



# Orlando-Orange County Expressway Authority

## Fiscal 2014 Contracts Audit

October 2013

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# Executive Summary

## Overview

In accordance with the 2014 Internal Audit Plan, Internal Audit audited two (2) contracts with a combined contract value exceeding \$150,000,000 from a population of currently active large engineering, service, maintenance, operations, and construction projects.

## Objectives

The objectives of the audit were to (1) audit the accuracy of items billed to the Authority in accordance with contract terms and conditions and (2) identify and test key processes and controls around contract bidding and execution, budgeting, billing, project oversight, reporting, and supplemental agreement management.

## 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 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 audit and approved by the Audit Committee:

1. **Atkins North America, Inc. #000820** – Contract for the general engineering consultant services. This contract began in May 2008 and has a current contract value of \$15.1 million. Per the Authority's accounting system (Eden), expenditures to date at the time of audit totaled approximately \$8.9 million.
2. **Florida Toll Services (FTS) #000154**– Service contract for toll plaza operations. This contract began in July 2005 and has a current contract value of \$138 million. Per Eden, expenditures to date at the time of audit totaled approximately \$106.6 million.

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# 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 August 2013, Internal Audit completed a review of the fiscal year 2013 Contracts Audit recommendations and noted that all but one prior year recommendations have been incorporated into practice and policy. Prior year observations and recommendations were also considered and incorporated into this year’s Contracts Audit approach to verify that the prior years findings were resolved and are not prevalent in the contracts selected for fiscal year 2014 contracts 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. The contracts selected, value, spend to date, sample tested, and percentage of spend tested are outlined below:

Contract	Contract Value	Contract Spend to Date [2]	Sample Tested	% Spend Tested
Atkins North America	\$15,101,189	\$8,882,378	\$3,301,581 [1]	37.2%
Florida Toll Services	\$137,994,866	\$106,612,855	\$11,724,382 [1]	11.0%

[1] Judgmentally selected a sample of invoices using a risk based approach. A listing of all invoices to date was obtained and charted to identify abnormal increases in month over month spend to select samples for testing. Sample selections were limited to the previous three years (FY 2011 to 2013) as an internal detailed review of billing rates was performed in FY 2010 by OOCEA. The invoices selected were tested for compliance with contract terms and conditions.

[3] As of July 3, 2013

## 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 Procedures Performed and Results

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 audit. Further detail of the specific procedures performed is provided in **Appendix A**.

Process	Procedures Performed / Key Areas Reviewed	Total Controls Tested	Number of Observations	Observation Reference
<b>Procurement</b>	Project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, and contract renewals.	24	0	N/A
<b>Contract Administration</b>	Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business (“MWBE”) requirements.	10	0	N/A
<b>Project &amp; Cost Management</b>	Invoice processing, project planning, scheduling, quality control, subcontract management, cost management, owner direct material purchases (“ODMP”) management, and project reporting.	29	2	1,2
<b>Supplemental Agreement Management</b>	Supplemental agreement review, approval, and execution.	8	0	N/A
	<b>TOTAL:</b>	<b>71</b>	<b>2</b>	

## Detailed Observations

Procurement

### **Observation 1 – GEC Scope of Service**

**Contract: Atkins, Inc.**

**Relative Priority: *Low***

The General Engineering Consultant (GEC) contract states that “the GEC may be required to perform the following tasks which are examples of the types of work to be required but are not intended to be all inclusive”:

1. Bond covenant services support
2. Engineering/design support
3. Planning support
4. Toll support
5. Expressway operations support
6. Maintenance program support
7. General program support
8. Work plan support

Contract Administration

Project & Cost Management

There are 22 subconsultants associated with the GEC contract. Internal Audit identified three subconsultants in which the scope of services did not clearly appear to be a part of the eight examples described. These three subconsultants were contracted to perform temporary staffing, public relations services, and prepare for the Authority’s 50<sup>th</sup> Anniversary. Although each of these subconsultants was approved in accordance with the terms of the contract and the Authority’s Procurement Policy, it may have been advantageous for these contracts to be separately procured through a competitive bidding process.

