
**Effecting Change Through the
Audit Process:
Audit of the Orlando-Orange
County Expressway Authority**

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Effecting Change Through the Audit Process: Audit of the Orlando-Orange County Expressway Authority

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Effecting Change Through the Audit Process: Audit of the Orlando-Orange County Expressway Authority

Our Presentation will include the following topics:

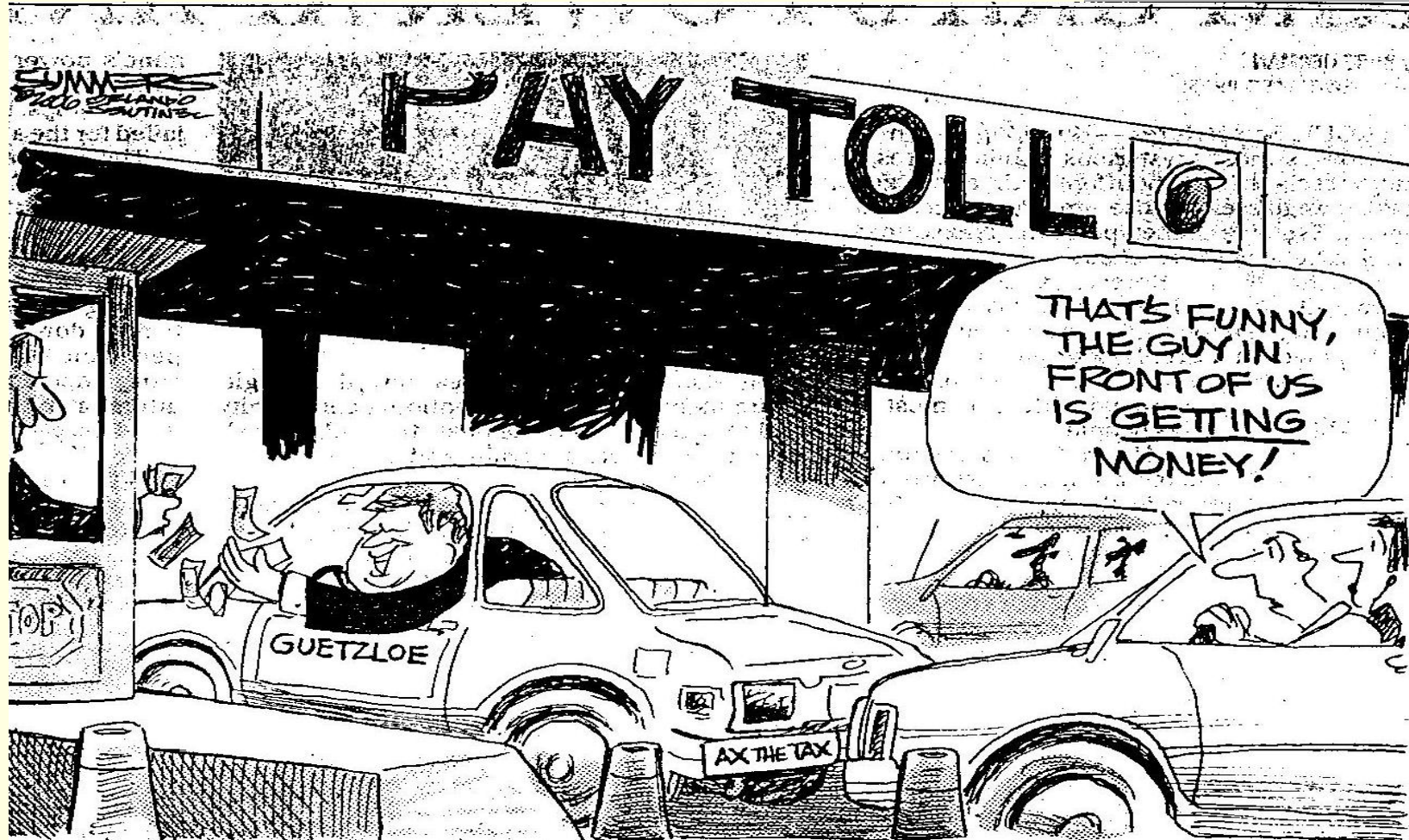
- Introduction
- The Audit Process
- Major Changes Effected as a Result of the Audit
- Methods Used to Accomplish the Changes
- Conclusion

INTRODUCTION

Why we performed the audit:

