



November 13, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Oversight Controls and Contract Compliance Related to the Orange Transportation Center Parking Structure Project

Overview

The Internal Audit Department has completed an audit of oversight controls and contract compliance related to the Orange Transportation Center Parking Structure Project. Based on the audit, procurements were handled in accordance with policies and procedures, status monitoring and reporting controls are operating, and consultants are providing services in accordance with their contracts. However, the Internal Audit Department recommends improvements to contract language addressing force account payments, preparation of independent cost estimates, and construction management consultant oversight of change orders. The Internal Audit Department is also making recommendations related to adequate labor timekeeping systems for consultants, as well as procedures to ensure compliance with requirements for federally-funded assets.

Recommendation

Direct staff to implement three recommendations provided in Oversight Controls and Contract Compliance Related to the Orange Transportation Center Parking Structure Project, Internal Audit Report No. 19-508.

Background

The Orange Transportation Center Parking Structure Project is a shared-use parking structure located at Lemon Street and Maple Avenue. There are 608 parking stalls, of which 500 stalls are intended for transit use and the remaining 108 stalls are intended for the City of Orange's general use. The current baseline

estimate for the project is \$33,175,000 and includes the transit and non-transit portions. The project is funded through a mix of local, state, and federal funds.

The Orange County Transportation Authority (OCTA) entered into a time-and-expense contract with Hill International, Inc., for construction management (CM) services with a maximum cumulative payment obligation (maximum) of \$2,126,779. The maximum had increased to \$2,745,380, and the term extended to June 30, 2019, by Amendment No. 7. OCTA entered into a contract with Bomel Construction Company, Inc., for construction of the project with a maximum of \$18,414,300. Contract Change Order (CCO) No. 001 allowed work to proceed on contaminated soil and railroad ties at force account for a not-to-exceed (NTE) amount of \$200,000, CCO No. 001.1 was then issued with an NTE of \$863,000, and CCO 001.2 was finally issued at \$172,640.54, to capture all remaining work, costs, and schedule adjustments. CCO, No. 002 through No. 008 were all executed at lump sum amounts totaling \$779,883.59.

Discussion

Internal Audit identified areas for improvement related to CCO's. Internal Audit recommended that independent cost estimates for CCO's be prepared prior to receipt of contractors' pricing information and that CM's retain documentation evidencing scrutiny of force accounts costs. Internal Audit also recommended, for future contracts, that contract language outlining labor costs paid on force accounts be clarified and enforced. Management responded that it would add requirements related to independent cost estimates to its procedure manual, remind CM's to retain appropriate documentation to support force account costs, and provide clarity to contract provisions.

A sub-consultant to the CM does not utilize an adequate labor timekeeping system; discrepancies were identified in the employee timesheets and job timesheets that accompanied labor billings. Internal Audit recommended that prime and sub-consultants be required to have an adequate labor timekeeping system. Internal Audit also recommended that management remind consultants of the need to request amendments to add staff, labor rates, and other direct costs in a timely fashion. Management agreed to add the requirement for use of an adequate labor timekeeping system to future requests for proposals. Management also agreed to emphasize the need for timely submission of requests for amendment.

Finally, Internal Audit identified a need for procedures to address ongoing monitoring of federally-funded assets. Internal Audit recommended that management develop written procedures, including development and enforcement of operations and maintenance agreements with agencies that take

possession of such assets. Management responded that it is coordinating across all divisions to develop procedures that ensure adequate monitoring and ongoing oversight of federal facilities that are owned and maintained by an OCTA subrecipient.

Summary

Internal Audit made three recommendations for improvements related to CCO's, labor timekeeping systems, and ongoing monitoring of federally-funded assets.

Attachment

- A. Oversight Controls and Contract Compliance Related to the Orange Transportation Center Parking Structure Project, Internal Audit Report No. 19-508

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