

OFFICE OF THE CITY AUDITOR AND CLERK
INTERNAL AUDIT



UTILITIES CONTRACT COMPLIANCE

AUDIT # 19-11

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A handwritten signature in blue ink, appearing to read "Shayla Griggs", is written over a horizontal line.

Shayla Griggs, Acting City Auditor and Clerk

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Executive Summary

Audit #19-11 Utilities Contract Compliance

Audit Purpose and Scope

Internal Audit performed an audit of the City of Sarasota Utilities Department's contract compliance process. This was a risk based audit and part of the fiscal year 2019 Audit Plan. Audit procedures included interviews with stakeholders, review of policies, contracts, ordinances, statutes, and substantive testing.

Specifically, the objective of this audit assessed the controls in place for:

- Monitoring project milestones and financial management;
- Appropriate approvals for project cost revisions and overruns;
- Use of contingencies and allowances, and;
- Fee and general condition expenditure monitoring.

Audit Objective

Evaluate the effectiveness of the internal controls over the City's Utilities contract compliance process.

The scope of this audit included a review of three contracts:

1. Coconut Avenue Water Main Phases I and II RFP15-53
2. US 41 AC Water Main Replacement RFP 15-71
3. GPS and GEO Coding Services RFP 15-72

We conducted our review according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Summary of Conclusions

Overall, Utilities capital projects are managed appropriately. We did identify opportunities to strengthen controls over systematically monitoring and tracking project milestones, and project reconciliations. Additionally, project management should clearly define stakeholders and roles to aid in project consistency and communication.

Management has plans to address the issues identified and, in most cases, has already implemented corrective action plans.

We would like to take the opportunity to thank the department and individuals included in this audit for the courtesies extended to us and for their cooperation during the audit.

This Executive Summary is limited in detail. To obtain the full background on a particular item, please read the Detailed Audit Report or contact Internal Audit prior to drawing conclusions based upon the limited information contained in this summary.

Detailed Audit Report Audit #19-11 Utilities Contract Compliance

Background and Introduction

The City of Sarasota Utilities Department (Utilities Department) works to provide the residents with safe reliable drinking water, waste water collection, and reclaimed water. The City's utility infrastructure average age is approximately 100 years old. The Utility Department is working hard, in partnership with its citizens, to upgrade systems using the newest and safest methods and materials. The Utilities Department has also implemented an Enterprise Geographic Information System (GIS) to provide internal data and retrieve data from the Sarasota Property Appraiser's Office as part of the Asset Management Program. The Utilities Infrastructure is always changing as result of capital improvement projects and developer projects within the city. The department works closely with other departments and with other agencies such as Sarasota County, South Florida Water Management.

Audit Purpose and Scope

The purpose of this audit was to provide reasonable assurance the Utility Department adhered to contractual provisions in the development of the infrastructure for two construction contracts and for the GIS implementation.

Audit Objective

The audit objective was to evaluate the effectiveness of the internal controls over the City's Utilities contract compliance process.

Audit Standards

The auditors conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 findings and conclusions based on the audit objectives.

Testing Methodology

- Interviewed appropriate personnel;
- Reviewed:
 - Requests for proposals and contracts;
 - Applications for payments for construction projects;
 - Invoices and billable hours for service contracts; and
 - Change orders, purchase orders and other evidence to support payments.

Noteworthy Accomplishments

- Monthly project status update meetings and spreadsheets were established to improve project tracking and consistency.
- Standardized payment item requirements and scope administration measurements guidelines were implemented.
- Management implemented Administrative Regulation No.024.A002.0818 to define guidelines for the application of Contract Contingency.

To achieve the audit objectives, sampling techniques were utilized to review applications for payments for the three contracts selected.

Audit Criteria

Audit criteria that was used to evaluate contracts:

Code of Ordinances Chapter 2 Administration Article 1 – In General Section 2-5 Administration Approval of Contracts;

Statute 255.0525 Public Property and Publicly Owned Buildings;

Statute 287.055 Procurement of Personal and Property Services;

City of Sarasota’s Standard Terms and Conditions; and

Policies and Standard Operating Procedures.

