

**REPORT ON REVIEW OF ACTIVITIES
OF
DIVISION 2 - HAGERSTOWN, MARYLAND
BUREAU OF PUBLIC ROADS
DEPARTMENT OF COMMERCE**

1955

**UNITED STATES GENERAL ACCOUNTING OFFICE
DIVISION OF AUDITS**

TO THE READER:

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON 25, D. C.

DIVISION OF AUDITS

B-118653

JUL 22 1955

Mr. C. D. Curtiss, Commissioner
Bureau of Public Roads
Department of Commerce

Dear Mr. Curtiss:

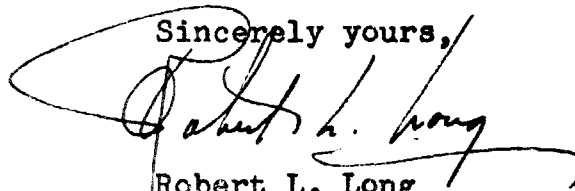
The Division of Audits, General Accounting Office, has made a review of the activities of Division 2, Bureau of Public Roads. Our observations on deficiencies and weaknesses in organization, procedures, and internal control and on certain other matters are included in the accompanying report. These comments, which may very well be of Bureau-wide significance, are based on our observations at the following locations visited during April and May 1955.

Division office:
Hagerstown, Maryland

District offices:
Harrisburg, Pennsylvania
Columbus, Ohio
Charleston, West Virginia
Richmond, Virginia
District of Columbia

We wish to acknowledge the cooperation given our representatives at each of the locations in the division visited by us. We will be happy to discuss these comments in greater detail with you or members of your organization.

Sincerely yours,



Robert L. Long
Director of Audits

Enclosure

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STATES' PROCEDURES FOR COMPETITIVE BIDDING

Highway construction work in which there is Federal participation is usually performed under contracts awarded on the basis of competitive bidding under procedures outlined in each state's manual of specifications. Each manual is subject to the approval of the Commissioner. The procedures must conform with the Regulations Under the Federal-Aid Road Act of July 11, 1916, as amended and supplemented, and operating procedures and instructions issued by the Commissioner. The Bureau has failed to adequately provide for periodic reviews of the states' contracting activities that would permit an evaluation of their effectiveness in securing competition, or their compliance with existing Federal regulations and instructions and the bid procedures prescribed by the states.

Under present policy, review of the states' bid procedures is limited to notification by the states that a project has been advertised for bids, attendance by Bureau officials at the bid openings, and preparation of a Report on Opening of Bids which is sent to the Washington office. Although all bid openings are witnessed, the nature of representation at bid openings varies among the district offices. In Virginia, a clerk now represents the Bureau at

the bid opening, whereas in West Virginia the district engineer attends each bid opening. The information furnished in the report that is prepared after each bid opening is accumulated in the Washington office for preparation of a quarterly report that shows by state the average number of bids received on project and the percentage variation of bids from the states' estimates. These quarterly reports are distributed for the most part to the district offices that furnished the information originally. No reviews are made of the states' advertising techniques, the validity of mailing lists, or the states' methods of determining whether contractors are equipped and financially capable of performing the work.

To properly evaluate the effectiveness of the states' contracting activities in securing competition and to assure compliance with Federal regulations, we recommend that the Bureau issue such instructions as will provide for periodic, comprehensive reviews of the states' bidding procedures on a consistent basis among the district offices.

PERCENTAGE LIMITATION ON PROGRESS PAYMENTS TO STATES

Under the Bureau's present policy, the total amount payable by progress vouchers to states for a single project is limited to 90 percent of the estimated total Federal participation in the project, except that, where the Federal participation on any project exceeds \$50,000, total payments on progress vouchers may be made in excess of 90 percent on recommendation of the district engineer. The Federal audit of all costs in connection with a project is made at the time the final voucher is submitted by a state.

The purposes of this administrative limitation should be to prevent overpayments on projects and to induce the timely submission of the states' final vouchers on completed projects by retention of a large enough percentage of the total cost of a project. We believe that this latter purpose is not adequately served in several district offices.

