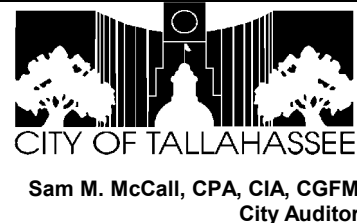


Audit Report



“Contracts with Ironwood Construction Co., Inc.”

Report #0129

June 19, 2001

Summary

During our preliminary survey phase of this audit we identified many of the same types of issues under this Price Agreement as we identified in our previously issued Watkins report. Electric Operations has implemented policies and procedures to correct the issues for Ironwood and has instituted other corrective measures such as: meetings between Electric Operations project managers and contractors to review price agreement terms and conditions and changes to future bid documents for contract labor for Electric Operations.

Scope, Objectives, and Methodology

Our audit plan included a review of two contracts between the City of Tallahassee, Electric Operations, and Ironwood Construction Co., Inc., (Ironwood). The City entered into an Annual Price Agreement (Agreement), a Minority Business Enterprise (MBE) set-aside program, with Ironwood Construction Co., Inc., to provide supplemental labor to the City's Power Plant workforces for normal maintenance, capital projects, emergency work and small scale construction projects. The City also issued a Request for Proposals (RFP) and awarded a contract to Ironwood (Contract) for a major project to remove and replace siding at the City's Sam O. Purdom power plant in St. Marks.

Our primary objectives were to answer the following questions:

1. Did Electric Operations comply with the City's procurement policies and procedures in the issuance of purchase orders under the Agreement and Contract?
2. Have improvements been made in the billing and invoice approval process after the publication of Audit Report #9803 (Audit of the City's Price Agreement for Contract Labor for Power Plants with Watkins Engineers & Contractors, Inc.), issued August 3, 1999?

Our audit period was from October 1998 to January 2001.

We reviewed the Agreement and the Contract to obtain an understanding of their provisions. The Agreement includes the City's Request for Bids (RFB) and all addenda and the Contractor's Proposal Form, which are attached to the contract as Exhibits A and B. The Contract includes the Request for Proposals and all addenda, and the Contractor's Proposal Form, which are referenced and made a part of the Contract.

Audit Report #9803, an Audit of the City's Price Agreement for Contract Labor for Power Plants with Watkins Engineers & Contractors, Inc. (Watkins), was issued on August 3, 1999. Issues such as when the workweek begins and ends, what is considered a small tool, and what is considered as personal safety equipment were identified in the Watkins report. For example, the contract establishes a workweek that begins at 12:01 am Saturday and ends at 12 midnight on Friday. Invoices were issued by Watkins starting on Monday and ending on Sunday. We also pointed out that small tools, costing less than \$500, and personal safety equipment were being billed as materials when the Request for Bids required that these items would be included in the labor rate.

To address our questions and to determine if improvements had been made in contractor billing practices and internal controls established by Electric Operations, we examined six purchase orders and related Ironwood invoices and supporting documentation. We selected purchase orders before and after the publication of Report #9803, Audit of the City's Price Agreement for Contract Labor for Power Plants with Watkins Engineers & Contractors, Inc. (Watkins), issued August 3, 1999. The Watkins Agreement is almost identical to the Ironwood Agreement. We sought to determine if the recommendations contained in the Watkins report had been implemented in the Ironwood Agreement to improve the billing and invoice approval process for Ironwood subsequent to the issuance of the Watkins report. We also reviewed the purchase order and related invoices for the separate RFP for siding removal and replacement at Purdom.

Periodic progress meetings were held with the audit liaison in Electric Operations. These meetings served to inform the program administrators of the audit progress and as a discussion forum to enhance the effectiveness of the audit.

This audit was conducted in accordance with generally accepted government auditing standards and accordingly included such tests of the records and such other auditing procedures as we considered necessary under the circumstances.

Background

Price Agreement

On February 26, 1998, the City issued an RFB for a Price Agreement for Contract Labor – Power Plants, an MBE set-aside program. This bid is for prospective City certified minority bidders to submit bids to provide the services specified in the bid. The RFB was for a three-year period. The contract covered the three-year period from June 1, 1998, through May 31, 2001.

The City operates three electric power plants: A. B. Hopkins, S. O. Purdom, and C. H. Corn. The contractor is to provide labor, materials and equipment to accomplish mechanical, electrical, plumbing, civil, and structural work at the City's power plants. The contractor supplements power plant workforces for normal maintenance, capital projects, emergency work, and small scale new construction in amounts less than \$100,000 per project. The RFB identified 19 different classifications of labor to augment plant work forces.

All work performed pursuant to the Agreement is to be authorized by issuance of purchase orders. No invoice shall be honored for work performed unless an approved purchase order has been issued prior to the work being approved. The contractor shall submit invoices detailing the total craft man-hours that were required to do the work and all materials purchased and rented by the contractor at the request of the City. All work performed pursuant to this Agreement shall be authorized on a time and material not-to-exceed basis.

