



INTERNAL AUDIT

Construction Cost Audit

24-02

May 16, 2025

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action ¹	For Information	Reviewed prior to release
Audit Committee		*	
Executive Director		*	*
Chief Operating Officer	*	*	*
Director of Capital Program & Support	*	*	*
Chief Capital Services Officer	*	*	*

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

The Utah Transit Authority (“UTA”) Audit Committee directed the Internal Audit department (“IA”) to conduct an assessment audit of UTA’s Construction Cost processes. The Audit Committee approved the Audit Plan that included this engagement on December 18, 2023. Internal Audit refined the scope of this project with a specific emphasis on the vendor HNTB’s contract performance. IA completed the audit in accordance with Global Internal Audit Standards published by the Institute of Internal Auditors.

Background and Overview

To successfully deliver their Capital Program, UTA at times needs specialty services and additional staff resources from outside consultants. UTA contracts these consultants to complete specific tasks and projects, support strategic direction, and provide expert review informed by a national perspective. As a consultant service provider, HNTB performs a range of services on UTA’s behalf, including but not limited to project management, construction inspection and oversight, right-of-way acquisition, surveying, public involvement assistance, stray current identification, environmental and design assistance, project controls, and design reviews. UTA collectively refers to these services as “program management services,” which support many interrelated projects, tasks, and initiatives across multiple business units.

UTA selected HNTB through a competitive bid process in April 2021 to provide Program Management Services under a 3-year contract. The agreement included two optional 1-year extensions beyond the initial term. UTA designed this new Program Management Services Consultant (PMSC) contract to ensure continued progress toward delivering its 5-year capital plan, addressing ongoing state of good repair needs, and meeting other service requirements. In March 2025, UTA exercised the second 1-year extension to continue its partnership with HNTB.

Objectives and Scope

During the planning procedures, IA met with management and multiple project managers who had worked with HNTB throughout the contract’s duration. The Attorney General’s office also provided guidance on areas of concern related to the contract’s performance. Based on the results of these interviews and the feedback received, IA defined the audit objectives and finalized the audit scope. The audit focused on the following areas:

1. Invoicing and Approval Process

IA reviewed the invoices that HNTB submitted for payment and tested them to identify who approved the project billings included in each invoice.

2. HNTB Consulting Needs that Exceeded the Hours of a Full-Time Employee

IA ran analytics to identify the HNTB consultant job descriptions that UTA used most frequently. We also tested the timesheets that HNTB employees submitted to determine whether 1) individual consultants worked more than 1,500 hours in a calendar year, and 2) any consultant job tasks that exceeded 2,000 hours within the calendar year.

3. Disallowed Costs that UTA may have Paid

UTA includes specific Federal procurement clauses that prohibit vendors from submitting certain expenses for payment or reimbursement. IA tested the receipts included in HNTB's invoice packets to determine whether any disallowed expenses, such as alcohol and entertainment, had been submitted.

IA set the audit period as April 1, 2021, through December 31, 2024.

Summary

1. Invoicing and Invoice Approval Process

IA downloaded all invoices that HNTB submitted during the audit period. Each invoice typically contained hundreds of pages, usually around 500, resulting in a total of more than 29,000 pages submitted during the audit period. Due to the volume and formatting, IA found it difficult to extract data efficiently for in-depth analysis. As a result, IA primarily conducted targeted sample reviews to provide a reasonable level of assurance that the submitted data was accurate.

For specific areas of in-depth testing, IA manually extracted data line by line from portions of the invoices. We tested the "approval summary" section of each invoice to determine whether the assigned Project Manager (PM) approved the payments for their respective projects. In most cases, the assigned PM provided the final approval. However, IA identified 126 instances where someone other than the assigned PM approved project costs within an invoice. PM approval is important because they are the ones most familiar with the project and can best determine if invoiced charges are valid. We address this issue in Finding 24-02-02 below.

2. HNTB Consulting Needs That Exceeded the Hours of a Full-Time Employee

Several HNTB contract specialties perform more than 2,000 annual hours of work for UTA. This suggests that UTA might better serve our needs by analyzing whether adding full-time employees to complete the work currently being contracted out.

