

**Limited Review of the
Orlando – Orange County
Expressway Authority**

**Report by the
Office of County Comptroller**

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December 19, 2005

Alan Keen, Chairman
And

Orlando – Orange County Expressway Authority Board

We have conducted a limited review of certain financial controls of the Orlando – Orange County Expressway Authority (the Authority). The period audited was April 1, 2004 through September 30, 2004. Our review was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary in the circumstances.

Responses to our Recommendations for Improvement were received from the Executive Director of the Orlando - Orange County Expressway Authority and are incorporated herein.

We appreciate the cooperation of the personnel of the Authority during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Mike Snyder, Executive Director
Richard T. Crotty, Orange County Mayor
Orange County Board of County Commissioners

EXECUTIVE SUMMARY

Executive Summary

We conducted a limited review of certain financial controls of the Orlando – Orange County Expressway Authority (the Authority). The scope of our review was limited to an examination of controls over selected activities related to revenues, human resources, procurement, operating expenditures, and capital projects. The objective of our review was to determine compliance and adequacy of those controls over the selected activities. The audit period was from April 1, 2004 through September 30, 2004.

Based upon the results of our testing, we found that the Orlando-Orange County Expressway Authority materially complied with:

- Authority adopted policies and State Laws in the public notice of meetings, maintenance of minutes for such meetings, and in the adoption and recording of budgets and subsequent amendments;
- Authority adopted policies and procedures related to personnel and payroll activity; and,
- State laws, which require operating expenditures to be reasonable and serve valid public purposes.

In our opinion:

- Administrative controls over the revenue collection processes are adequate to ensure that toll plaza operations and E-PASS Customer Service Centers' service providers are appropriately monitored and comply with contractual terms;
- Authority adopted policies and procedures were adequate to ensure fair compensation and benefits;
- Procurement practices provided for fair and open competition in obtaining supplies, materials, and services; and purchasing card procedures were adequate; and,
- Capital projects are properly managed and contract agreements related to capital projects are properly awarded, administered and monitored.

Opportunities for improvement were observed and are described in the Recommendations for Improvements section of this report. The recommendations include:

The Authority's established formal policies should be updated, codified, and distributed to employees. Enhanced compliance with competitive procurement practices and existing Purchasing/Leasing Procedures should be established. The Authority should also enhance controls over the procurement card program.

We recommend enhanced monitoring of service provider contracts as well as the review of vendors' invoices to the applicable contract's terms.

The same General Engineering Consultant has been under contract with the Authority for over 18 years. The services have not been opened to competitive procurement in the interim. We recommend periodic solicitation of services to ensure fair and competitive pricing of services.

The Authority had not established formal policies for the use of direct purchases and value engineering programs for large construction projects. We recommend the establishment and implementation of such policies. Formal policies implementing these practices help ensure that vendors and the Authority receive equitable benefits of any cost savings obtained through the programs' administration. Orange County has found that proper implementation of such policies will lead to significant cost savings in large construction projects.

Our review of land acquisition policies and procedures found them to be adequate. We do recommend the Authority follow the provisions of the Right-of-Way Procedures Manual and ensure that services of a qualified Review Appraiser are obtained and written reports received. Further, the Authority should revise the Right-of-Way Manual to provide procedures for use in those unusual circumstances where expediency requires variation from the established procedures.

Management concurred with 22 of our specific recommendations, partially concurred with one, and did not concur with two. Corrective action is either underway, planned, or completed for the majority of our recommendations.

ACTION PLAN

**ORLANDO – ORANGE COUNTY EXPRESSWAY AUTHORITY LIMITED REVIEW
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend the Authority continues to formalize its policies and procedures, codifying them and distributing them to employees. Specifically the Authority should ensure its policies address:					
A)	The delegation of specific powers to the Executive Director regarding the establishment and implementation of compensation plans, as well as the Authority's approval of such plans. Also, the Authority should retroactively ratify all previous compensation plan actions executed by the Executive Director.	✓			Completed	
B)	Federally mandated Family and Medical Leave Act benefits.	✓			Completed	
C)	Write-off of bad debts related to E-PASS transactions.	✓				✓
D)	Enhanced procurement policies to include at a minimum the use of purchasing cards (p-cards), and purchase limits requiring the use of publicly advertised request for proposals and/or sealed bids.	✓				✓
2.	We recommend the Authority increases physical security of all blank check stock and unclaimed checks by securing the forms within locked storage containers maintained in limited access areas.	✓			Completed	
3.	We recommend that physical inventories of transponders be conducted or witnessed by employees that are not responsible for the custody of the inventory or for the revenue system.	✓			Completed	

**ORLANDO – ORANGE COUNTY EXPRESSWAY AUTHORITY LIMITED REVIEW
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
4.	We recommend the Authority reviews all personnel files for completeness and ensures appropriate documentation is maintained for each employee.	✓			Completed	
5.	We recommend the Authority revises procedures for enrolling employees into elected benefits through the use of payroll data entry directly from original and/or photocopied election forms, establishing data entry proofing procedures to ensure data is input and/or transcribed accurately, and by providing employees with a confirmation of benefits elected.	✓			Completed	
6.	We recommend the Authority performs the following:					
A)	Initiates and completes a competitive procurement process to select deferred compensation plan providers;		✓			✓
B)	Enhances the administration of the plans by providing for periodic audits of the plans, as well as routinely monitoring the financial ratings of the plan and plan providers; and,	✓			✓	
C)	Continue to review all compensation plans to ensure compliance with federal laws and rules of the Internal Revenue Service.	✓			Completed	
7.	We recommend the Authority executes contracts for temporary employment agencies. In addition, written confirmation of background checks should be obtained on personnel prior to their assignment to the Authority's positions.	✓			Completed	

**ORLANDO – ORANGE COUNTY EXPRESSWAY AUTHORITY LIMITED REVIEW
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
8.	We recommend the Authority's management implement enhanced competitive purchasing practices and at a minimum ensure compliance with the existing Purchasing/Lease Procedures. In addition, management should ensure the timely completion of purchase order forms and/or contracts.	✓			✓	
9.	We Recommend the Authority enhance controls over the procurement card program by implementing the following:					
A)	Segregate the incompatible duties of ordering and receiving cards between two or more individuals. In addition, monthly account statements should be mailed directly to the cardholders, for the cardholders' review and approval before submission for payment;	✓			Completed	
B)	Routinely examine and compare cardholders' credit limits and actual usage, and revise the limits as needed; and,	✓			Completed	
C)	Periodically compare bank records of card assignments and limits to the authorization forms completed by Authority staff.	✓			Completed	
10.	We Recommend the Authority should adequately review invoices for payment to contract terms. In addition, the Authority should review resources to ensure they are sufficient to provide enhanced monitoring of service provider contracts.	✓			✓	
11.	We Recommend the Authority:					
A)	Competitively procure General Engineering Consulting Services by advertising a request for proposals for such services on a routine basis;	✓				✓

**ORLANDO – ORANGE COUNTY EXPRESSWAY AUTHORITY LIMITED REVIEW
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NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
B)	Modify Contract No. 72 for Construction Management Consulting services to include a clause specifying the authorized renewal terms;	✓			N/A	
C)	Include in future contracts for consulting services, a clause limiting the term of the contract to a specified number of years and specifying renewal options not to exceed a specific period; and,	✓			Completed	
D)	Amend the Procurement Policy to specify that all consultant contracts include a specific term of time and specific renewal options.	✓				✓
12.	We Recommend the Authority not include line items for contingencies in the price of future contracts. Instead, a suitable amount for contingencies could be included in the project budget and used as necessary. Also, the Authority's Board of Directors could delegate to staff the authority to access within acceptable monetary limits such reserves for contingencies without further board approval.			✓		
13.	We Recommend the Authority implements a formal procedure for utilizing the direct purchase method of procurement.			✓		
14.	We Recommend the Authority establishes a formal value engineering program and encourages contractors to participate in the program by including an applicable clause in future contracts.	✓				✓

