



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

April 21, 2015

Mr. Jeffrey Bankowski, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol Avenue, Sixth Floor
Lansing, Michigan 48913

Dear Mr. Bankowski:

In accordance with the State of Michigan's Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed is a summary table identifying our responses and a corrective action plan. These address the recommendations contained within the Office of Auditor General's audit report for the performance audit of the Monitoring of Warranties and Road and Bridge Construction Projects, Michigan Department of Transportation, covering the period of October 1, 2011 through March 31, 2014. The Office of Internal Audit Services, Office of the State Budget, approved distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to either Brenda O'Brien, PE, Engineer of Construction Field Services Division, at 517-322-1085 or Jack Cotter, CPA, CGMA, Commission Auditor, at 517-373-1500.

Sincerely,

Signature Redacted

Kirk T. Steudle
Director

Enclosures

cc: Executive Office
Office of the Auditor General
Senate Fiscal Agency
Senate Transportation Appropriations Subcommittee
Senate Transportation Standing Committee
House Fiscal Agency
House Transportation Appropriations Subcommittee
House Transportation Standing Committee
State Transportation Commission Chair
Construction Field Services
Office of Commission Audits

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Summary Table of Agency Responses to Recommendations
Audit Period October 1, 2011 through March 31, 2014

A. Audit recommendations the agency has complied with:

None.

B. Audit recommendations the agency agrees with and will comply:

Finding 1, 2, 3, and 4.

C. Audit recommendations the agency partially agrees with:

None.

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Corrective Action Plan
Audit Period October 1, 2011 through March 31, 2014

A. Audit recommendations the agency has complied with:

None.

B. Audit recommendations the agency agrees with and will comply:

FINDING

1. Timeliness of Corrective Action Completion

RECOMMENDATION

We recommend that MDOT ensure that contractors complete corrective action and complete it timely for warrantied projects identified as needing repairs.

AGENCY RESPONSE

The Michigan Department of Transportation (MDOT) concurs with the recommendation.

MDOT uses SWAD (Statewide Warranty Administrative Database) for monitoring the department's warranty program, including corrective action requirements, and recognizes the importance of ensuring that contractors timely complete corrective action. However, in some instances warranty work cannot be performed within the warranty period because of seasonal limitations for certain types of work and/or a pending Conflict Resolution Team (CRT) decision.

MDOT has already taken the following actions regarding timely corrective action:

- MDOT has provided senior management with warranty-report information for appropriate and corrective action, as necessary; and senior management has a standing warranty agenda item at their monthly Region/Bureau Management Team meetings. MDOT has also implemented a Warranty Improvement Team, which is taking the lead on updating guidelines for administering warranties and applicable user guides. In addition, warranty improvements and efforts will be reviewed, discussed, and addressed at the department's Statewide Alignment Construction Team meetings. Furthermore, a department performance factor has been established to ensure that 100% of the warranty inspection work is completed and that the warranty database is updated to reflect the completed activities.
- MDOT had already established an expectation that, within 15 months, corrective action will occur, and MDOT has also continued the effort of resolving corrective actions outstanding. With respect to the 48 warranties with corrective action outstanding identified in the audit, 18 (38%) have received the appropriate warranty work; 14 (29%) are being scheduled for warranty work where MDOT and the contractor have agreed on the corrective action required; and, for the remaining 16

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Corrective Action Plan (continued)
Audit Period October 1, 2011 through March 31, 2014

(33%), MDOT, in coordination with the Office of the Attorney General, is pursuing corrective action outstanding.

Additional action that MDOT will take is as follows:

- By October 2015, MDOT, in coordination with the Office of the Attorney General, will develop a procedure for non-responsive contractors that have been notified to perform warranty work.
- By March 2016, MDOT will review and strengthen the oversight and monitoring process to ensure that contractors complete warranty work when required by the warranty provisions. For future warranties, MDOT will require its staff to obtain SWAD system administrator approval for not performing corrective action unless it is the result of a CRT decision.

FINDING

2. Monitoring of Road and Bridge Warranties

RECOMMENDATION

We recommend that MDOT ensure that staff inspect or timely inspect warrantied road and bridge construction projects.

We also recommend that MDOT maintain documentation to support initial acceptance of warrantied projects, interim and final inspections, and notifications to the contractor that the warranty period was complete.

AGENCY RESPONSE

MDOT concurs with the recommendations.

MDOT has already taken the following actions regarding monitoring of road and bridge warranties:

- To ensure alignment of warranty program responsibilities, MDOT has provided applicable staff statewide with direction requiring follow-up and documentation that identifies specifically who is responsible for each part of the warranty process.
- As part of MDOT's documentation management initiatives, each warranty project is now required to have an electronic warranty folder to ensure enhanced organization, coordination, and retention of warranty correspondence and files.
- MDOT has provided senior management with warranty-report information for appropriate action, as necessary; and senior management has a standing warranty-agenda item at their monthly Region/Bureau Management Team meetings. MDOT has also implemented a Warranty Improvement Team, which is taking the lead on updating guidelines for administering warranties and applicable user guides. In

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Corrective Action Plan (continued)
Audit Period October 1, 2011 through March 31, 2014

addition, warranty improvements and efforts will be reviewed, discussed, and addressed at the department's Statewide Alignment Construction Team meetings. Furthermore, a department performance factor has been established to ensure that 100% of the warranty inspection work is completed and that the warranty database is updated to reflect the completed activities.

