



**ARIZONA DEPARTMENT OF TRANSPORTATION  
LOCAL PUBLIC AGENCY SECTION  
OVERSIGHT AND MONITORING WORK PLAN**



**U.S. Department of  
Transportation  
Federal Highway  
Administration**

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## ABBREVIATIONS

ADOT	Arizona Department of Transportation
BECO	Business Engagement Compliance Office
CA	Certification Acceptance
CFR	Code of Federal Regulation
EDC	Every Day Counts
FAHP	Federal Aid Highway Program
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation
IGA	Intergovernmental Agreement
LPA	Local Public Agency
MUTAC	Manual Update Technical Advisory Committee
NCAP	Narrative Cost Allocation Plan
O&M	Oversight and Monitoring
OIG	Office of Inspector General
QA	Quality Assurance
SA	Self-Administration
USC	United States Code

## 1. INTRODUCTION

The ADOT Local Public Agency Section has been established to improve project delivery of Federally-funded local agency transportation projects. Within ADOT LPA Section, the Oversight and Monitoring (O&M) Section has been established to coordinate and manage the oversight and monitoring activities of all local public agency (LPA) projects and programs to ensure compliance with federal regulations, laws, and policies. O&M is responsible for developing an oversight and monitoring work plan to define and prioritize work activities and functionally aligned responsibilities and duties to provide adequate support and coordination for delivery of the LPA Federal-Aid Highway Program (FAHP).

The Oversight & Monitoring Work Plan describes how ADOT will ensure that Federal-aid projects are developed and delivered by local agencies, will be administered with financial integrity; comply with federal and state requirements; and follow the guidelines outlined in ADOT's Local Public Agency Projects Manual, in accordance with the Certificate Acceptance Agreement. This work plan is intended to serve as a comprehensive monitoring and reporting document, identifying the work activities, budget, schedule, and resources for the ADOT LPA Section's O&M program. The work activities and budget were developed to reflect ADOT LPA Section's mission and objectives of delivering a successful LPA Program.

ADOT LPA Section is committed to providing the necessary leadership and technical support to improve quality and ensure LPAs meet state and federal requirements, while maintaining a successful program to adequately meet the existing and future transportation needs.

## 2. BACKGROUND

The Federal Highway Administration (FHWA) is required to assure compliance with Federal-aid contract provisions on all local projects that utilize Federal-aid funds. FHWA is responsible to assure specific advertisement and award procedures and effective highway projects quality control/quality assurance processes are utilized. In addition, FHWA is required to support transportation agencies by providing technical assistance and sharing best practices.

Title 23 United States Code (USC) does not recognize local entities as direct recipients of Federal funds; therefore,

- ADOT is responsible and accountable for ensuring that Federal-aid requirements are met on all LPA projects. FHWA will work in partnership with ADOT to ensure Federal-aid requirements are met.
- ADOT serves as the prime recipient of federal transportation funds and is the supervising agency in accordance with 23 Code of Federal Regulation (CFR) Part 635.105. As such, ADOT is responsible for the delivery of all Federal-aid projects, and is not relieved of such responsibility by authorizing performance of the work by a local agency.
- ADOT is responsible for ensuring LPA projects receive adequate supervision and inspection so projects are completed in conformance with approved plans and specifications and federal requirements.
- ADOT will review and take actions necessary to assure local compliance with all requirements of state and federal laws, regulations, and policies. Title 23 USC Section 106 specifically charges States with the responsibility for determining that sub-recipients of Federal funds (including local public agencies) have adequate project delivery systems for projects and sufficient controls to properly manage Federal funds.

In order to achieve its oversight responsibilities, ADOT LPA Section does the following:

- Certifies or approves LPAs to participate in programmed FAHP programs, such as the Certification Acceptance (CA) and Self Administration (SA) programs;
- Inspects and reviews LPA projects and programs for conformance with state and federal requirements.

The development approach for this guidance was based on the following principles:

- Develop an integrated and flexible process for regulatory oversight;
- Build a framework for O&M that utilizes existing ADOT oversight processes to the maximum extent possible; and,
- Ensure compliance with FHWA requirements.

This guidance is intended to assist ADOT in carrying out oversight responsibilities for LPA Federally funded projects by providing a consistent approach to monitoring projects through the project life cycle.

### 3. PURPOSE

ADOT LPA Section is responsible for conducting oversight and monitoring (O&M) activities with respect to local public agency programs and projects, per *The FHWA and ADOT Stewardship and Oversight Agreement for Arizona*. With the stewardship agreement, FHWA delegated oversight responsibilities to ADOT. The program and project level oversight and monitoring activities described herein will guide ADOT toward achieving quality assurance with delivery of the LPA program.

*Stewardship:* The efficient and effective management of the public funds that have been entrusted to the FHWA.

*Oversight:* The act of ensuring that the Federal-Aid Highway Program is delivered in accordance with applicable laws, regulations and policies.

*Monitoring:* To check project and program activities at regular intervals in order to find out how these facets are progressing or developing to ensure proper conduct.

