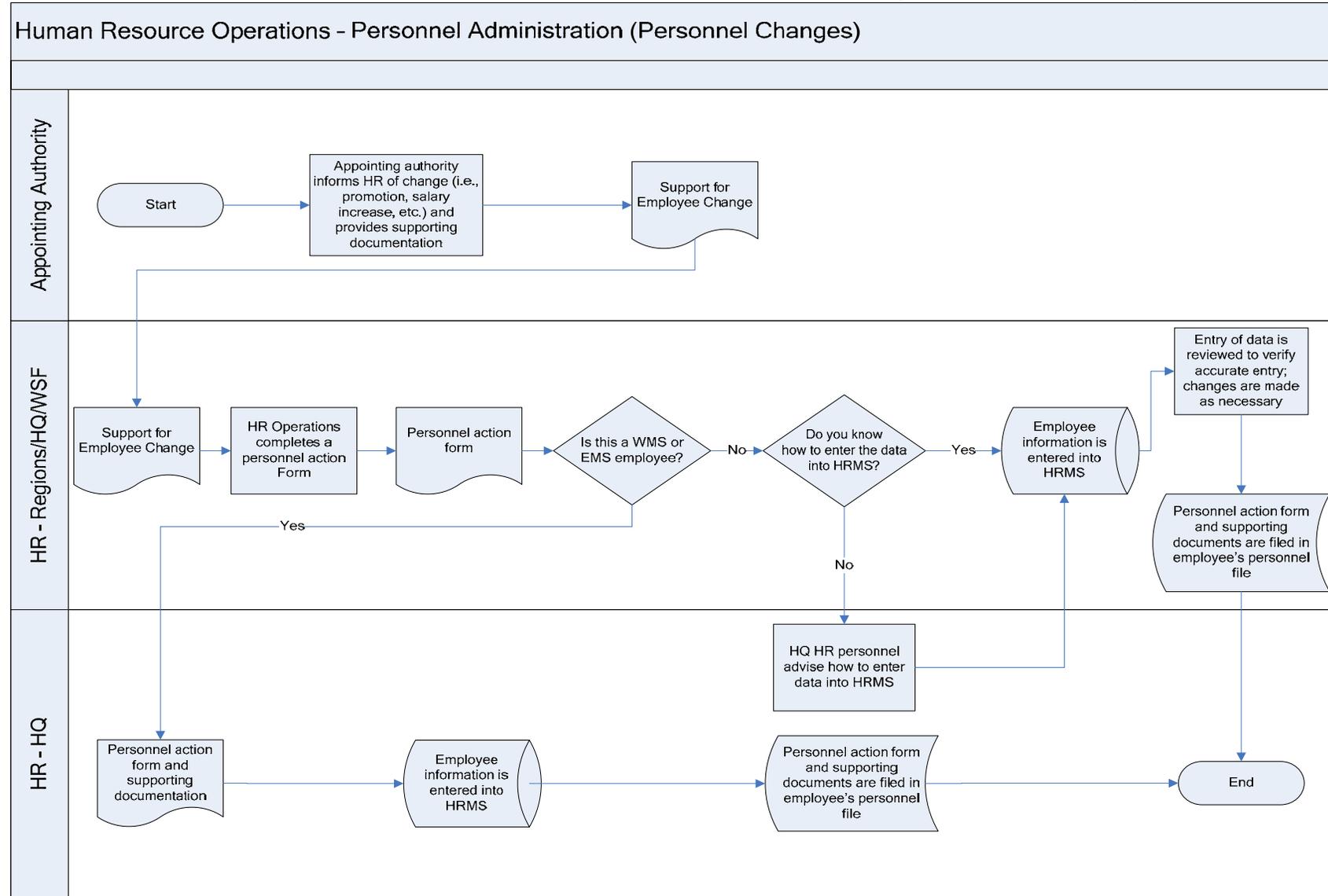
Cash Receipts

Current Process – HQ.....	B.13
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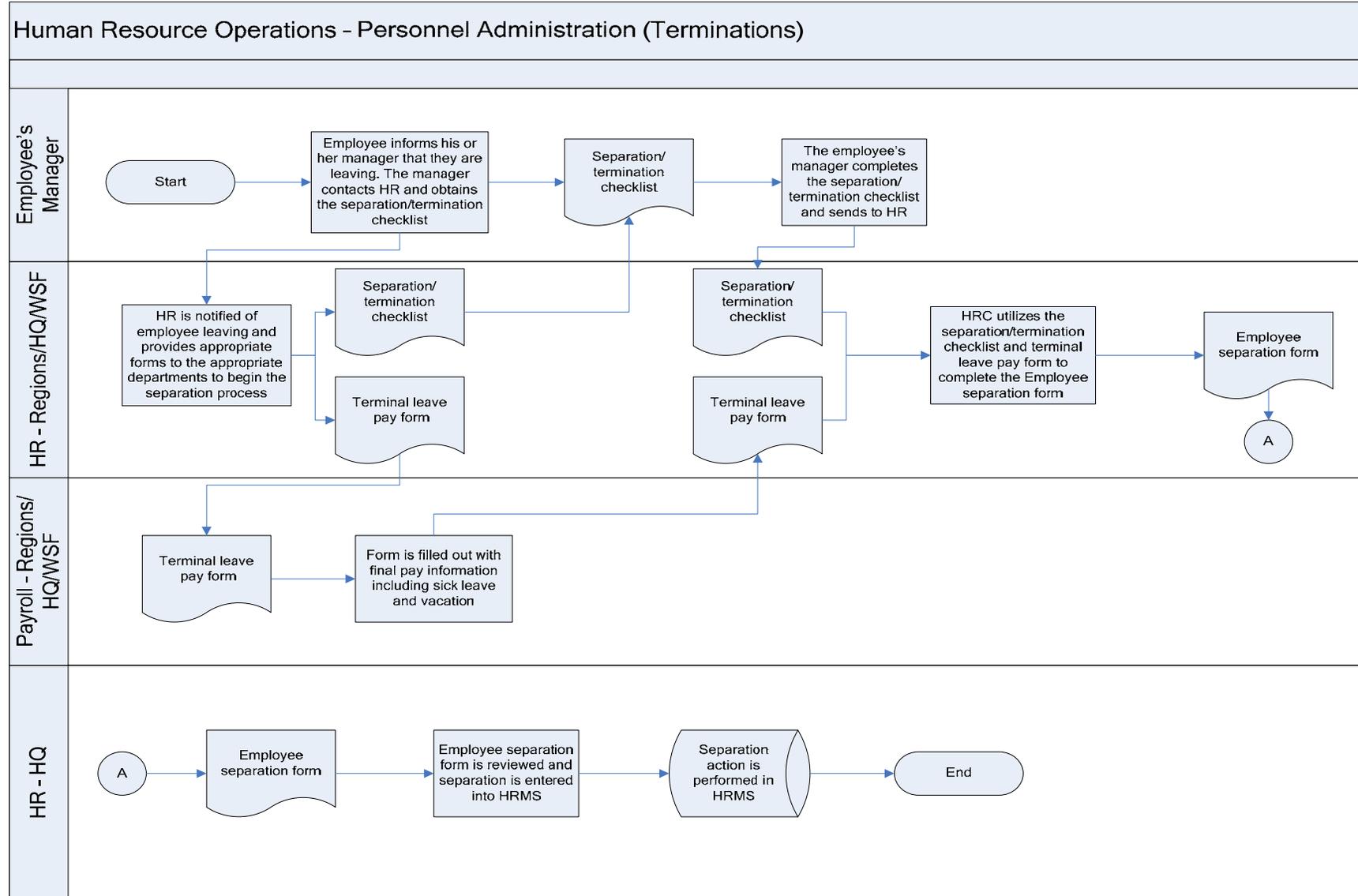
HUMAN RESOURCES PERSONNEL ADMINISTRATION – NEW HIRES (CURRENT PROCESS)