Additional action that MDOT will take is as follows:

- By May 2015, MDOT will provide direction to MDOT personnel for final inspections when warranties have expired prior to inspection. The inspections are to be completed by MDOT personnel and will ensure accuracy in SWAD.
- By March 2016, MDOT will further strengthen its policies and procedures to ensure that required warranty inspections are timely completed and documented prior to warranty expirations, which will include conducting a full review of the alignment between documentation requirements and operating procedures.

FINDING

3. Statewide Warranty Administration Database (SWAD)

RECOMMENDATION

We recommend that MDOT ensure the completeness and accuracy of the information recorded in SWAD.

AGENCY RESPONSE

MDOT concurs with the recommendation; however, further research by the department into Finding 3c, at approximately the same time as the audit report was issued, revealed that the finding inaccurately reported the reason that MDOT made changes in the database. The finding reported that there were two projects that were changed from "yes" (corrective action was required) to "no" (corrective action was not required) in the database because MDOT did not notify the contractor of the deficiencies. MDOT's research showed that it did, in fact, notify the contractors of the deficiencies. For the one project, an on-site field meeting had been held with the contractor where it was determined that the distress that exceeded the warranty threshold was not the fault of the contractor. Therefore, the contractor was not required to provide corrective action. For the second project, an on-site field meeting was held with the contractor and it was determined the corrective action had already been performed.

Notwithstanding the recently-determined facts as summarized above, MDOT agrees it could improve the process for entering into SWAD data regarding projects let with warranties. However, as noted in the Agency Preliminary Response, many of the projects reported as exceptions in the audit were still in the process of being completed. As of December 3, 2014, MDOT had entered into SWAD 17 of the 28 projects (19 of the 32

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Corrective Action Plan (continued)
Audit Period October 1, 2011 through March 31, 2014

warranties) noted in the audit finding, and as of April 2015, 28 of the 28 projects (32 of the 32 warranties) noted in the finding have been entered into SWAD.

Starting in January 2015, MDOT enhanced the monthly auto-generated “warranties approaching expiration” reports. After this enhancement, the report shows “warranties approaching and past expiration,” and contains both the warranties that will be expiring in the next 90 days that have not had a final inspection date entered on the report, as well as projects that have expired with no final inspection date entered on the report. This revised report will continue to act as a reminder, to applicable MDOT employees, that SWAD requires updating. The report also contains instructions on how to enter the date because the SWAD entry will be locked if the warranty has expired. The distribution of this report, as well as other auto-generated reports, has been expanded to provide further oversight at the region senior management level.

MDOT has provided senior management with warranty-report information for appropriate action, as necessary; and senior management has a standing warranty agenda item at their monthly Region/Bureau Management Team meetings. MDOT has also implemented a Warranty Improvement Team, which is taking the lead on updating guidelines for administering warranties and applicable user guides. In addition, warranty improvements and efforts will be reviewed, discussed, and addressed at the department’s Statewide Alignment Construction Team meetings. Furthermore, a department performance factor has been established to ensure that 100% of the warranty inspection work is completed and that the warranty database is updated to reflect the completed activities.

To ensure completeness and accuracy of SWAD, MDOT has reviewed all warranties in SWAD that expired after January 1, 2005, and, as a consequence, the respective updates to SWAD have been accordingly performed.

Additional action that MDOT will take is as follows:

- By March 2016, Construction Field Services Division, in cooperation with Contract Services Division, will develop and implement a process to ensure that MDOT populates SWAD with all projects let with a road or bridge warranty. The process will include a time frame for initially entering projects data into SWAD.
- Recognizing that there are past projects that required, but did not receive, corrective action, MDOT will develop a process to close these entries in SWAD so that these past projects do not continue to appear as open or outstanding. Such a process will further ensure the accuracy of both current and historical warranty statistics and reporting.

Monitoring of Warranties and Road and Bridge Construction Projects
Michigan Department of Transportation
Corrective Action Plan (continued)
Audit Period October 1, 2011 through March 31, 2014

FINDING

4. Consultant Evaluations

RECOMMENDATION

We recommend that MDOT review its interim consultant evaluation procedures and ensure that they reflect current management philosophy.

We also recommend that MDOT prepare final consultant evaluations in accordance with established procedures.

AGENCY RESPONSE

MDOT concurs with the recommendations.

MDOT informed the OAG that communications and feedback with consultants occur at the preconstruction meetings, progress meetings, and throughout the course of each contract. While interim consultant evaluations are strongly encouraged for consultant performance issues, MDOT does not deem as necessary or valuable mandatory interim consultant evaluations after every field visit.

By December 2016, Contract Services Division, in coordination with the Construction Field Services Division, will review and evaluate consultant evaluation requirements and update procedures to reflect management philosophy.

- C. Audit recommendations the agency partially agrees with:**
None.