**ORLANDO – ORANGE COUNTY EXPRESSWAY AUTHORITY LIMITED REVIEW
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
15.	We Recommend the Authority follow the provisions of the Right-of-Way Procedures Manual and ensure that services of a qualified Review Appraiser are obtained and written reports received for all future acquisitions. Further, the Authority should revise the Right-of-Way Manual to provide procedures for use in those unusual circumstances where expediency requires variation from the established procedures.	✓				✓

INTRODUCTION

Background

The Orlando-Orange County Expressway Authority, (“the Authority”) is an agency of the State, created in 1963 by Chapter 348, Florida Statutes. The Legislature created the Authority and granted it the right to acquire, hold, construct, improve, maintain, operate, own and lease in the capacity of lessor, the Orlando-Orange County Expressway System (the System). The express legislative intent also provides for the Authority to construct any extensions, additions or improvements to the System or appurtenant facilities. The System is defined statutorily as any and all expressways and appurtenant facilities thereto, including, but not limited to, all approaches, roads, bridges, and avenues of access for said expressway or expressways.

The Authority may fix, alter, charge, establish and collect rates, fees, rentals, and other charges for the services and facilities of the System.



Currently the System is composed of 92 centerline miles of limited access expressway, 47 interchanges, 11 mainline toll plazas, 46 ramp toll plazas, 233 bridges and other structures along the following roadways:

- East-West Expressway (SR 408)
- Central Florida Greenway (SR 417)
- Beachline Expressway (SR 528)
- Western Expressway (SR 429)

The Authority is composed of five members: of which three are Orange County citizens appointed by the Governor to serve four-year terms; the fourth member is ex-officio, the Mayor of Orange County, Florida; and the fifth member is ex-officio, the District V Secretary of the Florida Department of Transportation (FDOT).

The mission statement developed by the Authority is “...to implement an expressway system that will improve the mobility and quality of life in Central Florida and provide access to major economic centers consistent with growth management and environmental objectives and to accomplish this mission in a manner which is financially sound and cooperative with other modes of transportation



and governmental jurisdictions.” To this end, the Authority has entered into certain construction projects that are not considered System Projects. These projects include the Goldenrod Road Extension Project, which was based on an agreement executed in 1999 between the Authority, Orange County, Greater Orlando Aviation Authority (GOAA), and the City of Orlando. Other non-system projects include the construction of Cargo Road (alternative airport access road) as well as the E-PASS transponder use for Orlando International Airport Parking Fees. These projects were developed through interlocal governmental agreements to cover the costs and ultimate transfer of ownership to the City of Orlando for the Goldenrod Road Extension, and to GOAA for the Cargo Road and the parking garage toll plazas projects.

The Authority has an organizational philosophy of operating with a minimum number of full-time staff. Currently, the Authority employs a staff of approximately 40 individuals and has privatized and outsourced most operational and construction services. Outsourced activities include:

- Toll Plaza Operations
- E-PASS Customer Service Centers
- Violation Enforcement System
- Motorist Assistance (Road Rangers)
- General Engineering Consultant (System Planning and Design)

- Land Acquisition and Appraisal
- Construction Program Management
- Consultant Engineering and Inspection Services
- Construction Services
- Maintenance Services
- Certain Information Systems
- Marketing and Public Information Services
- Lobbying Services
- Legal Services

Financial and accounting services are performed by staff members; however, outside financial and investment advisors are also utilized. During the audit period, the Authority commissioned a study of the Electronic Toll and Traffic Collection System, System Wide Performance. The report dated October 2004 is based upon testing conducted by a consulting firm in August 2004. The report, which is available as a public record, provides insight on the Authority's operations.

Scope and Objectives

The scope of our review was limited to an examination of controls over selected activities related to revenues, human resources, procurement, operating expenditures, and capital projects. The audit period was from April 1, 2004 through September 30, 2004.

The objectives of the review were to determine if:

1. The Authority complied with their policies as well as with State Laws in the:
 - Public notice of meetings, and maintenance of minutes for such meetings; and,
 - Adoption and recording of budgets and any subsequent amendments.
2. Administrative controls over the revenue collection processes are adequate to ensure that service providers of toll plazas and E-PASS Service Centers

are appropriately monitored and that the service providers comply with contractual terms.

3. The Authority complied with their policies and procedures relating to personnel and payroll activity, and if such policies and procedures are adequate to ensure fair compensation and benefits.
4. Procurement practices provide for fair and open competition in obtaining supplies, materials and services; and if purchasing card policies and procedures are adequate.
5. Operating expenditures are reasonable and serve valid public purposes.
6. Capital projects are properly managed and contract agreements related to capital projects are properly awarded, administered and monitored.

The scope of our limited review did not include a comprehensive review of the computer networks, systems or software applications utilized by the Authority, including various financial software and those for electronic toll collections such as the automatic vehicle identification, automatic revenue collection, and violation enforcement systems utilized at Toll Plazas and the E-PASS Customer Service Centers. These databases were referred to for certain information; however, source documents were relied upon for all significant audit concerns. We did not conduct a review of investment practices, or debt management practices. We did not conduct an examination for compliance with bond covenants.

The Methodology for our review can be found in Appendix A.

Overall Evaluation

Based upon the results of our testing, we found that the Orlando-Orange County Expressway Authority materially complied with:

- Authority adopted policies and State Laws in the public notice of meetings, maintenance of minutes for such meetings, and in the adoption and recording of budgets and subsequent amendments;
- Authority adopted policies and procedures related to personnel and payroll activity; and,
- State laws, which require operating expenditures to be reasonable and serve valid public purposes.

In our opinion:

- Administrative controls over the revenue collection processes are adequate to ensure that toll plaza operations and E-PASS Customer Service Centers' service providers are appropriately monitored and comply with contractual terms;
- Authority adopted policies and procedures were adequate to ensure fair compensation and benefits;
- Procurement practices provided for fair and open competition in obtaining supplies, materials, and services; and purchasing card procedures were adequate; and,
- Capital projects are properly managed and contract agreements related to capital projects are properly awarded, administered and monitored.

However, opportunities for improvement were noted and are described herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. The Authority Should Continue to Formalize Financial and Operating Policies and Procedures

The Authority had not formally adopted a comprehensive set of policies and procedures related to certain financial activities included in our review. Existing adopted policies were not codified in a comprehensive publication. However, copies of all adopted policies were available upon request. The adopted policies were not made readily available to employees through distribution of employee policy manuals or electronically on the Authority’s Intranet or Internet sites.

We noted in our review of certain activities the following conditions related to the lack of formalized policies or procedures over those activities:

- A) The Authority had not formally adopted a compensation plan and had not formally delegated authority to establish and implement a plan to the Executive Director. We noted that during the audit period the Executive Director fixed compensation and qualifications for new as well as established positions, granted severance pay to two of three terminated employees, and bonus pay to certain employees. Adopted personnel policies did not address bonus or severance pay.

The enabling legislation of the Authority in Section 348.753, (4), (a), Florida Statutes provides the Authority with the power to employ individuals and to “...determine the qualifications and fix the compensation of such persons...” Further, it states “...the authority may delegate to one or more of its agents or employees such powers as it deems necessary to carry out the purposes of this part, subject always to the supervision and control of the authority.” In regards to the award of bonuses and/or severance pay, Section 215.425, Florida Statutes requires that no extra compensation shall be made to an employee after services are rendered, except if the extra compensation given to a special district employee is made pursuant to policies adopted by

resolution of the governing board. As such, even when responsibility is delegated, the Authority must formally adopt the compensation plans and policies established by management.

