



Stephanie C. Kopelousos
Secretary



Office of Inspector General

Cecil Bragg
Inspector General

Advisory Memorandum 07P-0002 Local Agency Program (LAP)

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EXECUTIVE SUMMARY

The Office of the Inspector General (OIG), in conjunction with the Federal Highway Administration (FHWA), completed a review of the Local Agency Program (LAP). The FHWA focused on compliance with engineering and financial federal-aid requirements. The OIG review focused on the status of several concerns identified in a 2005 FHWA letter regarding LAP compliance and program administration activities. Also, we identified best practices in nine states and conducted a web-based survey of local agencies within Florida to identify opportunities for improvement.

Our review found the Department of Transportation (department) has strengthened overall LAP project administration and continues to make progress in addressing FHWA concerns. The State LAP Administrator initiated improvements including: 1) developing project compliance checklists of federal and state requirements, 2) updating the LAP manual in January 2007, and 3) sponsoring a LAP User Conference in February 2007. Planned improvements include developing a LAP Construction Oversight Plan and web-based training modules for LAP administration processes.

We identified two areas of non-compliance; checklist approval and quality assurance reviews. Although completed and approved checklists suggest compliance with federal-aid requirements, there was not sufficient documentation to support such compliance for several federal requirements. Checklist approval and certification is an important control function since the department's Federal-aid Management Office relies on the accuracy of these checklists to secure federal funding. Also, quality assurance reviews were not conducted as required by the LAP Manual.

To address these concerns, we made recommendations to help ensure program compliance and improve both efficiency and effectiveness. In addition, we identified best practices to strengthen overall LAP administrative activities. These include: 1) standardization of LAP contracts, agreements, and other related documents to improve the level of compliance with federal and state requirements; 2) standardization of project file contents, organization, and maintenance to support such compliance; 3) implementation and monitoring of long-range strategic planning to provide improved LAP administration activities; and 4) development and delivery of consistent and routine LAP training.

INTRODUCTION

Over a five-year period (2006-2010), the department expects to receive over \$1 billion in federal-aid for LAP projects. These federal funds are used by local governmental agencies to improve mobility and safety, reduce congestion, and enhance and preserve existing infrastructure. While the department provides stewardship and oversight of these federal funds, it is also responsible for overseeing local agency compliance with state and federal requirements for LAP projects. Through 2010, a total of 832 LAP projects are included in the department's work program.

In July 2005, the FHWA sent a letter to the department identifying several concerns regarding the financial accountability of LAP projects. FHWA findings included: 1) contracts did not incorporate basic federal-aid requirements; 2) some contracts were not available in district offices; 3) plan and specification packages on State Highway System LAP projects were not approved; and 4) local agencies often used local agency specifications or a combination of local and department specifications without approval. In addition, FHWA required immediate implementation of the quality assurance process required in the LAP Manual to verify local agencies are following the requirements.

RESULTS OF REVIEW

As part of our assessment, we reviewed LAP project files in each of the seven district offices, identified best practices used in nine other states, and conducted a web-based survey of local agencies in Florida to determine whether current LAP administrative processes could be improved. Overall, the department has strengthened LAP project administration and continues to make progress in addressing FHWA concerns.

Our review results cover three areas; oversight, communication and training. We made recommendations for improvement in each of these areas.

Oversight

Several improvements were developed by the State LAP Administrator which could strengthen overall LAP project administration. For example, in 2005, Administrative and Construction Checklists were created to improve compliance with federal and state requirements. A LAP Construction Oversight Plan is currently under review and a LAP Strategic Plan and Process Review Work Plan were created but not yet implemented.

At the district level, we found: 1) all project files we reviewed contained a checklist approved by the District and State LAP Administrators; 2) district offices were documenting the use of department and/or local agency specifications as required for all but one project; and 3) executed contracts were readily available in all but one district.

We also identified several district-specific best practices which improve LAP project administration activities. For example: 1) three districts used project tracking software

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or spreadsheets for project monitoring; 2) files in two districts were well-organized and maintained; and 3) one district had written internal procedures detailing the LAP process.