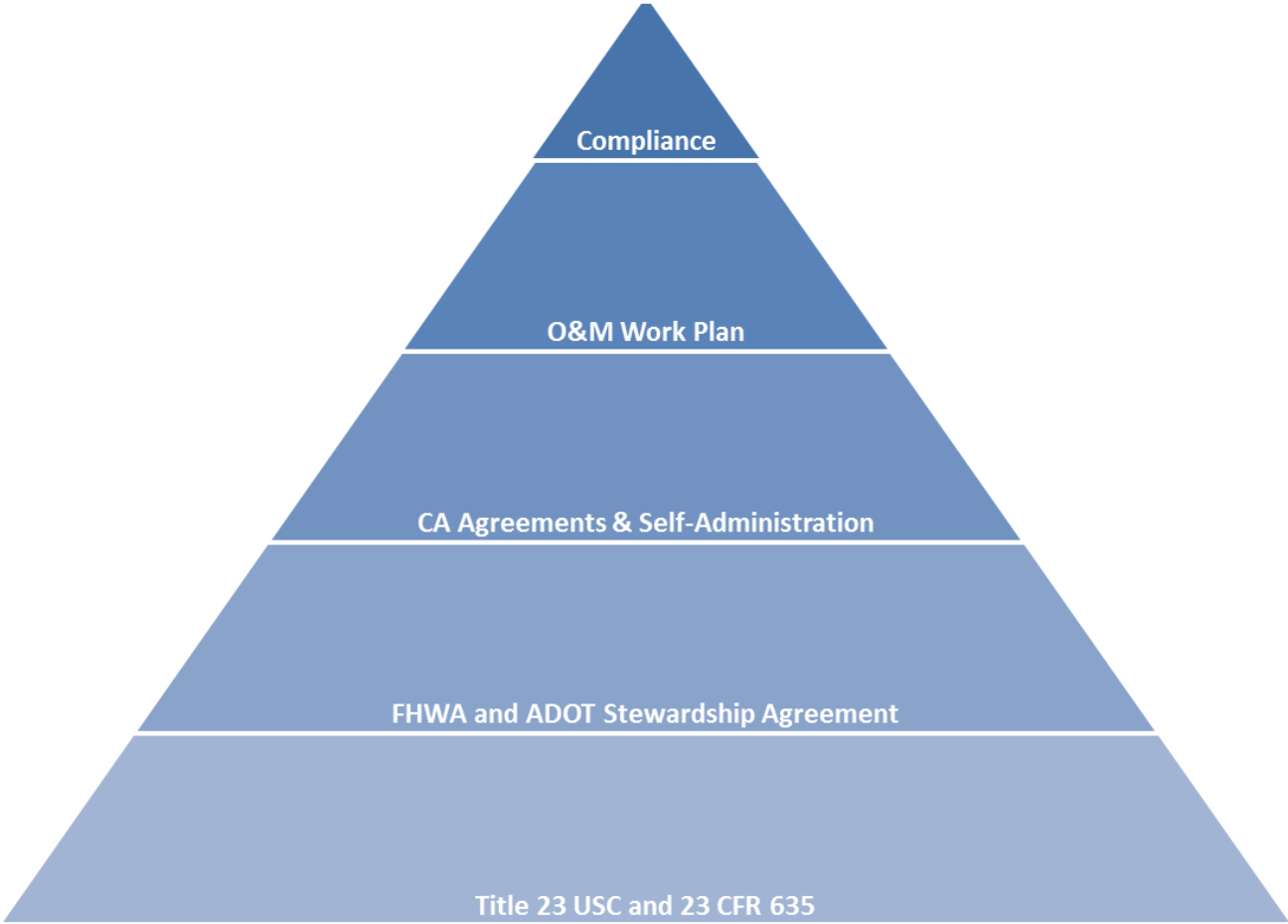
*Compliance:* Planned and systematic actions necessary to provide confidence that delegated approvals comply with federal and state requirements and standards.

The identified O&M activities of the ADOT LPA Section include, but are not limited to:

- LPA Program Oversight and Monitoring –Compliance Reviews, consisting of Regulatory Compliance Reviews and Construction Compliance Site Monitoring
- Sub-recipient Monitoring – Delegated LPA Authority, Every Day Counts (EDC) III Stakeholder Council, CA Peer Group, Single Audits, etc.
- Corrective Action – Unsatisfactory Performance, Probation and Suspension
- Training – LPA Projects Manual, CA Academy, SA Workshop, LPA Inspector Training, PM Academy, CA Guidebook, etc.

Each of these program responsibilities is discussed in further detail in subsequent chapters.

**Figure 1: Oversight & Monitoring Pyramid**



## 4. LPA OVERSIGHT & MONITORING COMPLIANCE PROCESS

LPA Oversight & Monitoring roles and responsibilities consist of specific activities performed by FHWA and ADOT. ADOT's LPA Oversight & Monitoring (O&M) is conducted by the ADOT LPA Section O&M Staff which is responsible for determining the adequacy of LPA program level activities performed for the purpose of achieving the goals of the FAHP and ensuring compliance with Federal regulations. Program level activities are generally high-level processes put in place to assist with the primary areas of FAHP project delivery phases: planning and programming, development, construction, and final acceptance. These high-level processes are reviewed by examining project level outcomes; specifically, in the areas of compliance, reporting, training, financial elements, accountability measures, standards, and corrective actions. ADOT LPA Section O&M staff will work in cooperation with ADOT technical areas as needed, to conduct Compliance Reviews, consisting of Regulatory Compliance Reviews and Construction Compliance Site Monitoring, to determine process improvements and to identify best practices.

LPA O&M activities will encompass the review of specific elements and/or tasks on local public agency projects. Project level oversight serves to provide a common understanding of the various roles and responsibilities within each management discipline; such as, project management, risk management and cost management. Oversight at the project level is required to ensure that these interactions are being managed successfully, and that the project will satisfy the needs for which it was intended. Monitoring will track the project progress through the design and construction phases to determine whether the project is on time, within budget and scope, complies with Federal requirements and is consistent with approved plans.

The project life cycle has four distinct phases: Planning and Programming, Development, Construction, and Final Acceptance. Each phase may experience different potential risks; thus, the types of monitoring activities that will be undertaken may vary by phase. The frequency or intervals for performing various monitoring and oversight activities will be determined by the O&M Team and targeted monitoring plans will be developed on a case-by-case basis for each specific project.

Compliance Reviews will consist of a thorough analysis of key program components and the process employed by ADOT, or an LPA, in managing the delivery of the LPA FAHP. Compliance Reviews will be conducted to ensure compliance with Federal requirements and to identify opportunities for greater efficiencies and improvements to the LPA FAHP.

The ADOT LPA Section O&M Staff will provide a summary of its annual reviews and assessments of local project delivery to FHWA as evidence of ADOT's effective and efficient management of Federal-aid program oversight responsibilities. The annual goal is to conduct at least a minimum of eight (8) reviews in accordance with the Project Monitoring and Oversight Process (e.g. at least 8 Certificate Acceptance (CA) agency projects) to assess if the projects are being adequately managed, administered, and maintained.