- News reports of the Expressway Authority's payment to Doug Guetzloe
 - A one and one half page report submitted
 - Payments made through the Marketing Consultant's contract from three different Expressway accounts
 - Arrangements made at the direction of the Expressway Authority Board Chairman without the approval of other Board members
 - Payments alleged to be "hush money"
 - The Magic also paid Guetzloe \$200,000 allegedly to silence his opposition to a new arena

INTRODUCTION



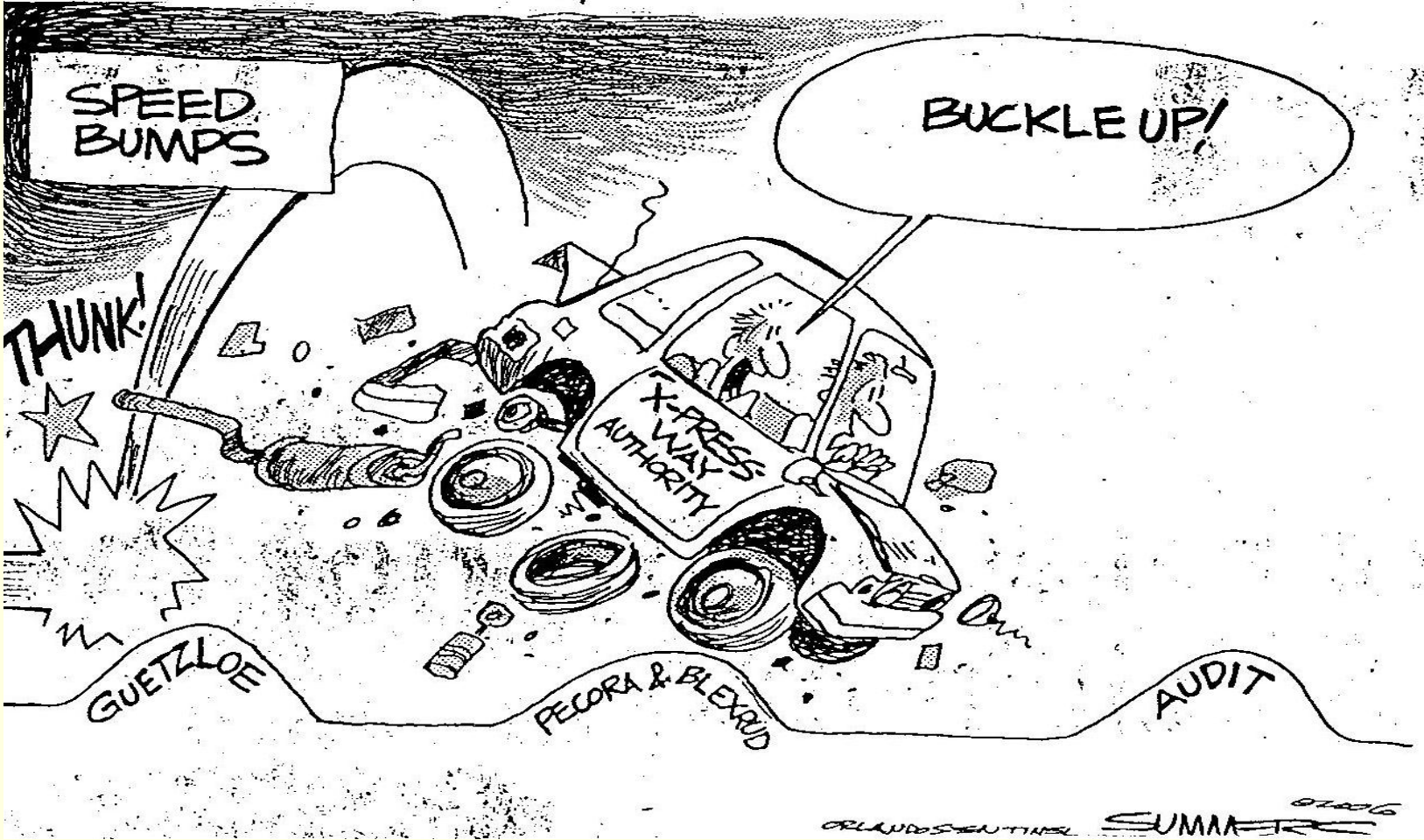
INTRODUCTION

Why we performed the audit (con't):

- Requests for an independent audit of the Expressway Authority's spending practices by the:
 - Media and others
 - Mayor of Orange County
 - Expressway Authority Board

