



PROCUREMENT AND CONTRACT BILLING AUDIT

January 2018

**CENTRAL
FLORIDA
EXPRESSWAY
AUTHORITY**

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EXECUTIVE SUMMARY

Overview / Objectives / Scope and Approach

Overview

In accordance with the 2018 Internal Audit Plan, Internal Audit audited three Central Florida Expressway Authority (“CFX”) contracts with a combined contract value exceeding \$71.8 million from a population of large currently active engineering, service, maintenance, operations, and construction projects. The last contract billing audit was completed during February 2017 and included a different set of contracts.

Objectives

The objectives of this audit were to (1) audit the accuracy of items billed to CFX in accordance with contract terms and conditions, and (2) identify and test key processes and controls related to contract procurement, contract administration, project and cost management, and supplemental management agreement.

Project Scope and Approach

This audit was performed using a four-phased approach as outlined below:

Phase I – Contract Analysis and Selection

To select contracts for audit, Internal Audit obtained a listing of all active contracts with CFX and identified a short-list of contracts for audit after interviewing management and performing a risk analysis based on contract size, duration, terms and conditions, and nature of the work performed. The following contracts were selected for review and approved by the Audit Committee prior to audit:

- 1. GLF Construction, Inc. (#001138)** – Contract for construction of S.R. 429 (Wekiva Parkway) from Lake County to S.R. 46. This contract began in March 2016 and has a current contract value of approximately \$49.5 million. As taken from Eden, CFX’s accounting system, total expenditures to date at the time of this audit were approximately \$41.3 million. This contract was selected due to it being a large contract with a new vendor.
- 2. Groundtek of Central Florida, LLC (#000965)** – Contract for landscape maintenance services to be rendered for S.R. 408 and S.R. 417. This contract began in October 2013 and has a current contract value of approximately \$7.3 million. As taken from Eden, total expenditures to date at the time of this audit were approximately \$5.5 million. This contract was selected as a landscaping contract has not been audited previously.
- 3. HNTB Corporation (#001144)** – Contract for general systems consultant services. This contract began in June 2016 and has a total contract value of \$15 million. As taken from Eden, total expenditures to date at the time of audit were approximately \$2.8 million. This contract was selected due to it being a new service for CFX.

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EXECUTIVE SUMMARY

Overview / Objectives / Scope and Approach

Phase II – Processes and Controls Review

Internal Audit performed procedures to review CFX's processes, policies, and procedures related to procurement, contract administration, project and cost management, and supplemental management agreement. Key internal controls within each of these areas were identified and tested, with the sample population being each contract selected in Phase I. A summary of the procedures performed, results, and observations are provided on the following pages. Additional details on the procedures performed are included in Appendix A.

In August 2017, Internal Audit completed a review of open recommendations issued as part of the prior year 2017 Procurement and Contract Billing Audit and verified that all have been incorporated into practice and policy by CFX staff. The audit recommendations issued during prior year audits were also considered and incorporated for review as part of the 2018 Procurement and Contract Billing Audit in order to verify that prior years' findings were resolved and are not prevalent in the contracts selected for fiscal year testing.

Phase III – Contract-Specific Audit Procedures

Internal Audit performed detailed procedures to review contract terms, costs billed to CFX, and other key attributes for each of the contracts selected for audit. The contracts selected, value, spend to date, sample tested, and percentage of spend tested are outlined below:

Contract	Contract Value	Spend to Date [1]	Sample Tested [2]	% Spend Tested
GLF Construction, Inc.	\$49,568,720	\$41,285,439	\$21,279,551	52%
Groundtek of Central Florida, LLC	\$7,321,215	\$5,486,595	\$3,416,349	62%
HNTB Corporation	\$15,000,000	\$2,836,954	\$1,546,021	55%

[1] As of October 30, 2017

[2] Invoices were selected for testing using judgmental sampling. A detailed report of all invoices paid to date was obtained for each contract and analyzed on a month over month basis to select samples for testing. The invoices selected were tested for compliance with contract terms and conditions.

Phase IV – Reporting and Deliverables

Internal Audit prepared this report for management review and comment and for issuance to the CFX Audit Committee.

SUMMARY OF PROCEDURES PERFORMED AND RESULTS

Process Areas / Procedures / Controls Tested

For the contracts selected for audit, Internal Audit identified risks and tested key controls within the process areas outlined below. Where applicable, a sample of detailed project costs was reviewed and tested for compliance with contract terms and conditions. The table below provides an overview of the areas reviewed for each contract audited. Further details related to the specific procedures performed are provided in Appendix A.

Process	Procedures Performed / Key Areas Reviewed	Total Controls Tested	Number of Observations	Observation Reference
Procurement	Project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, and contract renewals.	25	0	-
Contract Administration	Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business (“MWBE”) requirements.	10	0	-
Project & Cost Management	Invoice processing, project planning, scheduling, quality control, subcontract management, cost management, owner direct material purchases (“ODMP”) management, and project reporting.	30	2	1, 2
Supplemental Agreement Management	Supplemental agreement review, approval, and execution.	8	0	-
TOTALS:		73	2	

DETAILED OBSERVATIONS

Observation 1 – CEI Daily Inspection Report

Relative Priority

Low

Contract: GLF Construction, Inc. (#001138)

Observation

The Construction Engineer Inspection consultant (CEI) for each construction project is required to complete a daily inspection report to document the physical observation of materials installed by the contractor. The daily inspection reports serve as supporting documentation for the pay estimates/invoice created by the CEI and submitted to CFX for payment to the contractor.

