



# Washington State Auditor's Office

---

**Troy Kelley**

Independence • Respect • Integrity

## **Columbia River Crossing Project**

**Washington State Transportation Commission**

**June 18, 2014**

**Chris Cortines, CPA, Principal Auditor**

# The Columbia River Crossing (CRC) Project



- Mega-project estimated at \$3.5 billion
- Joint project between Oregon DOT and WSDOT
  - WSDOT served as lead
  - Responsible for contracting with consultants
  - FHWA and FTA were participating federal agencies

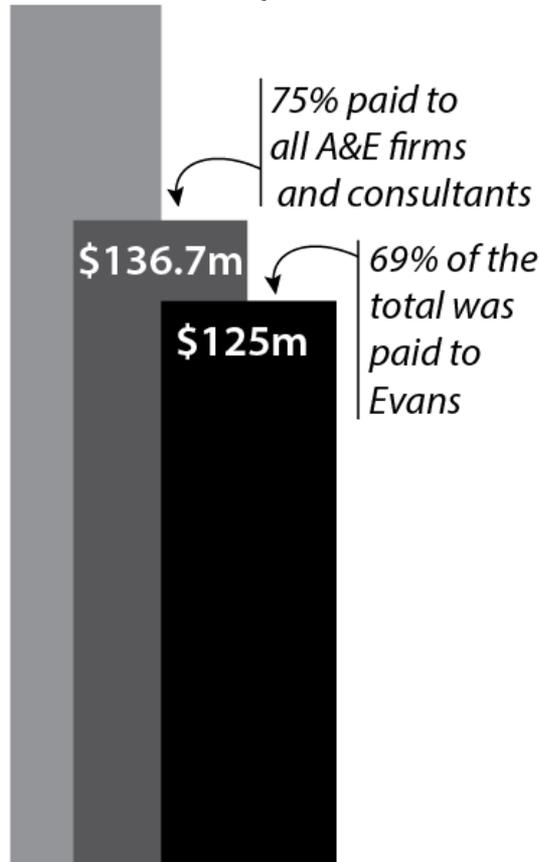
# Why we did this audit

- Legislature required a forensic audit to look for potential misuse of funds
- The Joint Legislative Audit Review Committee contracted with the State Auditor's Office
- Agreed scope included:
  - Administrative costs
  - Rates for profit, overhead and labor
  - Work compared to task orders and to the original solicitation

# Why we did this audit

WSDOT's CRC spending,  
May 2005-August 2013

\$182m total spent



This audit focused on consulting charges. David Evans and Associates (Evans) provided most CRC consulting services.

- Overhead – a consulting firm's administrative costs – made up more than half of these charges
- Labor made up one third
- Profit made up the remainder

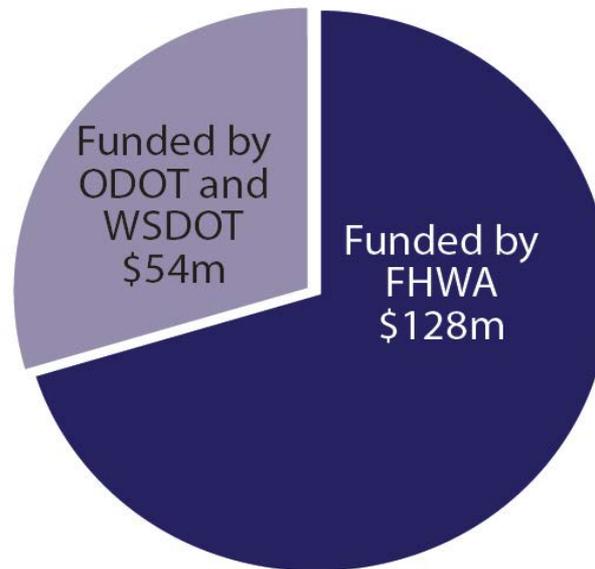
# A summary of issue amounts addressed in this audit