Audit Observations and Testing

Cocoanut Avenue Force Main Phases I and II RFP15-53

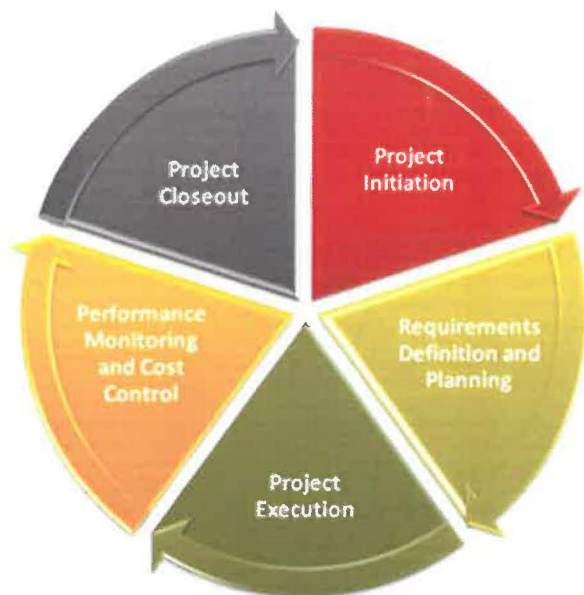


Halfacre Construction Company won the contract to Replace the Cocoanut Ave Force Main as the Construction Manager at Risk (CMR) with a Guaranteed Maximum Price (GMP) of \$3,264,310. Payments were made on a monthly basis according to the work that was completed each month. Evidence and recalculations of requests for payment were reviewed focusing on specific terms and conditions, such as general conditions, labor, change orders, allowances, fees, and overhead and profit were reviewed to determine contract compliance to the amounts billed, evidence, and contractual allowable terms.

Table 1: Summary of Costs Cocoanut Avenue Forces Main Phases I and II (RFP 15-53)

Description	GMP Line Items	Actual Billed (as of application #8)	Comments
General Conditions	\$121,278	\$121,278	Lump Sum
Supervision Labor	\$148,194	\$148,194	Lump Sum
Vendors & Materials	\$2,449,866	\$2,458,465	Increase Due to Added Scope for Public Works
Insurance/Bond	\$103,057	\$134,166	Increase Due to Added Scope for Public Works
CM Fee @ 5.25%	\$145,670	\$112,692	Fee included the Contingency Uses
Contingency	\$296,245	\$248,885	There were ten in field change orders
Total	\$3,264,310	\$3,223,680	

DISCUSSION POINT AND RECOMMENDATION: PROJECT MANAGEMENT AND DOCUMENTATION



Project management involves planning and organization of a company's resources to move a specific task, event, or duty towards completion. The activities start from the time the contract is awarded until work has been accepted or the contract terminated. Activities focused on contract deliverables, special provisions, monitoring and measuring performance, contractor billing, and payment procedures. Project managers also create quality control checks to ensure the components meet a certain standard in contract documents.

During the course of work for Phase I and II a separate project was added and managed by a different department of the City after the contract was awarded. This added project did not result in an adjustment to the contracts overall GMP of

\$3,264,310. However, roles for overall project management (now that more than one City department was involved) of the contract were unclear resulting in records for project closeout not being completed or reconciled.

Interim Field Change Agreements (IFCA) are made to modify work requirements, costs, and schedule of construction contracts. Multiple conditions arise, such as unforeseen and unanticipated site conditions, errors and omissions, modified user requirements, third party involvement that require IFCA's to be able to take immediate action to mitigate costs or avoid delays on the project.

The documented support for Interim Field Change Agreements (IFCA) for \$38,276, performed by Halfacre was not included with the project file. The added scope was managed by a different Department.

RECOMMENDATION: PROJECT MANAGEMENT AND DOCUMENTATION

Formal project management guidelines should be established to include such tasks as project management responsibilities, reconciliation of all project costs, and contract closeout procedures.

A single formal construction manager should be assigned to manage the project from start to finish, including any work assignments provided to other city departments, manage change orders, and authorize modification to the work performed.

(See Recommendation on page 7 for additional project management procedures.)

MANAGEMENT RESPONSE:

Utilities management will establish formal project management guidelines, define roles and responsibilities that include performance expectations.

Management will provide training to project managers on expectations and deliverables for managing project activities and procurement processes.