- B) The Personnel Policy Manual did not address policies and procedures for the use of an extended leave of absence in accordance with the federally mandated Family and Medical Leave Act.
- C) No written policy existed for the write off of bad debts related to E-PASS Accounts.
- D) The Procurement Policies were not adopted until after the end of the audit period. The newly adopted Procurement Policy is not comprehensive in addressing issues, but is a brief statement summarizing the Authority's objective "...to implement and maintain full and open competitive process when appropriate, noting that the Authority Board has discretion to sole source or negotiate when it deems it to be the Authority's best interest." The new policy does not specifically address the need for compliance with the State's Consultant's Competitive Negotiation Act. Written procurement procedures are available as guidelines but have not been formally presented or adopted by the Authority. The new policy refers to a "p-card policy"; however, during the audit period and to the date of this report, we did not find where the Authority had established a written p-card policy as required by the banking agreement for purchasing cards (p-cards) issued.

Under the current administration, the Authority began to formalize and/or revise various policies and procedures. The Authority engaged the Governmental Finance Officers Association's Consulting Services Division to provide a customized report of recommended "Financial Policies and Process Flow Maps" for the Authority. The report is available as a public record. During and subsequent to the audit period the Authority did formally adopt various policies and procedures including but not limited to a check signing

policy, a procurement policy and significantly expanded the Code of Ethics.

We encourage the Authority to continue their work in establishing sound fiscal policies. Formally adopted written policies and procedures establish standardized and uniform processes that promote good business practices. Communication of acceptable and management supported goals, processes, and transaction handling is enhanced when the formally adopted policies and procedures are made readily available to all employees.

We Recommend the Authority continues to formalize its policies and procedures, codifying them and distributing them to employees. Specifically the Authority should ensure its policies address:

- A) The delegation of specific powers to the Executive Director regarding the establishment and implementation of compensation plans, as well as the Authority's approval of such plans. Also, the Authority should retroactively ratify all previous compensation plan actions executed by the Executive Director.
- B) Federally mandated Family and Medical Leave Act benefits.
- C) Write-off of bad debts related to E-PASS transactions.
- D) Enhanced procurement policies to include at a minimum the use of purchasing cards (p-cards), and purchase limits requiring the use of publicly advertised request for proposals and/or sealed bids.

Management's Response:

- A) Concur and implemented. While we agree that the Board had not taken formal action to delegate the responsibilities of staffing the organization, it was certainly the Board's intent that the Executive Director have that authority. This is evident by the very public

way employees have been hired and fired at the Executive Director's discretion.

- B) Concur and implemented. FMLA language has been incorporated into the new Employee Manual.
- C) Concur and planned implementation. A policy for the disposition of bad debts will be developed and sent to the Board for approval.
- D) Concur and planned implementation. We concur that the procurement policies should have included the use of purchasing cards and this will be incorporated in the next revision. Our existing Procurement Policy grants staff authority to make purchases that have been budgeted for in the annual budget process. We believe that assigning upper limits to staff members should be the responsibility of the Executive Director and therefore, those matters have been addressed in the draft procurement procedures currently under review.

2. Physical Security of Stocks of Blank Checks and Unclaimed Checks Needs Enhancement

We observed blank check stock for certain bank accounts stored on open shelves in a storage room accessible to several individuals. Although the storage room may be locked, the door is routinely left open to allow finance staff access to accounts payable vendor files and other documents stored in the room. In addition, no written standardized procedures exist for handling signed checks that are held for in-person delivery. Enhanced physical security of the check stock (both signed but unclaimed and blank unsigned check stock) will reduce the opportunity for loss through theft and/or misuse of the negotiable forms.

We Recommend the Authority increases physical security of all blank check stock and unclaimed checks by securing the forms within locked storage containers maintained in limited access areas.

Management's Response:

Concur and implemented. Blank checks for emergency use are now stored with the blank stock currently used with the Authority's accounting software.

3. Annual Physical Transponder Inventory Procedures Need Improvement

The employee responsible for performing the annual physical inventory of transponders also has access to the transponders and to the revenue accounting systems. Management informed us that the employee's access to the inventory was specifically to conduct the inventory and she did not have routine daily access to the transponders. In addition, the employee could not activate a transponder, without the assistance of a properly authorized E-Pass Customer Service Center representative. The Authority reported an inventory of 90,374 transponders valued at \$2.5 million for the year ended June 30, 2004. Physical inventories serve as a check on the individuals responsible for inventory custody and related functions of sales. Personnel independent of inventory custody and sales revenue recording should conduct and/or witness the physical inventory counts. This control is considered a detective control that would enable the identification of inventory shortages in a timely manner and help deter theft. Inventory count sheets should be signed by the independent staff members to evidence their participation in the counts.

We Recommend that physical inventories of transponders be conducted or witnessed by employees that are not responsible for the custody of the inventory or for the revenue system.

Management's Response:

Concur and implemented. The employee responsible for accounting for the transponder inventory was the same person who was responsible for conducting the physical

counts. Other compensating controls were in place including:

- The inventories were always conducted by at least two people, although we agree that the second person did not sign the inventory document.
- The Comptroller or the Accounting Supervisor reviewed all adjusting entries.

In the interest of improved controls, we have now segregated the duties of accounting for and physically counting the transponders.

4. Personnel Files Should Include Appropriate Supporting Documentation

In our sample of 18 of 42 employees' personnel files we noted the following:

- One employee's file did not contain an updated agreement and/or contract for the change in position (promotion) received.
- Five employees' files did not contain copies of United States Citizenship and Immigration Services Form I-9, Employment Eligibility Verification.
- Five employees' files did not contain copies of photo identification.
- Two employee's files did not evidence their authorization to participate in payroll direct deposit program.

In our review of the files for two employees terminated during the audit period, we noted the files did not contain written evidence of notification to the Systems/Network Administrator to remove the individuals' access security privileges. No evidence of exit interviews was found in the files. In addition, the Authority did not have written

procedures addressing voluntary and/or involuntary termination procedures.

Centralized comprehensive personnel files compile data to support past and future personnel actions and record data required by federal and state law for the various payroll taxes, social security administration, unemployment taxes, and workers compensation. Such files assist the organization to support and provide accountability for the payroll and personnel actions executed. Good business practices for information to be included in a personnel file require the following types of information to be maintained for each employee:

- Signed and dated application of employment
- Photo Identification
- Evidence of verification of credentials and meeting minimum job requirement
- Evidence of background checks (for confidentiality this may be retained in a separate file)
- Form I-9, Employment Eligibility Verification
- Date of hire and/or employment agreement and/or contract
- Approved rate of pay (updated as changes occur) and other related payroll actions (merit increases, bonuses, demotions or promotions)
- Benefits election forms
- Signed IRS W-4 form
- Annual Employee Performance Evaluation

We Recommend the Authority reviews all personnel files for completeness and ensures appropriate documentation is maintained for each employee.

Management's Response:

Concur and implemented. Certain information was not on file for some long-term employees; however, all files have been reviewed and any missing documentation has been completed.

5. Personnel and Payroll Departments Should Revise Established Procedures to Ensure Employees' Enrollment in Benefits Elected

During the audit period, we noted two instances where employees had elected insurance benefits but were not enrolled in the plans selected. Both instances involved the employees' election to participate in disability insurance benefits with the optional 60-day waiting period rather than the standard core benefit provided by the Authority with a 180-day waiting period. The employees had made no claims prior to the discovery of the error. After we notified the Authority of the exceptions, the employees were correctly enrolled.

