

**Office of Inspector General**

**Robert E. Clift, Inspector General**



Examination Report 14C-2001  
District Four Contract E4J69

July 8, 2014

## **EXECUTIVE SUMMARY**

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The Office of Inspector General (OIG) conducted an examination of Contract E4J69, including Supplemental Agreements (SAs) 1 and 15. Contract E4J69 is a Public Private Partnership (P3) between Florida Department of Transportation (department) and Interstate 595 Express, LLC (Concessionaire), a Delaware limited liability company. This Design-Build-Finance-Operate-Maintain contract had several purposes:

- reconstruct approximately 10.5 miles of the I-595 mainline and 2.5 miles on Florida's Turnpike;
- improve frontage roads and ramps from the I-75/Sawgrass Expressway interchange to the I-595/I-95 interchange; and
- install a new tolled reversible express lanes system in the I-595 median.

The original amount of Contract E4J69 was \$1,313,077,500. SAs 1 and 15 added a combined total of \$4,434,916 to the contract amount.

Our examination indicated the costs associated with SAs 1 and 15 were adequately supported. In addition, the contract and the associated contract changes resulting from SAs 1 and 15 were adequately monitored by the District Four Construction Office to ensure compliance with department P3 policies and state regulations.

We conducted the examination as part of the OIG's annual audit plan.

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## **RESULTS OF EXAMINATION**

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Contract E4J69, for \$1,313,077,500 and 2,185 contract days, was executed on March 3, 2009, between the department and the concessionaire. The project, which is being constructed in segments, includes reconstructing approximately 10.5 miles of the I-595 mainline, improving frontage roads and ramps from the I-75/Sawgrass Expressway interchange to the I-595/I-95 interchange and installing a new tolled reversible express lanes system in the I-595 median. The total amount currently programmed for this project over the life of the 35-year concession term is \$4,646,674,321. A total of \$948.6 million in federal funds are programmed over the life of the project, of which \$868.7 million is committed to concessionaire payments. The project is expected to be completed in February 2015. Exhibit 3 in Appendix C is an overview of construction segments for the project.

The concessionaire contracted with Dragados USA (DUSA) as the lead contractor for the project. DUSA engaged multiple domestic and international construction partners to assist in completing the I-595 Express project. Exhibit 1 in Appendix C charts relationships between the concessionaire, DUSA and other project partners.

The concessionaire is using a combination of private and public equity and debt financing sources, including Transportation Infrastructure Finance Innovation Act (TIFIA), to fund the design and construction of the I-595 Express project (see Exhibit 2 in Appendix C).<sup>1</sup>

The domestic and international equity and debt secured by the concessionaire for the project will be repaid with payments from the department to commence upon substantial completion of construction. These payments will include a series of annual lump sum payments totaling \$685.55 million (the Final Acceptance Payments include \$50 million for potential milestone bonuses) and performance-based payments (the Availability Payments).

While the project will include a new tolled reversible express lanes system using variable pricing, the department will set the toll rates and retain the toll revenue.<sup>2</sup>

SA 1, executed on November 23, 2010, added \$3,528,035 and 0 days to the original contract. This SA was undertaken to compensate the concessionaire for construction of a noise barrier wall along the north side of I-595 and SR 84 to provide noise abatement for the Plantation Harbor neighborhood. The SA 1 work is scheduled to be finished in April 2014.

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<sup>1</sup> Financial Plan Annual Update For Interstate 595 – FDOT Report dated March 31, 2013

<sup>2</sup> I-595 Financial Plan Annual Update – 2013, FDOT Report dated March 31, 2013

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SA 15, executed on September 18, 2013, added \$906,881 and 0 days to the original contract. This SA was approved to pay the concessionaire for adding a lane to Ramp U-9, realigning a portion of eastbound I-595 to accommodate the added lane.

Contract and project-related documentation associated with SAs 1 and 15 was obtained through the department's Enterprise Information Portal and directly from District Four department personnel. Audit staff analyzed and performed tests on this documentation to ensure that it complied with applicable regulations, policies and P3 procedures. In addition, audit staff conducted a site visit to District Four on January 14, 2014. This visit allowed the auditors to meet with project management to gain a better understanding of the project timeline and to verify progress to date.