Production management assigns engineers or other staff as project managers to oversee the contractor's work and to review and approve the contractor's invoices and supporting documentation, including weekly time sheets for contractor personnel and invoices for materials. Project managers have two important roles: 1) ensure that the work is done according to the specifications, and 2) ensure supporting documentation for the invoice is correct and complies with the contract.

Turbine Building Siding Replacement

Rather than use the Price Agreement, the City (Electric Operations) issued an RFP on May 29, 1999, for removal of transite siding, replacement of the windows, and installation of new siding for the west walls of the turbine room building at the Purdom Generating Station in St. Marks. The original RFP was designed to complete a major portion of siding replacement at Purdom. There were three bidders; Ironwood was the low bidder at \$356,450. An additional option in the RFP was for a per square foot price for additional siding and window removal and replacement. Electric Operations exercised this option to replace 6500 square feet of siding and 300 square feet of windows. This increased the scope of the initial project to \$461,665. The City Commission approved the initial project and approved subsequent change orders (\$63,070 and \$75,260) that provided removal and replacement of siding on the Unit #7 elevator. These changes increased the total purchase order to \$600,000. This Contract was for a fixed price and invoices were submitted based on stage of completion with a 10% retainage for final completion of the job rather than time and material on a not-to-exceed basis.

Payments to Ironwood

Table 1 shows the amount paid to Ironwood during the period June 1998 through January 2001. Our sample purchase orders included six purchase orders from the price agreement and one for the removal and replacement of siding at Purdom.

Table 1 Payments to Ironwood

October 1998 - September 1999	\$ 412,962.91
October 1999 - August 2000	\$ <u>957,911.68</u>
Total Payments	\$ <u>1,370,874.59</u>
Sample Payments on Purchase Orders	
<u>PO #</u>	<u>PO Date</u>
#592632	07/15/1999
#594463	08/23/1999
#594859	09/01/1999
#597191	10/07/1999
#598765	11/08/1999
#599711	12/03/1999
#602769	01/24/2000
Total Payments Sampled	\$ <u>812,337.98</u>
Percent of Total Payments Sampled	<u>59%</u>

Operations staff were noncompliant with City procurement policies and procedures.

We noted that those purchase orders, using labor under the terms of the Agreement, in excess of \$100,000 received proper City Commission review and approval.

In another instance, we noted that the City Commission had granted authority to the City Manager to approve an additional \$70,000 for further repairs required during the project. The City Manager approved changes totaling \$63,070 and then obtained proper City Commission approval to amend the contract by an additional \$75,260. All

of these changes were within the amount established for the project and enabled the Purdom Generating Station to concurrently remove asbestos and avoid future costs.

During our preliminary survey phase of this audit we identified the same types of issues under this Price Agreement as we previously identified in the Watkins Agreement. However, Electric Operations has implemented policies and procedures to correct the issues for Ironwood that we identified in the Watkins audit.

Questions to Be Answered

Our primary objectives were to answer the following questions:

1. Has Electric Operations complied with the City's procurement policies and procedures?
2. Have improvements been made in the billing and invoice approval process after the publication of Audit Report #9803 (Audit of the City's Price Agreement for Contract Labor for Power Plants with Watkins Engineers & Contractors, Inc.)?

Has Electric Operations Complied with Policies and Procedures?

During our review of the Agreement, the Contract, and the seven purchase orders, we did not identify any instances where Electric

Have Improvements Been Made in the Billing and Invoice Approval Process?

During our review, we examined Ironwood purchase orders issued before and after the Watkins report. We found that those invoices processed before the Watkins report contained similar weaknesses as was noted in that report. For example, we identified errors in the calculation of overtime and questioned other times when the actual workweek differed from the workweek specified in the Agreement. We also noted that small tools costing less than \$500 were improperly being billed as materials. Electric Operations has either received a reimbursement or requested further information for the items we identified that totaled \$189.

Subsequent to the issuance of the Watkins report, we noted that Ironwood revised the timesheets to coincide with the workweek required in the Agreement. We reviewed a draft copy of the Invitation for Bid for Contract Labor – Electric Generating Stations Minority Set-aside Program and noted clarifications in the Invitation

that addressed issues identified in the Watkins contract.

As an additional step, we noted that Electric Operations held contract training meetings with the power plant staff (engineers and administrative staff) and the contractor. Two separate meetings were held. This allows an open discussion about the terms of the contract between City staff and the contractor to help ensure consistent and accurate interpretation of the terms of the contract. Electric Operations plans to continue these meetings with the contractor that is awarded the new bid.

Appointed Official Response

City Manager Response:

I'm very pleased that the results of this audit reflect staff's timely and effective resolution to audit issues identified in other audits. To have an audit without reportable findings is an outstanding achievement. I thank the appropriate staff and auditors for this cooperative effort to improve our efficiency and effectiveness.

Copies of this Audit Report #0129 (Project#0021) may be obtained via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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