Personnel staff communicates employees' benefit elections to the payroll staff by transcribing the selections from employee completed election forms to a summary sheet of changes. No one proofs the information transcribed from the original data to the summary sheet before the summary is sent to the individual responsible for inputting the benefit elections into the payroll system. During the audit period, the Revenue Analysis Supervisor was responsible for the input of benefit information. Based upon these summarized reports of benefits elections, the data is entered into the payroll system, thereby enrolling the employee and notifying the benefit provider.

One instance noted appears to have been made through the omission of the elections onto the summary sheets. The other error was due to an input error. Data entry from the original source document is preferable to entering the transcribed data that is not proofed. Proofing of input data reduces the risk of errors. Also, providing individual employees with a written report of benefits they have been enrolled in provides an opportunity for the individual to confirm actual enrollment to benefits elections. Undetected errors and omissions in benefit enrollment may result in litigation claiming the Authority's unintended liability for possible employee incidents related to health, disability, or accidental death.

We Recommend the Authority revises procedures for enrolling employees into elected benefits through the use of payroll data entry directly from original and/or photocopied election forms, establishing data entry proofing procedures to ensure data is input and/or transcribed accurately, and by providing employees with a confirmation of benefits elected.

Management's Response:

Concur and implemented. Procedures are now in place requiring the employee keying in benefit information to do so from the original document.

6. Administration of Deferred Compensation Plan Benefit Programs Needs Improvement

During our review of the deferred compensation plans offered by the Authority, we noted the following:

- A) The Authority did not select its four tax-deferred retirement plans through a formal competitive procurement process. The Authority entered into agreements with three providers to offer the benefits pursuant to Section 457 of the Internal Revenue Code. Two of those providers are also used by the State of Florida for their employees. These three plans were open to all employees. The fourth plan offered was a 403(a) Plan available only to senior management.

The purpose of using a competitive procurement process to select providers is to ensure that employees receive the best benefit opportunities and services at the best price. Formal competitive procurement processes include the use of request for proposal (RFP) procedures designed to award the best qualified firm, or an invitation for bid procedure designed to award the lowest priced, capable firm meeting specifications.

The National Association of Government Defined Contribution Administrator's (NAGDCA) *2001 Survey of 457 Plans* reported that 82 percent of the local governments and 72 percent of the state respondents review their products and go out for bid every three years.

- B) The Authority did not require an audit of any of the three 457 deferred compensation plans. Management reports that financial ratings of the plan providers are not routinely monitored. The NAGDCA's *2003 Biennial State and Local Government 457/401(K) Plan Survey* reported that 62 percent of local 457 Plan respondents reported that independent auditors, state, or a local government comptroller/auditor audit their plans. Half of the survey's local respondents' plans are audited annually.

Plan audits will provide assurance to the Authority and plan participants that the plan assets are correctly stated and allow the financial performance and stability of the plan to be determined.

- C) During the audit period, the Authority found that the 403(a) Plan appeared to cover too many highly compensated employees and very few non-highly compensated employees to meet the Internal Revenue Code non-discrimination requirements. This meant that the plan was in jeopardy of losing its favorable tax status and receiving a disqualification from the Internal Revenue Service. Disqualification of the plan would result in the tax-deferred contributions made by and on behalf of the participants to be treated as taxable benefits. The Authority has engaged the services of pension specialists (including legal counsel and certified public accountants). On December 22, 2004, the Authority modified the Senior Management Compensation Plan suspending contributions to the 403 (a) Plan. The Authority is working to dissolve the Plan in compliance with federal regulations including distribution of the assets.

We Recommend the Authority performs the following:

- A) Initiates and completes a competitive procurement process to select deferred compensation plan providers;
- B) Enhances the administration of the plans by providing for periodic audits of the plans, as well as routinely monitoring the financial ratings of the plan and plan providers; and,
- C) Continues to review all compensation plans to ensure compliance with federal laws and rules of the Internal Revenue Service.

Management's Response:

- A) Partially concur and planned implementation. One of the exceptions to our competitive bid process is to use vendors who have state contracts, and three of the four vendors were on the state contract list. We understand the auditors do not consider this to be a valid exception, but this is accepted practice around the state and we will continue to use this rule to retain the efficiency gained. For other options, we will competitively procure those contracts.

Auditor's Comment:

The vendors in question do have contracts with State agencies and are on the State Purchasing Services (SPURS) Vendor List but are not on the State Term Contract or State Purchasing Agreement lists. We do agree that vendors on the State contract lists can be used without competitive bidding, but in this case, the vendors were not on that list.

- B) Concur and implementation underway. We have asked all Section 457 plan providers to send us their annual SAS 70 reports.

- C) Concur. Staff will continue to review all compensation plans to ensure compliance with federal laws.

7. Controls Over the Use of Temporary Employment Agencies Services Need Improvement

During the audit period, the Authority engaged the services of temporary employment agencies to meet supplemental staffing needs. We found that in one instance the Authority utilized personnel of one agency without executing or securing a written agreement with the agency. Agreements with agencies routinely cover such items as rates, obtaining copies of criminal background checks, bonding requirements (if any), and other items important to employment contracts. In the instance noted above, no written background check was provided although management informed us that they received verbal confirmation of a background clearance. We noted two individuals provided through temporary employment agencies were granted access to the Authority's computer network.

While we determined that it was less expensive to use the temporary employment agencies services rather than to add additional full-time positions, we believe that the Authority placed itself at risk due to the manner in which the temporary employment agency was used. First, without executing a contract for services, the Authority is at greater exposure to liability for higher fees or costs charged without prior notice, and/or to other claims filed by the agency or its personnel. Second, prudent human resource practices call for the examination of individuals' backgrounds prior to providing them access to the facilities and records of an organization.

We Recommend the Authority executes contracts for temporary employment agencies. In addition, written confirmation of background checks should be obtained on personnel prior to their assignment to the Authority's positions.

Management’s Response:

Concur and implemented. The audit made note of one temporary employee being hired without a contract. We did have a contract with the agency but did not update when the most recent temporary employee was hired. Staff corrected that oversight as soon as the auditor made us aware of it. As mentioned in the audit report, the use of temporary staffing has proven to be a cost-effective solution to keep our organization running as efficiently as possible. Staff will continue to monitor the staffing contracts and ensure the required updates are made to contracts as personnel is switched out.

8. Controls Over Decentralized Purchasing Need Improvement

Our review found that the Authority’s decentralized purchasing practices resulted in certain exceptions and inconsistent procedures used by the various administrative and operational departments in procuring goods and services. As discussed in our Recommendation for Improvement No. 1, the Authority had not adopted formal purchasing policies or procedures during the audit period. We tested transactions for compliance with the Authority’s existing Purchasing/Lease Procedures and found:



- Seventeen percent (4 of 23) of the tested applicable purchases paid directly to the vendor/contractor did not have evidence of quotes received prior to the ordering and receipt of the goods and/or services. These purchases were valued between \$535 and \$8,278. We also noted for these four transactions that the purchase order form was created upon receipt of the invoices.