The States of Virginia and West Virginia have considerable backlogs of final vouchers to be submitted for projects on which final inspections have been completed for from 6 months to almost 2 years. As of March 31, 1955, the backlog of final vouchers in these states for projects upon which final inspections had been completed for 6 months or longer was as follows:

<u>District office</u>	<u>Number of projects</u>	<u>Approximate amount to be claimed</u>
Virginia	8	\$ 286,812
West Virginia	14	1,114,981

For the State of Virginia, progress payments on projects have been limited to 90 percent of the estimated total Federal participation in projects, and, for the State of West Virginia, progress payments have usually been limited to 80 percent, though payments up to 90 percent have been made on some projects. At the date of our visit, 6 of the 14 final vouchers that West Virginia had not submitted were for projects that included Federal participation in right-of-way costs.

For the State of Ohio, which had no backlog of final vouchers as of March 31, 1955, and apparently submits final vouchers promptly, progress payments on projects have been limited to 85 percent. Ohio state highway officials indicated that the state is

required to advance a considerable amount of money from its own funds because of the 15 percent retention and must wait 60 to 90 days for reimbursement by the Bureau.

We recommend that the district engineers make use of the limitation to prevent states from receiving large sums of Federal-aid without audit for long periods of time by decrease of the percentage limitation on progress payments, and should reward states with good records of final voucher submissions by increase or elimination of the percentage limitation. In the latter case, there would be no danger with respect to collection of any overpayments that might be made since offsets can be readily made against subsequent projects.

PREPARATION OF FINAL VOUCHERS

In accordance with instructions issued by the Bureau, the states are required to prepare final vouchers for each project in considerable detail. Each final voucher contains a breakdown of costs of preliminary engineering, construction, and construction engineering in which there is Federal participation. Preliminary and construction engineering costs are further detailed as to salaries and wages, travel expenses, automobile expenses, and supplies and materials. Construction costs showing quantities, units of measurement, unit prices, and extended amounts are itemized into subheadings for each section of roadway and each bridge in the project, railroad or other utility work, right-of-way, and state force account work. Each of these construction cost subheadings is further detailed by construction-type codes that the Bureau has established for each type of highway improvement.

All of this detailed information is available at the state highway offices for such engineering and fiscal reviews as are required. The volume of office work in the state highway departments increases each year and some state officials expressed the opinion that the requirements for preparation of final vouchers should be modified. We suggest that the Bureau undertake a study of the need for all of the detailed information now required on final voucher submissions with a view toward elimination of unnecessary detail and simplification of the presentation of required information to the extent practicable.

AUDITING OF FINAL FEDERAL-AID VOUCHERS

Final reimbursement vouchers from the states for work performed under Federal-aid procedures are grouped into two classes: (1) reimbursement vouchers which include claims for costs of right-of-way and railroad or public utility work, and (2) all other reimbursement vouchers which do not include such claims. Both classes of vouchers are subjected to a multiplicity of auditing and reviews.

District offices are responsible for the engineering and fiscal review of right-of-way claims on class (1) vouchers and the ordinary construction costs on both classes of vouchers. The division office reviews all right-of-way claims and performs the audit of all railroad and public utility costs. The Washington office reviews in detail all costs claimed on class (1) vouchers and examines and makes specific recommendations on all vouchers against which exceptions have been stated.

We believe that the initial audit of vouchers at any level, if performed by qualified personnel in an efficient manner, should not require subsequent review, except that test-checks may be necessary to assure consistency among the district or division offices. Accordingly, we recommend that the division office review of right-of-way claims be discontinued and that the Washington office review all types of claims on a selective test basis only. The responsibility for the review of claims should be assumed by the internal audit staff at the Washington office.