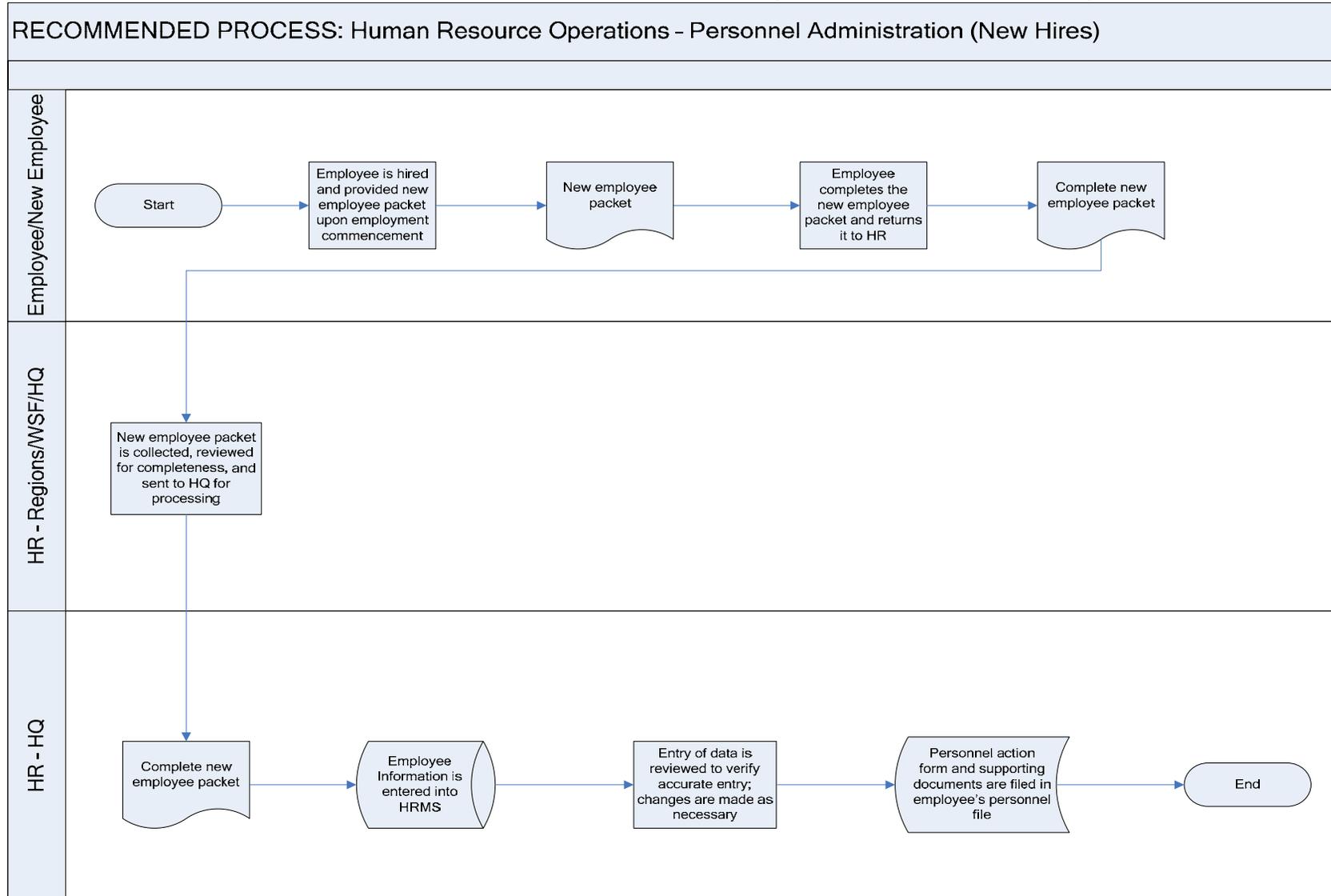
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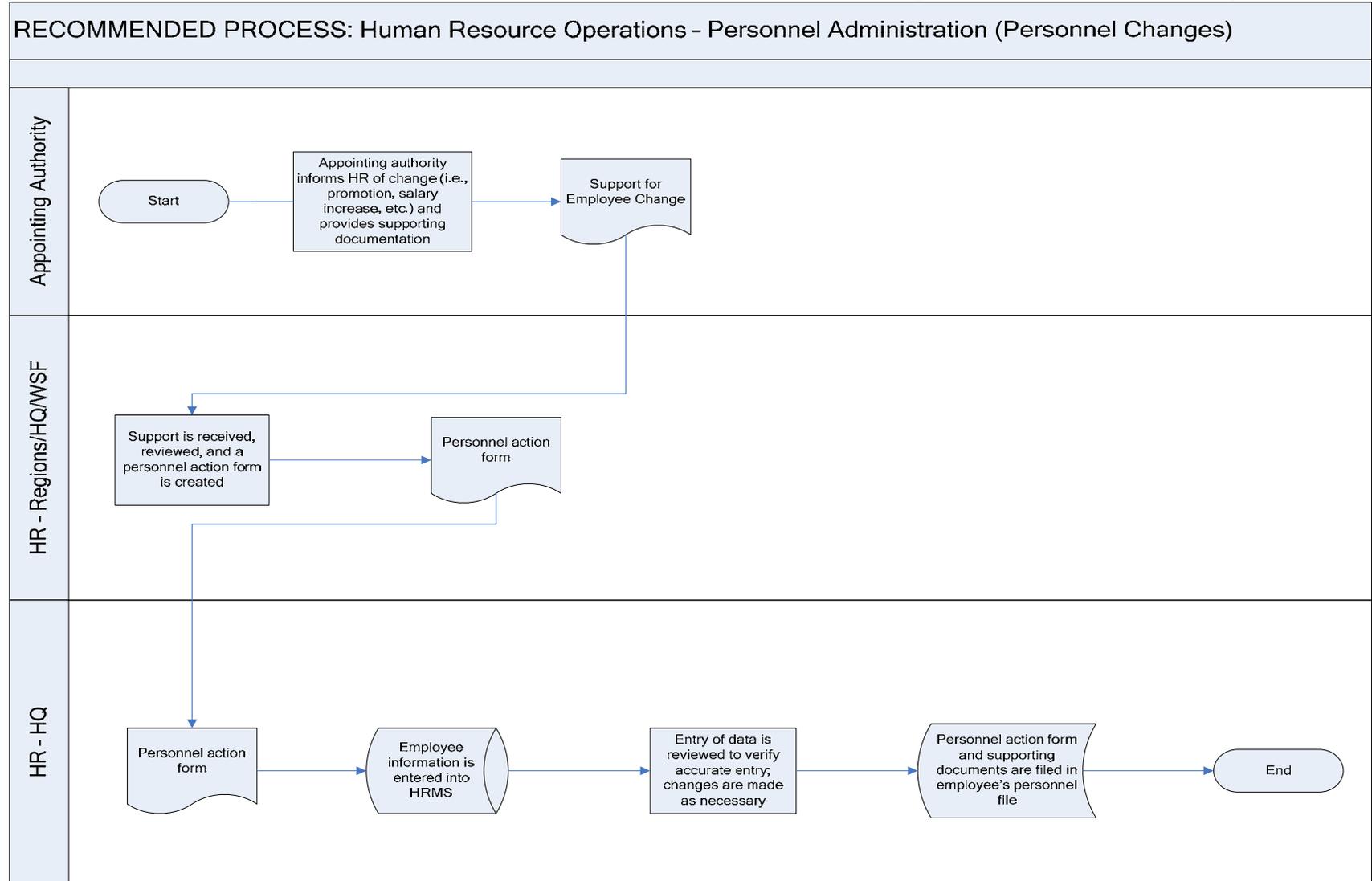
HUMAN RESOURCES PERSONNEL ADMINISTRATION – TERMINATIONS (CURRENT PROCESS)



