



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

David P. Jankofsky
Deputy Director

Victor M. Mendez
Director

June 22, 2005

Debra K. Davenport, CPA
Auditor General
Arizona Auditor General's Office
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Department of Transportation (ADOT) has completed its review of the *Performance Audit for the Review of the Oversight and Management of the Maricopa County Regional Freeway System*. We appreciate the effort that went into the audit and the cooperative spirit shown by all parties involved.

We concur with the Report's overall thrust that ADOT's historical performance indicates that the Regional Freeway System (RFS) will be completed by the target date of December 31, 2007, and, absent unpredictable events, within budget.

The improvements utilized in the construction of the current RFS will be applied to the future transportation infrastructure outlined in the Regional Transportation Plan/Proposition 400 recently authorized by voters.

ADOT's specific responses to the six recommendations contained in the Final Report are as follows:

- 1. Recommendation 1: The finding is agreed to and the audit recommendation will be implemented.**

As the Report notes, ADOT's project management model is "appropriate and working well." Nevertheless, ADOT will continue to seek ways to improve its project management practices.

- 2. Recommendation 2: The finding is agreed to and the audit recommendation will be implemented.**

ADOT will develop a comprehensive chronological checklist to be included in centralized project files identifying types of documentation contained in



the file as well as a comprehensive overview of engineering, financial and/or other project decisions throughout each project's development.

3. Recommendation 3: The finding is agreed to and the audit recommendation will be implemented.

ADOT management has initiated coordination meetings with its management consultants and requested their expertise in recommending alternative information system models that will effectively incorporate the various databases into a single comprehensive database or coordinated multiple databases.

In that light, ADOT concurs that a more efficient documentation of its direct and/or indirect project costs should be implemented to accurately capture "system-wide" expenditures for its Life Cycle Certification reporting of corridor specific obligations.

ADOT management will also continue to closely monitor, right-of-way acquisition budgets and related budget changes to capitalize on opportunities to increase its ability to anticipate financial impacts on the overall project budget. In addition, ADOT Right-of-Way Management will intensify its efforts to closely monitor rapidly escalating real estate prices in Maricopa County as new market trends emerge.

4. Recommendation 4: The finding is agreed to and the audit recommendation will be implemented.

ADOT will keep baseline budgets and estimated completion dates for each RFS project, not only for comparisons of delivery dates, but also to use in tracking Proposition 400 budget costs and delivery dates. Moreover, proposed changes will document the impacts on the performance indicators established for the RFS program. Finally, other metrics and benchmarks will be utilized to provide an analysis of cost efficiency and effectiveness.

5. Recommendation 5: The finding is agreed to and the audit recommendation will be implemented.

ADOT will continue to identify and define performance indicators for the RFS to assist MAG and the State Transportation Board to monitor performance.

Debra K. Davenport, CPA
June 22, 2005
Page Three

6. Recommendation 6: The finding is agreed to and the audit recommendation will be implemented.

ADOT will continue to track, monitor and report on the completion of the Accelerated Program and do so separately from the funding, costs, and timeliness for projects resulting from the passage of Proposition 400.

ADOT is confident of completing the RFS by December 31, 2007. This would not have been possible without the continuous improvements made by the Agency, many of which are based upon the recommendations of your Office, as well as the active involvement of our partners in this endeavor, including the Governor's Office, the Legislature, the Maricopa Association of Governments and its individual member entities, and our contractors and consultants. This experience will make us better stewards of the process contemplated by Proposition 400.

Thank you again for the efforts of your staff, and that of Sjoberg Evashenk Consulting.

Sincerely,

Victor M. Mendez

cc: Dennis Smith, Maricopa Association of Governments
Dallas "Rusty" Gant, State Transportation Board, Chairman
Kurt Sjoberg, Sjoberg Evashenk Consulting



Janet Napolitano
Governor

Victor M. Mendez
Director

Arizona Department of Transportation State Transportation Board

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

June 22, 2005

Dallas (Rusty) Gant
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Vice Chairman

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Joe Lane
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Delbert Householder
Robert M. Montoya

Debra K. Davenport, CPA
Auditor General
Arizona Auditor General's Office
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

RE: State Transportation Board's Response to the Final 2005 Performance Audit
of the Maricopa County Regional Freeway System

Dear Ms. Davenport:

On behalf of the State Transportation Board, I submit the following comments on the Final 2005 Performance Audit of the Maricopa County Regional Freeway System. For clarification, it should be noted that Mr. Joe Lane and I specifically represent Maricopa County. The other Board members represent other geographic regions of the state. Thus, this correspondence reflects only Mr. Lane's and my comments.

Mr. Lane and I were very impressed with the thoroughness of the audit and its findings. Having been directly involved in the administrative approval of funding for construction and adherence to the delivery dates for the freeways, the Board is acutely aware of the importance of budget, scope and schedule. The audit accurately describes the financial complexities associated with this process.

We agree with the audit's general thrust that ADOT and its partners in the Regional Freeway System (RFS) have made great strides in their management of the development of that system. As the audit report indicates, it is likely that the RFS Accelerated Program will be completed on time and on budget. Specifically we concur with the audit recommendations made by your office.

The Department's Highway Development Process will be improved by incorporating these measures, which are of particular importance to the Board with the imminent onset of Proposition 400.

