

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

This document was prepared in response to the audit report delivered to the Washington State Department of Transportation (WSDOT). We have provided a coordinated response from both WSDOT and the Office of Financial Management (OFM) for each issue. Action steps are by WSDOT unless otherwise noted. Our intent is that this organization will make it easier to copy and paste our response after the appropriate issue and recommendation section in the report.

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

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

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 Timeframe:

- 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.

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

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

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 Timeframe:

- 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.

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.

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

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 Timeframe:

- 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.

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 department wide cash receipts.

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

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 Timeframe:

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

Finding 5: Credit card fees paid by WSDOT are escalating each year due to the increasing reliance on credit cards by the public and the increasing amount of items sold by WSDOT to the public. WSDOT has the opportunity to either decrease its expenses or increase its revenues by addressing this issue.

Recommendation 5: WSDOT should consider a convenience fee for online sales to offset the rising expense of credit card fees.

WSDOT Response: While we agree with the finding that credit card fees are an ever increasing expense for the department, we do not believe that charging the consumer a convenience fee for online sales is the best alternative for addressing these increasing costs.

The state has made a substantial investment to provide users the option of purchasing ferry fares, electronic toll account credits, or vehicle permits over the internet. The imposition of a convenience fee may have the unintended consequence of discouraging users from taking advantage of these online payment options. Monetary disincentives like a convenience fee may also result in a greater percentage of users paying for their ferry fares, tolls, or vehicle permits in person, which could require additional staff resources to maintain current customer service levels. Because the department also accepts credit card payments in person-to-person transactions, the convenience fee for online sales would not address the full impact of credit card transaction costs for the department.

OFM Response: OFM agrees that the general public expects to be able to conduct business with the state on-line using credit cards and that credit card fees are increasing as business volumes increase.

Public purpose is served by accepting electronic payments. It speeds processing payments which minimizes lines at toll booths, kiosks, and Department offices. While the public and state benefit from more efficient operations, it involves a cost trade off. By accepting credit cards, the state does incur credit card fees, but saves the costs

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

associated with increased face-to-face transactions such as acquiring, maintaining and staffing additional offices and kiosks.

Action Steps and Timeframe:

- DOT and OFM have considered the costs and benefits of charging customers a convenience fee for online sales. Completed.

Finding 6: WSDOT's Internal Audit function can improve its independence by changing its reporting structure.

Recommendation 6: 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.

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

- 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 Timeframe:

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

Finding 7: WSDOT can improve its overall operations by aligning and integrating Washington State Ferries (WSF) with the rest of WSDOT.

Recommendation 7: 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 Timeframe:

- 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

**Official Response to the Overhead and Administration Performance Audit
From Department of Transportation and Office of Financial Management
October 17, 2007**

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.