

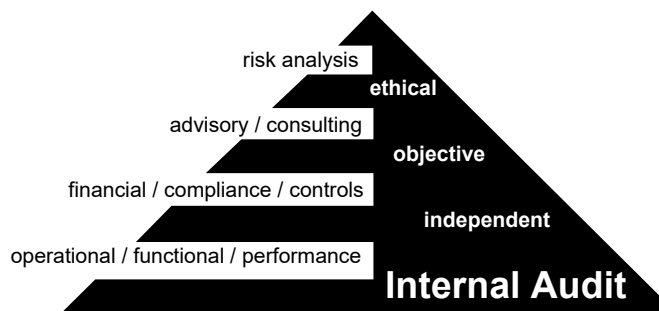
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Interstate 5 Improvement Project: Oso Parkway to Alicia Parkway Design and Construction Management

Internal Audit Report No. 25-501

October 10, 2024



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of the design and construction management contracts for the Oso Parkway to Alicia Parkway segment of the Interstate 5 Improvement Project. Based on the audit, oversight controls are in place and operating effectively and contract compliance and invoice review controls are generally adequate; however, one recommendation was made to enforce the pre-approval requirement for other direct costs not included in the contract schedule.

Background

Interstate 5 Improvement Project between State Route 73 and El Toro Road

OCTA, in cooperation with the California Department of Transportation (Caltrans), is implementing the Interstate 5 Improvement Project between State Route 73 and El Toro Road. The Interstate 5 Improvement Project will add one general purpose lane in each direction on Interstate 5 between Avery Parkway and Alicia Parkway, extend the second high-occupancy vehicle lane from El Toro Road to Alicia Parkway, re-establish auxiliary lanes, and construct new auxiliary lanes at various locations. In addition, the Interstate 5 Improvement Project will reconstruct the Avery Parkway and La Paz Road interchanges, improve several existing on- and off-ramps, and convert existing and proposed carpool lanes to continuous access. Construction is underway in three segments, with segment 2 extending from south of Oso Parkway to south of Alicia Parkway.

The budget for segment 2, the Oso Parkway to Alicia Parkway segment (project), is \$196,167,000, and the current forecast at completion is \$230,346,000. The project is in the construction phase, with the baseline plan estimating construction completion in November 2023 and the current forecast estimating completion in October 2024.

Contracts

OCTA entered into Agreement No. C-8-1418 with HDR Construction Control Corporation (HDR), effective March 1, 2019, for construction management (CM) support services for the project. The agreement is a time and expense contract with a maximum cumulative payment obligation of \$12,168,767, retention of ten percent, and term continuing through February 29, 2024. Subcontractors named are Jacobs Project Management Company, Coast Surveying, Inc., Ghiradelli Associates, Inc., and S2 Engineering, Inc. Eight amendments, including five letter amendments, have been executed to revise key personnel and the Schedule I - Hourly Rate Schedule, extend the term through December 31, 2024, and increase the maximum cumulative payment obligation to \$16,786,082.

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Effective November 7, 2014, OCTA entered into Agreement No. C-3-2091 with TranSystems Corporation (TranSystems) for the preparation of plans, specifications, and estimates (design) for the project. The agreement is a firm-fixed price contract for \$11,140,370, continuing through March 31, 2023. Subcontractors named are ACT Consulting Engineers, Inc., Earth Mechanics, Inc., Engineering Solutions Services, Kleinfelder, LSA Associates, Inc., and RBF Consulting. Key personnel were modified, subcontractors were updated, and services were added to the scope of work through 11 amendments, increasing the firm-fixed price payment to \$13,167,744. Letter Amendment No. 12 extended the term through March 31, 2024, and Letter Amendment No. 13 extended the term through March 31, 2025.

Project Status and Invoice Review Controls

During the construction phase, weekly construction meetings are held with representatives from OCTA, HDR, Caltrans, and the construction contractor. Monthly meetings are held with Caltrans to discuss all projects in construction.

Project Controls prepares internal monthly status reports reflecting budget and schedule information for all capital projects. Capital Programs prepares quarterly reports to the Board of Directors (Board) communicating the status of all capital projects. Such reporting includes the status of the project.

Project Controls reviews invoices based on a standard invoice review checklist. The project manager reviews the invoice for level of effort and for the nature of the work being performed. If invoices are over the project manager's signing authority, he routes the invoice for signature by management with sufficient signing authority. Accounts Payable reviews the invoices for proper approval prior to processing payment.

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Objectives, Scope, and Methodology

The objectives were to assess and test oversight, contract compliance, and invoice review controls related to design and construction management of the project.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Risk Assessment
 - OCTA identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
 - OCTA obtains or generates and uses relevant, quality information to support the functioning of internal control.
- Monitoring
 - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The methodology consisted of confirming if a risk register was prepared for the project, confirming that weekly construction meetings were held through review of a judgmental sample of meeting minutes, assessing invoice review procedures and testing a judgmental sample of invoices for compliance with policies and contract provisions, testing a judgmental sample of monthly status reports, and testing a judgmental sample of the quarterly capital project reports to the Board. The judgmental samples were selected to provide coverage of more recent activity during the construction phase. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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The scope is limited to the Oso Parkway to Alicia Parkway segment of the Interstate 5 Improvement Project between State Route 73 and El Toro Road and included the CM and design contracts, all amendments to the CM contracts executed through July 2024, and amendments to the design contract executed from beginning of construction in April 2019 through July 2024. The scope included all invoices paid on the CM contract from contract inception through July 2024, and invoices paid on the design contract from beginning of construction in April 2019 through July 2024. The scope also included two years of weekly construction meetings and status reporting.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Audit Comment, Recommendation, and Management Response

Other Direct Costs Not Included the Contract Schedule

Two CM sub-consultants did not obtain OCTA prior approval for other direct costs not included in the contract schedule.

The contract requires consultants to obtain prior approval from the program manager for other direct costs that are billed but are not included in the contract schedule; however, program manager approval was consistently obtained after the cost had been incurred.

Recommendation 1:

Internal Audit recommends management enforce the contract requirement for prior approval of other direct costs not included in the contract schedule.

Management Response (Capital Programs):

Management agrees with the recommendation. OCTA's Project Manager will make every effort to ensure that all potential Other Direct Costs (ODC) that may potentially be used on a project are included in the contract, prior to executing the contract. In addition, OCTA's Project Manager will remind the consultant that all ODCs not listed in the contract require prior approval by OCTA's Project Manager prior to work being performed or costs incurred.

Schedule II of HDR contract C-8-1418, Other Direct Costs Schedule, includes the language "All other direct expenses, not listed above, will be paid at cost, with prior approval of the Program Manager..." This language will be revised to state: "All other direct expenses, not listed above, will be paid at cost, with prior approval of the Authority Project Manager..." to clarify whom provides the prior approval, and remove the reference to Program Manager approval in the contract.