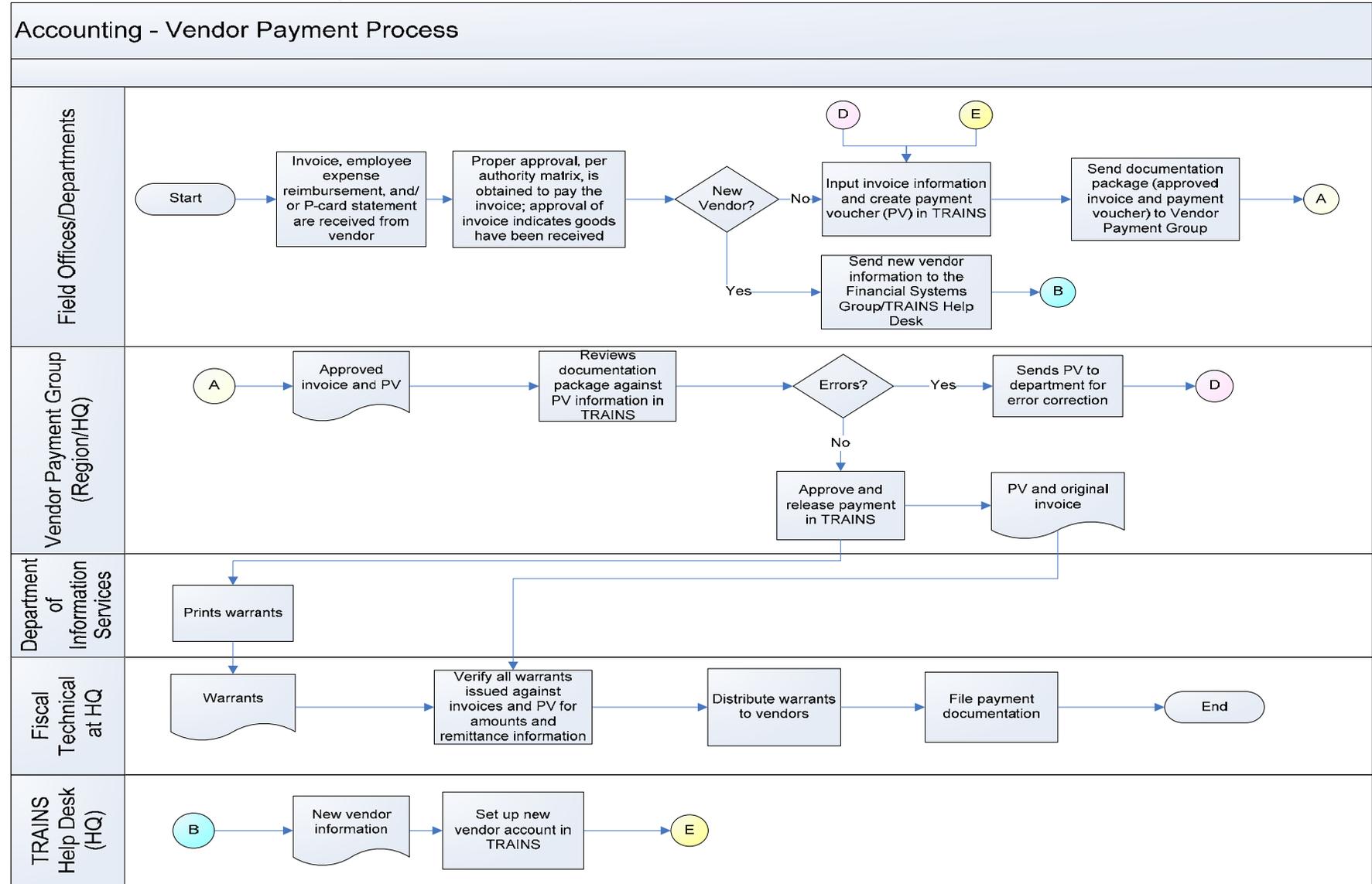
HUMAN RESOURCES PERSONNEL ADMINISTRATION – NEW HIRES (RECOMMENDED PROCESS)



