



Central Florida Expressway Authority

2015 Contracts Audit

October 14, 2014

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Executive Summary

Overview

In accordance with the 2015 Internal Audit Plan, Internal Audit audited two contracts with a combined contract value exceeding \$90,000,000 from a population of large engineering, service, maintenance, operations, and construction projects. This is the fifth consecutive year Internal Audit has performed contract audits as part of the Internal Audit plan. Each year, the contracts and related vendors selected for audit have been different.

Objectives and Results

The objectives of the audit were to (1) identify and test key processes and controls around project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, contract renewals and supplemental agreements, (2) test vendor compliance with contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business ("MWBE") requirements, and (3) audit the accuracy of items billed to the Authority in accordance with contract terms and conditions.

There were no findings identified as a result of this audit. This demonstrates the Central Florida Expressway staff is continuing to improve its process to procure and manage vendor contracts, related costs, and related internal controls.

Project Scope and Approach

The audit was performed using a four-phased audit 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 the Authority and identified a short-list of contracts for audit and performing a risk analysis based on contract size, duration, terms and conditions, and nature of the work performed. The following contracts were selected by Internal Audit for review:

1. **Sema Construction #000985** – Contract for the construction of the 417 Boggy Creek Road interchange improvement. This contract began in January 2014 and has a current contract value of \$70.9 million. Per the Authority's accounting system (Eden), expenditures to date at the time of audit totaled approximately \$29.9 million.
2. **CH2M Hill #000746** – Contract for engineer consulting on the Wekiva Parkway Corridor. This contract began in June 2011 and has a current contract value of \$20 million. Per Eden, expenditures to date at the time of audit totaled approximately \$4.9 million.

Executive Summary

Phase II – Processes and Controls Review

Internal Audit performed procedures to review the Authority's processes related to procurement, contract administration, project and cost management, and supplemental agreement management. Key controls within each of these areas were identified and tested for each contract selected in Phase I. Details regarding the procedures performed, results, and observations are provided on the following pages and in **Appendix A**.

In September 2014, Internal Audit completed a review of the status of audit recommendations issued in the prior year Contracts Audit report and verified that all prior year audit recommendations have been incorporated into practice and policy. Prior year observations and recommendations were also considered and incorporated into 2015 audit testing.

Phase III – Contract Specific Audit Procedures

Internal Audit performed detailed procedures to review contract terms, costs billed to the Authority, and other key attributes for each of the contracts selected for audit from contract inception to August 20, 2014. The contracts selected, value, spend to date, sample tested, and percentage of spend tested are outlined below:

Contract	Contract Value	Contract Spend to Date	Sample Tested	% Spend Tested
SEMA Construction	\$70,900,000	\$29,936,030 [1]	\$8,605,036 [2]	29%
CH2M Hill	20,000,000	\$4,976,465 [1]	\$1,070,157 [3]	22%

[1] Judgmentally selected a sample of invoices using a risk based approach. A listing of all invoices to date was obtained and analyzed to identify abnormal increases in month over month spend to select samples for testing. The invoices selected were tested for compliance with contract terms and conditions.

[2] Samples were judgmentally selected to include items such as unit quantities, fuel price adjustments, bituminous mix adjustments, and Owner Direct Material Purchases ("ODMP") billed to the Authority across several months of the project.

[3] Samples were judgmentally selected to include consultant and subconsultant labor charges and consultant expenses.

Phase IV – Reporting and Deliverables

Internal Audit prepared this report for management review and comment and for issuance to the Authority's Audit Committee.

Summary of Results and Procedures Performed

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. Based upon this review, there were no audit findings or observations for reporting to management or the audit committee identified during this audit for fiscal year 2015.

The table below provides an overview of the areas reviewed for each contract audit, and a trending analysis of observations over the past five years. Further detail of the specific procedures performed is provided in **Appendix A**.

Process	Procedures Performed / Key Areas Reviewed	FY15 Total Controls Tested	FY15 Number of Observations	Number of Observations in Prior Contract Audits			
				FY14	FY13	FY12	FY11
Procurement	Project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, and contract renewals.	24	0	0	0	0	1
Contract Administration	Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business ("MWBE") requirements.	10	0	0	2	1	1
Project & Cost Management	Invoice processing, project planning, scheduling, and quality control, subcontract management, cost management, owner direct material purchases ("ODMP") management, and project reporting.	29	0	2	4	0	2
Supplemental Agreement Management	Supplemental agreement review, approval, and execution.	8	0	0	0	1	2
Vendor Specific Fraud Risks *	Identification and testing of controls to mitigate potential fraud scenarios and data analytics to test potential fraud scenarios.	N/A	0	N/A	N/A	N/A	3
TOTAL:		71	0	2	6	2	9

* Procedures were specific to the ACS vendor contract tested in fiscal year 2011.



Appendix A

Detailed Audit Procedures Performed

Detailed Procedures Performed

Procurement

Procedures Performed - Procurement

Internal Audit performed detailed audit procedures related to the procurement, bidding, contract award, and contract 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 submittal deadlines;
 - The use of bid opening and bid tabulation sheets;
 - Performance of unbalanced bid reviews for competitive bids;
 - Completion of disclosure forms completed by the Authority'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.

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Detailed Procedures Performed

Procurement

Contract
Administration

Project & Cost
Management

Supplemental
Agreement
Management

Procedures Performed – Contract Administration

Internal Audit performed detailed audit procedures related to key contract terms and conditions utilized by the Authority and 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 the Authority's Legal Counsel;
- Testing of key contract reviews and clauses, including:
 - Review by the Authority'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 the Authority.

Detailed Procedures Performed

Procurement

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:

Contract Administration

Project & Cost Management

- Testing of a sample of invoices for the projects selected for adequate review and approval by the appropriate personnel and compliance with the Authority's invoice processing procedures;
- Discussion of current practices in regards to quality control and 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.

Supplemental Agreement Management

Detailed Procedures Performed

Procurement

Procedures Performed – 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 and compliance with contract terms and conditions in regards to 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.

Contract Administration

Project & Cost Management

Supplemental Agreement Management



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