ADOT will prioritize oversight and stewardship activities for the federal fiscal year by evaluating performance indicators/measures, reviewing prior FHWA Compliance Assessment Program (CAP) reviews and conducting annual LPA program risk assessments to establish focus areas and risk response strategies. These assessments can range from simple updates to in-depth process reviews, as deemed appropriate, to adequately determine the performance of the LPA FAHP.

The Compliance Review, consisting of both Regulatory Compliance Reviews and Construction Compliance Site Monitoring, are conducted to:

- Assess compliance with Federal requirements
- Monitor the LPA's suitability to self-administer FAHP projects
- Identify opportunities for greater efficiencies and improvements to the program
- Identify exemplary best practices

#### **4.1 LPA Compliance Review Process**

The LPA Compliance Review process consists of a preliminary review of compliance, based on documentation analysis only. Documentation is reviewed for completeness, reasonableness, accuracy and indicators of patterns or practices that warrant further analysis. Additionally, LPAs will receive construction site visits that visually monitor the workmanship and compliance of the LPAs federal construction activities.

ADOT will consolidate program goals annually, including the LPA administrative activities to be monitored, specific areas for concentrated review, and a schedule of activities. ADOT LPA O&M Staff will select the method of oversight and monitoring assessments using identified criteria; such as risk-based assessments, geographic assessments, financial integrity, historical data or other criteria to determine process performance, verification, and compliance. It is envisioned that the focus areas and assessment criteria will align with the established oversight and monitoring goals.

The LPA Compliance Review process begins with the ADOT LPA Section O&M Staff identifying the program specific elements and appropriate checklists/site monitoring tools to be used during the review process. With the resources identified (staff and tools), the ADOT LPA Section O&M Staff will take the lead on coordinating and implementing the Compliance Reviews, including scheduling activities and documentation. The findings and recommendations, along with the corrective actions, will be compiled into a final report and disseminated to the appropriate parties.

The LPA Compliance Review process is graphically depicted in Figure 2. As shown, the process is intended to be one that repeats, applying lessons learned at each interval. The LPA Compliance Review process uses project level oversight, driven, in part, according to the areas of greatest risk. By understanding the risk areas of highest concern to FHWA and those that ADOT considers of greatest importance, ADOT LPA Section O&M Staff will define the project level goals for the year.

Depending upon the type of oversight and monitoring to be performed, the ADOT LPA Section O&M Staff will identify and work with the appropriate ADOT technical sections, creating the Compliance Oversight Team. The formal monitoring responsibilities of each team member will be assigned.

Once a local public agency is selected for review, an engagement letter will be sent notifying the agency that it has fourteen (14) calendar days to submit the documentation required for review. Reasonable time extensions may be granted if formally requested in writing. ADOT LPA Section O&M Staff will track the findings and corrective actions to note any prevailing trends that may indicate training needs, require additional attention or modification to the LPA Compliance Reviews. The review process will be updated and revised as necessary.

**Figure 2: LPA Compliance Review Process**



#### **4.2 Define Risk Areas**

A mixture of different performance types and compliance measurements will be used to monitor and track trends of the effectiveness (outcome) and efficiency (outputs) of the functional program areas and the overall Federal-Aid Highway Program. ADOT will work to define and prioritize the programmatic and project specific risk areas in need of review each year.

On February 13, 2012, FHWA issued an internal memorandum regarding LPA Stewardship Issues, wherein the Office of Inspector General (OIG) recommended FHWA develop division-based plans to increase State oversight of seven project activities where the OIG found a high level of noncompliance with Federal requirements. The items cited by the OIG included change orders and claims, project bidding/contractor selection/unbalanced bid analysis, utility agreements and reimbursements, consultant selection and billings, construction pay quantities and progress payments, project reporting and tracking, and quality assurance procedures.

One of the highest risk areas is the delegation of administration authority to certified LPAs. ADOT's monitoring of certified LPAs will include continual reevaluations and suggestions for improvement and training. ADOT will assess Certification Acceptance (CA) agencies' and Self Administration (SA) agencies' continued ability, resources and experience to deliver federally funded projects pursuant to federal and state laws, as well as the ADOT LPA Projects Manual.

Program evaluations will employ a variety of techniques such as joint risk assessments, self-assessments and program evaluations, to identify strengths, weaknesses, opportunities and best practices aimed at continuous improvement of the program.

Project level risk areas are expected to directly relate to project specific issues; revealing Program level compliance concerns that will require oversight efforts. Additionally, ADOT's review of prior audits and project performance will uncover project level issues of concern. A mixture of different performance types and compliance measurements will be used to monitor and track trends of the effectiveness (outcome) and efficiency (outputs) of the functional program areas and the overall Federal-Aid Highway Program.

Oversight and monitoring of the certified LPA programs and projects will include focused reviews in the seven project activities, as noted of concern by FHWA and the OIG; as well as, project level compliance concerns that will require oversight efforts. The risk area will be defined to align with the area of concern defined by the FHWA Arizona Division office and project level issues of concern identified in prior audits. ADOT LPA Section will also define additional risk areas, as needed as trends in need of corrective action amongst the certified LPAs.