For eight out of thirteen pay items within the GLF Construction September 2017 pay estimate, the quantities installed were omitted by the CEI from the daily inspection reports. GLF and the CEI had regular meetings to discuss the status of the project and at month end GLF provided support for quantities of materials installed. The CEI recorded the materials installed on a ledger with notes from the meeting, but did not report the quantities installed on the daily inspection reports as required by CFX.

Recommendation

CFX should reiterate the required payment documentation with the CEI to ensure the appropriate supporting documentation is maintained.

Management Response

Management concurs.

Management Action Plan

The Daily Inspection Reports for the installation of said items were supplemented to record the quantity installed. All other pay items will be traced back to their source for payment documentation.

Action Plan Owner / Due Date

Ben Dreiling, Director of Construction / Complete

Procurement

Contract
Administration

Project & Cost
Management

Supplemental
Agreement
Management

DETAILED OBSERVATIONS

Observation 2 – Billing Compliance Checklist

Relative Priority

Low

Contract: HNTB Corporation (#001144)

Observation

CFX engaged HNTB as a general systems consultant (GSC) to provide Information Technology System consulting services. To assist with the contract billing compliance, CFX appointed a Contract Support Specialist to review the consultant invoices for compliance with the contract terms and CFX billing policies. Although the Contract Support Specialist has identified and addressed several contractor billing anomalies and Internal Audit did not identify any billing noncompliance issues, the Contract Support Specialist is not using a billing compliance checklist, which is a leading practice to enhance the precision of the invoice review process and ensure completeness of review.

Recommendation

As a leading practice and to enhance the invoice review process, for contracts with contract values greater than \$50,000, CFX should require Contract Support Specialists to prepare a billing compliance checklist that identifies key contract terms and CFX billing policies. The Contract Support Specialist performing the detailed invoice review should utilize the checklist to ensure all key billing contract terms and CFX billing policies are met for each invoice. This will help confirm completeness of review.

Management Response

Management concurs

Management Action Plan

CFX will ensure the Contract Support Specialist utilizes a billing compliance checklist to aide in the review of contractor invoices. CFX will leverage the billing compliance checklists already developed in the construction and engineering departments as a template.

Action Plan Owner / Due Date

Corey Quinn, Chief of Technology and Operations / March 31, 2018

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

APPENDIX A

Detailed Audit Procedures Performed

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Detailed Audit Procedures Performed

Procurement

Internal Audit performed detailed audit procedures related to the procurement, bidding, award, and renewal of all contracts selected for testing. The procedures performed included:

- ❖ High level review of the process for establishing bid estimates for large construction contracts;
- ❖ Testing of Board approval to advertise for bids and proposals and Board approval of the contract award;
- ❖ Testing for the use of five-year contract terms and the option for five one-year renewals for contracts;
- ❖ Testing of the key components of the competitive sealed bid and proposal processes, including:
 - Completion and utilization of bidding and award schedules;
 - Timestamps applied to all received proposals and compliance with submission deadlines;
 - The use of bid opening and bid tabulation sheets;
 - Performance of unbalanced bid reviews for competitive bids;
 - Completion of disclosure forms by CFX's employees responsible for evaluating technical and price proposals; and
 - Comparison of evaluation and scoring to advertised request for proposals.
- ❖ Completion and distribution of the monthly expiring contracts report by the procurement department; and
- ❖ Completion and approval of the expiring contract renewal worksheet and Board approval of contract renewals.

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APPENDIX A

Detailed Audit Procedures Performed

Contract Administration

Internal Audit performed detailed audit procedures related to key contract terms and conditions utilized by CFX including the satisfaction of insurance, bonding, permitting and MWBE requirements by the contractors selected for testing. The procedures performed included:

- ❖ Testing for the review of contracts by CFX's Legal Counsel;
- ❖ Testing of key contract reviews and clauses, including:
 - Right to review by CFX's Legal Counsel; and
 - Inclusion of key right to audit, termination, and indemnity clauses.
- ❖ Outlining and testing of insurance, bonding, and permitting requirements specific to the contracts selected; and
- ❖ Satisfaction of MWBE requirements set forth in the original bid and as required by CFX.

Supplemental Agreement Management

Internal Audit performed detailed audit procedures related to supplemental agreement execution, review, and approval. The procedures performed included:

- ❖ Testing for Board approval of all supplemental agreements in excess of \$50,000;
- ❖ Testing for the approval of all supplemental agreements by the appropriate parties;
- ❖ Testing of adequate supporting documentation for compliance with contract terms and conditions regarding price and scope for all executed supplemental agreements related to the construction contracts selected for review; and
- ❖ Testing of a sample of fuel price and bituminous mix adjustments related to the construction contracts selected for review.

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APPENDIX A

Detailed Audit Procedures Performed

Project & Cost Management

Internal Audit performed detailed audit procedures related to invoice processing and approval, project planning, scheduling and quality control, project cost management and reporting, subcontractor management, CEI oversight, and ODMP processing. The procedures performed included:

- ❖ Testing of a sample of invoices for the projects selected for adequate review and approval by the appropriate personnel and compliance with CFX's invoice processing procedures;
- ❖ Discussion of current practices regarding quality control, risk management plans and performance, and quality monitoring;
- ❖ Testing of subcontractor approval and a sample of payments made to subcontractors;
- ❖ Detailed testing of costs billed for a sample of invoices selected for each of the service contracts selected, and detailed testing of a sample of the quantities billed for each of the construction contracts selected;
- ❖ Utilization and monitoring of the CEI Consultants assigned to construction contracts;
- ❖ Discussion and limited testing of changes to project schedules;
- ❖ Review of reporting submitted to management on a regular basis; and
- ❖ Detailed testing of the ODMP programs implemented for the construction contracts selected.

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