



PROCUREMENT AND CONTRACT BILLING AUDIT

March 2020

**CENTRAL
FLORIDA
EXPRESSWAY
AUTHORITY**

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EXECUTIVE SUMMARY



Overview

Overview

In accordance with the fiscal year 2020 Internal Audit Plan, Internal Audit reviewed two Central Florida Expressway Authority (“CFX”) contracts with a combined contract value exceeding \$145.6 million from a population of large, currently active engineering, service, maintenance, operations, and construction projects. The Procurement and Contract Billing Audit is performed by Internal Audit annually. This audit was last completed during November 2018 as part of the fiscal year 2019 Internal Audit Plan 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 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 and identified a short-list of contracts for audit after interviewing CFX 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. **Egis Projects, Inc. (#001105)** – Contract for E-PASS and Violation Enforcement Operations. This contract began in August 2015 and has a current contract value of approximately \$54 million. As taken from Eden, CFX’s accounting system, total expenditures to date at the time of this audit were approximately \$36 million. This contract was selected due to recent challenges highlighted by CFX management specific to the accuracy of invoices. This contract has not been audited previously.
2. **Transcore, Inc. (#000178)** – Contract for maintenance of toll system hardware. This contract began in July 2004 and has a current contract value of approximately \$91 million. As taken from Eden, total expenditures to date at the time of this audit were approximately \$80 million. This contract was selected due to the complexity of invoices and number of personnel involved in invoice review. This contract was audited in 2011.

EXECUTIVE SUMMARY



Project Scope and Approach (Continued)

Phase II – Processes and Controls Review

Internal Audit performed audit 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.

In October 2019, Internal Audit completed a review of open recommendations issued as part of the prior fiscal year 2019 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 incorporated for review as part of the Fiscal Year 2020 Procurement and Contract Billing Audit in order to verify that prior years' findings were resolved and are not prevalent in the contracts selected for testing for this audit.

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
Egis Projects, Inc.	\$54,257,637	\$36,260,730	\$10,888,752	20%
Transcore, Inc.	\$91,329,329	\$80,113,029	\$15,347,357	17%

[1] As of December 27, 2019

[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 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	Key Areas Reviewed	Total Controls Tested	Number of Observations	Observation Reference	Relative Priority
Procurement	Project funding and bid authorization, project bidding (sealed bids and competitive sealed proposals), bid awards, bid bond requirements, and contract renewals.	18	0	-	
Contract Administration	Contract terms and conditions, insurance, bond and permitting requirements, and minority and women owned business ("MWBE") requirements.	11	0	-	
Project & Cost Management	Invoice processing, project planning, scheduling, quality control, subcontract management, cost management, owner direct material purchases ("ODMP") management, and project reporting.	13	3	1,2,3	1 - Moderate 2 - Moderate 3 - Low
Change Order Management	Supplemental agreement review, approval, and execution.	2	0	-	
Project Closeout	Preparation, approval, and submission of project close-out documents.	0	0	-	
TOTALS:		44	3		

DETAILED OBSERVATIONS

DETAILED OBSERVATIONS

Observation 1 – Documentation of Invoice Review

Relative Priority

Moderate

Contract: Egis Projects, Inc. (#001105)

Observation

Through invoice testing for Egis (Contract #1105), Internal Audit identified the following instances of noncompliance with contractual terms:

- Of 20 invoices tested, two invoices contained charges related to mobilization for which no detailed supporting documentation was provided. Further, no documentation was retained by the reviewer to evidence that the missing support was investigated.
 - Note: The two invoices identified were dated prior to Supplemental Agreement #4 in June 2018.
- Of 20 invoices tested, 14 invoices contained expenses attributable to subcontractors. For 10 of the invoices with subcontractor amounts, no supporting documentation was provided, and no documentation was retained to evidence that the missing support was investigated.
 - Note: The 10 invoices identified were dated prior to process and control changes implemented in February 2019.
- Of 20 invoices tested, six invoices contained timecards for employees incurring overtime, which was not in accordance with the contract terms at the time. Additionally, the invoice review was not adequately documented to evidence that the reviewer detected and obtained approval for the payment of overtime.
 - Note: The six invoices identified were dated prior to process and control changes implemented in early 2018.

Additionally, no contract compliance checklist exists for either of the two contracts reviewed. Contract compliance checklists are employed as leading practice to ensure invoices are reviewed to a sufficient degree of precision, to ensure invoices accord with any relevant provisions of the related contract, and to document exceptions to those provisions. Without clear documentation of specific contractual provisions, invoice reviews may not be adequate to detect errors and instances of noncompliance with contractual terms.