### **4.3 Develop O&M Activities**

With the risk areas defined, the ADOT LPA Section O&M Staff will develop a tailored oversight and monitoring plan with the purpose of identifying and addressing the specific areas of concern. These activities could include such criteria as risk, safety, geographic location, budget, schedule, etc. The ADOT LPA Section will establish the level of effort required and type of O&M to be performed. Oversight and monitoring techniques which may include:

- Program Monitoring
- Program Assessments
- Risk Assessment
- Regulatory Compliance Reviews
- Construction Compliance Site Monitoring
- Quality Improvement Reviews
- Peer Reviews/Innovation Sharing
- Financial Integrity Review and Evaluation (FIRE)

### **4.4 Establish Oversight Team**

An Oversight Team will be established for the purpose of carrying out the monitoring activities and documenting the findings. The team may consist of staff from the ADOT LPA Section O&M staff and

ADOT technical sections, as appropriate. Various techniques may be employed for the actual oversight and monitoring activities. Members of the Oversight Team may include:

- Oversight & Monitoring Manager
- LPA Construction Compliance Engineer
- District Engineer and/or Resident Engineer
- Representative from Technical group (e.g. Bridge staff, Right-of-Way staff, Environmental Planning staff)
- Compliance Subject-matter Experts (e.g. ADOT Procurement staff, ADOT BECO staff and ADOT Civil Rights Office staff).

The ADOT LPA Section O&M Staff will invite the appropriate technical groups to participate on the Oversight Team. ADOT LPA Section will also outline the roles and responsibilities of each technical group and provide guidance on how to perform the O&M activities. The ADOT LPA Section will work closely with each technical group to identify the appropriate staff (knowledge and experience) to successfully perform the O&M duties.

When the Oversight Team is selected, the ADOT LPA Section O&M Staff will train the team on how to conduct the O&M activities; specifically issues to be aware of and methods of documenting the results.

#### **4.5 Prepare Checklists and Site Monitoring Tools**

ADOT LPA Section O&M Staff will collect and prepare review checklists/site monitoring tools (tools) and questionnaires, as appropriate, to address the review focus. This will form the Core Checklist/Tool for the Compliance Reviews. It is anticipated that the Core Checklist/Tool will encompass eight elements: compliance, reporting, finance, training, accountability, corrective action, standards and workmanship. The Oversight Team will determine which elements apply to a particular work activity. Checklist/tool items and questions pertaining to the eight primary elements will be based upon the following manuals, policies, processes, standards and procedures:

- USC, CFRs
- ADOT/FHWA Stewardship and Oversight Agreement
- Construction Manual, LPA Projects Manual, Right-of-Way Manual
- Certification Acceptance Agreements
- IGA/Supplemental Project Agreements
- Title VI Plan or Non-Discrimination Agreement
- LPA's local code, policies and procedures, manuals
- Standards and Specifications
- Other related documents, as needed



Review of LPA program management and operating plans, training programs, etc. – LPA documents; Outreach meetings with LPAs as needed; Oversight Team will prepare and use applicable checklists/tools for the specific activity/element review.

#### **4.6 Conduct Regulatory Compliance Review**

ADOT LPA Section O&M Staff will lead the review sessions, serving as a liaison between the ADOT Technical sections and the LPA to communicate the desired milestones and schedule of activities. ADOT LPA Section will coordinate the meetings to ensure the appropriate stakeholders are present.

The Oversight Team will assess the performance of the LPA program with respect to the program elements of concern. The reviews will be conducted as interviews with personnel actively involved in the process. The Review will begin with an entrance conference to discuss the review objectives, the prior year's review and findings, as well as a discussion of the project currently under review providing an opportunity for any initial questions or concerns. Additional documentation from LPA records will be obtained and examined during the review. Prior to the Entrance Conference, each LPA will be notified of the necessary documentation to have available, LPA staff roles to be interviewed, and the estimated time allotment to schedule. During the Entrance Conference, interviews will be conducted using the list of questions in the Core Checklist, supplemented by additional questions prepared by the Oversight Team to address specific items of concern.

Following the Entrance Conference, the Oversight Team will document the findings of their respective reviews and meet with the LPA to discuss preliminary compliance review findings. For each significant finding, recommendations for mitigation or establishing a best practice will be documented.

#### **4.7 Conduct Construction Compliance Site Monitoring**

Construction Compliance Site Monitoring is a site visit to visually monitor the inspection (workmanship) of construction activities of LPAs federal construction projects. The Construction Compliance Site Monitoring Tool has been formulated to be used as a guide when visiting an LPA construction site. The monitoring tool covers a wide range of details related to construction activities. The onsite visit shall document as many construction activities as applicable at the time of the visit.

The frequency of the site visits will be at the discretion of the ADOT LPA Section and assessed risk. At least one onsite visit of the selected project(s) will be conducted. If any deficiencies are sited or further assistance is required by the LPA more visits are warranted.

#### **4.8 Document Compliance Findings**

Upon completion of the review activities, the ADOT LPA Section O&M Staff will prepare a Draft O&M Report to compile the findings and recommendations of all the technical sections. The Draft O&M Report will be submitted to the LPA for review and response. The LPA will provide a one-time opportunity to respond to each finding in writing for incorporation into the report. The ADOT LPA Section will schedule an Exit Conference, as needed, to discuss the draft report, the implementation of mitigation measures and best practices into the LPA's program delivery process. Upon agreement by the LPA, the follow-up action plan for improvements will be documented in the Final Compliance Report, distributed and a follow-up meeting will be scheduled to ensure the completion of the follow-up action plans.

#### **4.9 Analyze O&M Results**

On an annual basis, the ADOT LPA Section will summarize the findings of all final O&M Compliance Review Reports conducted during the year. These results will be analyzed to identify common trends among the findings, recurring follow-up action plans, best practices to share with other LPAs, areas where LPAs need additional training, and recommend focus areas for the next round of Programmatic O&M activities.

The ADOT LPA Section O&M Staff will also hold periodic de-briefing sessions with members of the Oversight Team to gain their perspective on the entire O&M process. The team will be asked to reflect on what went well and areas that need improvement, including the team configuration, O&M tasks, schedule of activities, and documentation. Information provided throughout the process will be used to modify steps accordingly. Lessons learned will be incorporated into the next year's round of regulatory Compliance O&M procedures.

## **5. SUB-RECIPIENT MONITORING**

LPA Sub-recipient Monitoring focuses on both project level oversight by ADOT as well as program level oversight dedicated to monitoring sub-recipients of Federal funds. O&M will develop a risk assessment to include all pass-through funds (state and federal) in order to assess which LPAs need to be reviewed and develop an audit/review program to include tests of internal controls, state statutes, ADOT policy and federal compliance requirements, as applicable.