<b>Excess or higher-than-typical costs</b>	<b>Recoverable</b>	<b>Other</b>
Four percent markup on sub-consultant charges that over-compensated administrative costs and resulted in high profit markups		\$1,455,412
Profit markups exceeded typical 10%-12% range		\$53,242
Labor rate increases exceeded typical 5% per year		\$158,682
Labor rates exceeded contract rates	\$13,932	
Overhead rates exceeded contract rates	\$35,754	
<b>Questionable costs</b>		
Overhead rates exceeded audited rates		\$286,733
Payments to firms with undisclosed overhead and profit markups		\$12,300,000
Labor charges with no contract rates/missing contract rates		\$400,000
Work performed was not authorized in advance by contract		\$2,366,000
<b>Totals</b>	<b>\$49,686</b>	<b>\$17,020,069</b>

Note: This table excludes amounts identified in Appendix C. It also excludes \$6.26 million in task orders that potentially exceeded the scope of services described during the pre-proposal conference.

# Background – CRC costs and funding as of August 2013

**Total CRC spending between May 2005-August 2013 = \$182 million**



WSDOT told us the amounts in this graph exclude \$5.9 million in CRC costs incurred by ODOT, and that these costs did not flow through its accounting system. We did not examine these costs during this audit.

# Background – CRC costs as of August 2013

## Benchmarks for CRC spending:

- NEPA (National Environmental Policy Act) Environmental Impact Statement requirements can make up 2 percent of total project costs
- Environmental review and design can make up 10 percent of total project costs

Planned project costs total \$3.5 billion. As of August 2013, when funding halted, the CRC had completed environmental review and most preliminary design.

**The \$182 million spent is between 2 percent and 10 percent of planned project costs.**

# Background – Largest CRC consulting contract

- WSDOT's March 2005 solicitation for the CRC's environmental impact statement was anticipated to be more than \$20 million
- WSDOT signed a \$50 million agreement with Evans in May 2005
- Evans had received payments of \$125.2 million by August 2013

# Our audit questions focus on three areas

1. Administrative costs
2. Rates for profit, overhead and labor
3. Work compared to task orders and to the original solicitation

We also looked for misuse of funds as we performed work in these areas.

# What we found: administrative costs

- Administrative costs for shared office space were distributed equitably.
- The largest consultant was over-compensated. How did this happen?

WSDOT's Policy 2006-1 paid prime consultants a 4 percent markup on work performed by sub-consultants



Increased payments to Evans of \$1.45 million which were not included in 2005 contract

# What we found: administrative costs

## More on WSDOT Policy 2006-1

- Markup on subcontractor work proposed by engineering community to WSDOT following court decision striking down the agency's Disadvantaged Business Enterprise (DBE) program
- Original purpose: to reimburse primary consultants for unidentified administrative costs associated with using sub-consultants
- WSDOT adopted policy without obtaining written legal advice

# What we found: administrative costs

## How long was Policy 2006-1 in effect?

---

- Adopted in November 2006
- Discontinued in 2009; payments applying the markup to Evans ended in February 2011