- Resignations:
 - Marketing Manager
 - Termination of the Marketing Consultant's contract
 - Expressway Authority Board Chairman

INTRODUCTION



INTRODUCTION

Audit Scope:

- Expressway Authority's operating structure
- Contracting for goods and services
- Invoice review and payment process
- Hiring and compensation of staff
- Purchasing card and travel expenses
- Right-of-way acquisitions
- In-progress road construction activities

INTRODUCTION

Scope Exclusions:

- Marketing and advertising contract
- The issuance of bonds
- Value of services received under team-building contract
- Use of Lobbyists

Audit Period:

- July 1, 2005 to September 30, 2006

THE AUDIT PROCESS

The Audit Process Included:

- Background information
- Survey and internal control review
- Risk analysis
- Finalization of audit programs and the audit plan
- Testing
- Work paper review
- Communicating audit results

THE AUDIT PROCESS

Background:

- Read file
- Expressway Authority's website – annual reports
- Relevant Florida Statutes
- Relevant Florida Attorney General opinions
- Road construction audits performed by our office
- State Auditor General's Operational Audit report
- Orange County Comptroller's limited review of OOCEA
- Audit reports dealing with other expressway operations (internet)
- Organizational chart and job descriptions

THE AUDIT PROCESS

Background information obtained disclosed:

- Vital departments were staffed by one person
- Agency takes in approximately \$200 million in tolls
- Construction contracts during the audit period were approximately \$400 million
- A rolling five year plan included projects with estimated costs of \$1.1 billion
- Expressway Authority operated with a staff of 42 employees
- Expressway Authority operated 100 center miles of highway consisting of 540 lane miles

THE AUDIT PROCESS

Survey and Internal Control Review:

- Review of written procedures
- Interviews and documentation of internal control systems by ICQs, flowcharts and narrative descriptions
- Performed transactional walk through of operating systems
- Evaluation of internal controls

THE AUDIT PROCESS

Risk Analysis Exercise:

- Risk analysis criteria
- Risk analysis matrix
- Risk analysis by functional area

Finalization of Audit Programs and Plan:

- Audit objectives
- Audit procedures
- Audit plan including time budget

THE AUDIT PROCESS

Audit Objectives:

- Whether the procurement of goods and services was subject to fair and open competition and in compliance with applicable internal policies, laws and regulations, and generally accepted government practices; and,
- Whether the controls over the payment of goods and services were adequate to ensure that the goods and services paid for were properly authorized and actually received, or performed in compliance with contractual terms.
- Review the operating structure for opportunities to streamline processes, reduce cost, and more efficiently and effectively manage operations (best practices).

THE AUDIT PROCESS

Testing as required by audit programs:

Operating Structure - Tests:

- Summarized relationship between Expressway Authority and consultants based upon information gathered and knowledge acquired during survey and testing stages
- Evaluated the relationships for potential reduction in operating costs, efficiency and effective performance and management
- Criteria for evaluation - Outside personnel should be considered only if these services:
 - Cost less,
 - Are needed for a limited time, or
 - Are specialized in nature

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Tests (con't):

Criteria would :

- Be better understood by the public
- Provide a basis for emphasizing to the Expressway Authority's management deficiencies in outsourcing
- Provide the Expressway Authority with sound standards for determining when consultants should be engaged

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure - Findings:

Procurement

- Decentralized procurement function
- Functions substantially outsourced
- Outsourced functions cost approximately \$256,000 annually
- Lack of comprehensive procurement policy
- Procurement manager had no approval authority

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

General Counsel:

- Function outsourced
- Contract with no expiry date
- Annual billings of approximately \$1 million
- Attorney rates per hour - \$160 to \$225
- Paralegal services \$70 per hour
- Costs to review procurement documents
- Updating legal opinions archive - \$211,000
- Review of policies and procedures - \$68,000
- Other fees – standard RFP, minutes, memos

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

Internal Auditing:

- No internal audit function
- Non-existent or weak controls
- Lack of cost saving practices in many areas

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

General Engineering Consultant (GEC):

- Outsourced function
- Scope of services - Operate as staff in engineering department
- Monthly billings - \$700,000 to \$950,000, \$11.5 million for the 15 month audit period.
- Overhead and profit multiplier of 2.85

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

General Engineering Consultant (GEC):

- Contract with no expiry date
- Same firm serving as GEC for over 20 yrs
- Audit determined that Expressway had become too dependent on GEC firm
- Some services could be performed by staff at lower cost

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

Construction Management Consultant (CMC):