- Fifty-two percent (9 of 17) of the tested purchasing card (p-card) transactions for goods and services costing more than \$1,000 did not have evidence of quotes received prior to the ordering and receipt of the goods and/or services. Four of the nine exceptions were for payments totaling \$44,044 made to a toll system maintenance service provider. No contract existed for the services and a purchase order, referenced by management as applicable, expired before the month services were received and invoiced. The expired purchase order was issued in October 2003 for services from September 1, 2003 thru February 28, 2004. The invoices billed for services provided for the months of March and July 2004. The purchase order did not detail specific sites or procedures to be included in the \$16,989.50 per month charge. The purchase order also did not contain a reference for a miscellaneous charge of \$10,065 for a semi-annual inspection of the violation enforcement cameras at one toll plaza.

Management informed us that the service provider was switched in November 2004, with an appropriate contract executed with the new provider.

Two of the other nine exceptions related to the purchase of large quantities of Velcro tape for transponders totaling \$39,333. Subsequent to our review we were provided information that the purchase was a sole source vendor for the specific type of tape needed. The remaining three exceptions were for the purchase and deliveries of traffic cones to three separate sites at a cost of approximately \$6,000 per site. Again, subsequent to our review we were provided information that the vendor's service and materials were shown on a State contract.

- Some micro-contracts program agreements reviewed were awarded without evidence of compliance with the program policies. We found no evidence that requests for proposals, bids, and/or quotes had been advertised or received for four contracts. These

contracts (as amended) are valued at \$10,975 to \$85,000 each.

- Our review of other areas also disclosed the following services awarded without the benefit of competitive selection process and/or formally executed agreements:
 - Supplemental dental health benefits
 - System Maintenance

Purchasing/Lease Procedures require advertised sealed bids and the issuance of a purchase order for items and/or services of \$10,000 or more. As a matter of good business practice, procurement of goods and services should be done using a competitive selection process. Competitive selection processes provide an effective means of equitably procuring the best quality services at the lowest possible costs, while ensuring the unbiased acquisition of goods and services.

Purchase orders when properly issued, are an effective control that can be used to ensure that adequate budget is available and documents the exact quantity, quality, and item requested from a vendor. Control is lost when the forms are created and approved after delivery of the items, services, or invoice.

We Recommend the Authority's management implement enhanced competitive purchasing practices and, at a minimum, ensure compliance with the existing Purchasing/Lease Procedures. In addition, management should ensure the timely completion and execution of purchase order forms and/or contracts.

Management's Response:

Concur and partially implemented. While in all cases noted, staff believes the Authority's best interests were served by the purchasing decisions made, staff failed to document reasons for the lack of competitive bid (i.e.: sole source, state contract, etc.). Staff has been retrained on providing this documentation. Revised procurement procedures are in

draft form and will be implemented shortly. As noted in our response to Recommendation No. 1, more thorough procurement procedures have been drafted and are currently under review.

9. Controls Over Purchasing Card Program Need Improvement

During the audit period, the Authority utilized 25 active purchasing card accounts (p-cards). The 25 p-cards were made up of 24 VISA and one MasterCard accounts. Individual cardholder credit limits ranged from \$1,000 to \$1.5 million. The Authority staff informed us that the one account with the highest limit was used for processing accounts payable transactions such as the operational expenses for phone services, electric utilities and for any vendor accepting credit card payment. In return, the Authority earned “reward dollars” for the volume of transactions. Our review of the administration of this procurement program found:

- A) The Purchasing Agent was solely assigned the duties of ordering the cards, receiving the cards, distributing the cards, and acting as bank liaison. This individual had security rights to access the on-line statements as well as receiving the mailed monthly individual statements. The Purchasing Agent was able to increase individual’s credit limits through telephonic notification to the bank. The form used to approve credit limit changes only requires the approval signature of the employee’s director. The approval signatures of the cardholder’s Director, Chief Financial Officer and Executive Director are required prior to the issuance of the card. The Purchasing Agent is responsible for maintaining all records related to the Purchasing Card Program.

- B) The Authority did not perform an analysis of actual usage to credit limits assigned during the audit period. We found purchasing card credit limits were higher than needed based on our review and analysis of usage by the 14 employees with monthly purchasing

credit limits greater than \$10,000. We compared the maximum monthly amount charged to the available credit limit and found that less than nine percent of the available credit was used by each cardholder tested.

- C) The Authority had not confirmed or compared bank records for individuals issued p-cards and the associated credit limits. Our confirmation and comparison of the Authority's records to bank records disclosed two instances in which the records did not agree. The Authority's records indicated an employee was assigned a purchasing card with a monthly \$50,000 credit limit; however, the bank reported that the card was assigned to a different employee with a current monthly limit of \$250,000. In another instance the Authority's records indicated that an employee had been assigned a single transaction limit of \$5,000 but the bank reported the limit at \$10,000.

A key control over financial transactions is to separate incompatible duties by assignment of those duties between independent individuals. Duties are considered incompatible when an individual has the ability to initiate, execute and record transactions, as well as the ability to access the goods/services/assets received and/or generated. The Authority's Purchasing Agent has the ability to create credit card accounts, receives the physical cards, in addition to receiving the billing statements.

Compensating controls may be utilized to mitigate risks associated with the lack of proper separation of incompatible duties. Controls, such as an independent individual routinely confirming with banks the actual cards issued and credit limits assigned, provide a detective control to identify inconsistencies in records. Analyzing card usage provides data necessary to ensure that credit limits are appropriate and not excessive. Excessive limits may provide opportunity and incentive for the misuse and/or abuse of a p-card.

We Recommend the Authority enhance controls over the procurement card program by implementing the following:

- A) Segregate the incompatible duties of ordering and receiving cards between two or more individuals. In addition, monthly account statements should be mailed directly to the cardholders, for the cardholders' review and approval before submission for payment;
- B) Routinely examine and compare cardholders' credit limits and actual usage, and revise the limits as needed; and,
- C) Periodically compare bank records of card assignments and limits to the authorization forms completed by Authority staff.

Management's Response:

Concur and implemented. Duties are now segregated and individual cardholder limits are routinely reviewed.

10. Contract Compliance Monitoring Needs Enhancement

Our tests of administrative, operational, and maintenance disbursements as well as a separate review of five of the major service provider contracts disclosed a need for enhanced monitoring of the various agreements, contracts, and terms. The following conditions were identified:

- In two of twenty paid expenditures reviewed, we found no evidence that the Authority had ensured that the vendor had actually obtained the performance bond or verified the invoiced charge for the bond.
- The Authority did not verify that the roadway/motorists assistance contractor had performed due diligence in the screening of employees hired to assist motorist during the audit period. The contract specified that the contractor is to obtain driving records, criminal

history records, and drug test upon hiring and every six months thereafter.

- The Authority’s management did not request, receive or review any source detail to support the amounts invoiced by the Toll Plaza Operations Contractor. The contractor did not supply timesheets, wage rate reports, or support for direct expenses billed as allowed in the terms of the contract.
- The contract values for electronic toll operations hardware maintenance of the automated vehicle identification (AVI) system were revised; however, the Authority did not execute formal written amendments to the contract.
- In eight of twenty applicable invoices reviewed, amounts billed were not in accordance with the terms of the contract. The eight noted exceptions were from two different contractors. The two contractors were for engineering consultants working on traffic and revenue reporting. Their contracts’ terms identified allowable labor charges by position, estimated hours needed, and maximum position wage rates. The invoices from the firms only provided their employees’ names and total labor charges for the employee without identifying the position or number of hours worked.

The Authority’s staff size requires management to rely upon other consultants and contractors to provide many of the operational monitoring and administration of other service providers’ contracts. We compared the Authority’s staffing level to the estimated number of positions provided by the five major service providers reviewed. We then compared those results to the U.S. Office of Management and Budget, Circular A-76 *Performance of Commercial Activities*, Part II, Table 3-1 “Contract Administration Factors”. This table provides the standard formula for staffing at the “Governments Most Efficient Organization” and the corresponding number of full time equivalent positions

necessary for administering various sized service provider contracts.