The checklists certify compliance with state and federal-aid requirements and must be accurate. Documentation supporting these checklists was adequate for a majority of items reviewed. However, we found instances of insufficient documentation relating to Davis-Bacon wage rates, FHWA Form 1273 requirements, and Disadvantaged Business Enterprise (DBE) provisions. The districts' approval and State LAP Administrator's certification of checklists assure FHWA the department is in full compliance with federal-aid requirements. Since the department relies upon checklists to secure authorization of federal funds, it is essential that sufficient evidence be documented to support the district's approval and State LAP Administrator's certification of full compliance with state and federal requirements.

The LAP Manual contains procedures for Quality Assurance (QA) reviews. These reviews help determine if the local agency has the processes in place to comply with federal and state requirements. While the State and District LAP Administrators perform some QA activities, quality assurance reviews were not conducted in accordance with LAP manual procedures.

The State LAP Administrator developed a Local Agency Program Strategic Plan in January 2005. The plan identifies strategic goals and objectives and contains an action plan but does not contain implementation dates, scheduled activities, status information, or benchmarks.

To improve the department's oversight of LAP and certification of compliance to the FHWA, we recommend:

The District LAP Administrator indicate approval of checklist items only when compliance is supported by appropriate documentation received from the local agency. Also, we recommend the State LAP Administrator implement procedures which assure checklist accuracy prior to certification.

The State LAP Administrator create standardized LAP forms, such as bid specification packages and contract documents. Use of standardized documents will help ensure consistency and improve local agency compliance with state and federal requirements.

The District LAP Administrator conduct QA reviews in accordance with the LAP Manual. Also, we recommend the State LAP Administrator develop and implement quality assurance procedures for periodic review of the districts' LAP oversight process.

The State LAP Administrator develop a standard format for organizing documentation in LAP files. A well-documented LAP file is essential for effective monitoring of LAP projects. At a minimum, LAP files should include the LAP Agreement, construction

contract, documents supporting compliance with state and federal requirements, and project status.

The State LAP Administrator involve district and local agency representatives in the revision, implementation, and monitoring of the LAP long-range strategic plan.

Communication

Through coordinated efforts of district staff and the State LAP Administrator, the levels of communication have improved over the past two years. The department's Project Management Office maintains a website which includes the LAP homepage. The State LAP Administrator is responsible for providing program information and updates to this website. Also, an electronic LAP news update communicates general program information to local agencies.

District staff have frequent contact with local agencies by electronic mail and telephone and several districts conduct status meetings on a bi-monthly or quarterly basis. One district distributes a quarterly newsletter to local agencies, detailing information from experts regarding right-of-way, environment, and other pertinent issues. Our web-based survey of local agencies indicated approximately eighty-four percent of respondents are satisfied with the communication and assistance received from district staff. However, our survey also revealed infrequent use of the LAP website indicating marginal benefit.

In addition, in February 2007, the State LAP Administrator coordinated the department's first LAP User Conference which provided information relating to LAP administration activities. Over 400 individuals, representing 75 local agencies, department staff, and private sector employees attended the conference.

The State and District LAP Administrators work closely with local governmental agencies. However, our best practices survey indicates other states also focus on establishing relationships with professional organizations such as the County and State Boards of Engineers.

To help improve the current levels of communication we recommend:

The State LAP Administrator assess website contents and benchmark against other state LAP websites. To assist the State LAP Administrator, we have provided information about other state websites under separate cover. Once the website is updated, the State LAP Administrator should encourage local agency and district staff use.

The State and District LAP Administrators increase interaction with local government and professional organizations, including County and State Boards of Engineers to encourage exchange of LAP-related information.

Training

The State LAP Administrator developed a LAP Manual in 2005. This manual provides guidance to local agencies and district staff regarding LAP policies and procedures. The State LAP Administrator and district staff reviewed and finalized updates to the manual in January 2007.

Over the past two years, the State LAP Administrator and district staff provided periodic training on topics included in the LAP Manual. These topics included the LAP Agreement, and the use of Abbreviated, Administrative and Construction Checklists. Central Office staff are developing web-based LAP training modules for local agency and district office use.