- Outsourced function
- Scope of services - Overseeing other consultants
- Same firm serving for approximately 10 years
- Five million dollar contract
- Services performed by eight persons
- Billings with a multiplier of 2.26 plus office space
- Audit estimated work could be performed at lower cost by in-house staff

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Operating Structure – Findings (con't):

Maintenance Management Consultant (MMC):

- Function outsourced to engineering firm
- Scope of services – oversight of two maintenance firms
- Average annual cost of \$630,000 over five years
- Audit estimated work could be performed at lower cost by in-house staff

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Human Resources, Payroll and Travel - Tests:

- Selected sample of employees hired and tested hiring procedures for best practices, compliance with salary plan and verified accuracy of benefits
- Determined proper approval and recording of leave requests, overtime, administrative time and other payroll changes and deductions

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Human Resources, Payroll and Travel – Tests (con't):

- Recomputed payroll, reviewed payroll report for unknown names, verified to direct deposit file and reviewed accounting records for posting accuracy
- Verified terminated employees returned assigned equipment
- Reviewed a sample of travel expenditures for board members and staff for accuracy, reasonableness, proper approval and compliance with written guidelines

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Human Resources, Payroll and Travel - Findings:

- A management staff member was hired based upon a recommendation from a consultant
- The selection process was not adequately documented
- Files did not have documents to support the performance of background checks
- No established pay plan
- Job descriptions not prepared for several positions
- Reimbursements of travel expenses were not submitted in a timely manner

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Right-of-Way Acquisitions - Tests:

- Selected a sample of land purchases and reviewed for reasonableness of price and other costs
- Examined purchases for related party transactions
- Reviewed eminent domain proceedings for proper approval and filings
- Verified adequacy of support for surplus property sales and that proceeds were received

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Contracting - Tests:

- Determined population of contracts, validate population and selected sample
- Reviewed documented solicitations (IFB, RFP, LOI) and evaluations
- Reviewed opening and analysis of bids
- Reviewed contract documents for existence, language, proper authorization
- Traced contract amounts to accounting system to ensure accurate recording
- Reviewed supplemental agreements for scope, terms, proper authorization, execution and recording.

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Contracting – Tests (con't):

- Reviewed renewal agreements for evaluation of performance, terms, scope and pricing.
- Reviewed a separate sample of contractor sub-contracts for flow-down requirements and preservation of the Expressway's rights and privileges
- Evaluated the use of direct purchases
- Examined file documentation for selected compliance issues

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Contracting - Findings:

- Evaluation and selection of contractors and consultants not properly documented
 - Scoring sheets not completed by some evaluation committee members
 - Inadequate documentation to support evaluation of bids
 - Contract awarded based upon a total of the unit prices and not the total of unit prices times quantity
 - Contracts awarded without going through competitive solicitation
 - Award of contracts in some instances did not appear to be open and fair.

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Contracting – Findings (con't):

- Contracts renewed with significant increased scope and amounts without re-bidding.
- Contracts renewed for option years without formal evaluation of performance – no formal process in place
- Contract language inadequate:
 - Audit Clause
 - Truth in negotiation clause
 - Value engineering clause
 - Termination clause
 - Flow down requirements for subcontracts

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Contracting – Findings (con't):

- Direct purchases not used for road construction projects, millions lost
- Contract compliance not enforced
- Communication to the Board lacked sufficient information
- Some supplemental agreements were not presented to the board for approval
- Agenda items lacked sufficient details to make them transparent to the public

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Road Construction Activities - Tests:

- Obtained the services of a design engineering firm to verify certain quantities billed
- Obtained the services of a geotechnical engineering and materials testing firm to:
 - evaluate CEI quality assurance program
 - review testing results for compliance with contract specifications
 - perform independent testing of superpave asphaltic concrete.

