



April 8, 2015

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Review of Facilities Engineering Project Management

Overview

The Internal Audit Department has completed a review of facilities engineering project management. The primary purpose of the review was to evaluate the adequacy of oversight controls and compliance with policies and procedures for facilities engineering projects. Based on the review, the Internal Audit Department has determined that oversight controls are adequate and projects are managed in compliance with policies and procedures; however, one recommendation was made to improve controls over preparation of independent cost estimates.

Recommendation

Direct staff to implement recommendation provided in the Review of Facilities Engineering Project Management, Internal Audit Report No. 15-505.

Background

The Facilities Engineering Department (FE) oversees capital engineering projects involving properties owned by the Orange County Transportation Authority, including five bus bases, five transportation centers, and two park and ride lots. Typical activities include the repair or remodeling of existing facilities. The construction management team consists of an engineering manager and a civil engineer. The department reports to the Director of Rail Programs and Facilities Engineering.

FE utilizes on-call contractors that provide services including appraisal, engineering, right-of-way services, right-of-way maintenance, environmental consultant services, architectural and engineering design, and construction

support services. For construction projects, staff issues an invitation for bid and awards to lowest responsible bidder.

Discussion

Review of a sample of construction change orders found that independent cost estimates were often prepared after receipt of contractor's quotes or lacked evidence of the date prepared. The Internal Audit Department (Internal Audit) recommended that management improve controls to ensure independent cost estimates are prepared and dated prior to receipt of contractor's quotes. Management affirmed its understanding of requirements and suggested enhancement to controls to ensure compliance.

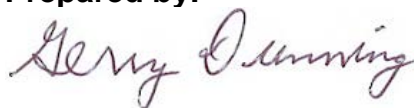
Summary

Internal Audit has completed a review of facilities engineering project management and is recommending improvement in controls over preparation of independent cost estimates.

Attachment

- A. Review of Facilities Engineering Project Management, Internal Audit Report No. 15-505

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Orange County Transportation Authority Internal Audit Department



Review of Facilities Engineering Project Management

Internal Audit Report No. 15-505

March 20, 2015



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Distributed to: Jim Beil, Executive Director, Capital Programs
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Conclusion

The Internal Audit Department (Internal Audit) has completed a review of Facilities Engineering project management. The primary purpose of the review was to evaluate the adequacy of oversight controls and compliance with policies and procedures for facilities engineering projects. Based on the review, Internal Audit has determined that oversight controls are adequate and projects are managed in compliance with policies and procedures; however, one recommendation was made to improve controls over preparation of independent cost estimates.

Background

The Facilities Engineering Department (FE) oversees capital engineering projects involving properties owned by the Orange County Transportation Authority (OCTA), including five bus bases, five transportation centers, and two park and ride lots. Typical activities include the construction of new facilities or repairing or remodeling of existing facilities. The construction management team consists of an engineering manager and a civil engineer. The department reports to the Director of Rail Programs & Facilities Engineering.

Facilities engineering projects are selected based on input from multiple sources, including the Health, Safety, and Environmental Compliance Department, Transit Division management, and from physical inspections performed by FE staff and Transit Facilities Maintenance staff. The FE manager and the Facilities maintenance manager discuss and prioritize projects. Projects are then subject to review and input by the division director of Facilities Engineering and the General Manager of Transit. Proposed projects are then reviewed and approved through the normal budget review process.

FE utilizes on-call contractors that provide services including appraisal, engineering, right-of-way services, right-of-way maintenance, environmental consultant services, architectural and engineering design, and construction support services. For construction projects, staff issues an invitation for bid and awards to lowest responsible bidder.

Objectives, Scope, and Methodology

The objective of this review was to assess the adequacy of oversight controls and compliance with OCTA policies and procedures for facilities engineering projects. The scope of the review included activities during the two-year period ended June 30, 2014. The review methodology included, but was not limited to, review of policies and procedures, review of progress payments, on-call contract task orders, closed contract files, construction contract change orders and interview with applicable staff.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the

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audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe 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

Preparation of Independent Cost Estimates

Policies and procedures, federal guidelines, and best practices require independent cost estimates be prepared prior to receiving contractor's quotes.

Internal Audit found that independent cost estimates were often prepared after receipt of contractor's quotes or lacked evidence of the date prepared.

Recommendation 1:

We recommend management improve controls to ensure independent cost estimates are prepared and dated prior to receipt of contractor's quotes.

Management Response:

Management agrees with the recommendation. Under United States Department of Transportation procurement regulations, an independent cost estimate (ICE) must be made before receiving bids or proposals (49CFR, 18.36 (f)(1)), and a cost or price analysis must also be made depending on the particular procurement. OCTA's Contracts Administration and Materials Management Department (CAMM) policies and procedures reflect these requirements, and for each procurement, the project manager delivers an ICE to CAMM. For modifications to an existing contract, an ICE is normally made at the time the change arises. Subsequent to making an ICE, the project manager may perform various analyses on a change proposal to assess reasonableness and to determine whether costs are allowable. There may be instances where contractors unilaterally assert a change and forward related information to OCTA project management. In those cases, the timing of preparation of an ICE could be compromised. As an added control measure, project management will advise contractors to forward any cost documentation to CAMM.