Based on the results of our comparison and analysis, we found that the Authority's ability to effectively monitor and administer the many complex service provider contracts could negatively be affected by the limited staff available. Subsequent to our audit period the Authority added two positions to their fiscal department, while reducing the number of positions in the Toll Operations Division by outsourcing the Violations Enforcement System and not replacing the Director of Toll Operations after his resignation.

We Recommend the Authority adequately review invoices for payment to contract terms. In addition, the Authority should review resources to ensure they are sufficient to provide enhanced monitoring of service provider contracts.

Management's Response:

Concur and partially implemented. As noted in the audit, we have added two full-time staff members to the budget to enhance our contract monitoring activities. We are working toward filling those positions now. Enhanced procedures have been implemented, including conducting regular contract audits and additional invoice review.

11. Procurement Procedures for Construction Consulting Services Should Be Modified

The Authority has not obtained general engineering consulting (GEC) services through full and open competition for over 18 years. The contract with the current GEC firm was first awarded in September of 1986. No term was prescribed in the contract. To date, 98 supplementary agreements to the original contract have been issued to the GEC firm to extend the scope of services to other projects and/or specific needs and various tasks related to engineering functions. Contract No. 75 is still active with a cumulative contract price of approximately \$29 million, as of September 30, 2004.

Our review also included another contract awarded in February 1998 to a different consulting firm for construction management consulting (CMC) services. This contract (Contract #72), which specified a term of three years, is still active nearly seven years later. The contract does not include a provision for renewals but has been extended through numerous supplemental agreements. The initial price of the contract was \$8 million with a \$20 million project budget and the cumulative price as of the end of the audit period is approximately \$35 million. The supplemental agreements issued are for a variety of tasks that extend the scope of services to other projects and/or specific needs.

Section 287.055, Florida Statutes (referred to as the Consultant's Competitive Negotiation Act) governs the awarding of contracts and services performed by an architect, professional engineer, landscape architect, or registered land surveyor in connection with his/her professional employment practice. As previously noted, the Authority did not have a formal procurement policy in place during the audit period. The Authority's Procurement Policy adopted in November of 2004 references the Consultant's Competitive Negotiation Act.

Although neither the referenced Statute nor the Procurement Policy prescribes limits on the length of consultant contracts, maintaining a contract for extended periods through the issuance of numerous supplemental agreements, circumvents the intent of open competition. The Authority's adopted policy stipulates that the procurement of consulting services be obtained through a system of full and open competition to provide an unbiased selection of the best qualified service provider at the best price.

Management contends that because the consultants have been performing their assigned tasks to the satisfaction of the Authority there was no incentive to re-advertise for these services. Management asserts that bringing in new firms requires extensive and costly transition periods. The Authority does conduct an annual evaluation of the performance of the GEC firm. Because the firm ranked very high in satisfaction by management staff, they feel they have

assurance that they are getting a well-qualified firm, providing services at a reasonable price.

However, the Authority has no assurance that they are receiving the best quality services at an optimum price as these services have been obtained without full and open competition,

We Recommend the Authority:

- A) Competitively procure General Engineering Consulting Services by advertising a request for proposals for such services on a periodic basis;
- B) Modify Contract No. 72 for Construction Management Consulting services to include a clause specifying the authorized renewal terms;
- C) Include in future contracts for consulting services, a clause limiting the term of the contract to a specified number of years and specifying renewal options not to exceed a specific period; and,
- D) Amend the Procurement Policy to specify that all consultant contracts include a specific term of time and specific renewal options.

Management's Response:

- A) Concur. Although the Authority adamantly supports full and open competition, there are specific business reasons to deviate from normal practice and our General Engineering Consultant (GEC) is one of those few cases. As with similar toll authorities, our GEC works as an extension of staff and on an as-needed basis, providing program management for all engineering and design projects. The current five-year work plan exceeds \$1 billion. To manage a work plan of this size, the GEC must commit, not only experienced engineering, architectural, financial, construction and support personnel, but also provide

a significant resource pool of expertise in some very unique specialty disciplines.

It has been management's philosophy for many years that this function should be outsourced because it can be expanded and contracted as the work plan changes without burdening the Authority with the staffing issues that accompany such changes. There are currently about 42 FTEs assigned to our contract with the GEC, but as additional staffing or expertise is needed, the GEC has the resources to provide those services. Outsourcing also provides the flexibility in the types of experts utilized on a month-to-month basis.

Continuity in staffing is also a vital element of our GEC. The GEC is an instrumental contributor to the Authority's 25-year master plan and annual 5-year work plans. These are some of the reasons that the Authority Board elected to not re-solicit our current GEC contract and instead implement an annual evaluation of the performance to be prepared by staff and reported to the Board.

Staff will consider a reasonable policy with regard to re-advertising GEC services; however, any GEC change must be carefully timed as staff must consider transition and training costs as well as project delays. Therefore, a standard 5-year rotation would not be practical for the Authority.

- B) Concur. Although this contract was originally executed without renewal terms, Board authorized supplemental agreements provided for extensions of time, and therefore no additional modification is necessary. For purposes of economy and continuity, other jobs were added to this contract, including a contiguous segment of the roadway. This particular contract has subsequently been closed out, as scheduled, and audited by an independent contractor. No material deviations were noted.

**RECOMMENDATIONS
FOR IMPROVEMENT**



- C) Concur and implemented. We do have expiration and renewal clauses in all contracts, but when it is in the best interest of the Authority, we will, through Board-approved contract amendments, retain a Construction Management Consultant or other firm until the end of a project or group of projects to maintain continuity.
- D) Concur and planned implementation. We do have informal standards for the duration of terms of contracts; in all cases, they do not exceed five years, or the end of a project. We do agree that those standards should be incorporated into the existing policies. Our policy will include provisions for reasonable contract extensions and supplementals, evaluated on a case-by-case basis, and properly reviewed by management, which mirrors the Authority’s current practice. All contracts and amendments over \$25,000 are submitted to the Board for approval.

12. Construction Contracts Should Not Contain a Line Item Cost for Contingencies

Two large construction contracts were reviewed and both contained a line item for “Allowance for Work Order Release” which is, in effect, a contingency for expenses. This amount was included in the contract price, as shown below:

Contract Number	Project	Total Contract Price	Amount of Allowance Included in Contract Price
114	Widening SR 408	\$73,372,791	\$250,000
110	Dean Road Plaza	\$14,726,803	\$150,000

The allowances described above are basically contingencies and as such are part of the project budgets but need not be part of the prices agreed to with the contractors. The contract price should reflect the negotiated cost for each line

item of work in the contract. Funds set aside for contingencies such as change orders, should be budgeted but may not be needed and therefore should not be made a part of the contract price awarded to the contractor.

Because historically, major construction contracts experience numerous change orders throughout the life of the project, the Authority approved reserves for change orders (allowance for work order release) to be included in the construction contracts. This was done to avoid having to seek the Authority's approval for changes early in the project and thereby make the process more efficient. However, making contingencies a part of the price may provide an incentive for the contractors to submit claims requiring access to the contingency funds.

We Recommend the Authority not include line items for contingencies in the price of future contracts. Instead, a suitable amount for contingencies could be included in the project budget and used as necessary. Also, the Authority's Board of Directors could delegate to staff the authority to access within acceptable monetary limits such reserves for contingencies without further board approval.

Management's Response:

Disagree. It is interesting to note that in other findings, the audit has used FDOT as the standard to which the Authority should adhere, but in this particular finding, the recommendation is actually contrary to FDOT's practice.

