



FISCAL 2017 CONTRACT AUDITS

February 2017

**CENTRAL
FLORIDA
EXPRESSWAY
AUTHORITY**

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EXECUTIVE SUMMARY

Overview / Objectives / Scope and Approach

Overview

In accordance with the 2017 Internal Audit Plan, Internal Audit audited three (3) contracts with a combined contract value exceeding \$53,967,000 from a population of currently active, large engineering, service, maintenance, operations, and construction projects.

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 bidding and execution, budgeting, billing, project oversight, reporting, and supplemental agreement management.

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 audit as approved by the Audit Committee:

- 1. Superior Construction Company, Southeast LLC (#001061)** – Contract for construction of S.R. 429 (Wekiva Parkway) from north of Ponkan Road to north of Kelly Park Road. This contract began in August 2015 and has a current contract value of approximately \$46.6 million. Per CFX's accounting system (Eden), expenditures to date at the time of this audit totaled approximately \$27.9 million.
- 2. WBQ Design & Engineering, Inc. (#000817)** – Contract for miscellaneous design consulting services related to highway and bridge design, traffic engineering studies, intelligent transportation systems analysis and design, signing, pavement marking and channelization, soil exploration, geotechnical lab testing, foundation studies, and architecture. This contract began in December 2011 and has a current contract value of approximately \$6.6 million. Per Eden, expenditures to date at the time of this audit totaled approximately \$5.3 million.
- 3. Precision Contracting Services (#000990)** – Contract for maintenance of CFX's fiber optic network, both current structures and future expansions. Services provided include network troubleshooting, repairs, remote monitoring and diagnostics, field investigation of OSP Issues, equipment and cable OSP procurement and installation, and change control. This contract began in March 2017 and has a total contract value of approximately \$725,000. Per Eden, expenditures to date at the time of this audit totaled approximately \$382,000.

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EXECUTIVE SUMMARY

Overview / Objectives / Scope and Approach *(continued)*

Phase II – Processes and Controls Review

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

In August 2016, Internal Audit completed a review open prior year Contracts Audit recommendations and verified that all have been incorporated into practice and policy, with the exception of the implementation of a "Subcontractor Status Report" which is scheduled for completion in early 2017. Prior year observations were also considered and incorporated into this year's Contracts Audit approach to verify that prior years findings were resolved and are not prevalent in the contracts selected for fiscal year 2017 Contracts Audit 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
Superior Construction Company, Southeast LLC	\$46,593,297	\$27,860,478	\$ 11,976,406 [3]	43%
WBQ Design & Engineering, Inc.	\$6,650,000	\$5,302,868	\$ 2,972,673	56%
Precision Contracting Services	\$724,590	\$381,696	\$ 173,143	45%

[1] As of September 6, 2016

[2] Invoices were selected for testing using judgmental sampling. A detail of all invoices paid to date was obtained 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.

[3] 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 CFX across several months of the project.

Phase IV – Reporting and Deliverables

Internal Audit prepared this report for management review and comment and for issuance to CFX's 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 audit. Further detail related to the specific procedures performed is 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	N/A
Contract Administration	Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business ("MWBE") requirements.	10	2	1, 2
Project & Cost Management	Invoice processing, project planning, scheduling, quality control, subcontract management, cost management, owner direct material purchases ("ODMP") management, and project reporting.	36	0	N/A
Supplemental Agreement Management	Supplemental agreement review, approval, and execution.	9	0	N/A
TOTALS:		80	2	

DETAILED OBSERVATIONS

Observation 1 – Payment to Ineligible Subcontractors

Relative Priority

Medium

Contract(s): Superior Construction Co.

Observation

The construction of S.R. 429 (Wekiva Parkway) is being financed with a Federal loan, with requirements to follow Federal guidelines for including specific costs incurred by Disadvantaged Business Enterprise (DBE) firms. As a result, Superior Construction Co. was required by Section 8 “Disadvantaged Business Enterprise” of the executed contract to have an approved DBE Affirmative Action Program Plan filed with CFX and also have a plan to use DBE Certified subcontractors.

Superior Construction Co. initially listed one of the subcontractors, RWH Construction, Inc. a DBE subcontractor, and charged costs as such on five invoices. It was later determined that RWH Construction, Inc. was removed from the DBE listing due to an ineligible status with the Federal Highway Administration (FHWA). This was appropriately noted by the CEI (GAI) and CFX, and new control procedures were implemented by the CEI to verify eligibility for future subcontractor selections for this Project. However, the incorrect classification of RWH Construction, Inc. as a DBE contractor resulted in the inability to pay \$73,856.48 (total amount paid to RWH) of project costs using Federal funds.