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Road Construction Activities - Findings:

- Materials were billed and paid before they were installed
- Mobilization was paid ahead of schedule
- Road maintenance costs were being paid to construction contractors as well as road maintenance contractors
- Pay estimates ranging from \$87,000 to \$6.5 million were not signed by the contractors performing the work or the CEI's who prepared the estimates

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Invoice and Payment Review Process - Tests:

- Obtained and verified a schedule of all payment made by the Expressway Authority during the audit period.
- Selected separate samples for design engineers, construction contractors, GEC, CMC, MMC, CEIs, General Counsel, other purchases and Purchase orders
- Examined each sample to ensure the following:
 - Proper review and approval by staff
 - Evidence that goods/services were received

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Invoice and Payment Review Process – Tests (con't):

- Amounts billed were adequately supported and mathematically accurate
- Contracts were approved by the Board and executed prior to work being performed and invoices paid
- Unit costs, labor rates, multipliers, retainage, direct expenses, personnel, etc. were in compliance with contracts
- Qualifying items were properly recorded in the fixed asset schedule
- Qualifying fixed assets physically existed
- Annual fixed asset inventory was conducted

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Invoice and Payment Review Process – Findings:

- Invoices were paid without adequate review and supporting documents
- Invoices were paid prior to Board approval and contract execution
- Invoices did not agree with the supporting schedules
- Retainage was not withheld
- Direct expenses were not supported or justification documented.

THE AUDIT PROCESS

Testing as required by audit programs (con't):

Invoice and Payment Review Process – Findings (con't):

- Invoices did not contain adequate description of services performed
- Invoices were not approved by individuals who had knowledge of the work performed
- Invoices were not approved by the appropriate level of staff
- Contracts were not closed out properly

THE AUDIT PROCESS

Work Paper Review and Report Writing

- Status meetings with Audit management
- Status meetings with Expressway Authority senior staff
- AIC review of finding sheets and work papers
- Second review by Deputy Director of Audits
- Writing of report by AIC and staff
- Review by Audit Management (Deputy Director, Director of Audit, and Comptroller)

MAJOR CHANGES EFFECTED AS A RESULT OF THE AUDIT

Operating Structure Changes

Procurement:

- Centralization of the procurement function under a Procurement Director and the moving of all procurement activities in house.
- Significant cost savings expected

Legal Services:

- Hiring of in-house general counsel and support staff
- Cost savings of approximately \$400,000 confirmed by Expressway Authority

MAJOR CHANGES EFFECTED AS A RESULT OF THE AUDIT

Operating Structure Changes (con't)

Internal Auditing:

- Establishment of an internal audit function and the hiring of an internal audit director.
- Should result in significant costs savings and add value

Contracting Changes:

- Board adopted a new comprehensive purchasing policy to ensure no open ended contracts, proper evaluation and selection of consultants

MAJOR CHANGES EFFECTED AS A RESULT OF THE AUDIT

Planned Changes

- Structural changes reported subsequent to the issuance of the report included a phase-out of contracts with GEC, CMC and MMC
- Other changes to be made as Expressway authority implements recommendations for improvement

METHODS USED TO ACCOMPLISH THE CHANGES

Auditors made sound recommendations for improvements based upon:

- Well supported findings
- Extensive background knowledge
- Thorough survey and internal control review and evaluation
- Practical recommendations for improvements

METHODS USED TO ACCOMPLISH THE CHANGES

Behind the scenes maneuvering to implement changes as the audit progressed

- Keeping Audit management apprised of significant findings
- Audit management proposed significant recommendations for change to County Mayor/Expressway Authority Board Chairman and his staff
 - Centralized procurement function
 - Hiring of in-house General Counsel
 - Establishment of internal Audit function
 - Adoption of a comprehensive procurement policy
 - Re-bidding of all open-ended contracts
- County Mayor/Expressway Authority Board Chairman successfully proposed changes to other Authority board members

METHODS USED TO ACCOMPLISH THE CHANGES

Negotiation of report wording

- Agreement with Expressway Authority on wording of some findings
- Effects of findings were generalized in some instances
- Recommendations generalized in a number of instances
- Expressway staff given several opportunities to change wording of their written responses