In the construction and engineering industry, there are two schools of thought, each with its own pros and cons: use change orders or provide contingency. While the exclusive use of change orders may appear on the surface to provide the greatest control over costs, staff's breadth of experience has proved that to be untrue. Staff has the ultimate decision-making power to determine the use of the contingency and so can apply reasonable professional standards, ultimately providing better control over the contractor. On average, about 20% of the contingency amounts are used for items the Authority is under contract to

pay for, but cannot be estimated at the beginning of the project, such as permitting fees and damage to attenuators and traffic devices by motorists in the constructions zone.

Auditor's Comment:

Our audit did not focus on FDOT's use of contingencies.

13. The Authority Should Establish and Implement a Formal Direct Purchases Program to Reduce Costs

Two construction projects were reviewed valued at \$73.4 million and \$14.7 million, respectively. Our review noted no instances whereby the direct purchase method was used to obtain materials or supplies. Contracts of these sizes likely provide various opportunities to achieve sales tax savings through direct purchases.

It is recognized that acquiring materials through direct purchases carries an inherent risk in that materials must meet specifications and be delivered at the proper time to the appropriate place. With this method of procurement, any problems with the materials' quality or delivery might be claimed as the responsibility of the Authority rather than the supplier or contractor. However, many governmental agencies have established direct purchase programs that allow them to mitigate the liability risks while receiving the benefit of reduced costs through sales tax savings.

In discussions with Authority officials they stated that the direct purchase method has been used occasionally and has resulted in some savings. As a Florida State entity the Authority is exempt from Florida State Sales Tax (currently 6.5%). As such, the Authority should, whenever practical, take advantage of its tax-free status and procure large ticket items directly from the supplier and provide them to the contractor for installation.

Essential elements of a formal written policy would include procedures to establish responsibilities of all parties involved

and provide guidelines as to when the method should be used on projects. Formal policies reduce the risk of inequitable administration of the program. The use of the direct purchase method could be negotiated with contractors based on the items identified by the Authority or the contractors. Best practices to allow for cost reduction through a direct purchase program include in bid documents a clause similar to, “The entity may, at its discretion, use the direct purchase method for acquiring large dollar value equipment and materials.”

We Recommend the Authority implements a formal procedure for utilizing the direct purchase method of procurement.

Management’s Response:

Do not concur. The audit recommends that the Authority adopt a formal policy for utilizing the direct purchase method and in our discussions with the auditors, they have stated that the policy should require that direct purchase be used only when it is in the best interest of the Authority. We feel that this would be a superfluous policy since all professional decisions are judged under that standard.

Auditor’s Comment:

We do not consider formal policies for direct purchases a superfluous policy but rather a means for consistent consideration of available savings opportunities. The public expects accountability from government in the use of public resources.

14. The Authority Should Establish and Implement a Formal Program for Utilizing the Value Engineering Concept to Mitigate Costs

The Authority has not established a formal program for and does not routinely use value engineering to mitigate costs by encouraging contractors to find innovative ways to cut costs and share the applicable savings. Value engineering is a recognized system of identifying savings in construction

contracts by substituting materials or a process different from that specified in the plans, whereby the change does not adversely affect the quality or appearance of the project. The resultant savings are normally shared between the contractor and the owner. The potential savings from this process on large contracts can be significant.

The Federal Highway Administration and the Florida Department of Transportation have codified rules requiring the use of formal value engineering programs for major projects with estimated costs greater than \$25 million. Our review of two construction projects with estimated costs of \$73.4 million and \$14.7 million did not indicate any instances where the value-engineering concept was used to mitigate costs nor was there a provision in the basic contracts encouraging the use of value-engineering. Contracts of the size of the ones reviewed may provide opportunities for savings through such a program.



In discussions with Authority officials they stated that there have been occasions in the past where contractors have proposed value-engineering savings and when this occurred the savings were shared between the contractor and the Authority in accordance with the provisions of the contracts as stipulated by Florida Department of Transportation guidelines. Formal policies reduce the risk of inequitable administration of the program.

We Recommend the Authority establishes a formal value-engineering program and encourages contractors to participate in the program by including an applicable clause in future contracts.

Management's Response:

Concur. The Authority agrees that project cost savings or substantial improvements in project effectiveness is a valid goal and we will research and evaluate FDOT's process of value engineering in the construction phase of the projects; however, we believe that the greatest advantage to value engineering occurs in the design phase and the Authority's value engineering program is quite effective.

To be effective and meaningful, value-engineering should begin as early as possible in the project development/design process so that any valid recommendations can be incorporated/implemented without delaying the progress of the project or causing significant rework of completed designs. Through the use of highly qualified engineering consultant firms, the Authority utilizes value-engineering throughout the various phases of the plan/project production cycle. For a typical project, three different engineering firms will be utilized; one for project concept development, one for project development and environmental study, and one for final plans and production. As final plan production begins, the engineering firm is to perform a complete review of the project before any plan production can proceed. The purpose of this review effort is to incorporate any value-engineering that will lead to project cost savings or improvements in project effectiveness. The plan production proceeds only after all the documented items are resolved.

The value-engineering process is also utilized during plans production. The Authority requires the engineering firms to submit the plans at 30%, 60%, 90% and 100% of completion for thorough review by the Authority's General Engineering Consultant (GEC). All review comments provided by the GEC must be addressed by the engineering design firm, at each phase, before proceeding with plans production.

Other value-engineering processes incorporated during the plans production phases are as follows:

1. Bridge Development Reports (BDR) are required for all bridge structures. The BDR not only determine the

length and width of the bridge structure, but the cost differential of various structural materials i.e.: steel versus concrete.

2. A constructability review is provided throughout the plans production duration. These reviews are required not only by the engineering firm doing the design but they are also reviewed by an independent construction and engineering inspection firm that will oversee the project during construction. The purpose of this effort is to eliminate potential claims by the construction contractor.
3. A right-of-way team is assigned to projects that ultimately will require the purchase of new right-of-way. The right-of-way team's input is incorporated throughout the life of the design phase. Roadway alignment shifts, retaining walls, drainage pond relocations and roadway profile adjustments are a few examples of value engineering incorporated to offset potentially costly right-of-way damages.

As described above, the Authority does incorporate value-engineering throughout the life of a project. Staff does not believe that value-engineering is effective when limited one particular point in the life of the project. We strongly endorse cost-effective practices throughout the life cycle from the concept stage through the project award phase for construction.

15. The Authority Should Comply with Adopted Procedures for the Acquisition of Land

The Authority did not fully comply with procedures for the acquisition of land as prescribed in the adopted Right-of-Way Procedures Manual in one of three sampled acquisitions. The Authority purchased parcel 335, which includes approximately 76 acres and was appraised at \$10,640,000. The Authority acquired the land for \$10,370,000 plus \$300,000 to the owner's counsel and expert fees to the owner's appraiser (an authority approved

appraiser). The Authority used the seller's appraisal and had the Purchase Agreement (including the ultimate price), signed by the seller prior to the finalization of the appraisal.

The Authority did not obtain a written report from a Review Appraiser certifying that the appraisal conforms to the Uniform Standards of Professional Appraisal Practice and that the value computed is either reasonable or unreasonable. Instead the Authority stated that they engaged a professional appraiser (previously approved by the Authority) who provided a verbal report informing them that the appraisal met the applicable standards and the value was reasonable.

Paragraph 4.2.3 of the manual states that:

“The appraisal report(s) will be reviewed by a qualified Review Appraiser for conformance with the Uniform Standards of Professional Appraisal Practice and to further assure that all compensable items have been included in the appraisal report. The review shall include a thorough check of all mathematical calculations and a review of the completeness of the appraisal, and reasonableness of the appraiser's conclusions.”