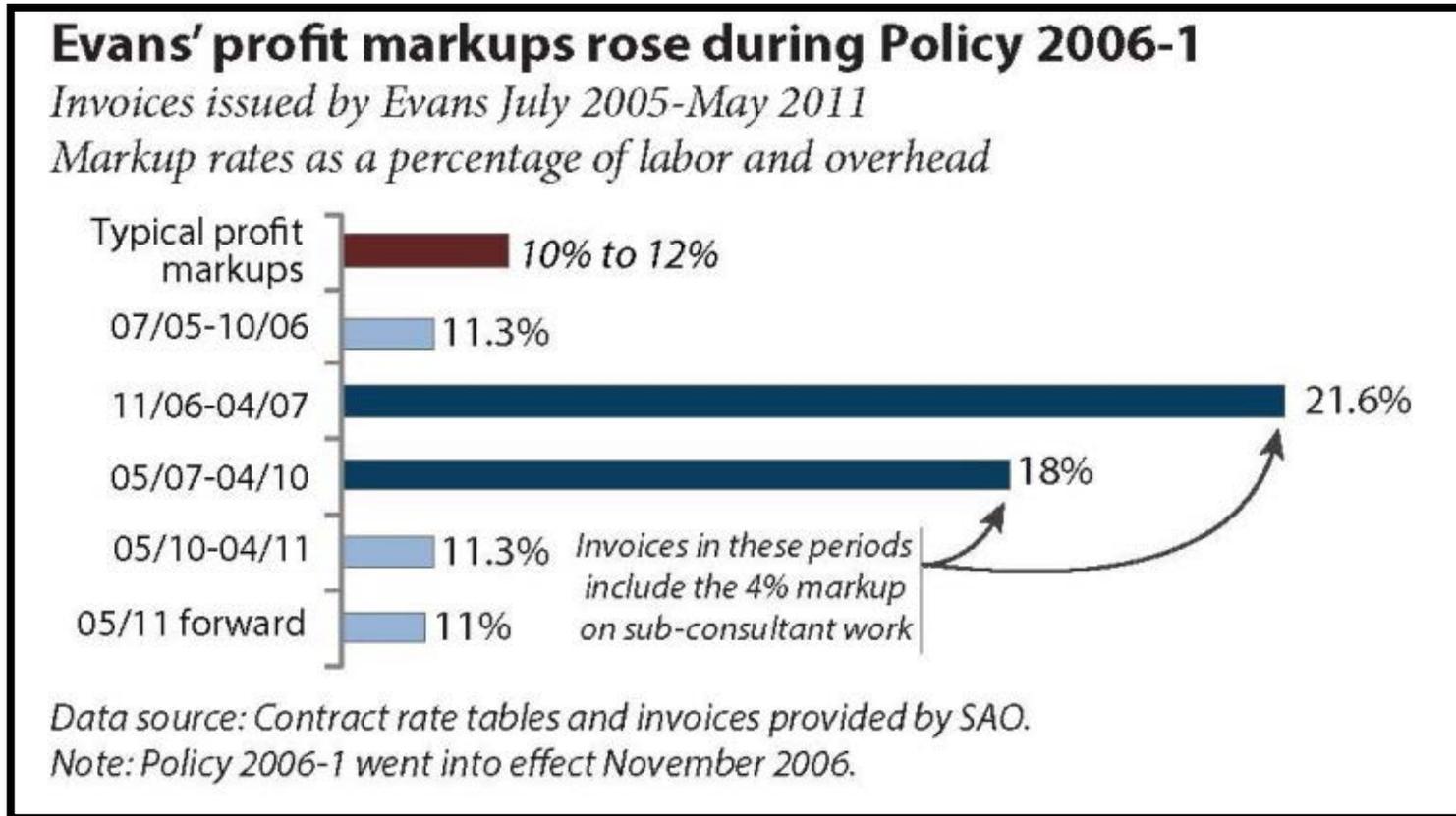
## Why was it rescinded?

---

- FHWA instructed WSDOT to discontinue policy on FHWA-funded contracts: “This policy has the appearance of double-dipping...”

# What we found: administrative costs

One result of Policy 2006-1: Evans was paid profit markups that significantly exceeded typical markups



Policy 2006-1 affected other WSDOT consulting contracts while the policy was in effect.

# Recommendations: administrative costs

We recommend that WSDOT:

- Limit consultant markups to those specified in the contract
- Pay contractors only once for administrative costs
- Seek legal advice when considering similar policies

# What we found: rates for profit

Evans' profit was discussed in previous slides.

Most profit rates charged by other CRC firms agreed with contract rates and typical markups.

However, we found opportunities to reduce markups:

- Knowing a firm's overhead rate is necessary to know its profit markup
- Other state DOTs surveyed typically pay a 10 percent to 12 percent markup on labor and overhead
- WSDOT typically pays a 29 percent to 31 percent labor markup without considering a firm's overhead rate

# What we found: rates for profit

WSDOT's approach is reasonable when applied to firms with typical overhead rates. It does not work for firms with overhead rates of less than 140 percent.

