Office of the County Auditor
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August 22, 2014

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We conducted an audit of the Department of Transportation & Highways (DOTH) Construction Contract Monitoring. We conducted our audit in accordance with Government Auditing Standards where applicable as prescribed by the Cook County Auditor Ordinance.

The scope and objectives of the Highway Construction Contract Monitoring Audit were designed to assess the procedures for monitoring compliance with the terms of the Department's construction contracts. Our objectives for this examination were to assess DOTH's processes for monitoring contractor's compliance with contracted terms, verify that the change order approval process followed consistently with DOTH guidelines and validate that contractor payments adhered to contracted terms and were properly supported with documentation.

Please refer to the following audit report for the results of the audit. Based on our review, we noted internal controls are in place in regards to the monitoring of construction contracts. We did not have any findings, but noted one observation in the Audit Results Section.

We express our appreciation for the assistance of the Department's staff extended to Mr. Damon Howell during the course of our examination. We would be happy to provide any further assistance to the Department in regards to the observation and process improvement.

Respectfully Submitted,

Shelly Banks

Shelly A. Banks, C.P.A.
Cook County Auditor

cc: John Yonan P.E., Superintendent Department of Transportation & Highways
Carl Byrd, Chief Administrative Officer

COOK COUNTY GOVERNMENT

OFFICE OF THE COUNTY AUDITOR

Highway Construction Contract Monitoring

Internal Audit Report

Report Date: August 2014

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Damon Howell, Field Auditor V

EXECUTIVE SUMMARY

We have examined the construction contracts, payment estimates and change orders of the Department of Transportation & Highways.

The scope and objectives of the Highway Construction Contract Monitoring Audit were designed to assess the procedures for monitoring compliance with terms of the Department's construction contracts.

Based on our review, we noted internal controls are in place in regards to the monitoring of construction contracts. We did not have any findings, but noted one observation in the Audit Results Section. The observation is recommending a process improvement through an automated system or more automated approaches to monitoring contract compliance and tracking key support documentation.

BACKGROUND

Per the Cook County Department of Transportation and Highways (DOTH) 2013-2017 Transportation plan, the Department was established in 1913 by the State of Illinois upon approval of the first officially recorded County highway system maps. The present day system has evolved to include jurisdictional authority over 563 center line miles of highways. DOTH has maintenance responsibilities for 1,469 lanes miles of pavement, 136 bridges, 351 traffic signals and 7 pumping stations from 5 maintenance facilities.

The mission of DOTH is to plan, design, construct, maintain and operate sustainable highways that provide safe, efficient, comfortable and economical movement of people and goods; to create a system of roads and highways that support the development of the regional economy and the region's residents.

DOTH's current focus is the development of a Long Range Transportation Plan (LRTP) that identifies the current and anticipated transportation demands of the County's residents and businesses all in conjunction with the County's economic development plans. Cook County strives to become a leader in coordinating the development of mass transit in suburban areas to support businesses and job access and ultimately reduce traffic congestion. The process will require a close partnership between the County and its local municipalities to ensure the Department is inclusive and transparent while leveraging relationships with federal and state agencies.

AUDIT SCOPE AND OBJECTIVES

Our objectives for the Highway Construction Contract Monitoring Audit were to verify that internal controls are in place to ensure compliance with DOTH's construction policies, procedures and contract requirements.

Our objectives included:

- Determine that written policies and procedures are in place to monitor construction contracts
- Determine that a process is in place to monitor contractor's compliance with contract
- Verify change order review and approval process is in place and has been followed
- Validate payments are made in accordance with the contract
- Verify that proper documentation exists to support payments and work completed
- Verify that required contract deliverables have been submitted

AUDIT RESULTS

Based on our analysis and evaluation of the internal control procedures for the Department of Transportation & Highways (DOTH) construction contract monitoring, our review determined that overall DOTH has internal controls in place for monitoring construction contracts. The audit reviewed an open contract and two closed contracts to assess the overall controls in place for monitoring once a contract is executed. We did not have any findings but note one observation for process improvement to further strengthen the internal controls.

Observation

The monitoring process is highly manual making it less efficient to ensure contractor compliance. Due to the nature of the construction projects, a significant amount of paperwork is involved in monitoring the contracts. The Department maintains a manual central file which should contain all the proper support documentation to provide a clear audit trail and to ensure compliance with contract terms. During the audit, we reviewed the central files for the three contracts to verify that the proper documents were maintained to support the monitoring procedures and that the contractors were in compliance with the contract. As noted below, there were a couple discrepancies with the review of the central file documents. The discrepancies were resolved by DOTH management through providing the proper documentation.

Per our testing of the central file documentation, the following are the noted discrepancies:

- The central file contained documentation that indicated that two estimates were approved for the same items. When verifying the gross estimated amount and total retainage amount to determine contractor compliance it was unclear to the auditor which document was the final approved adjustment to be applied to the contract terms. Per further inquiry with DOTH, it was explained which document represented the final approval and we were able to satisfactorily complete our testing.

- The central file was missing documentation to support the unit prices of several items being tested. Once requested from DOTH, a complete list of the unit prices was provided and we were able to complete the unit price testing.

- In addition to the discrepancies that were resolved, we noticed an immense amount of duplicate documentation in the file. We realize that this is most likely due to staff trying to manage the project and keep up with the manual paperwork.

DOTH may want to pursue an automated system or more automated approaches to monitoring contract compliance and tracking key support documentation. The contract monitoring process is extensive with highway construction projects generating enormous amounts of information that must be captured, organized, and approved to keep construction on track and meet contract requirements. An automated system can improve the efficiency, accuracy and cost effectiveness of contract monitoring. Through automation, the information can be better managed by streamlining data collection and organization, reducing duplicative record-keeping, providing up-to-the-minute management status reports, making easily accessible key contract requirement documents and improving processing time for approvals needed to keep projects on track. Staff would be able to spend less time on paperwork and more time monitoring progress and quality of the project.