Procurement

Contract
Administration

Project & Cost
Management

Supplemental
Agreement
Management

DETAILED OBSERVATIONS

Observation 1 – Documentation of Invoice Review

Relative Priority

Moderate

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Contract: Egis Projects, Inc. (#001105)

Recommendation

Management should implement and document a formal contract compliance checklist for the contracts selected 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. Due to the complexity of the contracts selected and invoice review process, CFX should utilize the contract compliance checklist to document the review process, notes, and other pertinent information.

Management Response

Management concurs.

In relation to the departures identified, CFX made the following process changes prior to the audit:

- As of June 2018, CFX signed Supplemental Agreement #4 discontinuing further mobilization fees.
- As of February 2019, CFX began requesting company-level detail from the vendor to identify and monitor subcontractor employees.
- As of early 2018, CFX began retaining formal documentation of overtime amounts identified on the invoices and any relevant corrections.

Management Action Plan

CFX will ensure the Contract Support Specialist utilizes a contract compliance checklist to document the review of contractor invoices. CFX will leverage the contract compliance checklists already developed in the construction and engineering departments as a template. Additionally, CFX will ensure that detailed documentation is retained for any invoices approved despite containing instances of noncompliance per the checklist (detailed notes, email attachments, etc.).

Management Action Plan

Claritza Yeagins, Contract Support Specialist, 6/30/2020

DETAILED OBSERVATIONS

Observation 2 – Contract Terms and Dispute Resolution

Relative Priority

Moderate

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Contract: Egis Projects, Inc. (#001105)

Observation

Through invoice testing, Internal Audit identified ambiguity around key contract terms related to Method of Compensation, Mobilization & Transition Plan, and Reporting for Subcontractors. In these areas, invoiced amounts that did not comply with contract terms appeared to be approved by CFX management via other means (email, task order, etc.). However, approvals for these departures from the contract were not documented timely in all cases and no formal process exists for consistently documenting and resolving contractual language and interpreting disputes with the vendor.

Recommendation

Management should review the contract terms identified during the audit for opportunities to increase clarity in subsequent contracts for this service. Management should also establish an internal procedure for documenting vendor disputes and assigning decision-making authority to appropriate representatives within the department and the executive team for resolution of disputes.

Management Response

Management concurs.

Management Action Plan

CFX will review selected contract terms to identify areas for increased clarity in future contracts. Additionally, CFX will implement an internal procedure to guide the documentation and resolution of disputes with vendors by designating responsible independent parties on the Executive Team and/or Legal to act as the final decision-making authority in contractual disputes.

Action Plan Owner / Due Date

Lisa Lombard, CFO, 6/30/2020

DETAILED OBSERVATIONS

Observation 3 – Invoice Review and Vendor Monitoring

Relative Priority

Low

Procurement

Contract Administration

Project & Cost Management

Supplemental Agreement Management

Contract: Egis Projects, Inc. (#001105)

Observation

Utilization of subcontractors is tracked via the EDEN financial reporting system and periodically monitored to measure compliance with any relevant contractual provisions. As invoices are processed, any amounts attributable to subcontractors are manually entered into EDEN by the Finance Department and are reflected in the EDEN Subcontract Report.

One Egis invoice selected for testing contained \$12K of charges for a subcontractor which was not reflected in the Subcontract Report for the vendor. In addition, Internal Audit was unable to confirm that the EDEN Subcontract Report for this contract completely and accurately captured all subcontractor spend.

A lack of reliable subcontractor data within EDEN could impair the Authority's ability to enforce approval requirements under the procurement policy and monitor vendor compliance with contractual provisions regarding utilization of Minority Business Enterprises ("MBEs") and Women's Business Enterprises ("WBEs").

Recommendation

Management should implement and document a formal review to ensure any expenses attributable to subcontracts are accurately captured within EDEN for each invoice processed.

Management Response

Management concurs.

Management Action Plan

CFX has implemented a reconciliation of expenses allocated to subcontractors in each invoice against EDEN as part of the invoice review performed by the Manager, Contract Compliance, and will begin evidencing review through signature on the billing checklist (upon implementation). Additionally, the Supervisor of Quality Control--Toll Operations, is performing a historical audit of all subcontractor-related expenses for the selected contract and will update EDEN data upon completion.

Action Plan Owner / Due Date

Carrie Baker, Manager of Contract Compliance, 6/30/2020

APPENDIX A

Detailed Audit Procedures Performed

APPENDIX A

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.

Continued on the following page....

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.

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.

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, where applicable based on the contract type and terms. 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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