Our review of the audit procedures and techniques employed by the district offices disclosed many deficiencies and a general lack of consistency in the performance of audits as follows:

1. There is no general audit program or audit manual in effect that describes the extent of audit to be performed for any particular type of reimbursement voucher. As a result, we found that the scope of the audits performed varied among the district offices from almost complete reliance by most of the offices upon the certification of the state that the vouchered costs had been paid, to a 100 percent audit at the West Virginia district office of selected costs incurred by the state. In the course of their work, the auditors often refer to various general administrative memorandums issued by the Commissioner and sundry miscellaneous memorandums and rulings issued by the division and Washington offices. This material deals primarily with items of cost that may not be allowed for Federal participation. The number of these memorandums used for reference varied considerably among the auditors, indicating their inadequacy for use as reference material.

2. State billings for work performed by state forces were usually verified only to copies of state payroll vouchers, vendors' invoices for materials, listings of travel expenses incurred by state employees, and listings of state equipment rental charges for use of state-owned equipment. No verification was made of the underlying documentation in support of these vouchers or listings.

3. In the State of Ohio a standard rate of 2.68 percent is applied to billed payroll costs to compute industrial insurance costs in lieu of actual costs. The standard rate is based on an average of the state's insurance cost experience for the years 1939 through 1943 and was approved by the district engineer on August 11, 1944, for use during fiscal year 1945. The rate has never been revised and no attempt has been made to determine the equity of the rate or the state's actual insurance cost experience since 1944.

4. The State of Virginia is reimbursed for construction engineering and inspection costs on the basis of an approved standard rate of 5 percent of the participating construction cost in lieu of actual costs. The rate was determined by BPR auditors from the state's IBM records of construction engineering and inspection costs and total participating construction costs for the fiscal year 1954, without verification of the documents supporting the IBM records.

5. At each of the district offices visited, the validity of equipment rental rates charged by the state for use of state-owned equipment was not verified to records or documentation in support of those rates. In Pennsylvania, a summary record, prepared annually by the state, indicates actual costs of operation of

state-owned equipment and average rental rates charged by the state for each piece of equipment. The auditor has taken exception to the rental rates charged by the state that are in excess of the actual cost displayed on this record, but has made no adjustment when these rates were less than the actual cost. If no exceptions or adjustments were made, the net difference between actual costs and the rates billed by the state would be negligible.

6. The State of Pennsylvania has entered into research contracts with various universities for the performance of certain studies in connection with the highway planning survey. These contracts usually provided for maximum costs to be reimbursed to the universities subject to verification of the costs by the state. The contracts have been approved by the division engineer, sometimes with the qualification that there would be no Federal participation in the cost of overhead or in the cost of nonexpendable equipment purchased by the universities. The BPR and state auditors have not performed an audit to determine the validity of the costs billed by the universities, nor has the BPR auditor determined that the qualifications have been complied with as to the costs to be included for Federal participation.

7. The district offices do not keep any statistical records of the types of vouchers audited or of the effectiveness of the audit work performed in terms of dollar savings through exceptions stated. There are no audit reports prepared to indicate the scope of the audits performed, and audit findings are reported only if an exception is stated against a voucher. Any audit working papers that are made are usually destroyed after the vouchers are paid.

Under such circumstances, an evaluation of audit workload, effectiveness, or consistency by any level of review in the Bureau is difficult.

In order to improve the procedures and techniques used in the audit of final Federal-aid reimbursement vouchers and establish consistency in the scope of the audit work performed, we recommend that the Bureau prepare an audit manual for the use of all district office auditors. The audit manual should clearly define the responsibilities of the auditor and the objectives of the audit work and should eliminate the types of deficiencies enumerated above. It should contain information as to the scope of audit to be performed on each type of reimbursement voucher and establish standards for reporting, preparation of working papers, and maintenance of some statistical records of workload and accomplishments. A reference section should be included also that incorporates the essential features of existing Bureau administrative memorandums and the Federal-Aid Highway Acts and Regulations. The preparation of such a manual should be started without delay.

DIVISION OFFICE ENGINEERS

The engineers assigned to the division office have periodically made routine visits to the various district offices or made special visits upon the request of a district office seeking advice on a particular matter. All these visits were presumably in connection with the highway planning survey, programing, design, construction, bridges, or maintenance activities under the Federal-aid program. However, the exact purpose of the routine visits made to

district offices could not be readily determined. Such visits were usually more frequent than those made at the request of district engineers for specific advice or consultation.