### **5.1 Delegated LPA Authority**

Through the FHWA and ADOT Stewardship and Oversight Agreement for Arizona, FHWA has delegated the authority to ADOT to administer projects funded under the FAHP. Under Title 23 CFR Sections 1.11 and 635.105, ADOT is allowed to delegate authority to qualified LPAs; however, ADOT remains ultimately responsible for monitoring and overseeing the LPAs compliance with all applicable federal, state, and tribal laws, regulations and requirements.

ADOT has two programs available for delegating authority to LPAs: Certification Acceptance and Self-Administration.

### **5.2 Certification Acceptance**

Through ADOT's Certification Acceptance Program, ADOT can permit certified LPAs to independently administer most project activities, with ADOT oversight. The Certification Acceptance Program requires LPAs to have the capability, experience, and resources to develop and administer projects according to all applicable agency, state, federal, and tribal laws, regulations, and requirements.

LPAs that apply for certification acceptance will go through an evaluation process that includes a written application, participation in the CA Academy, payment of a nonrefundable application review fee, and an oral interview. ADOT LPA Section conducts a thorough review of the LPA's processes, staff qualifications, resources, experience, etc., to successfully administer federally funded projects. LPAs must meet all qualification requirements to be approved under the Certification Acceptance Program; completing the process does not guarantee approval to become a certified LPA.

Initially, approval is granted on a probationary basis, pending satisfactory performance on the first project completed under the Certification Acceptance Program. During the first project, ADOT LPA Section will exercise a high degree of oversight to ensure the LPA's compliance with all applicable state, federal, and tribal laws, regulations, and requirements. Upon successful completion of the first project, the LPA will be granted full certification under the Certification Acceptance Program.

The LPA may apply for either Full Certification Acceptance status or Partial Certification Acceptance status. Full Certification Acceptance status includes the delegation of contract administration, development and design, construction administration, project inspection, and internal program evaluation to the LPA. Partial Certification Acceptance status excludes the delegation of procurement of an engineering or design-related services consultant from Full Certification Acceptance status activities listed above.

### **5.3 Self-Administration**

Self-Administration is a process through which ADOT can permit LPAs to administer specific project activities on a project-by-project basis with FHWA's concurrence. To qualify for self-administration, the LPA must demonstrate its capability, experience, and resources to develop and administer approved activities for the given project in accordance with all agency, state, federal, and tribal laws, regulations and requirements under self-administration ADOT.

Request to self-administer may be submitted to ADOT as soon as the project has been included in a regional TIP. Once ADOT has approved the LPA for self-administration, the application is forwarded to FHWA for concurrence. Each approved application allows the LPA to administer only one specific project.

### **5.4 EDC II AZ LPA Stakeholder Council**

In coordination with FHWA's Every Day Counts (EDC) II initiative, ADOT LPA Section has established the Arizona Local Public Agency (LPA) Stakeholder Council.

The Council is comprised of members from ADOT, Federal Highway Administration, Council of Governments and Metropolitan Planning Organizations with consideration to ensure representation from regions and communities throughout the state. This initiative will enhance the communication dialog on topics concerning federally funded LPA transportation projects and program delivery.

This council will:

- Provide opportunities to learn and share information;
- Pass on communication and information to their networks and return feedback;
- Improve communication between ADOT and LPAs;
- Not be afraid to ask for information;
- Serve a one year term limit with the option to serve one additional year.

This communication initiative provides an additional platform for continuous improvement.

### **5.5 CA Peer Group**

In April 2013, the Certification Acceptance agencies formed an informal peer group for the purpose of sharing information and lessons learned on the Federal-Aid Highway Program. ADOT LPA Section has been invited to participate in the monthly meetings. This forum provides another method of disseminating important information to LPAs, as well as monitors the needs of the CA community. Representatives from each of the following CA agencies actively participate in the peer group.

- Maricopa County Department of Transportation
- Pima County Department of Transportation
- City of Phoenix
- City of Tucson
- City of Tempe
- City of Chandler
- City of Mesa
- City of Scottsdale



## **5.6 Certification Acceptance (CA) Agency Audits**

Throughout 2013, the ADOT LPA Section partnered with ADOT Audit and Analysis section to conduct a series of CA agency audits. The schedule was to complete two audits per CA agency, specifically for one design project and one in progress construction project. ADOT Audit and Analysis and ADOT LPA Section jointly initiated the audit by written notification to the CA agency indicating the projects to be reviewed and scheduled an initial meeting. ADOT Audit and Analysis continues with the audit by meeting with appropriate LPA staff to review project records and prepares the draft auditor's report. When findings are identified regarding the FAHP, the ADOT LPA Section will review the agency responses and meet with the LPA to follow up on implementation measures and provide oversight and guidance on corrective actions.

ADOT LPA Section has been tracking the findings from the 2013 CA audits to identify trends in compliance issues that may indicate a need for additional training or explanation in the LPA Project Manual or CA Manual. Predominant trends in non-compliance issues may also become topics for discussion at the, AZLPA Stakeholder Council and CA Peer Group meetings as methods of disseminating corrective measures to LPAs and best practices.

## **5.7 Single Audits**

Each LPA expending \$750,000 or more in federal funds in any given fiscal year will need to conduct an annual single audit, in accordance with 2 CFR Part 200. The single audit concludes with the Auditor's Report, which addresses the reliability of the financial data, adequacy of internal controls, and compliance with Federal regulations. The audit package includes: LPA financial statements, schedule of Federal expenditures, results of prior audits, internal corrective actions the LPA plans to implement as a result of the Auditor's Report.

ADOT Audit and Analysis will review each LPA single audit and notify ADOT LPA Section when there are findings pertaining to the expenditure of Federal-Aid Highway Program funds, denoted by the Catalog of Federal Domestic Assistance (CFDA) number 20.205. CFDA provides a complete list of all Federal programs available to state and local governments and federally-recognized Indian tribal governments.