	Overhead rate charged by most WSDOT consultants	Labor rate (100% of actual costs)	Combined cost base	WSDOT typical labor markup	Typical profit markup on labor and overhead	
					WSDOT	Other state DOTs
Low end	140%	100%	2.4	29 -31%	12.08- 12.92%	10- 12%
Mid-point	162.50%	100%	2.625	29 -31%	11.05 -11.81%	10- 12%
High end	190%	100%	2.9	29 -31%	10.00 -10.69%	10- 12%

*Note: FHWA has approved WSDOT's Consultant Services Manual, which allows for up to 35 percent labor markups.*

- WSDOT paid higher-than typical profit markups to eight firms with overhead rates of less than 140 percent, adding \$53,242 to project costs
- This practice also affected other WSDOT contracts
- Correcting it would save money on future contracts

# What we found: rates for profit

WSDOT does not know whether it paid high profit markups to other CRC firms.

- WSDOT approved hourly rates for CRC small firms without knowing the labor, overhead and profit components.
  - \$12.3 million was paid to these firms
  - Exceeding a typical 12 percent profit markup by 1 percent would add \$120,000 to CRC costs

# What we found: rates for overhead and labor

Overhead and labor rates charged were mostly reasonable for the nine firms that performed most CRC consulting work.

- Most rates charged conformed to contract rates with audited rates.
- Most labor rate increases were consistent with typical increases.

## **We did find these issues:**

- One firm charged an overhead rate partly based on unallowable costs
- 10 firms charged overhead or labor rates that exceeded contract rates or were allowed unusual labor rate increases.
  - The result: \$286,733 in questionable overhead charges and \$208,368 in excess labor or overhead charges
- One firm with \$400,000 in labor charges lacked a contract rate table

# Recommendations: rates for overhead and labor

We recommend that WSDOT:

- Consider a firm's overhead rate when establishing the profit markup. Update guidance to local governments to do the same.
- Negotiate markups that are in line with the more typical 10 percent to 12 percent labor and overhead markup or document reasons for larger markup
- Recover \$49,686 of the \$1.7 million in excess costs
  - Work with the FHWA to resolve the \$286,733 in federal questionable costs

# What we found: task orders

Most work examined was consistent with approved task orders.

All task orders were consistent with the scope described in the original solicitation.

- FHWA concluded that all activities billed were preliminary design and necessary to support the December 2011 Record of Decision.
- SAO reviewed task orders dated after December 2011.

# What we found: task orders

## We did find a few significant issues

- More than \$2.3 million was added to two contract task orders three to 11 months after the work was performed.
- Three task orders worth up to \$6.26 million potentially exceeded the scope
  - The scope described during the conference was unclear
  - \$6.26 million is significant when compared to the \$20 million advertisement
  - Clear scope descriptions help vendors decide to submit proposals

# Recommendations: task orders

We recommend that WSDOT:

- Ensure its solicitations, pre-proposal conference comments, and requests for qualifications consistently describe the full scope of work
- Contractually authorize all future work before anyone performs it
- Use an invoice review checklist
- Better define task order deliverables

# Recognitions

We also:

- Footed invoices
- Traced charges back to supporting documents
- Assessed whether vendor discounts were passed on to WSDOT for \$17 million in charges that occurred during:
  - First two years of project period (2005-2007)
  - Final six months of project period (through August 2013)

CRC Project Staff did a good job of scrutinizing most CRC vendor invoices.

# Selected items from report appendix C

## **Policy 2006-1 affected other WSDOT consulting contracts**

For the questionable 4 percent markups identified, SAO and WSDOT internal auditors examined less than 40 percent of the charges submitted by consultants from November 2006 through April 2010.