One of the primary functions of the division office should be to provide the district offices with advice and guidance on difficult problems that may require the use of personnel with the broader experience obtained in dealing with several states. We recommend that visits to district offices by division engineers be restricted to performance of this advisory function and be clearly identified as to their purposes and need.

FOREST HIGHWAY PROGRAM

The forest highway program in the Bureau's eastern division is comparatively small. Under present Bureau policy, if a forest highway project is wholly financed by Federal funds, the project is handled entirely by Division 15, Eastern National Forests and Parks. If a state participates financially in the cost of a project, the project is handled by the state.

In discussions with officials of the various state highway departments visited, we were informed that the states would probably be receptive to assuming responsibility for construction of all forest highway projects regardless of the extent of the states' financial participation. A somewhat similar arrangement is presently in effect with respect to defense access roads projects. All such projects are under the states' supervision, regardless of whether there is any state financial participation, unless a particular state refuses to assume responsibility for construction of an access road, in which event the work is performed by Division 15.

The present procedure for supervision of forest highway projects is somewhat cumbersome in that the state, the district offices, Division 15, the Washington office, and the Forest Service are all involved in the planning, programing, approval, and construction of projects. The state highway departments are organized to do the preliminary engineering, solicit bids, award contracts, and supervise construction for other Federal-aid programs and can readily utilize this organization for the relatively few forest highway projects without any appreciable increase in workload. We recommend, therefore, that the Bureau give consideration to utilization of the state highway organizations wherever agreements can be reached with the states to perform the functions with respect to the forest highway program presently assigned to Division 15.

RECORDS, REPORTS, AND RECONCILIATIONS

The Washington office is responsible for maintaining the accounting records and financial controls over all transactions entered into by the eastern divisions of the Bureau. We found that the division office and district offices also keep certain financial records from which periodic reports are made and monthly reconciliations with the Washington office records are prepared. Following is a summary of the similar records maintained at the Washington and district offices.

<u>Washington office</u>	<u>District offices</u>
Program and allotment ledger	Apportionment control record
Subsidiary allotment ledgers:	Memorandum controls:
1. Highway planning	1. Highway planning
2. Railway-highway cross- ings	2. Railway-highway cross- ings
IBM records	Project record register
Two sets of project history records; one in the pro- gram and analysis branch and one in the Federal project branch	Project records

The apportionment control records are reconciled monthly at the district offices with a record of entries posted to the Washington office program and allotment ledger and reconciliation reports are submitted to the Washington office. The expenditures recorded in the project record registers are reconciled monthly at the district offices with a statement of expenditures prepared from the IBM records at the Washington office and memorandums are sent to the division office stating that the reconciliations have been accomplished. Semiannual reports of reconciliations are also made to the Washington office.

The division office maintains an apportionment control record of forest highway and access road funds only. Reports on the status of forest highway apportionments are prepared monthly by the division office and are sent to the district offices and Division 15, Eastern National Forests and Parks, for reconciliation with their records.

In addition to the required reports and reconciliations, requests for information already available at the Washington office

are sometimes made of the district offices by the Washington office. For example, by memorandum dated April 5, 1955, the Commissioner requested all district offices to determine the extent to which funds authorized by the Federal-Aid Highway Act of 1950 (64 Stat. 785) will have been covered by project agreements with the states as of June 30, 1955. The information requested from the district offices is of record in the Washington office and presumably need not have been requested from the district offices.

In the interest of economy and efficiency in the maintenance of fiscal records and the preparation of reports thereon, we recommend that the Bureau reexamine the need for the various records kept at each level of the eastern divisions and districts and consolidate those records to the extent practicable. In making this determination, consideration should be given to maximum utilization of available tabulating equipment for preparation of financial reports necessary to the operation of the division and district offices. We further recommend that before requests for financial or other information are made of district offices the Washington office personnel determine the extent to which the desired information is already available in the Washington office.

