

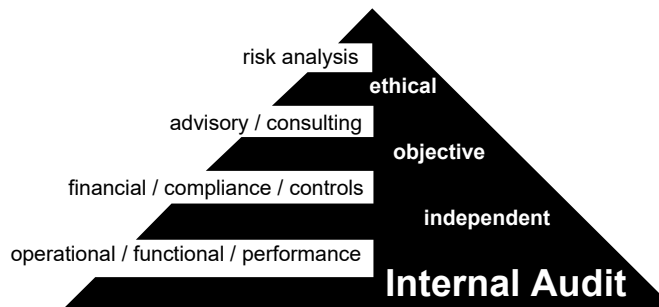
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Review of Interstate 405 Improvement Project: Design-Build Contract

Internal Audit Report No. 24-507

April 9, 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-build contract for the Interstate 405 (I-405) Improvement Project. Based on the audit, oversight, and invoice review, controls were in place and invoices complied with contract provisions. One recommendation was made to improve documentation in OCTA files.

Background

OCTA, in cooperation with the California Department of Transportation (Caltrans) and the cities of Costa Mesa, Fountain Valley, Huntington Beach, Seal Beach, and Westminster, implemented the I-405 Improvement Project between State Route 73 (SR-73) and Interstate 605 (I-605). The project added one general purpose lane in each direction from Euclid Street to I-605, consistent with Measure M2 Project K, and added an additional lane in each direction that was combined with the existing high-occupancy vehicle lane to provide dual express lanes in each direction of the I-405 from SR-73 to I-605, otherwise known as the 405 Express Lanes.

On November 14, 2016, the OCTA Board of Directors (Board) awarded the design-build contract to OC 405 Partners, a joint venture of OHL USA, Inc., and Astaldi Construction Corporation. OCTA executed the design-build contract with OC 405 Partners and issued Notice to Proceed (NTP) No. 1 on January 31, 2017. NTP No. 1 was a limited NTP for mobilization, design, and administrative activities. On July 27, 2017, OCTA issued NTP No. 2, to OC 405 Partners. NTP No. 2 was a full NTP for all activities, including construction. The lump-sum contract price was \$1,217,065,000. Contract change orders (CCO) totaling \$292,070,433.44 had been executed as of September 2023.

When construction began, the project budget was \$1,900,000,000 and design-build construction was estimated to be complete in April 2023. The project budget increased to \$2,080,234,000 in January 2021, and increased to \$2,159,999,697 in August 2023. The estimated completion date was revised to May 2023 in August 2017, and revised to February 2024 in January 2021. All lanes opened in the beginning of December 2023.

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Objectives, Scope, and Methodology

The objectives were to assess oversight controls, invoice review controls, and contract compliance related to the design-build contract for the I-405 Improvement Project.

According to generally accepted government auditing standards, 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.
- 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 assessing invoice review procedures and testing all invoices from OC 405 Partners for compliance with policies and contract provisions, testing evidence of weekly progress meetings, testing a judgmental sample of CCOs, testing a judgmental sample of monthly status reports, and testing judgmental samples of quarterly capital project status reports and specific project updates to the Board.

The scope is limited to the design-build contract with OC 405 Partners and excludes all other contracts. The scope included all invoices paid from contract inception through November 2023, and all weekly progress meetings. The scope included internal monthly status reports from December 2021 through December 2023, quarterly capital project status reports to the Board from the third quarter of fiscal year (FY) 2021-22 through the second quarter of FY 2023-24, and specific project updates made to the Board in calendar years 2022 and 2023. The scope also included a judgmental sample of 25 CCOs. The judgmental samples were selected to provide coverage of the more recent status reporting and capturing a mix of lump-sum and time and materials CCOs throughout the

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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construction phase. Since the samples are non-statistical, any conclusions are limited to the sample items tested.

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. 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

OCTA File Documentation

OCTA file documentation can be improved to ensure complete records of invoice payments and evidence of progress meetings.

Invoice payment records filed in OCTA's accounting system do not contain all relevant supporting documents. For example, stop payment and release of stop payment notices were often not included with the invoice payment records to support withheld and released amounts. Additionally, daily extra work reports and supporting work tickets were also not filed with invoice payment records. Copies of daily extra work reports were found in project files and extra work tickets were on file with the construction management consultant based on the month the tickets were approved, rather than the month paid.

In addition, meeting minutes, along with sign-in sheets, are typically prepared to document progress meetings; however, meeting minutes for weekly design-build management meetings were not consistently filed in the project files, and sign-in sheets were not always attached.

Recommendation 1:

Internal Audit recommends that management file stop payment and release notices, daily extra work reports, and supporting tickets, and any other supporting documentation with the invoice payment records in OCTA's accounting system. Management should also ensure that meeting minutes with sign-in sheets are consistently filed with the project files.

Management Response:

Management agrees with the recommendation. The Capital Programs Division will work with the Finance and Administration Division to include relevant supporting documents going forward, including stop payment and release notices, daily extra work reports, and supporting work tickets in the invoice payment records in OCTA's accounting system. Staff will also ensure that meeting minutes with sign-in sheets for active meetings are consistently filed with the project files.