Recommendation

CFX should implement a subcontractor compliance checklist similar to the one implemented by the CEI on this project to be utilized in a similar fashion on all future federally funded projects. A listing of authorized subcontractors should be included in the checklist and the checklist should be used to track the approval of subcontractors. Additionally, the checklist should detail mandatory criteria to be met by the subcontractor regarding eligibility requirements with the FHWA, EEO, DBE eligibility, etc.

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Continued on the following page....

DETAILED OBSERVATIONS

Observation 1 – Payment to Ineligible Subcontractors

Relative Priority

Medium

Contract(s): Superior Construction Co.

Management Response

RWH was identified to be a disqualified contractor with the FHWA during a review of DBE eligibility with FDOT that was performed in August 2016 (prior to the Protiviti audit.) This was after RWH Construction had completed \$93,313.02 of work on the project.

Procurement

As a result of the review, it was determined that the FDOT listing of approved DBE Contractors includes contractors that have been disbarred or suspended according with the FHWA. Immediately after discovering that this was the case with RWH, CFX consulted the FHWA for the appropriate course of action. The FHWA and CFX agreed that moving forward there would not be any new subcontracts with RWH on the Wekiva projects, however, RWH was allowed to complete the work subcontracted for the Superior and Prince projects. However, none of the work completed would be eligible for reimbursement by the Federal TIFIA loan.

Contract Administration

Prior to this determination, CFX CEI's were approving subcontractors based solely on the UPC DBE Directory on the FDOT website. Upon realization that the FDOT site did not consider the FHWA list, CFX implemented an enhanced approval process that required verification of subcontractors with five different web sites to confirm contractor status for Federally Funded Contracts.

Project & Cost Management

Management Action Plan

As previously mentioned, CFX has implemented a new, more robust contractor status approval process for any federally funded projects. This was put into place as of August 29, 2016. No further action is required.

Supplemental Agreement Management

Action Plan Owner / Due Date

Not Applicable – Management Action Plan Complete

DETAILED OBSERVATIONS

Observation 2 – Contractor Compliance with Insurance Requirements

Relative Priority

Low

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Contract(s): Precision Contracting Services, Inc.

Observation

The Precision Contracting Services, Inc. (Precision) contract states that all insurance companies used by the Contractor should have been in business for at least five years and have A.M. Best financial ratings of at least A- (excellent) and a financial size category rating of XII (\$1 Billion to \$1.25 Billion in policyholder surplus funds) or higher.

Precision used three separate insurance carriers over the life of the contract for commercial liability, business automobile liability, worker's compensation coverages, and unemployment insurance. Two of the insurance carriers, Amerisure Insurance Co. and Amerisure Mutual Insurance Co., maintained a financial rating of A- or better; however, their financial size category was only XI (\$750 Million to \$1 Billion in policyholder surplus funds) which is below the size required per the contract.

As a result of observations from the contracts audit in FY 2016, CFX implemented a new insurance compliance review for all insurance renewals for current and future projects to verify credit ratings and financial size category requirements; however, the Precision contract was executed prior to the implementation of the new insurance compliance review.

Recommendation

In addition to the renewal monitoring process currently in place as a result of the FY 2016 contracts audit, CFX should implement a retrospective review of the A.M. Best Ratings and financial size categories for insurance carriers currently utilized by vendors for all active construction and maintenance contracts when new insurance certificates are submitted for review. The review should include researching historical financial ratings and sizes for each insurance carrier to assess current compliance with contract requirements.

Management Response

Management concurs with the observation.

DETAILED OBSERVATIONS

Observation 2 – Contractor Compliance with Insurance Requirements

Relative Priority

Low

Contract(s): Precision Contracting Services, Inc.

Management Action Plan

CFX will perform a retrospective review of the A.M. Best Ratings and financial size categories for insurance carriers currently utilized by vendors for all active construction and maintenance contracts retroactive to July 1, 2016. CFX will also perform a review when new insurance certificates are submitted for review.

Procurement

Action Plan Owner / Due Date

Aneth Williams, Director of Procurement / December 2017

Contract
Administration

Project & Cost
Management

Supplemental
Agreement
Management

APPENDIX A

Detailed Audit Procedures Performed

APPENDIX A

Detailed Audit Procedures Performed

Procurement

Internal Audit performed detailed audit procedures related to the procurement, bidding, and 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 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 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 CFX's Legal Counsel;
- ❖ Testing of key contract reviews and clauses, including:
 - 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 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.

Continued on the following page....

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 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;
- ❖ Detailed testing of costs billed for a sample of invoices selected for each of the construction contracts selected and detailed testing of a sample of the quantities billed vs. installed for each of the construction contracts selected;
- ❖ Detailed testing of fuel price and bituminous mix adjustment calculations;
- ❖ 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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