PURCHASE OF MATERIALS AND SUPPLIES

The needs of the district offices with respect to nonexpendable equipment, materials, services, and supplies are met by requisition from the Washington office through the division office, purchase by the division office, purchase from the nearest Federal Supply Warehouse, or small over-the-counter purchases made locally on Standard Form 44. The division office policy is to permit

district offices to make local purchases of up to \$50 for a single purchase. In actual practice, the cost of items procured locally is usually less than \$25, and at most locations purchases are often made from employees' personal funds and subsequently claimed as travel expenses.

Most of the requirements of the district offices are met by local purchases of small amounts. The Standard Forms 44 are prepared at the district offices for such purchases, are forwarded to the division office for audit, certification, and scheduling for payment, and are subsequently transmitted to the Washington office for payment. We believe that local purchases for small amounts could be handled more expeditiously and at some saving in administrative costs by use of imprest cash funds at district offices, or by designating particular persons at district offices to make small cash purchases and claim reimbursement therefor, in accordance with the provisions of paragraph 8(b) of General Accounting Office General Regulation 103. Accordingly, we recommend that the division engineer give consideration to the requirements of each district office and adopt either of the methods here suggested for handling local purchases.

AUDIT OF VOUCHERS FOR DISTRICT OFFICE
ADMINISTRATIVE EXPENSES

The present procedure in effect for processing district office administrative expense vouchers provides for preparation of vouchers and assembly of supporting documentation at the district offices, transmittal of this material to the division office for

audit, certification, and preparation of schedules of payment, and subsequent transmittal of the vouchers, supporting documentation, and schedules to the Washington office for payment.

In the process of preparing the vouchers and assembling supporting documentation, a complete audit is made by district office personnel of each expenditure. Billings by vendors are verified to purchase orders and receiving reports, and their mathematical accuracy is verified. Travel vouchers are reviewed for compliance with the Standardized Government Travel Regulations and the Bureau's administrative regulations, and verified for mathematical accuracy. In order to avoid duplication of audit effort and facilitate the processing of these vouchers, we recommend that district engineers be delegated authority to audit, certify, schedule for payment, and forward directly to the Washington office the administrative expense vouchers presently processed through the division office.

INADEQUATE CONTROL OF TRAVEL

The authority to direct travel of all employees of the district offices to points within the division and in adjoining divisions has been delegated to the division engineer. It has been used at the beginning of each fiscal year to issue general travel authorizations to all area engineers in the district offices for travel within their respective states. In two district offices a travel itinerary is prepared in advance of each trip and must be approved by the district engineers. In the other district offices no control is exercised in advance of the travel to be performed.

The engineers usually leave word with the administrative assistant or a clerk concerning the locations to be visited.

When there is travel performed by district office personnel outside of their particular state, the official travel orders authorizing the trips are given a date prior to the date of departure but are not prepared and signed by the division engineer until after the travel assignment has been completed. The district engineers have not been delegated the authority to direct such travel. The Standardized Government Travel Regulations (paragraph 5a) state that it is expected that, ordinarily, the authority to travel will be issued prior to the incurrence of the expenses and will specify the travel to be performed as definitely as possible unless circumstances in a particular case prevent such action.

To more adequately control travel assignments on a consistent basis among the various district offices, we recommend that the Bureau issue instructions that will require advance approval of itineraries for travel within districts and the issuance of official travel orders prior to performance of travel assignments outside of particular districts. In order to facilitate preparation of travel orders, consideration should be given also to the delegation of authority to district engineers to direct travel of personnel under their supervision to points outside of their respective districts.

EXCESS OFFICE SPACE AT THE DIVISION OFFICE

In the course of our review of the division office at Hagerstown, Maryland, we found that the office space occupied by division office personnel was in excess of their current needs. The number of personnel at the office were 26 and the space occupied consisted of 2 floors of an office building with a total of 28 rooms in an area of 5,300 square feet, at an annual rental cost of \$15,600. Seven of the rooms were used as file space. The remaining area utilized by engineers and administrative personnel averaged approximately 150 square feet per person.