Participation in these monitoring activities occurs when single audits reveal impacts to the Federal-Aid Highway Program. ADOT LPA Section will oversee that the corrective actions documented in the single audit are implemented by the LPA by scheduling follow-up meetings with the LPA to assess progress.

## 6. CORRECTIVE ACTION

As an important component of oversight and monitoring, the ADOT LPA Section is also responsible for enforcement to ensure compliance with the Federal-aid program. Therefore, when errors or violations occur at the LPA level under delegated authority, the ADOT LPA Section will implement a three-tiered level of corrective action process. According to the severity of the violation, the levels are defined as (1) unsatisfactory performance, (2) probation, and (3) suspension.

There are various reasons why corrective action may be taken, such as:

- Non-compliance with federal regulations or internal/CA processes; complaints from customers, users, or contractors; results from an audit, Regulatory Compliance Review or Construction Compliance Site Monitoring;
- Non-compliance with Legislative changes in Federal regulations and/or state statutes.

The purpose of corrective action will be to notify the LPA of the non-compliance and create an understanding with the LPA of the reason for the action. The LPA will develop a plan for improving performance so the violation does not occur in the future, else the LPA may be placed on probation or suspension, depending upon the severity of the violation. The corrective action process will create a formal record, documenting the steps taken towards process improvement and Federal compliance.

### 6.1 Unsatisfactory Performance

The first tier on the levels of corrective action will be issuance of a notice of unsatisfactory performance. When complaints arise or compliance reviews are poor, the ADOT LPA Section will place an LPA on notice by sending a letter of unsatisfactory performance. This letter will formally notify the LPA that certain work aspects have been deemed insufficient and in need of improvement. The items of non-compliance will be thoroughly documented, including regulatory references where appropriate, for the purpose of clearly identifying the core issue of concern in need of remedy.

ADOT will expect the LPA to respond, in writing, to address the issue of concern and a meeting will be scheduled, as needed. By opening the lines of communication between the agencies, the problem may be addressed in depth to identify the unsatisfactory actions, why it was identified as an action, how the action came to occur, the impact of the violation, and what the correct action should have been. The LPA will be need to provide a formal written response, acknowledging the incorrect action and the procedures that will be taken to correct the action in the future, including a timeline for implementation of the procedures.

ADOT LPA Section will review the LPA's proposed improvement process. The LPA will be notified if additional steps are recommended for inclusion. ADOT LPA Section will closely monitor development of the LPA's next federal project for full compliance, specifically to check that the same incorrect action is not repeated. Upon satisfactory reconciliation, the CA will be returned to satisfactory status.

## 6.2 Probation

If an LPA is non-responsive, does not take timely action towards correcting unsatisfactory performance, or repeats the action that placed the LPA on unsatisfactory performance status, the LPA will be placed on probation; given the actions repeated in a proximal time frame. ADOT LPA Section will notify the LPA of their probationary status. An LPA must show a good faith effort towards remedying the action on future projects. Thus, the ADOT LPA Section and ADOT PM will monitor the next three federal projects to be administered by the LPA while the LPA is on probation to make sure the non-compliant action, does not occur again. After the LPA completes three future projects without incident, the LPA's performance will be returned to satisfactory status.

## 6.3 Suspension

LPAs may have their delegated authority partially or entirely suspended, based on the circumstances of the violation(s). Suspensions will be treated on a case-by-case basis, depending upon the severity and type of violation incurred. Most likely, a suspension will be issued if an LPA is unwilling or unable to perform at the level necessary to satisfy federal requirements.

As soon as it is made aware, the ADOT LPA section will notify the CAs of any new or changing legislation. The LPAs must comply with new or changed legislation; however when the LPAs are unable to comply, a partial suspension may be necessary. In this case, the suspension would likely apply to all LPAs in Arizona with delegated authority until the issue is resolved. For example, if new federal guidance is issued allowing delegated authority for new roles and responsibilities that are not currently addressed in the CA or SA agreement between ADOT and the LPA, an LPA's ability to perform that new role will be suspended until appropriate contractual language is incorporated into the master agreement and executed by all parties. The LPAs would continue to operate under delegated authority for all other tasks; the suspension would only apply to the new role that is in question. Suspension is not the first option, with every attempt being made for the CAs to comply.

Similarly, it may come to ADOT's attention that an LPA is lacking resources in an area of delegated authority and may not be able to perform acceptably. At that point ADOT LPA Section would notify the LPA that it is on suspension for that specific area, until adequate justification is provided by the LPA that resources are in place to support the responsibilities of delegation.

Finally, an LPA's delegated authority may be suspended entirely if ADOT finds the LPA to be performing with willful neglect for Federal requirements or in violation of the delegated authority agreement. Suspension would be enforced for a period of three years. Upon completion of the three-year suspension, an LPA would be eligible to reinstate its delegated authority. The LPA would need to reapply for delegated authority through the normal application process with ADOT LPA Section.

## 7. TOOLS AND TRAINING PROGRAMS

### 7.1 LPA Projects Manual

ADOT, in conjunction with FHWA, updated and released the ADOT *Local Public Agency Projects Manual* in February 2013. The ADOT LPA Section is charged with updating the manual periodically to reflect the current Federal regulations, policies and processes. Users of the manual may submit revision requests directly to the LPA Section contact, in written format, to clearly document the edit, correction, or issue of clarification that is needed. Comments will be reviewed, ensuring validity and compliance; text will be modified as needed, taking care to maintain the document “voice.” Updates to the manual will occur when warranted. For example, if considerable amounts of new information and comments are brought forward, then the manual will need revision. Conversely if there is minimal new information or comment, the revision can be held unless there is a substantive change needed that is critical by nature. Notification of updates will be sent through the LPA communication dissemination Process and a bulletin will be placed on the LPA web page.

As an education compliment but independent of the manual, the LPA Project Manual Training was developed to familiarize LPAs with Federal-aid requirements. Over 20 training sessions have been held throughout the state to assist local agencies in understanding the details and requirements of delivering a Federal-aid project. Future training sessions will be provided on an on-demand basis.