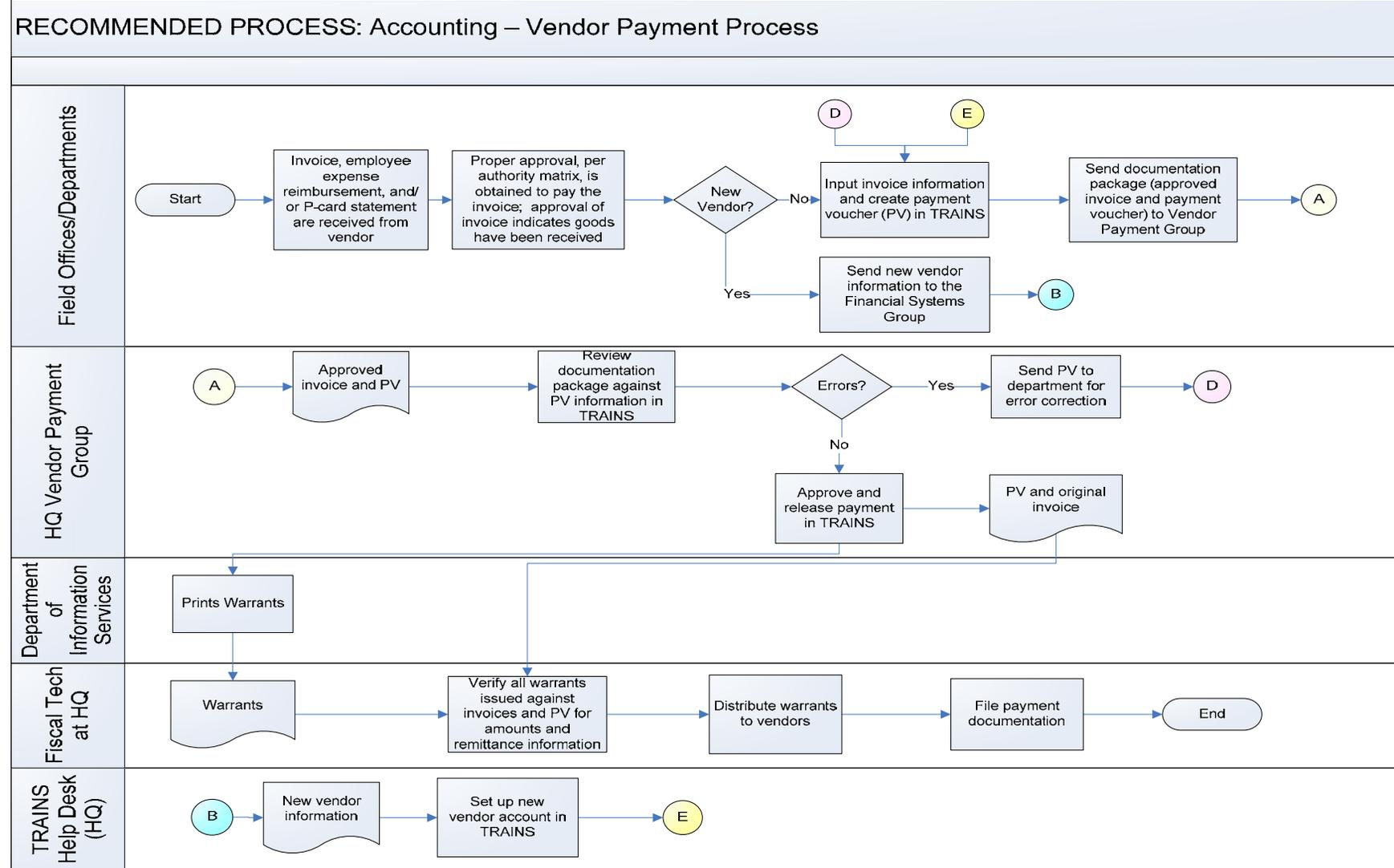
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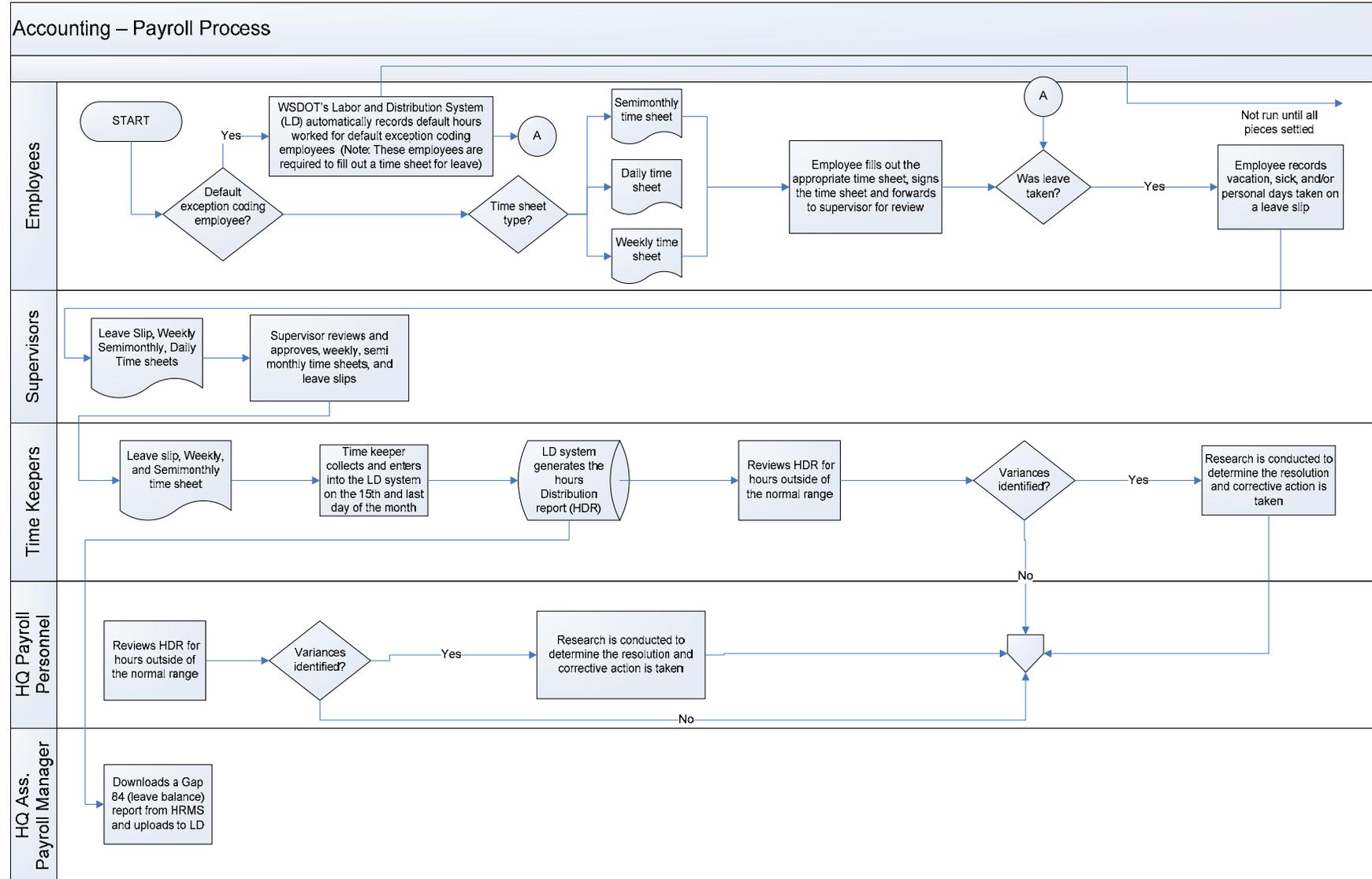
EXPENDITURE ACCOUNTING (CURRENT PROCESS)



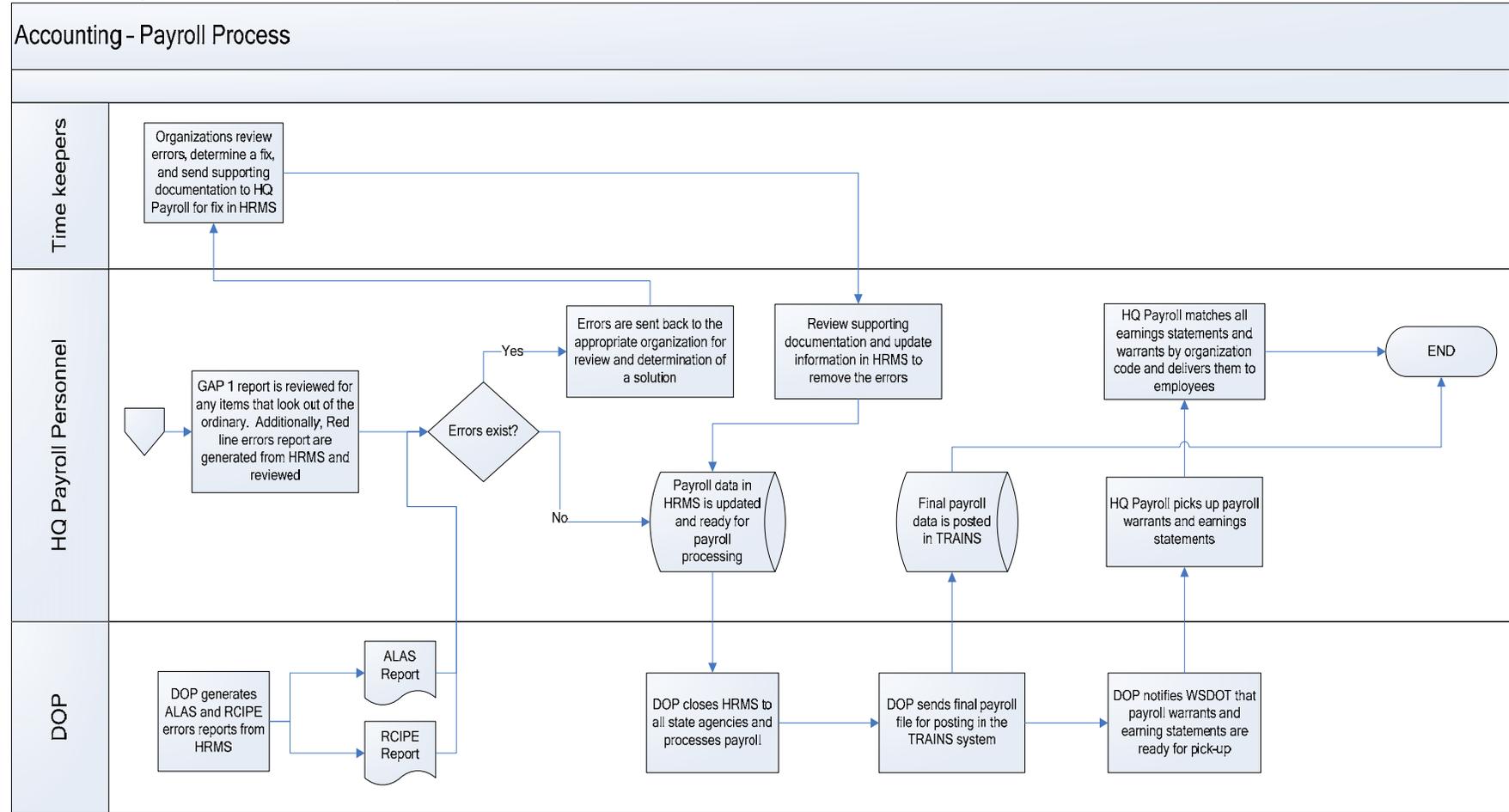
EXPENDITURE ACCOUNTING (RECOMMENDED PROCESS)