Subsequent to the field work performed, management implemented processes for tracking projects. Additionally, a new Administrative Regulation No. 024.A002.0818 was implemented to address Contract Contingency for Construction Projects. The new regulation provides guidance to the appropriate use and tracking of the Contract Contingency.

US 41 AC Water Main Replacement RFP 15-71

Jon F Swift Construction was selected to Replace the Watermain at US 41 as the Construction Manager at Risk (CMR) with a Guaranteed Maximum Price (GMP) of \$9,133,176. Payments were made monthly according to the work that was completed. Specific terms and conditions were reviewed to determine contract compliance for the amounts billed. There were nineteen requests for payment that Internal Audit reviewed focusing on specific contractual terms.

The project appears to be on track and the project manager is in the process of closing the project out. The Closeout process includes obtaining the "as built" (CADD drawings) and reconciling the contingency, and/or allowances. To date, the costs/charges to the project have been appropriately documented in the project file and appear to be contractually compliant.



TABLE 2: Summary of Costs Swift US 41 Watermain Replacement (US\$) *Project not completed*

Description	GMP Line Items	Actual Billings-(19 payments made as of 10/31/2018)	Comments
Contingency	\$434,913	\$171,243	Project is ongoing. The IFCA's have been a result in the unforeseen conditions and changes for additional work to support watermain. The IFCA's also represent the additional labor and materials that were needed for the project. No material exceptions were noted.
IFCA's	\$0.00	\$-263,669	
Bond	\$86,121	\$61,793	
Fee	\$487,480	\$486,484	
General Conditions (Lump Sum)	\$792,710	\$796,738	
Public Relations Salary	\$78,000	\$78,000	
Cost of work & Materials	\$7,253,952	\$7,263,596	
Total	\$9,133,176	\$8,594,545	

GPS and GEO Coding Services RFP 15-72

The Utilities Department engaged Stantec to provide geospatial mapping, data management, and analysis in order to enhance its potable water; reclaimed water, and wastewater infrastructure Geographic Information System (GIS) database, all in accordance with the provisions of the FIRM's Competitive Negotiations Act (CCNA). These services included Communication and Coordination, GPS and GEO-coding Implementation, GPS and Geocoding, Special Manhole positioning, Line work correction, and Implementation Plan for a time and materials amount not to exceed \$644,698.

DISCUSSION POINT AND RECOMMENDATION: PROJECT MANAGEMENT AND DOCUMENTATION

Project managers must read all contract documents to determine all stakeholders, the scope of a project, and identify project timelines and milestones. Additionally, key project controls need to be identified or established to include communication requirements, supporting documentation requirements, required approval methods, measuring and monitoring project variables, identifying corrective actions to address risk, and establishment of key performance measurements.

The following were identified:

- Vendor invoices did not provide enough detail of actual hours worked to verify the amounts per invoices to the rates or tasks agreed upon in the contract.
- The project has extended past the contracted timeline, May 2016 through May 2018 (730 days), with no contract extension. The completion date is not known.
- Regular meetings with the appropriate stakeholders as a group to discuss the status of the City's resources and project updates were not conducted. City's Information Technology Department (key stakeholder) was not part of the discussion or planning of how the GIS data provided by the vendor was going to be managed, accessed or stored on City's GIS database. Work continued

under the project even though the resources in the City's IT Department were not available, resulting in no GIS data being added to the database until May 2019.

- Since May 2016 \$641,000 has been paid to the vendor for data that had not been verified or loaded to the City's GIS database.

RECOMMENDATION: PROJECT MANAGEMENT AND DOCUMENTATION

In addition to items identified in recommendation on page four, formal project management guidelines should include:

- Procedures to agree rates/amounts charged per invoice to allowable costs per contract. Payments to vendor should not be made until invoices can be verified as agreeing to the contract and that the work was performed satisfactorily.
- Timelines per contract should be amended and approved based on needed extensions for contract completion.
- All departments (stakeholders) that will be affected or contribute to the achievement of a successful project should be included in regular meetings regarding the project status and requirements.

MANAGEMENT RESPONSE:

Management will work with vendor to execute the terms of the contract. The expected implementation date is September 30, 2019.

Final Comments

We would like to take the opportunity to thank the department and individuals included in this audit for the courtesies extended to us and for their cooperation during the audit.