Four of the districts provided local agency training on topics such as Right-of-way, checklists, environmental issues, and the LAP Manual. During our review, district staff stated additional LAP training was needed for both local agencies and district staff, including Equal Employment Opportunity, DBE, invoice processing and project tracking information.

To help improve the compliance with and understanding of state and federal LAP requirements, we recommend:

The State LAP Administrator, in coordination with district LAP staff, conduct a training needs assessment with local agencies to identify training topics, develop consistent curriculum and provide routine LAP training.

ATTACHMENT 1 - Purpose, Scope, and Methodology

The **purpose** of this engagement was to assess the status of previous FHWA concerns and identify LAP practices and processes in other states which may strengthen LAP operational activities.

The **scope** of this engagement included a review of LAP files in the department's seven districts. The Turnpike Enterprise was not included since it does not participate in LAP.

Our **methodology** included the following:

- Reviewing applicable federal, state, and department laws, rules, and regulations;
- Interviewing the State and District LAP Administrators and selected staff;
- Sampling of active contract files to determine the adequacy of documentation and the extent of compliance with federal and state requirements;
- Interviewing LAP Administrators in other states to identify best practices; and
- Surveying local agencies to identify concerns or issues related to current LAP operations and any opportunities for improvement.

ATTACHMENT 2 - Engagement Team and Statement of Accordance

Engagement Team

Daniel Hixson, Staff Auditor

Myndi Smith, Staff Auditor

John Boone, Staff Auditor

Marnie Parry, CPA, Performance Audit Manager

Kristofer Sullivan, CIA, CISA, Information Technology Audit Manager

Carlos Mistry, CIA, CFE, Public Transportation and Utilities Manager

Joseph Maleszewski, CIA, CISA, Audit Director

Statement of Accordance

Sections 20.23 and 20.055, Florida Statutes, require the department's OIG to review, evaluate and report on policies, plans, procedures, accounting, financial and other operations of the Department and to recommend improvements.

This advisory service was conducted in accordance with applicable International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and Principles and Standards for Inspectors General published by the Association of Inspectors General.

ATTACHMENT 3 - Addressee and Distribution List

Lora Hollingsworth, Director, Office of Design
Dennis Filloon, State LAP Administrator

Copies Distributed to:

Stephanie C. Kopelousos, Secretary
Lowell Clary, Assistant Secretary for Finance and Administration
Kevin Thibault, Assistant Secretary for Engineering and Operations
Vacant, Assistant Secretary for Intermodal Systems Development
 Attention: Cecile Del Moral
Ananth Prasad, Chief Engineer
David C. Gibbs, Division Administrator, FHWA
Lori S. Byrd, Office of Finance and Administration Director, FHWA
J. Chris Richter, Office of Engineering and Operations Manager, FHWA
Stephanie Gleason, Financial Manager, FHWA
Leslie McCarthy, Program Operations Engineer, FHWA

Stan Cann, District One Secretary
Carol Finn, Director, District One Transportation Support
Ed McKinney, District One Procurement Administrator
Michelle Peronto, District One LAP and Special Programs Coordinator
Charles Baldwin, District Two Secretary
Larry Parks, Director, District Two Transportation Support
Katrina Sadler, District Two LAP Coordinator
Jordan Green, District Two Public Transportation Manager
Larry Kelley, District Three Secretary
Tommy Barfield, Director, District Three Transportation Development
Keith Shores, District Three LAP Coordinator
James Wolf, District Four Secretary
Gerry O'Reilly, Director, District Four Transportation Development
Barbara Handrahan, District Four LAP Administrator
Noranne Downs, District Five Secretary
George Lovett, Director, District Five Production
Daniel McDermott, Senior Attorney, District Five
Tom Moscoso, District Five LAP Coordinator
John Martinez, District Six Secretary
Alice Bravo, District Six, Director of Transportation Development
Danny Iglesias, District Six LAP Coordinator
Donald Skelton, District Seven Secretary
Scott W. Collister, District Seven, Director of Transportation Development
Lawrence Taylor, District Seven JPA/LAP Administrator