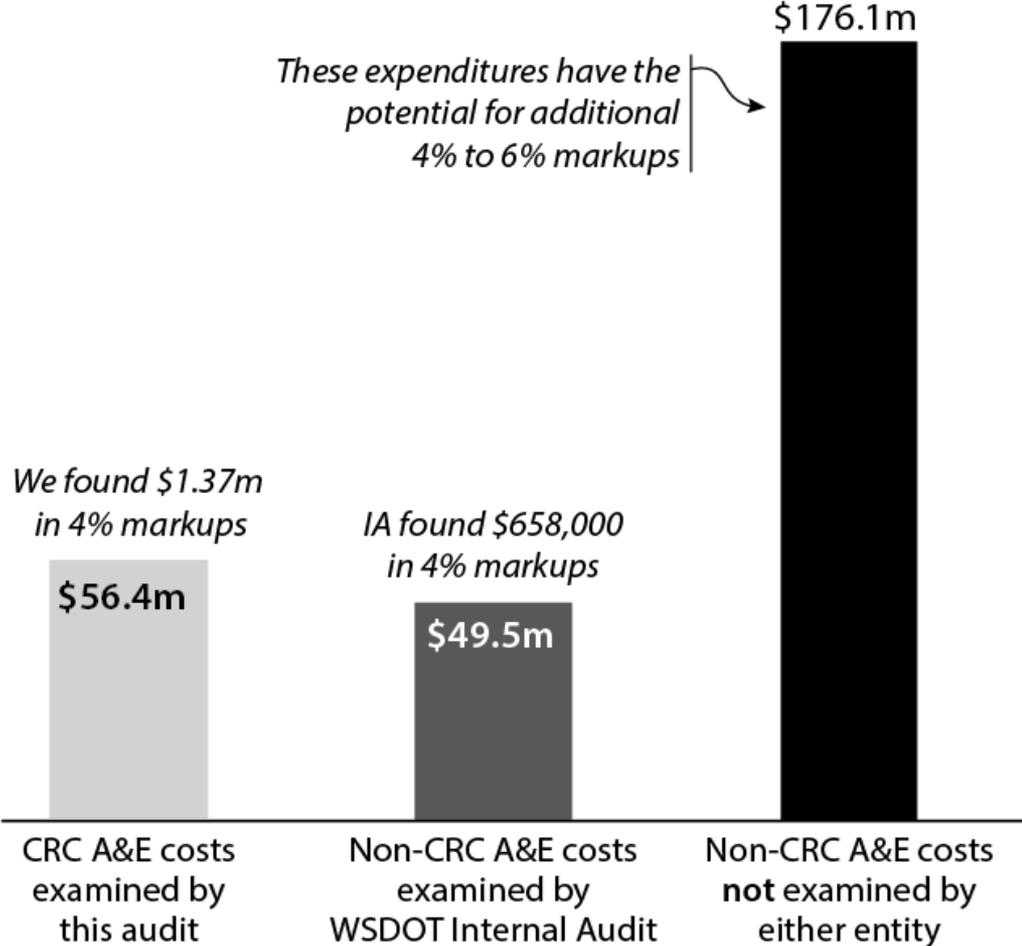
- We estimate charges worth \$176.1 million have not been audited for this markup
- Our estimate of the unaudited consultant charges is likely low, because WSDOT's use of consultants has increased over that time

**WSDOT lacks estimates or tallies that assess the comprehensive cost this policy had on its capital program.**

# Selected items from report appendix C

## Exhibit A **Non-CRC consultant costs were also affected by Policy 2006-1's 4% markup**

*November 2006-April 2010; dollars in millions*



# Selected items from report appendix C

## WSDOT paid higher-than-typical markups to non-CRC firms with low overhead rates

- WSDOT identified 42 firms with 2012 or 2013 rate tables that indicate overhead rates at less than 140 percent
- These firms were paid \$65.4 million from January 2012 through September 2013
- Assuming WSDOT paid these firms the low end of its typical 29 percent to 31 percent markup on labor, it would have paid **\$467,000** more than it paid a typical 12 percent markup on labor and overhead

# State Auditor's Office Contacts

## **State Auditor Troy Kelley**

(360) 902-0360

[Troy.Kelley@sao.wa.gov](mailto:Troy.Kelley@sao.wa.gov)

## **Chuck Pfeil, Director of Performance Audit**

(360) 902-0366

[Chuck.Pfeil@sao.wa.gov](mailto:Chuck.Pfeil@sao.wa.gov)

## **Jan Jutte, Deputy Director**

(360) 902-0363

[Jan.Jutte@sao.wa.gov](mailto:Jan.Jutte@sao.wa.gov)

## **Chris Cortines, Principal**

(206) 355-1546

[Christopher.Cortines@sao.wa.gov](mailto:Christopher.Cortines@sao.wa.gov)

**Website:** [www.sao.wa.gov](http://www.sao.wa.gov)