Part 5 of Title II of the Regulations of the General Services Administration prescribes minimum and maximum space allowances per person for agency guidance and states that every effort should be made to adhere to the lower limits of the allowances. The allowance for administrative and professional office space is between 45 and 90 square feet per person, and for drafting room space the allowance is from 75 to 90 square feet per person.

It is the Bureau's responsibility to continuously study the use made of all space occupied by its personnel. We therefore recommend that a review be made of the utilization of space at the division office in Hagerstown, Maryland, with a view toward reduction of the space to more nearly meet the recommendations of the General Services Administration.

EXCESS OFFICE EQUIPMENT

During our visit to the division office at Hagerstown, Maryland, and the Virginia and West Virginia district offices, we

noted that there was office furniture in excess of needs at these locations. A comparison of the number of personnel with the available furniture at these offices follows:

<u>Office</u>	<u>Number of personnel</u>	<u>Number of</u>		<u>Total</u>
		<u>Desks</u>	<u>Tables</u>	
Division office	26	41	12	53
Virginia district office	19	30	13	43
West Virginia district office	13	17	8	25

In addition, at each of the district offices visited we found that bookkeeping machines are used for posting to project records, though the number of postings is too small to justify their use. The average number of postings made a month varied by district office, from 30 to 175. The cost of these machines is approximately \$1,100 each, and at least one machine at the Pennsylvania district office has deteriorated to the point of requiring replacement in the near future.

By circular memorandum dated March 29, 1955, to division engineers, the Commissioner stated that Bureau surveys of district offices had disclosed a general excess of office equipment in practically all of the offices visited. The Commissioner indicated a need for all offices to undertake a review of the need for each piece of office equipment and that minimum requirements for office equipment be established. At the date of our visit, the Commissioner's request had not been complied with by the offices cited above. We recommend that the division engineer take immediate steps to implement a review of equipment needs at each office.

ADMINISTRATION AND USE OF MOTOR VEHICLES

Our review of the administration of motor vehicle operations and the utilization of motor vehicles assigned to district offices disclosed the following deficiencies and weaknesses.

Inadequate control over use of vehicles

There is no procedure in effect at district offices to control the use of motor vehicles by district office personnel. In most districts, certain of the vehicles are assigned to area engineers for travel in the state, and the remaining vehicles are pooled for the use of the staff at the district office. Vehicles may be withdrawn from garages by area engineers or other members of the district office staffs at any time, without any requirement that garage attendants release vehicles only upon the presentation of a signed authorization by the district engineer or other designated person. A system of authorization for use of motor vehicles is presently in effect at the division office, and we recommend that the district offices adopt a similar system to assure that vehicles are used only for official business.

Service and repair of vehicles

Motor vehicles are serviced and repaired either on the basis of a contract entered into with a local service station or by purchase orders placed with local service stations when service or repairs are required. The number of vehicles at district offices varies in number from five to eight. The West Virginia district office has included its vehicles in a service contract entered into by the Internal Revenue Service, thereby taking advantage of reduced costs for services and repairs made available to that agency

because of its large number of vehicles. We recommend that, where possible, other district offices make similar arrangements to have their vehicles included in service contracts entered into by other Government agencies.

Motor vehicles in excess of needs

There is at least one motor vehicle in excess of current needs at four of the district offices visited by us. We reviewed the motor vehicle records maintained by each of these district offices and found the following vehicle utilization over a 4-month period examined.

1. The Pennsylvania district office, with 8 vehicles assigned, used no more than 6 vehicles on any one day, and on only 4 days were as many as 6 vehicles used.
2. The Ohio district office, with 8 vehicles assigned, used no more than 7 vehicles on any one day, and on only 3 days were as many as 7 vehicles used.
3. The West Virginia district office, with 5 vehicles assigned, used no more than 3 vehicles on any one day, and on only 7 days were as many as 3 vehicles used.
4. The Virginia district office, with 7 vehicles assigned, used the 7 vehicles on only 6 days, and on only 13 days were as many as 6 vehicles used.

We recommend that the motor vehicle needs of each of these district offices be reconsidered and that at least one vehicle be declared excess or transferred from each district office to other locations where they may be needed.