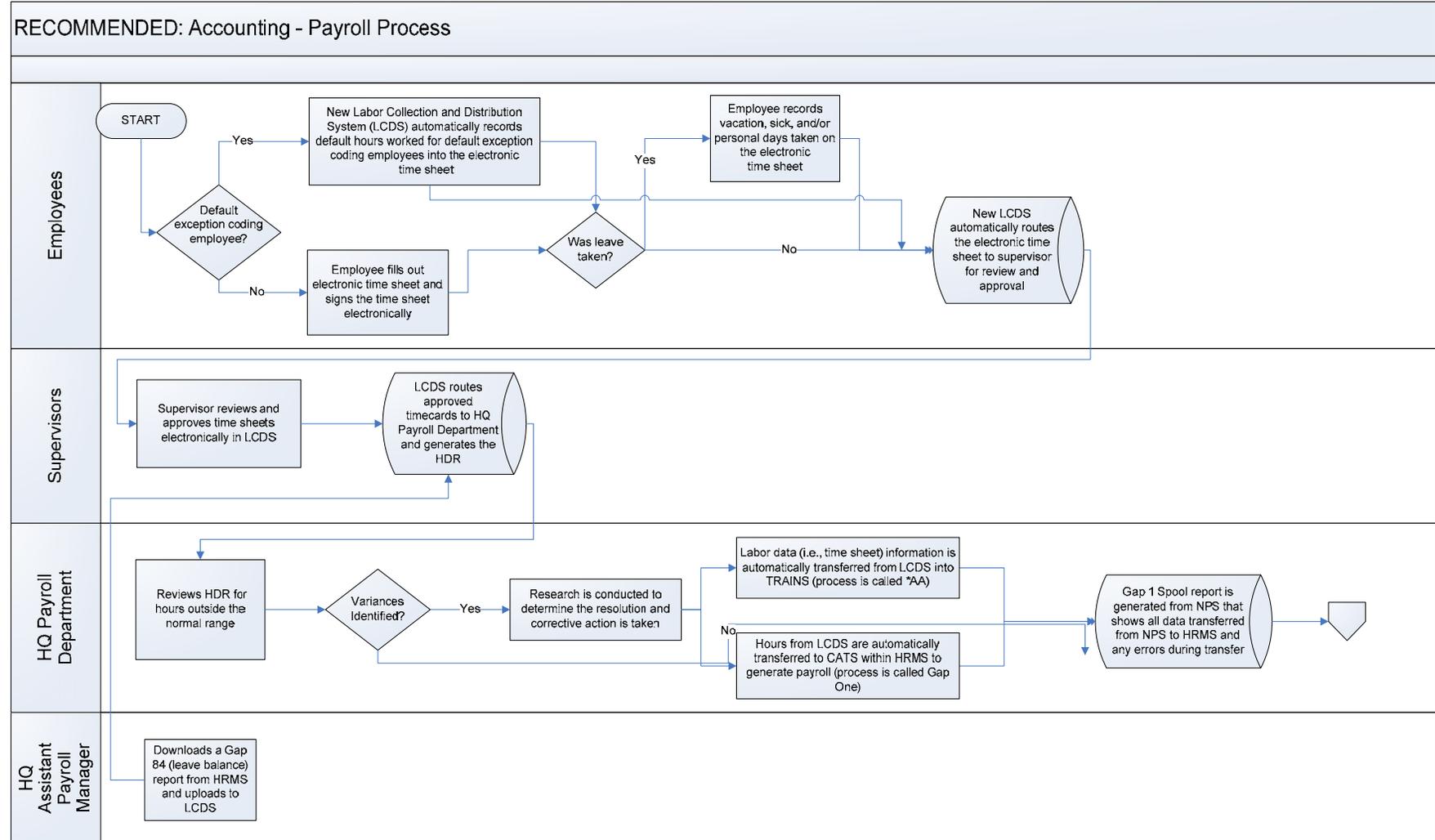
PAYROLL (CURRENT PROCESS)



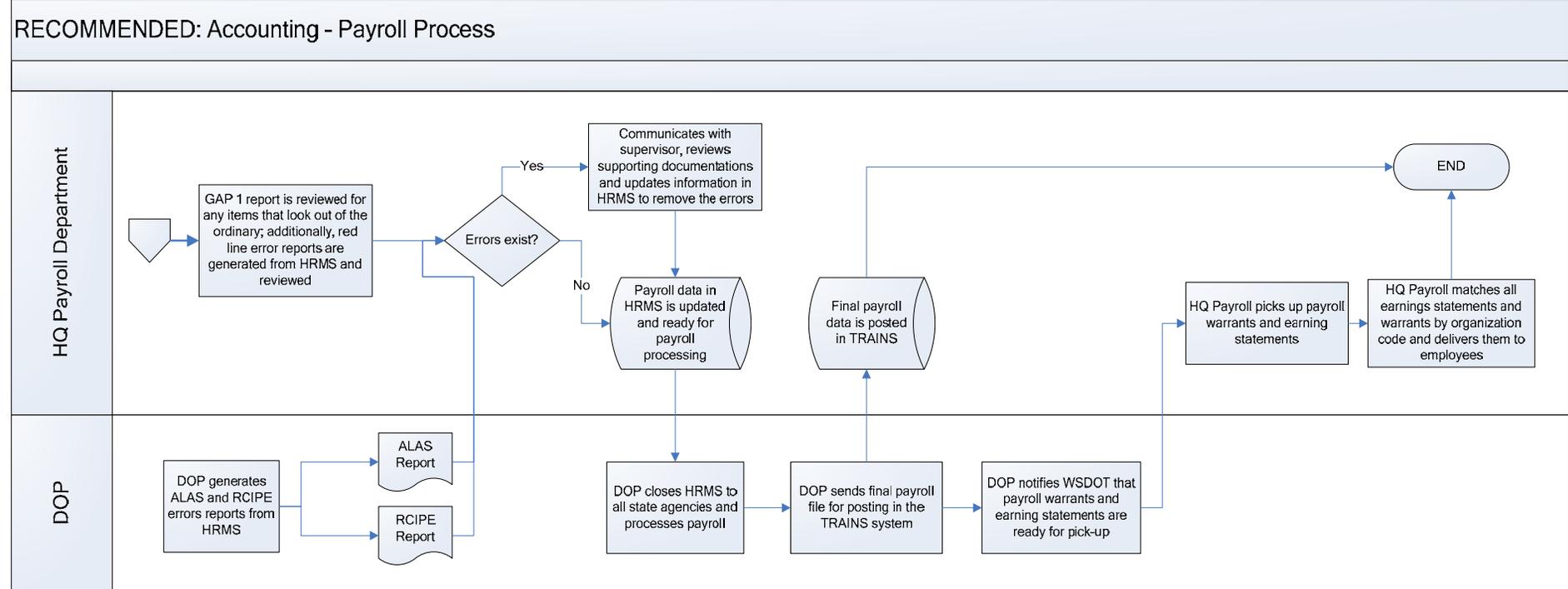
PAYROLL (CURRENT PROCESS)



