



Washington State Auditor's Office

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Columbia River Crossing Project

Report summary

Our audit identified several issues the Washington State Department of Transportation (WSDOT) should address to avoid overpaying contractors on future projects. While overall project spending was in line with what we would expect to find on a project of this size, we found consultants were overpaid by about \$1.7 million out of about \$137 million in payments. We also found that WSDOT did not sufficiently control more than \$15 million in questionable costs and may have overpaid for that work. The issues we identified also affected other WSDOT projects.

Project information

The bridge carrying Interstate 5 over the Columbia River is among the oldest major bridges in the region, with components dating from 1917 and 1958. For seismic safety alone, the bridge has been deemed in need of refurbishment or replacement.

From 2005 until 2013, WSDOT led a project to rebuild the bridge in partnership with Oregon Department of Transportation (ODOT) and the Federal Highway Administration (FHWA). By the time WSDOT stopped all new work on the project in the summer of 2013, the joint venture spent \$182 million, including funds from Washington, Oregon, and federal agencies.

Most project spending went to consultants engaged by WSDOT to provide expertise in the environmental review and preliminary engineering phases of the project. In May 2005, WSDOT signed a \$50 million agreement with David Evans and Associates (Evans) to perform work associated with necessary environmental studies. By the close of project activities in August 2013, Evans had received payments worth \$125.2 million. Other contracts worth more than \$11 million were put in place with other consulting firms. In most cases, subsidiary contracts were arranged under the primary consultants.

Why we did this audit

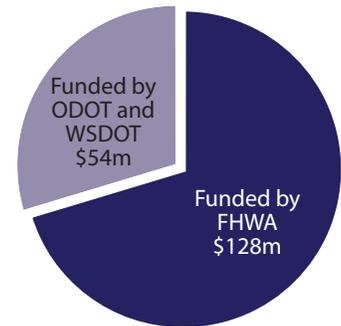
The Legislature required a forensic audit of the project to address concerns about its funding and expenses. The Joint Legislative Audit and Review Committee contracted with the State Auditor's Office to conduct the audit.

We examined three areas to determine whether WSDOT overpaid its consultants or paid for services that exceeded the contract or scope of its original solicitation:

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

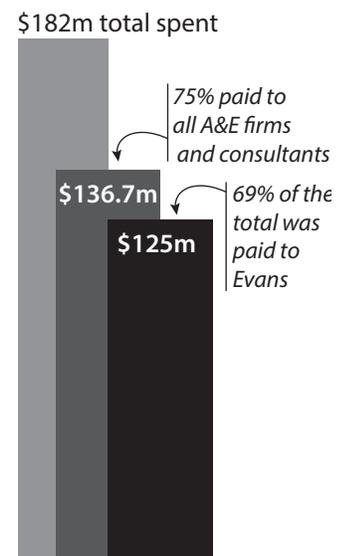
Total CRC spending between May 2005-August 2013 = \$182 million

Federal contributions cover almost 70% of costs for the environmental and preliminary engineering phases



Note: WSDOT indicates the amounts in this graph exclude \$5.9 million in CRC costs incurred by ODOT. WSDOT indicates these costs did not flow through its accounting system. These costs were not examined during this audit.

WSDOT's CRC spending, May 2005-August 2013



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An agency policy overpaid primary consultants

In 2006, WSDOT adopted a policy that paid prime consultants a 4 percent markup on work performed by sub-consultants, which increased payments to Evans by \$1.45 million and to HDR by \$4,700. The policy was designed to reimburse primary consultants for administrative costs associated with their use of sub-consultants after WSDOT's Disadvantaged Business Enterprise program was struck down by a court in 2005. WSDOT approved the policy without obtaining written legal advice and applied it to all consultants, including those who had already been hired, such as Evans. The FHWA later determined the policy resulted in unwarranted profits.

We also found that WSDOT's Internal Audit Department questioned \$658,000 in such markups on two contracts related to other projects. Our analysis, in Appendix C of the full report, indicates that the policy likely had a larger effect on other WSDOT consulting contracts.

High rates for profit, overhead and labor

Consultants with low overhead rates benefit from the way WSDOT determines the profit markup it pays them, allowing them to exceed the typical markup that is paid by other states. While other states typically pay a 10 percent to 12 percent markup on labor and overhead, WSDOT pays a 29 percent to 31 percent markup on labor. To compare WSDOT markups to what other states pay, we calculated its labor markups as a percentage of a firm's combined labor and overhead costs. This comparison showed that eight consultants with low overhead rates earned markups that exceeded the 12 percent benchmark by 1 percent to 4 percent. These higher-than-typical markups added \$53,242 to the cost of the project. We also found that the same practice added more than \$467,000 in costs to consultant contracts on other WSDOT projects. We recommend WSDOT update the guidance used by its staff and local governments so they do not pay high profits.

Because other firms were not required to disclose their overhead, labor, and profit breakouts for \$12.3 million in charges, it is possible these firms also received excessive profits. Similarly, WSDOT lacked a contract rate table for one firm's labor charges that totaled more than \$400,000.

The nine firms that performed most CRC consulting work charged reasonable overhead and labor rates, including increases that were consistent with typical increases. However, one firm charged an overhead rate for one year that was partly based on costs that WSDOT's Internal Audit office had identified as unallowable. Ten firms charged rates that exceeded contract rates or were allowed unusually high labor rate increases. These conditions resulted in \$208,000 in excess labor costs and \$286,733 in questionable overhead charges.

Comparing work to task orders and solicitation

The FHWA reviewed all task orders through the Environmental Impact Statement record of decision in December 2011. We reviewed all task orders dated after the Columbia River Crossing after December 2011. Most work examined was consistent with approved task orders, and all task orders we examined were consistent with the scope described in the original solicitation.

However, we did identify two issues. More than \$2.3 million in work was added to two contract task orders three to 11 months after it was performed. While unauthorized work can be unnecessary and costly, this work was consistent with the services described in the original solicitation. We also identified three task orders with up to \$6.6 million in work that potentially exceeded the scope described in the vendor pre-proposal conference. We also determined that WSDOT could have better defined its deliverables for one task order totalling nearly \$7 million.

Recommendations in brief

The audit recommends WSDOT:

- Seek legal advice when considering policies that may conflict with state law and FHWA requirements or increase compensation beyond what has already been contractually established
- Take steps to avoid paying consultants higher than typical markups
- Recover \$49,686 of the \$1.7 million in excess costs, and contact FHWA to determine whether it must repay the agency for the federally funded portion of \$286,733 in questionable costs (but because WSDOT policy and contract negotiations caused most of the excess and questionable costs, they are likely unrecoverable)
- Improve contracting practices so the Department can better control the work of consultants.