### 7.2 CA Academy

The Certification Acceptance (CA) Academy is an opportunity for individuals in a CA community to enhance knowledge of Federal Highway Administration Guidelines, Arizona Department of Transportation Processes, understand the purpose of being a CA community and overall introduction to the expectations of a CA agency. The academy is a 3-hour training that offers an introduction to Certification Acceptance; it can be presented at the request of members of the CA community. The academy allows participants to gain experience in all aspects of the project development process. The academy is divided into modules. Each module is designed to enhance the participant’s practical development skills and provide invaluable resources.

Certification Acceptance is extended to a local agency through a partnership agreement with Arizona Department of Transportation. It is important to understand the purpose for Certification Acceptance and set the expectations. The Academy is designed to provide support to staff of CA agencies instrumental in the delivery of Federal-aid projects.

The project development process is one of the first aspects of moving forward with delivery of a project. An overview of the process will be conveyed to participants with actual hands-on examples, case studies and attendance at various meetings. Sessions are held where the instructor/Project Manager will examine the State’s transportation project planning process and conduct a case study. Participants will have an opportunity to review the funding process, studies and learn more about project management. Procedural courses in concept development, preliminary engineering,

project design, detailed engineering, real estate acquisition and construction will give a hands-on experience in managing a project from initiation to completion.

Each CA agency will be required to attend the CA Academy as a condition of recertification.

### **7.3 SA Workshop**

Local public agencies may apply for self-administration (SA) for an individual project. This delegated authority is not currently available for the construction phase; however, self-administration of the design phase may be considered if the LPA demonstrates adequate knowledge, skills, abilities and resources available to perform acceptably. The Self Administration (SA) Workshop, an on demand presentation, will teach agencies about the application process, responsibilities of the agency upon approval, and expectations for successful project delivery.

Each agency that applies for SA authority will be required to attend the workshop prior to receiving ADOT's approval. Workshops will be held when applicants are accepted or at most, quarterly.

### **7.4 LPA Inspector Training**

The Arizona Department of Transportation (ADOT) has developed a training program for the LPA staff to be able to inspect their own federally funded local transportation projects. Completion of level 1 and level 2 will allow eligibility for LPA inspectors to test materials and authorize the candidate to advance to level 3 for on-the-job-training.

When level I requirements are completed, the LPA testing technician will be certified to perform field material testing on LPA projects under the supervision of the project resident engineer. When the level II requirements are completed, the LPA inspector will be qualified to performed project inspection on LPA projects under the supervision of the project resident engineer. When all the classes are completed, the LPA inspector will be placed on their own ADOT- administered project to work with the ADOT inspectors under the supervision of the Resident Engineer (RE) within their own ADOT District. The RE will observe and evaluate the LPA inspector on the job. With a positive evaluation and under ADOT administration guidance, the LPA inspector will be allowed to inspect their federally funded projects for their agency.

### **7.5 CA Manual**

The CA Manual was developed to assist Certification Acceptance agencies, and those LPAs interested in becoming CAs, in understanding the roles and responsibilities of the LPA under the CA program. The guidance is intended to provide assistance on what elements the agency must include in a Certification Acceptance (CA) Program in support of compliance under the Federal-Aid Highway Program (FAHP).

Each Local Public Agency (LPA) operates independently with internal controls; therefore, it is recognized that a single, standard set of CA procedures may not necessarily be directly applicable to all agencies. For this purpose, the CA Manual identifies the program components a CA agency should have in place to operate successfully under delegated authority. Guidance will be provided on program components such as, but not limited to, administration requirements, program management, planning and

programming, procurement, development and design, contract administration, construction administration, civil rights, financial management, training, and internal oversight and monitoring.

The CA Manual will assist LPAs in assessing the level of effort, particularly with staffing, resources, knowledge, skills, and abilities that are required for an agency to take on the roles and responsibilities of delegated authority under the FAHP.

## **8. ADOT LPA SECTION**

The ADOT LPA Section is responsible for coordinating and implementing the oversight and monitoring activities in this work plan. Various staff members of the section have roles dedicated specifically for certain aspects of this work plan. The oversight and monitoring activities will be undertaken and reported on an annual basis, coinciding with the State fiscal year. Existing laws, regulations, policies, manuals, guidelines, and processes form the foundation upon which the oversight and monitoring program is built. The oversight and monitoring program strives to utilize and build upon the successful monitoring processes that are currently in place, to make the program more robust across all technical aspects of project development and delivery.

### **8.1 ADOT LPA Section Funding**

Federal funding has been authorized to cover five staff positions within the ADOT LPA Section through a Narrative Cost Allocation Plan (NCAP), wherein ADOT is reimbursed with FAHP funding for in-house staff to monitor and oversee the local government program and projects administered by local public agencies. Costs incurred by the ADOT LPA Section for oversight and monitoring activities are eligible as a Federal-aid reimbursable expense.