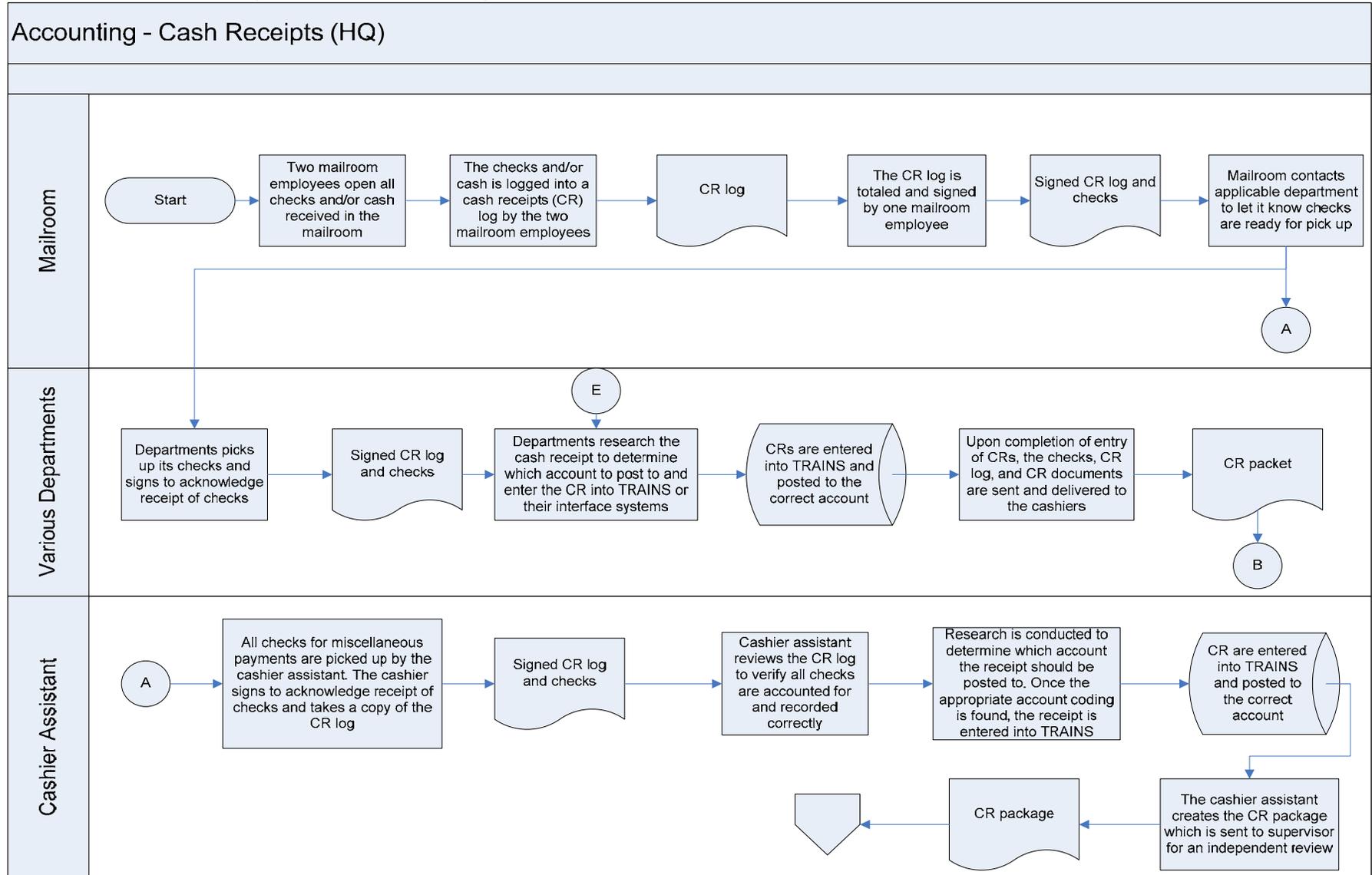
PAYROLL (RECOMMENDED PROCESS)



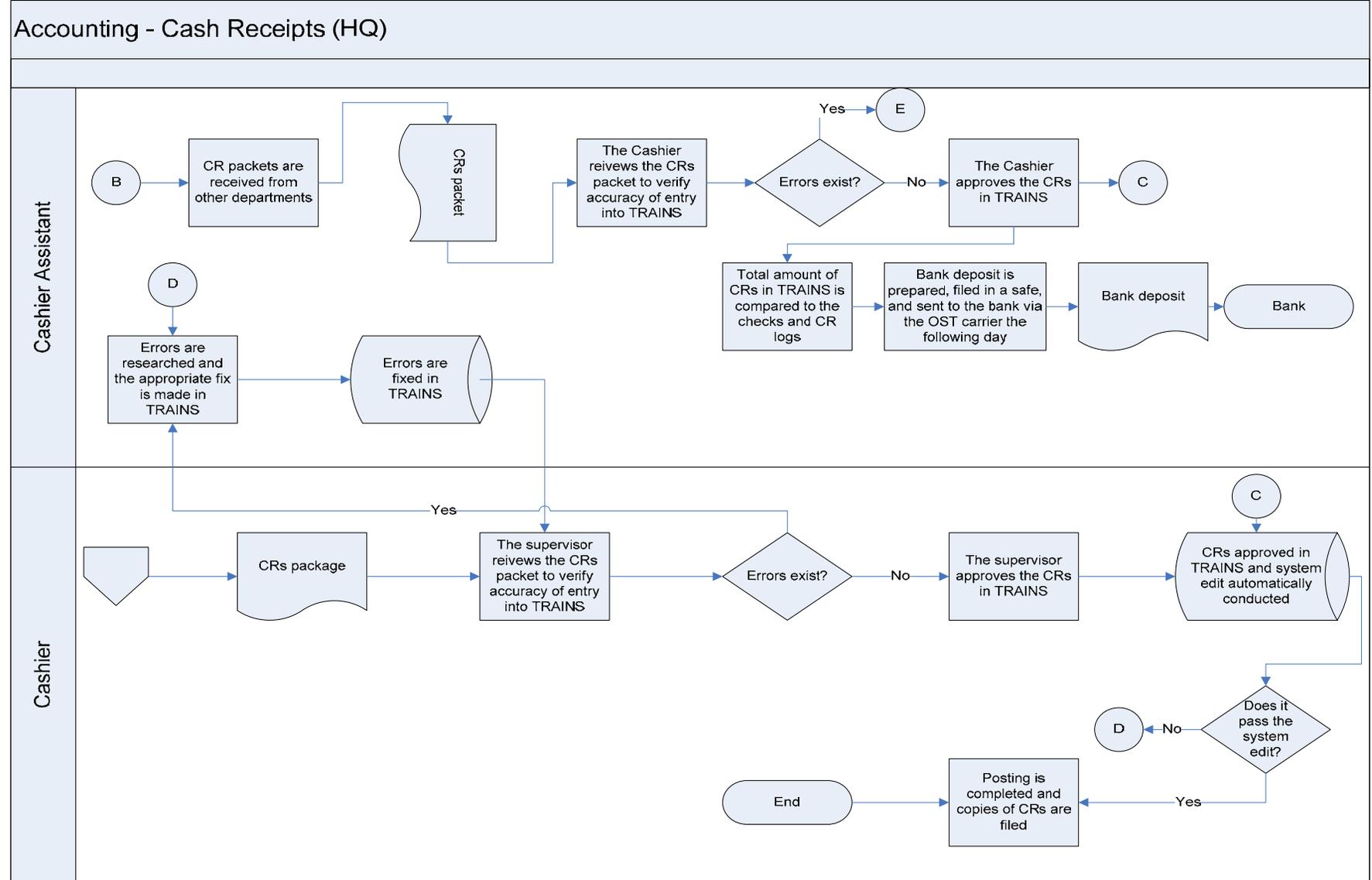
PAYROLL (RECOMMENDED PROCESS)