The Board and I are most appreciative of the opportunity to participate in the performance audit and provide input into this important aspect of ADOT's financial



Debra K. Davenport, CPA
June 22, 2005
Page Two

engineering and administrative roles, responsibilities and functions. I believe the audit accurately summarizes ADOT's progress during this five-year period and provides constructive recommendations, which will benefit the Department in the future.

Sincerely,

Dallas Gant
Chairman

cc: Dick Hileman
Delbert Householder
Joe Lane
Jim Martin
Robert Montoya
S.L. Schorr

June 22, 2005

Debbie Davenport
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

A review of the 2005 Performance Audit for the Review of the Oversight and Management of the Maricopa County Regional Freeway System final report has been completed. We appreciate the work of both your office and the consulting team from Sjoberg Evashenk Consulting in conducting the performance audit and the report's recommendations to improve the effectiveness of the implementation of the program. We will use the recommendations from this report, as well as the findings from the previous audits of the Regional Freeway Program, to establish a sound foundation for the implementation of Proposition 400 that was passed by the voters in November 2004.

We have carefully reviewed all of the recommendations contained in the draft report. We have provided a response to each recommendation that is applicable to the Maricopa Association of Governments (MAG), specifically, recommendations four, five and six.

Recommendation 4: Require comparisons of historical budgets and estimated completion dates – and memorialized explanations for all prior changes to them – when evaluating newly proposed changes. Proposed changes should also require the presentation of impact on key performance indicators established for the RFS program and other metrics of comparison to enable analysis of cost-efficiency and effectiveness (e.g. budgeted, estimated and actual costs per mile for similar projects).

MAG Response to Recommendation 4: **The finding is agreed to and the audit recommendation will be implemented.** For projects that have the necessary historical budget information available, MAG will include prior project budget and schedule information when presenting requests for material project changes in the MAG committee process. Historical information for the remaining projects for the Accelerated Program will also include past budget and schedule data where this information is available.

MAG is instituting a similar practice for the Proposition 400 projects. For the new Proposition 400 program, we are establishing a tracking system that will allow a project that was listed as part of Proposition 400 to be followed through completion. This system includes the tracking of projects as they are subdivided and refined for implementation to provide a clear lineage back to the original Proposition 400 project. Although the tracking system will start with the planning-level project budgets listed in the Regional

Transportation Plan, we understand through our discussions with Sjoberg Evashenk Consulting that the base cost estimate for a project should be the first-level estimate that results from preliminary engineering and design work such as a design concept report.

Recommendation 4 also includes the provision that proposed changes should also require the presentation of the impact on key performance indicators established for the RFS program and other metrics of comparison to enable analysis of cost-efficiency and effectiveness. These performance indicators, referenced in more detail as part of Recommendation 5, provide a context for the proposed change. MAG will establish performance indicators that will provide a gauge of how both the specific project and the overall program is performing with respect to budget and schedule.

Recommendation 5: Define key performance indicators for the RFS program that will help ADOT, MAG and STB recognize trends of performance that might trigger greater analysis for opportunities to improve cost-efficiency and effectiveness. For example, consider setting and tracking program success at delivering projects with 95 percent (of) the original schedule, or having actual projects costs come within 10 percent of the first design estimate (plus inflation) and/or other indicators, as proposed by ADOT, MAG and/or STB.

MAG Response to Recommendation 5: **The finding is agreed to and the audit recommendation will be implemented.** MAG is committed to establishing a performance monitoring system that will effectively improve the delivery of Proposition 400 projects. As part of the MAG Unified Planning Work Program and Annual Budget for FY 2006, MAG has established a Transportation Performance Monitoring work element and created a new position of a Performance Monitoring Engineer. The new work program element and staff resource will provide the means to focus on the development and implementation of performance measures for Proposition 400. In addition, the MAG Annual Report, which is a statutory requirement of MAG, next year will contain a section dealing with performance measurement including the budget and schedule performance of specific projects.

Recommendation 6: Require separate tracking, monitoring, and reporting on the completion, including funding and actual costs, of the Accelerated Program, separately of the funding, costs, and timelines for initiatives resulting from the passage of Proposition 400.

MAG Response to Recommendation 6: **The finding is agreed to and the audit recommendation will be implemented.** MAG separately tracks, monitors and reports on the Accelerated Program separately from the new Proposition 400 projects. For example, the 2005 Annual Report, which is a statutory requirement of MAG, will have a

Debbie Davenport
June 22, 2005
Page 3

separate section dealing with the status and expected completion of the Accelerated Program. The Annual Report will provide a summary of the costs and revenues for the Accelerated Program and a schedule of completion for the remaining projects. Furthermore, when material changes are requested for projects, we will note whether the change is for a project in the Accelerated Program or in the Proposition 400 program.

Since the first performance audit in 1991, the oversight and management of the Regional Freeway Program has improved dramatically. With the passage of Proposition 400, we now have an opportunity to expand the best practices to the transit and arterial street programs. We will continue to seek new and improved methods to deliver the needed transportation projects in a efficient and cost-effective manners.

Thank you again for the good work of your staff and the consultant, Sjoberg Evashenk Consulting.

Sincerely,

Eric J. Anderson
Transportation Director

c: Dennis Smith, MAG
Victor Mendez, ADOT
Kurt Sjoberg, Sjoberg Evashenk Consulting