Audit staff were able to identify a number of periodic and ongoing oversight and monitoring processes related to the project and SAs 1 and 15. The District Four Construction Office had an extensive project monitoring system that included Daily Work Reports, Weekly Construction Progress Meetings and regular meetings with the Concessionaire, Lead Contractor, Federal Highway Administration and other interested parties.

Based on this examination, we determined the costs for SAs 1 and 15 were sufficiently supported and in compliance with department policies and procedures. In addition, we concluded the contract changes resulting from SAs 1 and 15 were adequately monitored by the District Four Construction Office.

**APPENDIX A – Independent Accountant’s Report**

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We examined the concessionaire’s costs related to SAs 1 and 15 from November 2010 through October 2013. District Four management is responsible for monitoring the changes to Contract E4J69. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to Attestation Engagements contained in **Government Auditing Standards** issued by the Comptroller General of the United States. Accordingly, this engagement included examining, on a test basis, evidence supporting the Concessionaire’s Progress Estimates One through Five for SA 1. We also performed other procedures we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

In our opinion, District Four costs for Contract E4J69 and SAs 1 and 15 were reasonable and allowable for the time period examined.

**APPENDIX B – Purpose, Scope and Methodology**

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Sections 20.055 and 20.23, Florida Statutes, require the OIG to conduct audits, examinations, investigations and management reviews related to programs and operations of the department. This examination was performed as part of the OIG's mission to promote integrity, accountability and process improvement in the department by providing objective fact-based assessments.

The **purpose** of this examination was to determine whether there was sufficient documentation to support the costs associated with the project and to assess compliance with applicable regulations, as well as department P3 policies and procedures.

The **scope** of our examination was Contract E4J69, and associated SAs 1 and 15, from November 2010 through October 2013.

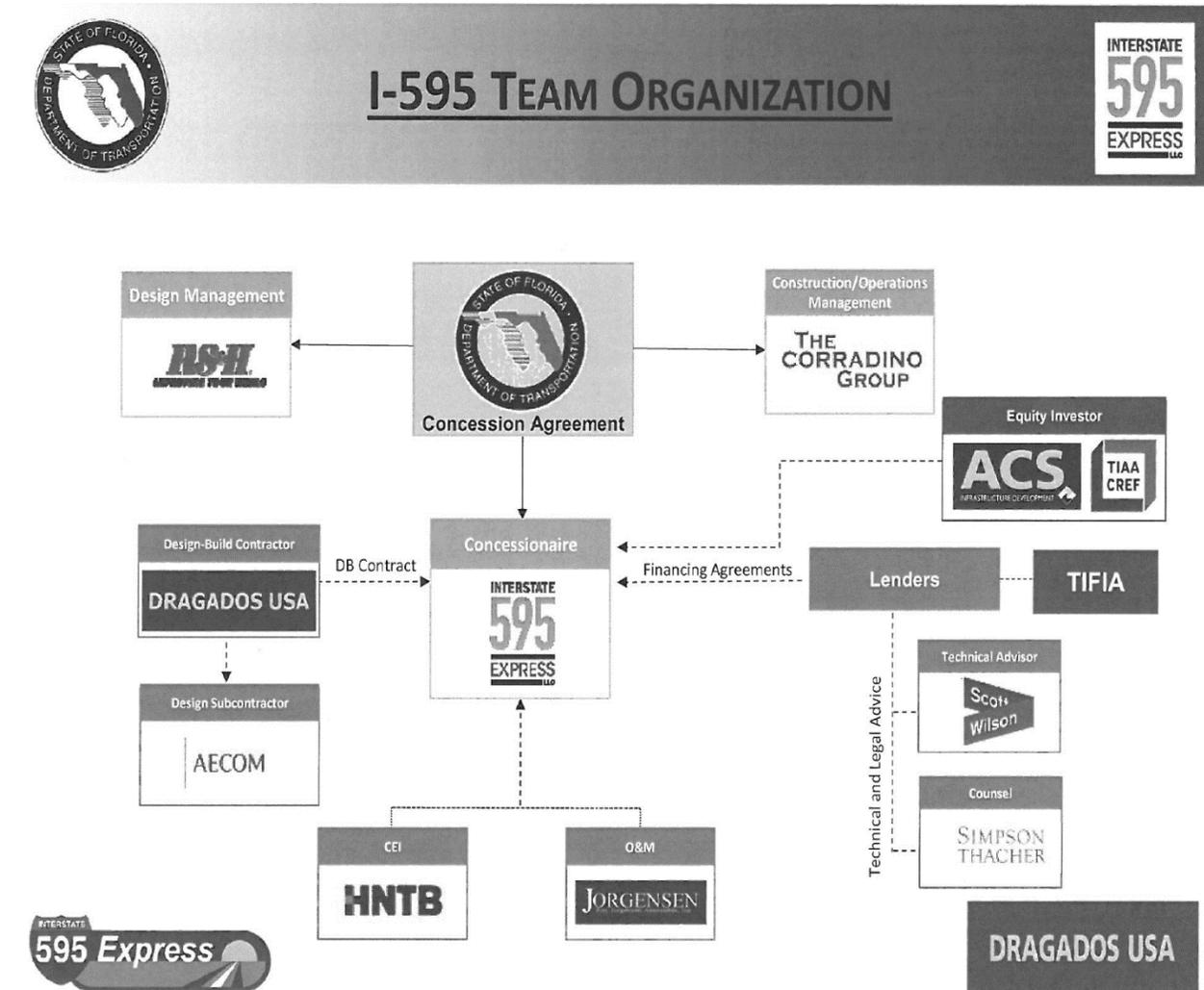
Our **methodology** consisted of:

- reviewing applicable laws, rules, regulations and procedures, including Florida Statutes, the Construction Projects Administration Manual (CPAM), 2007 department Standard Specifications for Road and Bridge Construction and the Public Private Partnership (P3) Handbook;
- examining and testing supporting documentation and management controls, including the Contract, SAs, Engineer's Estimate, Entitlement Analyses and other documents used to support contract modifications;
- interviewing appropriate staff; and
- conducting a site visit.

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APPENDIX C – Exhibits of Organizational Structure, Funding and Segments

Exhibit 1: I-595 Team Organization



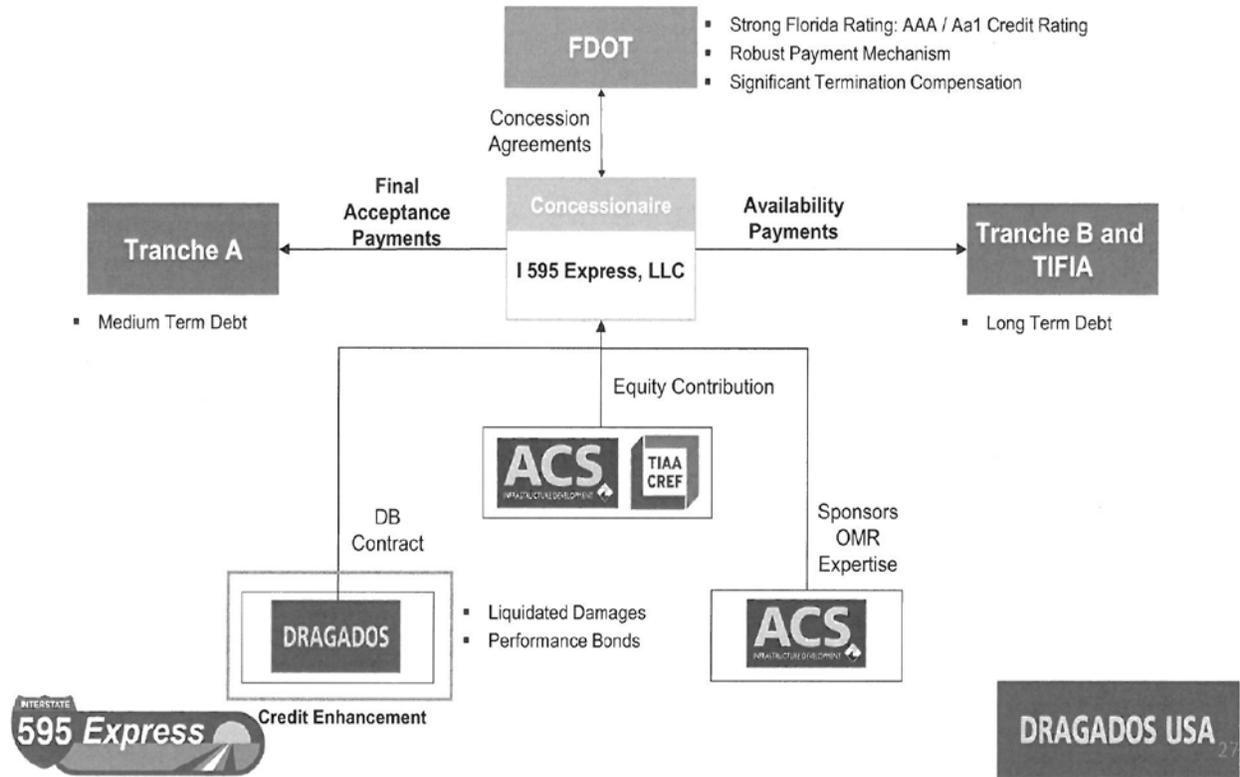
Source: I-595 Express Corridor Improvements Project – FDOT District 6 presentation to New Jersey Contractors Association, November 15, 2013