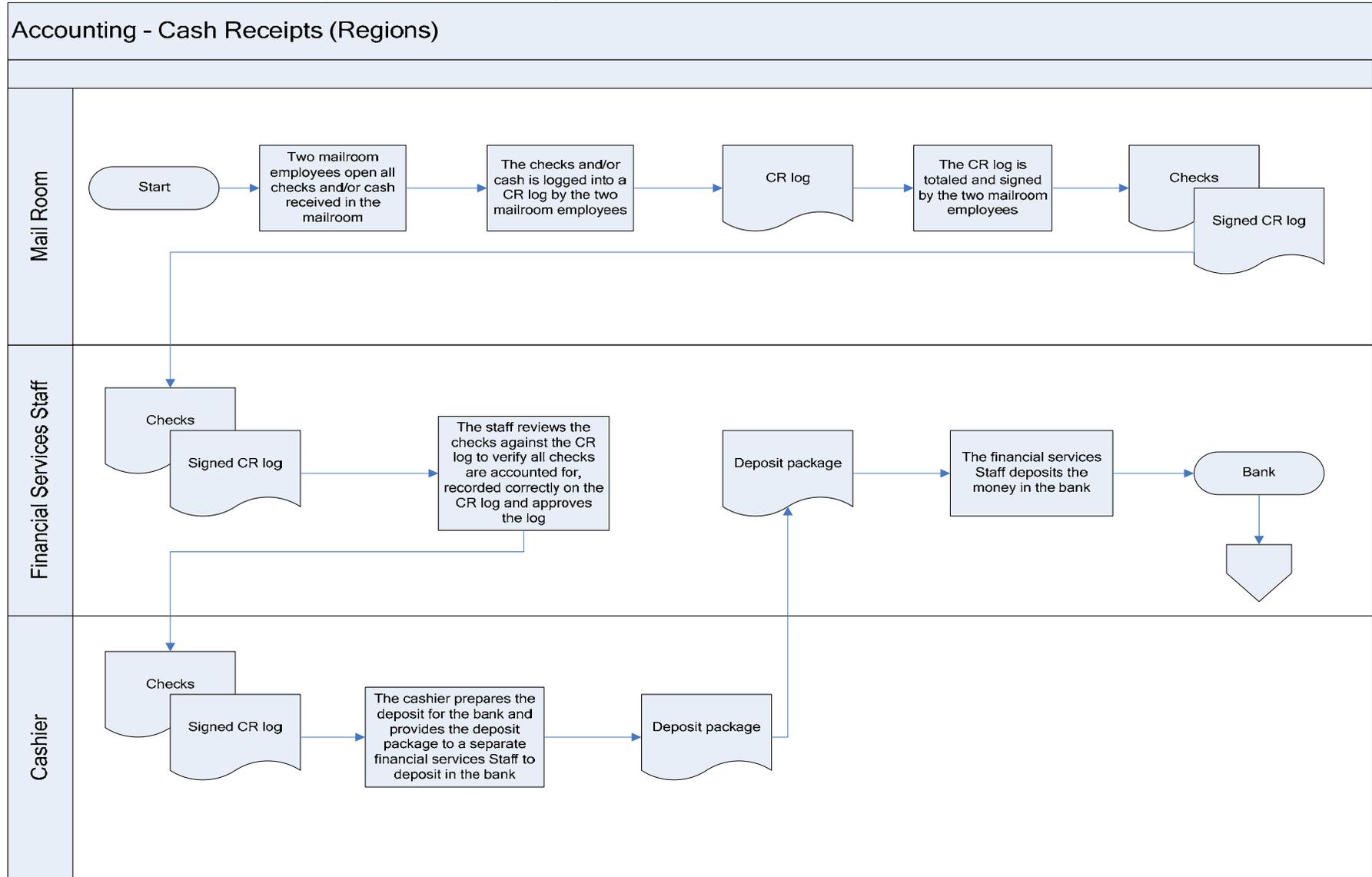
CASH RECEIPTS – HQ (CURRENT PROCESS)



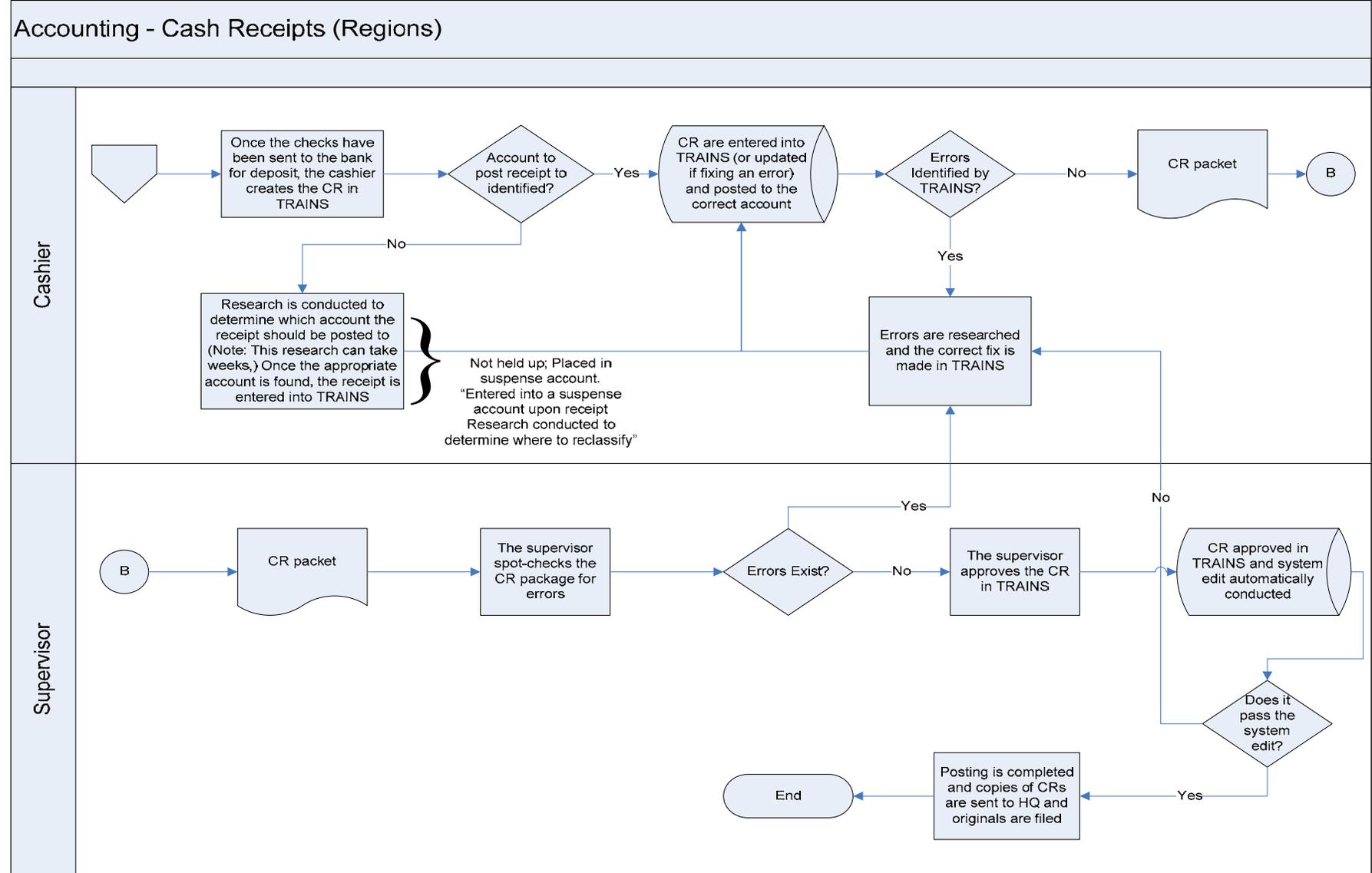
CASH RECEIPTS – HEADQUARTERS (CURRENT PROCESS)



