

OVERVIEW

Management Audit of the Highways Division of the Department of Transportation

Report No. 00-09, March 2000

Summary

The Highways Division of the Department of Transportation is responsible for facilitating the rapid, safe, and economic movement of people and goods within the state. In FY1997-98, it received approximately \$269 million in state and federal funds. Approximately \$130 million of this funding was generated from fees and taxes collected on motor vehicles and fuel. This audit assesses the Highways Division's management of the State Highway System.

We found the division failed to plan adequately for the construction and maintenance of state highways, increasing costs unnecessarily. For example, the division wasted over \$1 million on unnecessary contract changes that could have been avoided had the division adequately inspected project sites prior to project design and construction.

Inadequate planning also hindered the division's budgeting for highway construction. Contracts were based on inaccurate design and construction cost estimates and consequently, debt service was incurred unnecessarily for excess revenue bond funds. Approximately \$3.4 million of state funds that lapsed during FY1997-98 were funded by revenue bonds in excess of what was needed. The division paid approximately \$172,000 in interest on these excess revenue bond funds.

The Highways Division has not followed the basic standards of highway maintenance, planning, and management of the American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration (FHWA). Furthermore, neglect of the highway system was fostered by the absence of preventive maintenance, an incomplete highway infrastructure inventory, under-utilization of management information systems, and untimely inspections and repairs.

We also found that the division's lax financial management practices resulted in unnecessary costs to taxpayers. Although procurement code violations have been a serious recurring problem for the department, the division continues to award contracts without ensuring adequate competition. Furthermore, the division ignored procurement record retention requirements, which resulted in its inability to justify the selection of many of the design consultants in our sample. Division staff also failed to adequately review the work of design consultants and construction contractors. In fact, division staff avoided the contract change order review and authorization process by inappropriately charging additional contract costs to temporary force accounts.

The division also failed to adequately monitor utility work and utility agreements which identify both the State's and utility companies' responsibilities for financing



the costs for the removal, relocation, replacement, or reconstruction of utility facilities as a result of highway work. The division failed to pay utility companies and to collect funds owed by these companies.

The division's disregard of procedures to manage staff overtime allowed for gross abuse and unnecessary personnel costs. During FY1997-98 the division expended over \$2.4 million for overtime. Although the department's staff manual requires that requests for planned overtime work be submitted in advance, requests were not documented for about 66 percent of these overtime occurrences in our sample. We also found that branch chiefs and district engineers approved overtime requests for staff that exceeded limits established by the department and permitted 19 percent of the staff in our sample to take either sick or vacation leave on the same day they earned overtime. Moreover, we observed employees playing computer games, taking naps, and reading novels during work hours.

Finally, we also found the division's organizational structure to be fragmented and inefficient. The director has ignored administrative directives for effecting organizational change and the governor's order to increase the division's span of supervisory control. Instead, the division has placed staff on *administrative assignments*, a term contrived by the division, to circumvent established rules and executive orders. Consequently, functions of newly created positions parallel existing organizational units rather than displace them. Supervisors continue to occupy their positions with no one to supervise.

Recommendations and Response

Our report recommends that the Highways Division improve its planning of highway projects to avoid unnecessary contract change orders and additional debt from bond interest payments. We also recommended that the division develop statewide maintenance standards, and be accountable for timely inspections and repairs. We recommended the director improve the division's financial management and that the State Procurement Office review the department's procurement and training procedures. Finally, we recommended the governor ensure that the director follow administrative procedures and directives for organizational changes.

The department responded that it accepts responsibility for some of our findings but disagreed with others. However, the department failed to specifically address many of our findings, only to say that it is in compliance and has not violated any laws, rules, and directives. The department also indicated that it believes our sampling methodologies were biased. We disagree. Our audit sampling methodologies comply with acceptable auditing standards.

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