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**Exhibit 2: I-595 Financial Structures**



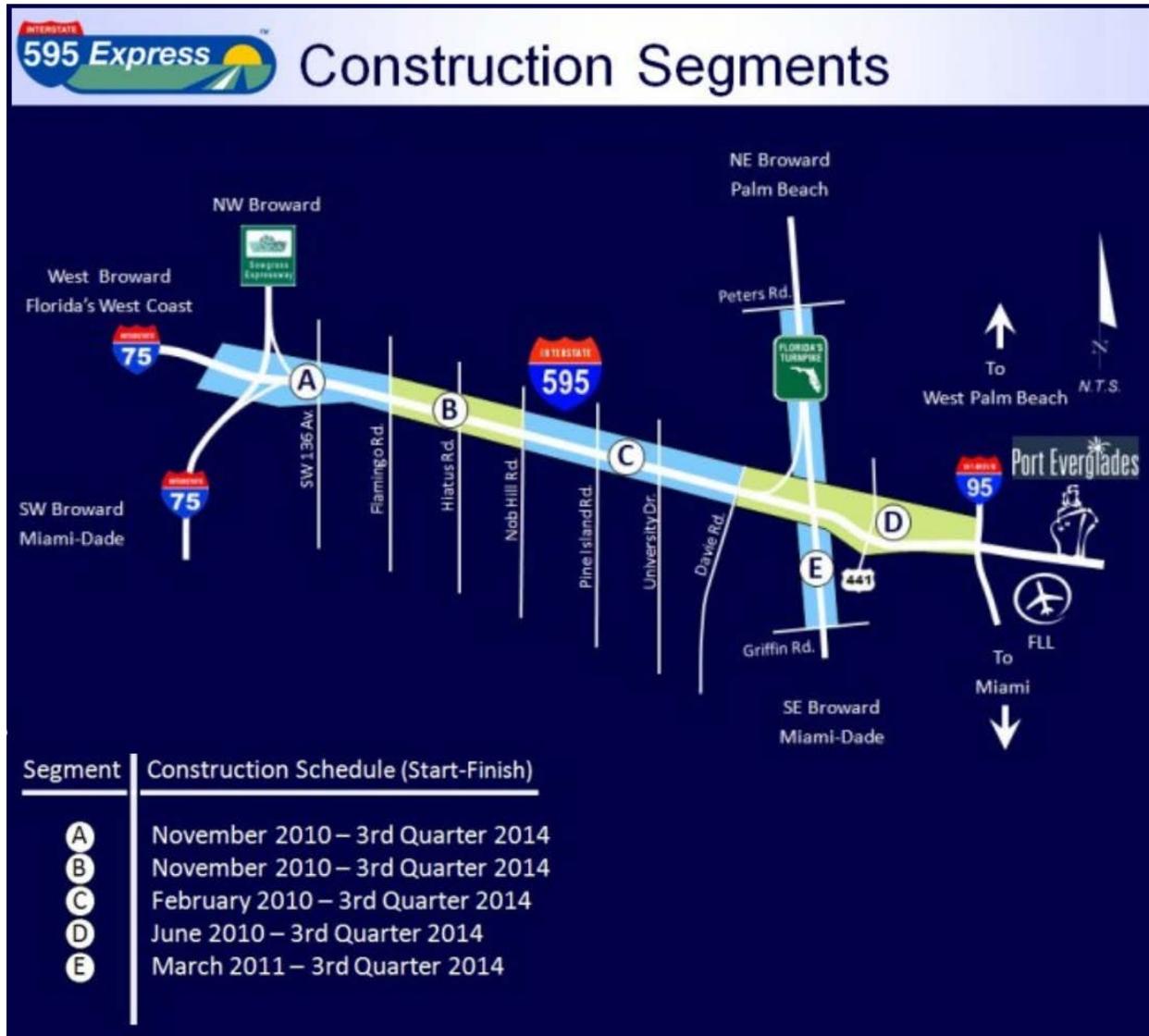
# I-595 FINANCIAL STRUCTURES



Source: I-595 Express Corridor Improvements Project – FDOT District 6 presentation to New Jersey Contractors Association, November 15, 2013

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Exhibit 3: Overview of I-595 Express Project Construction Segments



Source: FDOT Financial Plan Annual Update For Interstate 595, Reporting Period Through December 31, 2012

**APPENDIX D – Site Visit Photographs of Sound Barrier Wall, Ramp U-9 and Toll Gate**

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**SA 1 – 14 foot sound barrier wall mounted on steel bulkhead**



**SA 15 – Ramp U-9 leading to I-595 Expressway**



**Toll gate for new lanes in median of I-595**

**APPENDIX E – Management Response**

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The District Four I-595 Construction Project Manager responded by email on May 27, 2014 that he had no further comments.

**APPENDIX F – Concessionaire Response**

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In accordance with Subsection 20.055(5)(e), Florida Statutes, the contracted entity was provided an opportunity to respond to the report. No response was received from Interstate 595 Express, LLC within the time period specified in accordance with Subsection 20.055(5)(e).

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**DISTRIBUTION, PROJECT TEAM AND STATEMENT OF ACCORDANCE**

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**Action Official Distribution:**

James Wolfe, P.E., District Four Secretary