3. Disallowed Costs That UTA May Have Paid

While reviewing HNTB's invoices, IA identified receipts that included charges for alcohol and entertainment—expenses disallowed under UTA's procurement policies. Due to limitations in data extraction, IA could not efficiently analyze all receipts submitted throughout the audit period. However, based on our sampling and review, IA believes these issues were frequent or extreme in amount.

Finding 24-02-01

Invoicing format should be defined

Risk Level: Medium

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) publishes an integrated framework to guide organizations on best practices for internal controls. Component Three: Control Activities, Principle 10 of this framework, states:

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

COSO further guides:

Verification – this method is used to address the completeness, accuracy, or validity of processing transactions.

Contract Number 20-03384VW, with HNTB contains Paragraph 6. INCORPORATED DOCUMENTS state the following in sub-paragraph a.3 that the contract incorporates the following:

UTA’s RFQs including, without limitations, all attached incorporated terms, conditions, federal clauses (as applicable), etc.

Within the federal clauses that UTA incorporates is 2 CFR Subpart E General Provisions for Selected Items of Cost; Part 200.420-476 states:

Federal budgeting Allowable and Disallowed costs are identified; among these disallowed costs are items such as alcohol and entertainment.

Condition

Currently the invoice format used by HNTB is a submission of a large PDF that typically exceeds 500 pages. Additionally, any expenses for travel and incidentals for the HNTB employees and any subcontractors submitted within the invoice. There is no standard format for how the receipts should be documented.

Timesheets for HNTB employees and subcontractor employees are also provided with the invoice. There is not an effective way to directly tie the hours submitted by a contractor to the project they worked on, which further complicates the invoice review process.

Cause

The contract lacks clarity in how HNTB, or other vendors, should provide invoices.

Effect

The quality of reviews is impacted by the length and format of invoices. It is difficult to identify which project these expenses are associated with and ensure that the charges are allocated to the correct project and expense code. Additionally, unallowable costs may be charged to UTA without detection.

IA identified instances where HNTB submitted receipts for entertainment activities during our audit. Examples include multiple instances of bowling events, golf tournament registration, and alcohol purchases. These were found through carefully targeted searches. Even with advanced analytical tools available to IA, the format and volume of the invoices made it infeasible to thoroughly audit individual line items in a cost-effective manner. We could not determine the full extent of unallowable costs. This limitation would also be experienced by project managers who must review the invoices.

Recommendation

- 1) Future contracts should have clear requirements for invoice documentation and format.
- 2) Management should develop and document standard procedures for invoice review and approval.

Management Response and Action Plan

Management agrees with this recommendation and is appreciative of the feedback. The invoicing process has been difficult to navigate at times. Management will incorporate this feedback and include it in the upcoming RFQ release for the upcoming Program Management Services Contract and ensure a clear and easy to understand invoicing process and format are included in the contract documents.

In addition, Management will provide it's PM's with instructions on how the invoice approval should be performed and what figures they should look for during their review.

While management will try to streamline this as much as possible, it may not be able to do much about the overall size of the invoice submissions. Backup documentation for hours billed, and expenses incurred are required. Where a program management team may be supporting several dozen projects, the back-up documentation required also grows based on the required backup documentation.

Responsible Individual(s)

Director- Capital Programming and Support

Target Completion Date

July 31st, 2025, for incorporation into the RFQ release.

December 31st for incorporation into the final contract documents for the next Program Management Services Contract.

Finding 24-02-02

Approvals should be Performed by the Assigned PM

Risk Level: Medium

Criteria

COSO Component Three: Control Activities, Principle 3 states:

Management establishes with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of the organization's objectives.

This principle further states that;

Duties are segregated to reduce the risk of inappropriate conduct in the pursuit of objectives, and requisite checks and balances occur from the highest to the lowest level of the organization (e.g., defining roles, responsibilities, and performance measures...Third party service providers who are tasked with carrying out activities on behalf of the entity understand the extent of their decision-making rights.

Condition

IA identified 126 instances when someone other than the directly assigned Project Manager (PM) approved project costs within invoices from HNTB.

Cause

The contract with HNTB states:

Payment for all invoice amounts not specifically disapproved by UTA shall be provided to Consultant within thirty (30) calendar days of invoice submittal.