Paragraph 4.2.4 of the manual states:

“The Review Appraiser's written report will certify that the appraisal report conforms to the standards and that the value estimate is either reasonable or unreasonable. A review appraiser's report will accompany each appraisal report submitted to the Director for Right-of-way.”

The written report from the Review Appraiser is a key control over land acquisitions by providing a division of responsibility in price determination. The Review Appraiser is to certify that the appraisal conforms to standards and that the value is reasonable.

The progression of events for acquiring land as stated in the Authority's Procedures Manual is as follows:

- Obtain an appraisal
- Obtain a certified review of the appraisal
- Prepare an offer letter to the owner
- Negotiate a price with the appraisal as a basis.
- Execute a signed Purchase Agreement between the seller and the Authority, which includes the price.

Authority officials stated that established procedures were not followed because there was urgency in acquiring this property and an opportunity existed to purchase the land without the use of eminent domain powers. The previous landowners had received County approval for the plat plan and the developer was getting ready to construct single-family homes on the property. Therefore the Authority needed to act quickly or the price for this needed property would be much higher. The Authority's Right of Way Committee also felt that a verbal review, which they stated they obtained from another Authority approved review appraiser, was sufficient to ensure that the appraisal met the required standards.

We did not find any indication that the property's value as stated in the appraisal, or the price ultimately paid for the property, was unreasonable. However, the Authority, by not obtaining a qualified review appraiser to provide a written certified report, circumvented a key internal control. This control was established, and prescribed in the Right-of-Way Manual, to ensure that appraisal reports conform to standards and that the appraised value, which is the basis for negotiating a price, is reasonable.

We Recommend the Authority follow the provisions of the Right-of-Way Procedures Manual and ensure that services of a qualified Review Appraiser are obtained and written reports received for all future acquisitions. Further, the Authority should revise the Right-of-Way Manual to provide procedures for use in those unusual circumstances where expediency requires variation from the established procedures.

Management's Response:

Concur and planned implementation. We concur that for the land purchase identified, staff did not fully comply with procedures in order to complete the transaction in a timelier manner, which if not achieved, would have certainly proved much more costly for the Authority. We will amend the Right-of-Way procedures to provide for certain deviations from standards, with proper validation, review and documentation.

Appendix A – METHODOLOGY

Our examination included interviews with management, staff, consultants and vendors. For the audit period, we reviewed the Authority's organizational and staffing structure, advertised notices of board, subcommittees, and staff meetings and the associated meeting minutes to determine compliance with the Public Records law (Chapter 119, Florida Statutes). We reviewed budget procedures, adopted budgets, supporting documentation, and recorded budgetary information, to determine compliance with state laws, board policies and/or rules, as well as good business practices.

In order to determine if administrative controls over the revenue collection processes are adequate to ensure that toll plazas' and E-PASS Customer Service Centers' service providers are appropriately monitored and that the service providers comply with contractual terms, we performed the following:

- Reviewed service providers' agreements for inclusion of specific contract terms that require staffing parameters; submission of verifiable reports of daily transaction activity, cash receipts, electronic toll revenue, bank deposits; and performance guarantees;
- Conducted a walk through and evaluated management and staff's procedures in utilizing various sources of information received to monitor and/or reconcile service providers' deposited collections, revenue reports and other reported activity;
- Tested a sample of dates in the audit period, and verified reported cash and/or revenue transaction activity by examining the supporting documentation which included submitted summary activity of lane reports by toll plaza by day, and corresponding bank deposits slips, bank statements and general ledger entries for toll plaza operations. We selected one day, and compared the documented courier's coin vault weights to the bank's reported coin vault weights noting no material discrepancy in weights;

- Reviewed reports of reimbursements from the Toll Plaza Operator for shortages and/or penalties assessed in accordance with performance guarantees contained within the contract terms;
- Reviewed the schedule of E-PASS accounts receivables and the schedule of accounts written off during the audit period to determine the appropriateness of collection and write-off procedures;
- Reconciled reported cash and credit card transactions to bank and credit card activity statements for a sample of dates in the audit period; and,
- Tested a sample of uniform traffic citations issued in the audit program through the Authority's violation enforcement system to determine appropriate resolution of the citation through either the documented receipt of payment for the fine, or transfer of the uniform traffic citation after thirty-days from issuance, to the Clerk of the Courts in accordance with State Law.

To determine the Authority's compliance with adopted policies and procedures relating to personnel activity, we selected samples of employees and reviewed the associated personnel files and supporting documentation. Our sample included tests of new hires, resignations/terminations, promotions, pay advances, and benefits received. We sampled pay dates from the audit period, verifying payroll transactions to supporting time sheets, benefit enrollment and leave requests for a sample of employees. To determine the award of equitable and fair compensation and benefits, we compared the salaries and benefits received for the selected sample of employees to comparable positions and benefits offered by Orange County as well as to the February 2003 compensation study commissioned by the Authority. To verify existence of various employees, we observed and met employees selected in our payroll sample. Bank statements and direct deposit pay notices as well as

returned cancelled checks were scanned for amounts, dates, payee names and appropriate endorsements.

The Authority had not adopted formal purchasing policies and procedures during the audit period. As such, we selected a sample of expenditures recorded in the audit period to determine if procurement practices provided for fair and open competition in obtaining supplies, materials, and services. Dependent upon the value of the sampled expenditure, we examined supporting documentation to determine if:

- At least three verbal quotes were noted and retained;
- At least three written quotes retained;
- Requests for proposals and/or bids were advertised and written responses retained; or,
- The reason for a sole source or emergency purchase made without obtaining appropriate documentation of quotes, bids and proposals was provided.

We then examined the supporting documentation to validate the selection of the vendors. We also selected a sample of “micro-contracts” to see if they were awarded in accordance with the program’s guidelines. We reviewed five major outsourced service contracts (Toll Plaza Operations, E-PASS Customer Service Center Operations, Toll Enforcement Services, Road Ranger Services, and Landscape Maintenance) to determine if the agreements were awarded based upon a formal bid process and included performance measures and standards, performance guarantees and/or incentives and consequences, audit clauses, and periodic evaluation of performance and compliance.

We selected a sample of disbursements from the Operations and Maintenance Fund to determine the reasonableness and public purpose served by operating expenditures recorded in our audit period. We reviewed supporting documentation for the disbursements selected determining: the purpose of the expenditure; evidence of proper authorization; proper receipt of goods or services; and the proper billing and payment of invoiced amounts. In addition

we selected a sample of travel expenditures to determine compliance with State law and the Authority's policies governing travel expenses. Cash disbursing controls were reviewed to ensure proper physical security of blank check stock and security over voided and/or unclaimed checks.

To determine that capital projects are properly managed and contract agreements related to capital projects are properly awarded, administered and monitored, we reviewed the Authority's "5 Year Work Plan" issued for the fiscal years beginning 2004 and 2005. We selected a sample of engineering and construction contractor's agreements and reviewed the procedures used to award the contracts. We evaluated the contract language and terms used in the agreements to determine if the wording was clear, concise, consistent, and of benefit to the Authority. We toured several construction sites and observed work and monitoring procedures. We examined a sample of progress payments for both basic contract work and for certain related supplemental agreements (change orders) to determine if invoiced amounts are adequately supported and in compliance with agreement terms. We reviewed construction contracts to determine the extent to which direct purchase methods as well as value-engineering programs were utilized to reduce costs. We selected a sample of land purchase transactions during the audit period, and reviewed documentation to support the Authority's compliance with State laws and adopted policies and procedures.