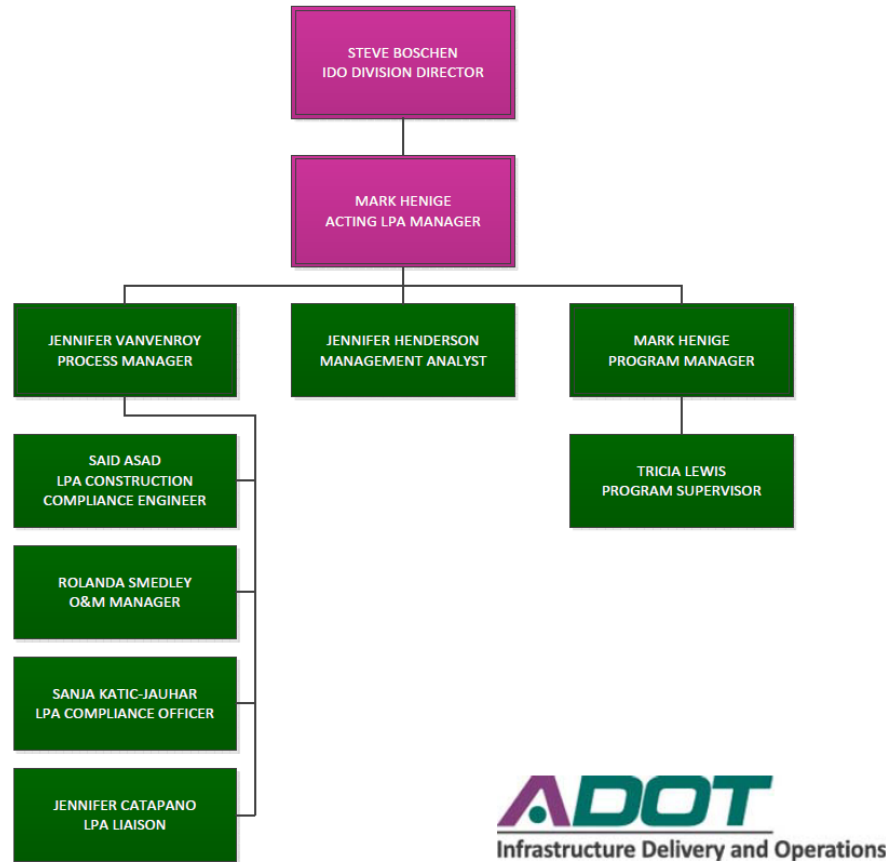
ADOT proposed an innovative finance research project under FHWA's TE-045 Innovative Finance Test and Evaluation Program to test the applicability of using Narrative Cost Allocation Methodology (NCAM). ADOT's proposal was approved and required ADOT to develop and provide a written account for the basis by which the costs associated with the oversight and monitoring on local public agency Federal-aid projects was allocated. ADOT, in partnership with FHWA, will evaluate the use of the NCAM on an annual basis.

### **8.2 ADOT LPA Section Staffing**

The ADOT LPA Section is comprised of two distinct branches: Process and Program. Each group has different roles and responsibilities, and together strengthens ADOT's LPA project development process. The staffing plan for the ADOT LPA Section is depicted in the following organizational chart.

Figure 3: ADOT LPA Section Organizational Chart

Local Public Agency Section



The Process side of the section is comprised of those staff responsible for coordinating and implementing the tasks outlined in this work plan. The oversight and monitoring activities being carried out by the five staff members is summarized in Table 1. Activity areas in which each person is performing tasks are denoted with an X.



Table 1: Roles and Responsibilities for Process Side

Tasks	Process Manager	O&M Manager	LPA Compliance Officer	LPA Construction Compliance Engineer	LPA Liaison
<b>Oversight &amp; Monitoring (O&amp;M)</b>					
Regulatory Construction Compliance Reviews	X	X			
Construction Compliance Site Monitoring	X			X	
CA Peer Group	X				X
<b>Subrecipient Monitoring</b>					
CA and SA Delegated Authority	X	X		X	
Single Audits	X	X	X		
<b>Training and Tools</b>					
O&M Workplan	X	X			
LPA Projects Manual					X
CA Manual	X		X		X
SA Workshop	X			X	
LPA Inspector Training				X	
<b>Miscellaneous</b>					
Communication/Info Dissemination	X	X	X	X	X
LPA and Technical Team Support	X	X		X	
EDC II - LPA Stakeholder Council	X				X
Administration	X	X	X	X	X

The process staff members are working closely as a team to successfully initiate and implement the various aspects of the work plan. The work effort documented herein is achievable and manageable with the current staffing program. However, as certain tasks develop further, the ADOT LPA Section foresees the need for additional staff to handle future growth in the O&M program. As O&M tasks reveal compliance issues, it is anticipated that more training, tools, and monitoring activities will need to be developed, coordinated, and implemented by the ADOT LPA Section. These needs will be identified in the annual report.

### 8.3 ADOT LPA Section Tools

ADOT LPA Section will utilize the most current publications of existing FHWA and ADOT documents as reference and resources. It is anticipated that reference sources will include, but not be limited to, the following manuals, policies, processes, standards and procedure:

- CA Manual, LPA Project Manual, Construction Manual, Right-of-Way Manual
- Certification Acceptance Agreements
- IGA/Supplemental Projects Agreements
- Title VI Plan or Non-Discrimination Agreement
- LPA's local regulations, policies and procedures
- ADOT Standard Specifications for Road and Bridge Construction
- CFR, USC, Stewardship agreement
- Other related documents, as needed

Additionally, the ADOT LPA Section will identify needs for other manuals or tools that will assist in performing O&M activities. This is expected to include:

- ADOT Interview forms (checklists/monitoring tool) – to be used during the regulatory compliance and construction compliance site monitoring processes by the Oversight teams.
- CA Application – for LPAs that are interested in acquiring Certification Acceptance status.
- ADOT/LPA/O&M Toolbox – a collection of “how to” manuals for ADOT project managers, LPA project managers, and O&M staff that explains how tasks performed by each are related to the others.

## 9. PROGRAM REPORTING

Several reporting elements are required of the ADOT LPA Section O&M program, such as:

### Annual NCAP Progress Report

O&M must provide an annual report in accordance with the Narrative Cost Allocation Plan (NCAP) to FHWA. This report reflects the staff time, funding expenditures, and major work activities for the quarter being reported. The NCAP report is distributed to ADOT management, FMS, and FHWA.

### Annual O&M Summary Report

An annual O&M summary report will be prepared to document the activities that were performed throughout the year, specifically to identify the progress made for each element contained within this work plan. It is anticipated that the report will not only report progress, but will also identify any predominant trends in audit and review findings. Trends may assist ADOT in developing the focus areas for the next year's plan and future training programs. The report will also note any other items of significant interest or recommendation. The summary report will be provided to FHWA as a year-end final progress report. The annual report will be an evaluation of activities over the year and is to be distributed to ADOT management, FMS and FHWA.