Role of the media

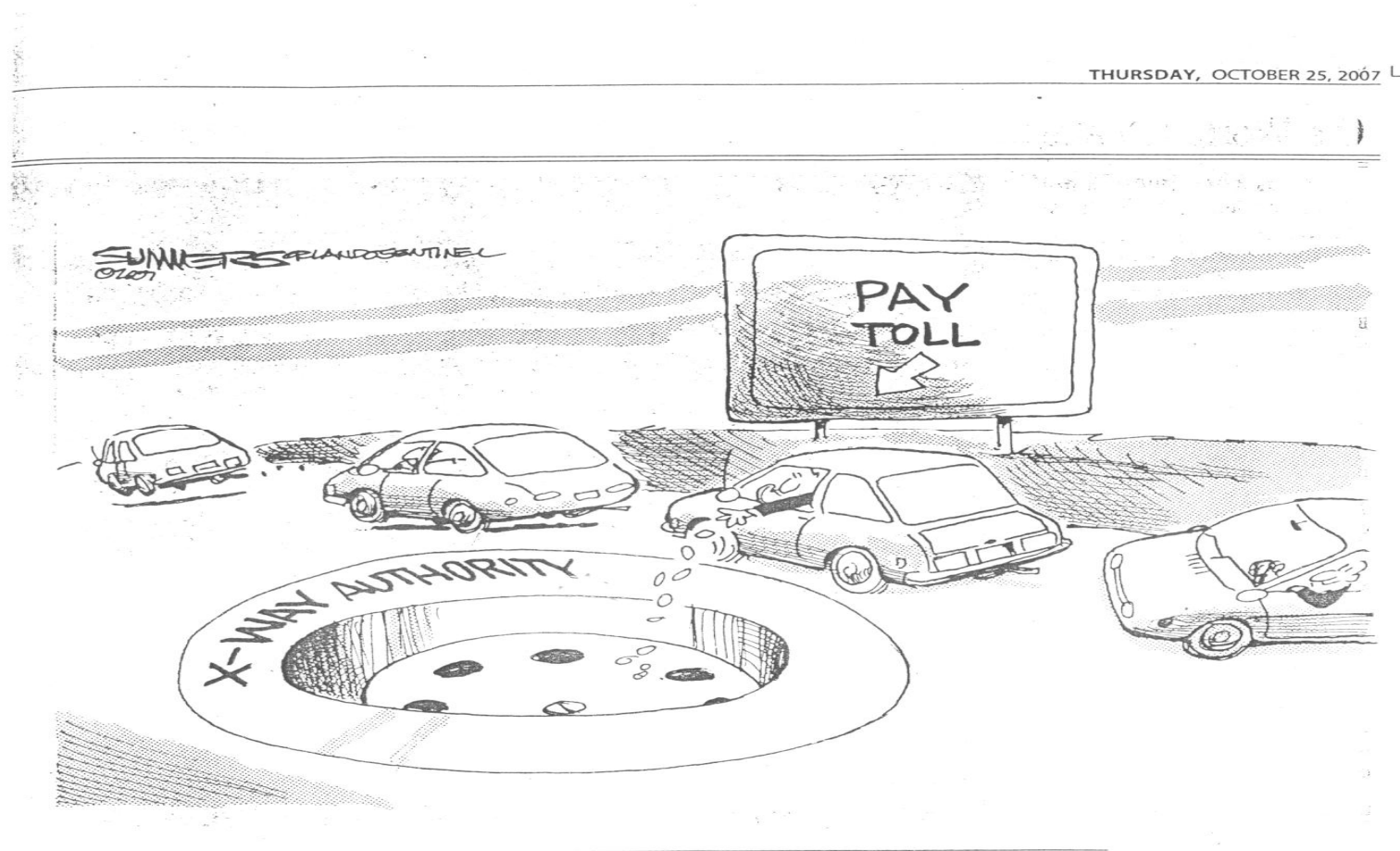
- Coverage during audit process
- Post audit coverage

METHODS USED TO ACCOMPLISH THE CHANGES

Headlines from various news sources:

- *Audit: X-way money mess 'is shocking' - The Agency must improve oversight of spending, Orange County's Comptroller says (Front page)*
- *Too little control. Our position: The blistering audit of toll road agency proves board was too passive (Editorial)*
- *Big Changes on tap at Expressway Authority (Front page)*
- *Yet another toll-agency board member to resign (Front page)*
- *Road Authority hires auditor*

CONCLUSION



CONCLUSION

- Changes will continue
- Audit recommendations if implemented will save toll payers millions of dollars
- Expressway's commitment to Reforms

CONCLUSION

“It didn’t take long to find out that we had some very talented people working there that would do the right thing if they know the right thing to do. The model the agency operates on today with all the outsourcing we do is the model that we started with 30-odd years ago. Some of that is outdated. I was surprised by the enormous amount of money we spend on inspections, reviews and monitoring. So much of this stuff could be done a lot more economically”

Harvey Massey
Board Member
Orlando-Orange County
Expressway Authority

CONCLUSION

Keys to the audit:

- Good background information
- Thorough survey and internal control review
- Comprehensive audit programs
- Willingness of County Mayor to force change
- Willingness of Expressway Authority Board to accommodate change
- Great diplomacy by Deputy Director of Audits in negotiating wording of report
- Public pressure – TV, radio and print media

CONCLUSION

Video

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Questions?