Supplemental Agreement Management

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## Detailed Observations

Procurement

### **Observation 1– GEC Scope of Service (Cont.)**

#### **Recommendation**

The Authority should consider whether the opportunity exists to tighten the scope of services as defined under the current GEC contract.

Also, it is recommended that subcontracts over \$25K to be awarded under the GEC contract be reviewed and approved by the Executive Director to determine if the work should be procured through a competitive bidding process.

Contract Administration

#### **Management Response**

The GEC has not reached their MWBE participation target of 3.7% over the life of the contract. The Authority has been strongly encouraging additional MWBE participation for over two years, which led to more MWBE subcontractors under this prime. The contract terms state that subconsultant costs will be based on actual costs of the subconsultant directly chargeable to the project and supported by invoices.

Project & Cost Management

#### **Management Action Plan**

The Authority will request approval from the Executive Director for subcontracts over \$25,000 in the future in accordance with the internal auditor’s recommendation.

Supplemental Agreement Management

#### **Action Plan Owner / Due Date**

Joe Berenis, Deputy Executive Director/ June 30, 2014

## Detailed Observations

### Procurement

#### **Observation 2 – FTS Billings**

**Contract: Florida Toll Services**

**Relative Priority: *Low***

The FTS contract states that the Contractor shall be paid a total Contract Amount, which consists of lump sum items and unit priced items identified in the Contractor's Price Proposal, and this shall constitute full payment for the actual cost of all labor, materials, supplies, and incidentals required for performing the Scope of Services.

### Contract Administration

A detailed review of the FTS billings identified that the billing error rate was less than .01%, which demonstrates that the FTS billings are generally well supported and in compliance with the terms of the contract. However, the following observations were noted:

### Project & Cost Management

Six out of ten invoices tested were billed to the Authority prior to FTS implementation of the InfoTronics Attendance on Demand electronic timekeeping system on July 1, 2012. Five of these six invoices had discrepancies between the hours billed to the Authority and the hours recorded in FTS payroll management system, Oracle. The errors resulted in a net overbilling and subsequent overpayment by the Authority of \$645.59.

In the four invoices tested billed to the Authority after the implementation of InfoTronics Attendance on Demand, there were no discrepancies in the total hours billed to the Authority. However, in one instance, FTS billed the Authority for accrued PTO at the Plaza Manager rate when the PTO was accrued by a Plaza Supervisor. The error resulted in an overbilling and subsequent overpayment by the Authority of \$194.66.

### Supplemental Agreement Management

Total overbillings and subsequent overpayments made by the Authority to FTS as identified by this audit were \$840.25, which included errors that were both under billings and overbillings. When extrapolating the billing error rate for the sample tested to the population of FTS billings to date (pre and post implementation of the electronic timekeeping system), the potential extrapolated discrepancies in the FTS billings total approximately \$9,400 from the inception of the contract in 2005 to the date of the audit.



## Detailed Observations

Procurement

### **Observation 2 – FTS Billing (Cont.)**

#### **Recommendation**

The Authority should discuss with FTS the best way to be reimbursed for the possible impact of the billing errors that may have occurred prior to the implementation of the new timekeeping system.

Contract Administration

Also, to better enable the Authority staff to identify vendor billing errors or inaccuracies before making payments, the Authority should consider implementing a procedure that requires personnel reviewing vendor invoices for payment periodically request underlying support for the billings from the vendors.

#### **Management Response**

The Authority Concur.

Project & Cost Management

#### **Management Action Plan**

The Authority will ask FTS to conduct a reconciliation of invoices and supporting documentation for the period prior to the new timekeeping system to determine if any additional compensation is due to either party for over or under billings. The Authority will also request supporting documentation for billings occasionally in accordance with the Internal Auditor's recommendation.

Supplemental Agreement Management

#### **Action Plan Owner / Due Date**

David Wynne, Manager of Toll Operations / June 30, 2014

# 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

### 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:

Contract Administration

- 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.

Project & Cost Management

Supplemental Agreement Management

## 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, and subcontractor management. 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;
- Discussion and limited testing of changes to project schedules; and
- Review of reporting submitted to management on a regular basis.

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; and
- Testing for the approval of all supplemental agreements by the appropriate parties.

Contract  
Administration

Project & Cost  
Management

Supplemental  
Agreement  
Management

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