This contract language puts a great deal of pressure on UTA personnel to approve the invoiced costs quickly. Management confirmed that there has been discussion and even disagreement between HNTB and UTA's contract manager regarding when the payment terms should start, or if there is an allowance for UTA to review and approve the invoice prior to the "Net 30" period beginning.

Effect

PMs are the most familiar with their projects and its various inputs. Invoice approval by someone other than the PM increases the risk of unallowable costs and incorrect costs being charged to UTA.

Recommendation

- 1) In the future the appropriate project manager must approve all invoices.
- 2) Future contract provisions should clearly define the invoice approval process and specify the period within which UTA is authorized to review then approve invoices prior to payment to the vendor.

Management Response and Action Plan

Management agrees with this recommendation and is appreciative of the feedback. The invoicing process has been difficult to navigate at times. Management will incorporate this feedback and include it in the upcoming RFQu release for the upcoming Program Management Services Contract and ensure a clear and easy to understand invoicing process is included. This structure will take into account future Project Manager review to make it clearer how invoices should be submitted and where the backup documentation needs to be placed throughout the submitted invoice. UTA will also make clear the conditions that would restart an approval process clock.

Management would point out that most of those 127 identified instances were likely completed by either a Director or a Chief in the event an assigned PM was unable to approve the invoice in time to maintain the required processing timeline. While this does follow the natural escalation of approvals, this should also be called out in the new RFQu release.

Responsible Individual(s)

Director- Capital Programming and Support

Target Completion Date

July 31st, 2025 for incorporation into the RFQu release.

December 31st for incorporation into the final contract documents for the next Program Management Services Contract.

Criteria

COSO Component Five: Control Environment, Principle 4 states:

The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

COSO guidance on this principle elaborates:

The commitment to competence is supported by and embedded in the human resource management processes for attracting, developing, evaluating, and retaining the right fit of management, other personnel and outsourced providers. The adequate number of resources is determined and periodically readjusted considering the relative importance of risks to be mitigated to support the achievement of the entity’s objectives.

Condition

IA extracted and reviewed HNTB’s employee timesheet data from 2022 to determine whether any consultants exceeded 1,500 hours, which is roughly 75% of a full-time employee’s workload, or surpassed 2,000 hours, which is equivalent to full-time work over a year.

Our analysis shows that 13 HNTB employees worked more than 1,500 hours for UTA in 2022. Additionally, five consultant job types, shown in the table below, exceeded 2,000 hours during the year, with Engineer I accounting for over 4,000 hours – or the equivalent of two full-time employees.

Table 1. 2022 Total Hours by HNTB Employee Classification

HNTB Employee Classifications	Total Hours
Engineer I	4,607
Construction Management	3,424
Project Manager	3,360
Project Controls	3,302
Systems & Signals Engineer	3,128

Cause

The UTA process for obtaining new headcount is a long and deliberate process. This ensures that UTA does not increase employee headcount without careful documentation and analysis of needs. However, this can leave departments with urgent short-term needs that must be met to achieve objectives.

Effect

1. Outsourced help is not as cost-effective as hiring UTA’s own employees. The contract with the outsourced provider has a much higher hourly cost. For example, in 2025 the average contract rate for HNTB assistance ranges is \$198.02 per hour. In contrast, UTA’s pays administrative employees an average hourly rate of \$38.75 with benefits. We could not readily calculate an average hourly rate for benefits, but that rate for a Director level employee within the Capital Services department was \$29.91 in 2024. Using that figure as an approximation for benefits cost, that gives a total rate of \$68.66 for UTA employees versus \$198.02 for HNTB consultants.

2. Continued reliance on contractors increases the risk of losing continuity and core competencies when the contract lapses or is put out for rebidding.

Recommendation

Management should develop a tracking mechanism to identify specific specialties that UTA uses for over 2,000 hours per year. Management can then use this data to build cases for additional headcount as appropriate.

Management Response and Action Plan

Management agrees with this recommendation. UTA has always approached its capital staffing plan to where it has a core group of individuals and then it uses consultants to fill in the peaks meaning those resources that are used more occasionally or more aggressively for a short amount of time are filled by consultants. This makes it easier when the job is done, for UTA and the consultants to part ways if needed. However, UTA should really take a look at what roles are being filled by consultants year after year and see if the number of those core roles can/should be brought in house.