**Information Distribution:**

Ananth Prasad, P.E., Secretary of Transportation

Jim Boxold, Chief of Staff

Brian Peters, Assistant Secretary, Finance and Administration

Robin Naitove, Comptroller

Brian Blanchard, P.E., Assistant Secretary, Engineering and Operations

David Sadler, P.E., Director, Office of Construction

District Four:

Gerry O'Reilly, P.E., Director of Transportation Development

Courtney Drummond, P.E., Director of Transportation Operations

Carolyn Gish, P.E., District Construction Engineer

Paul Lampley, P.E., FDOT I-595 Construction Project Manager

Alvaro Muelas, Chief Executive Officer, Interstate 595 Express, LLC

**Project Team:**

Engagement was conducted by Richard Pearson, Auditor in Charge

Under the supervision of:

Susan O'Connell, Audit Manager; and

Kristofer B. Sullivan, Director of Audit

Approved by: Robert E. Clift, Inspector General

***Statement of Accordance***

*The mission of the department is  
to provide a safe transportation system that ensures the mobility of people and goods,  
enhances economic prosperity, and preserves the quality of our environment and  
communities.*

*The mission of the Office of Inspector General is  
to promote integrity, accountability and process improvement in the Department of  
Transportation by providing objective fact-based assessments to the DOT team.*

This work product was prepared pursuant to Section 20.055, Florida Statutes, in accordance with the applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General and the American Institute of Certified Public Accountants and standards contained in Government Auditing Standards issued by the Comptroller General of the United States.

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