



Procurement and Contract Billings Audit

January 8, 2019

**CENTRAL
FLORIDA
EXPRESSWAY
AUTHORITY**

Executive Summary



Objectives

In accordance with the 2019 Internal Audit Plan, Internal Audit audited two Central Florida Expressway Authority (“CFX”) contracts with a combined contract value exceeding \$85.3 million from a population of large currently active engineering, service, maintenance, operations, and construction projects. The last contract billing audit was completed during February 2018 and included a different set of contracts. 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 agreement management.



Audit 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 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. **Southland Construction, Inc. (#001123)** – Contract for construction of S.R. 429 (Wekiva Parkway) Systems Interchange. Work under this contract began in January 2016 and has a current contract value of approximately \$83 million. As taken from Eden, CFX’s accounting system, total expenditures to date at the time of the audit were approximately \$74 million. The Southland Construction contract was selected for audit due to the size and spend to date, and because the contract was in the process of being closed out during the testing timeframe, so that the close-out process could be reviewed and potential recoveries could be easily pursued should they be identified.
2. **Kapsch Trafficcom USA, Inc. (#001283)** formerly Schneider Electric Mobility NA, Inc. (#001113) – Contract for maintenance of ITS infrastructure. Work under this contract began in January 2017 and has a current contract value of approximately \$2.3 million. As taken from Eden, total expenditures to date at the time of this audit were approximately \$2.1 million. This contract was selected as a maintenance contract has not been audited previously.

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 agreement management. Key internal controls within each of these areas were identified and tested for 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.

Executive Summary



Audit Approach

In September 2018, Internal Audit completed a review of open recommendations issued as part of the prior year 2018 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 2019 Procurement and Contract Billing Audit in order to verify that prior years' findings were resolved and are not prevalent in the contracts selected for current evaluation and 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 |
|------------------------------|----------------|-------------------|-------------------|----------------|
| Southland Construction, Inc. | \$83,003,713 | \$74,009,444 | \$46,368,997 | 63% |
| Kapsch Trafficcom USA, Inc. | \$2,374,388 | \$2,153,854 | \$1,561,963 | 73% |
| Total | \$85,378,101 | \$76,163,298 | 47,930,960 | 63% |

[1] As of October 19, 2018

[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.

Executive Summary



Summary of Procedures and Results

For the contracts selected for audit, Internal Audit identified risks and tested 87 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 procedures performed resulted in a clean audit, and no internal control findings or process improvement recommendations were identified as part of the review. The table below provides an overview of the areas reviewed for each contract audited.

| Process | Procedures Performed / Key Areas Reviewed | Total Controls Tested | Number of Observations |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------------|
| Procurement | Project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, and contract renewals. | 25 | - |
| Contract Administration | Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business ("MWBE") requirements. | 10 | - |
| Project & Cost Management | Invoice processing, project planning, scheduling, quality control, subcontract management, cost management, owner direct material purchases ("ODMP") management, and project reporting. | 38 | - |
| Change Order Management | Supplemental agreement review, approval, and execution. | 9 | - |
| Project Closeout | Preparation, approval, and submission of project close-out documents. | 5 | - |
| TOTALS: | | 87 | - |

Further details related to the specific procedures performed are provided in Appendix A.

Appendix A

Detailed Audit Procedures Performed

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.



Detailed Audit Procedures Performed

Contract Administration

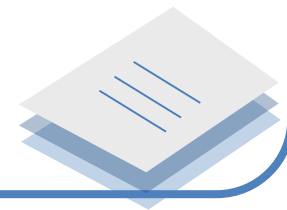
Internal Audit performed detailed audit procedures related to key contract terms and conditions utilized by CFX including the satisfaction of insurance, bonding, permitting and MWBE requirements by the contractors selected for testing. The procedures performed included:

- ❖ 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.

Change Order 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.



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.

Project Close-Out

Internal Audit performed detailed audit procedures related to completion of payments, Document Summary Manual from the CEI, and the contract closeout checklist. The procedures performed included:

- ❖ Testing of the completion of key project closeout documents; including submission of final payment, completion of the Document Summary Manual by the CEI, and completion of the contract closeout checklist with supporting documentation.



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