Management will commit to establishing a review process at the end of each year where costs for the consultants are evaluated for different roles. The review will look at the number of consultants filling the roles, their hours worked, and total cost. This will be evaluated with the Chief Capital Services Officer in Q1, and a decision will be made on if additional headcounts should be requested based on potential cost savings and likelihood of there being consistent work to be performed by the new UTA role.

Management would also just ask that we compare the UTA hourly rate and the HNTB rates as fairly as possible. The HNTB rates are fully burdened and include an Overhead rate multiplier. UTA will look at the savings in terms of a fully loaded UTA hourly rate (base salary + fringe benefits) is probably the most fair comparison in terms of what UTA is paying for people to work here.

Responsible Individual(s)

Director- Capital Programming and Support

Target Completion Date

April 1st, 2026

Finding 24-02-04 Contract to be structured as Master Task Order (MTO) Risk Level: Medium

Criteria

Board of Trustees Policy No. 2.2 "Contract Authority, Procurement and Grants" III.D.1. and III.D.2 states:

The Board of Trustees will review and approve contracts that exceed a total value of \$200,000 over the life of the contract, including any option year. The Board of Trustees will review and approve the following contract change orders:

- a. change orders that increase the total contract value to \$200,000 or more*
- b. change orders for contracts with a total value over \$200,000 that increase the total contract by 15% or more*
- c. all change orders over \$200,000.*

Condition

The existing contract allows for scope and therefore cost expansion without direct Board or Change Order Committee approval. The HNTB contract defines the scope of work and “not to exceed” amounts, both by total contract and annual spend. Specific projects and related amounts are executed within the parameters of the total contract and not treated as distinct projects requiring Board approval (if projected cost is over \$200,000). Yet, individual tasks, or portions of work within the overall contract do exceed \$200,000 and will have additions of \$200,000 or more. This is not a violation of the policy stated in the Criteria section, but it is not within the intent of the policy.

Cause

Not applicable

Effect

The contract with HNTB grew from an initial three-year contract with a total approximate cost of \$17 million, approximately \$5.7 million per year. While the most recent change order to exercise the second option extending the contract to five years has increased the final contract amount to \$43,382,015 and an average cost of approximately \$8.6 million per year.

During the contract period between April 2021 through December 2024 there have been fourteen (14) separate instances when projects within the contract had an annual spend increases above the \$200,000 threshold. These change orders do not have the required Board oversight and accountability because of the contract structure.

Contract oversight and control is lessened as the scope continues to grow and unrelated departments are using the contract. This lowers overall accountability to the Board of Trustees by obscuring the work performed under the contract.

Recommendation

1. Future contracts should adopt a Master Task Order (MTO) format, or similar, to ensure that Board oversight is applied at a project level.
2. Management should work with the Board Office to define a streamlined approval process, due to the volume of single projects executed under the contract.

Management Response and Action Plan

Management will work with the Executive Director and Board Office to find a way to streamline this process. Management does want to highlight this is a different contract structure than a typical deliverable contract where the primary purpose of this contract is for staff augmentation and an hourly rate contract that has a wide scope and is intended to provide nimbleness and allows UTA to be reactive and fill needs outlined in the scope of work.

Management would be receptive to reporting on overall contract expenditures periodically throughout the year. Management would advise against requiring this contract to be run as an MTO agreement due to the sizeable and increased burden on staff such a contract structure would require and would negate a lot of the benefits that come from utilizing a typical program management services contract.

Management would again highlight that this contract, over a five-year period, only experienced three (3) change orders as defined by the contract requirements. The first one was driven by the Legislative session where FrontRunner 2X went to UDOT. This required UTA to cancel a separate program management services contract that had been set up for that specific effort. The first HNTB change order incorporated a lot of those costs that

were under that contract. While this increased the HNTB contract, the overall program management services amount UTA would have incurred with two program management contracts was ultimately reduced. The other two change orders were solely for exercising of additional contract year options and anticipated associated costs for each year.

Target Completion Date

Management to meet with the Executive Director and Board Office to find path forward by end of June 2025. Would like to have this path forward included in the upcoming RFQu for the next Program Management Services Contract UTA will advertise. Hoping to release that in August of 2025.

Responsible Individual(s)

Director- Capital Programming and Support