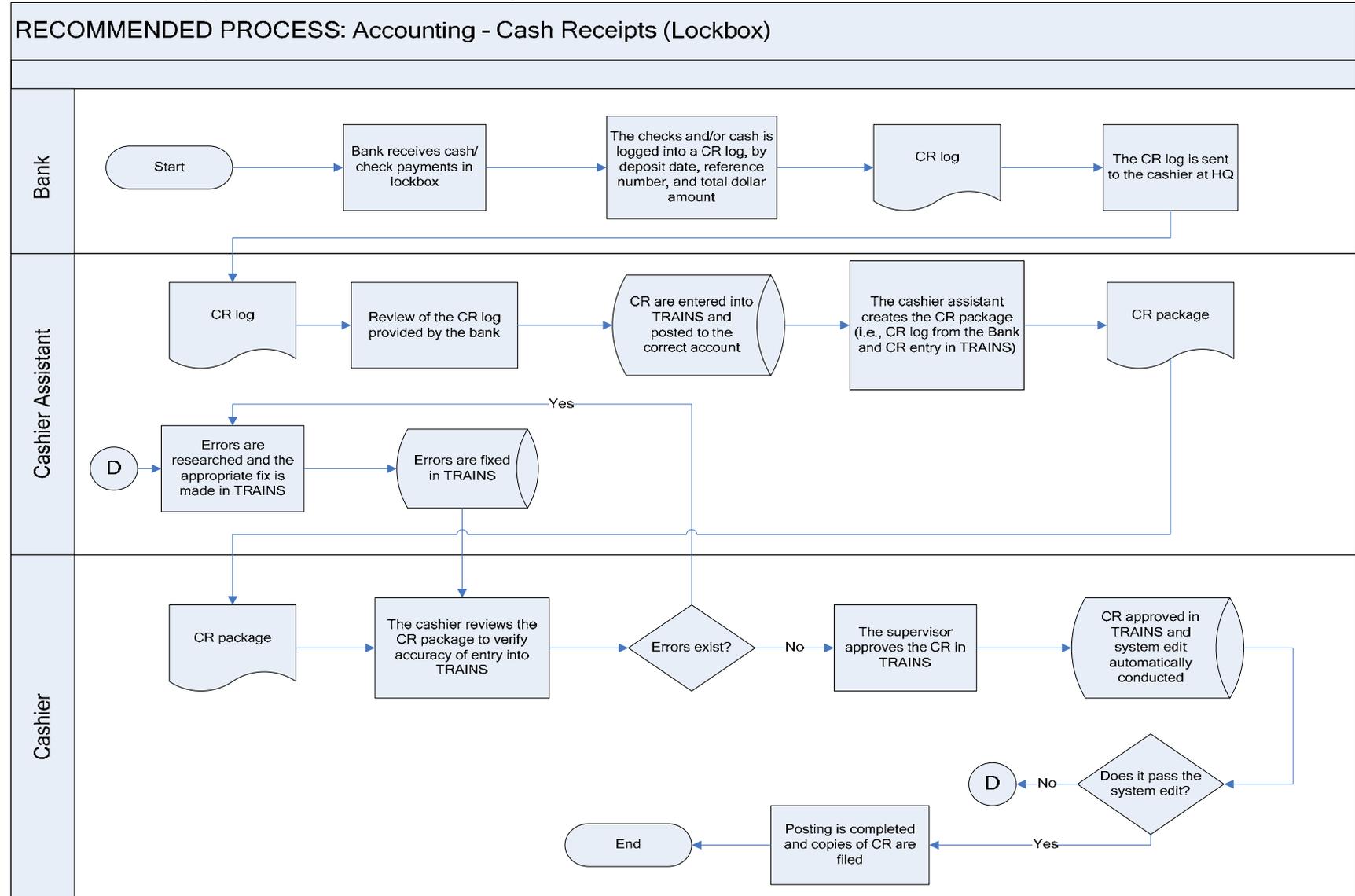
CASH RECEIPTS – REGIONS (CURRENT PROCESS)



CASH RECEIPTS – REGIONS (CURRENT PROCESS)



CASH RECEIPTS (RECOMMENDED PROCESS)



APPENDIX C

Appendix C provides a chart showing each I-900 element and where each is addressed in the performance audit findings.

	Personnel Administration	Expenditure Accounting	Timekeeping and Payroll	Cash Receipts	Internal Audit Reporting	ONE-DOT
<u>I-900 Element</u>						
1 Identification of potential cost savings	•	•	•	•		
2 Identification of services that can be reduced or eliminated	•	•	•	•		•
3 Identification of programs or services that can be transferred to the private sector				•		
4 Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps	•	•	•			•
5 Feasibility of pooling the entity's information technology systems			•			•
6 Analysis of the roles and functions of the entity and recommendations to change or eliminate roles or functions	•	•	•	•	•	•
7 Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions			•		•	
8 Analysis of the entity's performance data, performance measures, and self-assessment systems	•	•	•		•	•
9 Identification of best practices	•	•	•	•	•	•

Note: Our audit did not pursue outsourcing because of the significant opportunities that exist for internal improvements in efficiency, effectiveness, and economy by WSDOT. Our audit report contains recommendations to implement these opportunities and improvements. However, if these recommendations are not put in place, SAO should consider subsequent performance audits that explore outsourcing as a possibility.

APPENDIX D

Appendix D contains a list of the recommendations provided in this report that require legislative action in support of implementation or will require changes to the collective bargaining agreements.

Legislative Action

- **Payroll/Time Reporting:** 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.
- **Internal Audit Reporting Structure:** RCW 43.88.160 must be considered when changing the reporting structure. Other specific RCWs will depend on the outside organization selected. For example, if the Commission is selected, RCW 41.01.071 must be considered.

Collective Bargaining Agreement Changes

- **HR Personnel Administration:** Centralize the personnel administration function at HQ.
- **ONE-DOT:** Changes made toward fully integrating the business functions currently performed by WSF and WSDOT must be considered individually. Each action must consider the potential requirement to alter current bargaining agreements.



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