

Audit

Follow-Up

As of December 31, 2016



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City Auditor

Audit of Public Works – Selected Procurement Practices

(Report #1604, Issued January 12, 2016)

Report #1705

February 20, 2017

Summary

As of December 31, 2016, some progress has been made in completing the six action plan steps established to address issues identified in audit report #1604 and due for completion as of September 30, 2016. Specifically, the Public Infrastructure Division has established an interim method to track and record quantities of asphalt, concrete, and sod acquired by the City for use in estimating quantities for future bid solicitations. However, to date, actual quantities have not been determined for use in recent or future bid solicitations. We will continue to follow up on the efforts of the Public Infrastructure Division to track and use information on purchased quantities for the purpose of helping ensure fair and appropriate future bid solicitations.

In audit report #1604, Audit of Public Works – Selected Procurement Practices, issued January 12, 2016, we determined that the estimated quantities of goods and services provided in past bid solicitations and used in the bid evaluation and contract award decision process for asphalt, concrete, and sod were not comparable to and reflective of actual usage. Such inaccurate quantity estimates result in prospective contractors not being provided adequate information on which to determine and bid their best prices, which, in turn, increases the risk the City will pay higher prices for materials and services. Recommendations were made to enhance the procurement process for asphalt,

concrete, and sod so as to help ensure those materials and services are acquired at the most favorable (best and lowest) costs to the City and in a manner that is more favorable to vendors. Ten action plan steps were developed by management to address the identified issues. Six of those ten steps were due for completion as part of this initial follow-up engagement.

In regard to those six action plan steps due for completion no later than September 30, 2016, we determined actions had been initiated but not completed for four steps, and no action had been taken to date for the other two steps. Specifically:

- As an interim measure to track actual quantities of asphalt, concrete, and sod, the Public Infrastructure Division recently started using the existing “Cartegraph” work management system to generate reports reflecting quantities acquired of each specific contract item. The Public Infrastructure Division plans to use the “CityWorks” work management system for tracking purchased quantities when the Division migrates from the Cartegraph system to that system in the near future. *(Three action plan steps considered to be in progress.)*
- The Public Infrastructure Division has initiated efforts to have the current concrete vendor provide additional detail on delivery tickets as to the specific type of concrete delivered to City work sites. That additional detail is needed to enhance staff’s ability to accurately track acquired quantities of each specific contract item. *(One action plan step considered to be in progress.)*

- Notwithstanding the recent City bid solicitations (initial bid and subsequent re-bid) for sod were eventually cancelled (because, in part, the City subsequently decided to utilize existing Leon County contracts for sod), the Public Infrastructure Division did not capture and use information on actual quantities of sod purchased for those solicitations. Additionally, those bid solicitations were not structured such that any resulting contracts could be awarded based on job sizes. *(Two action plan steps considered not yet initiated.)*

We plan to follow up on management’s efforts to complete these six action plan steps, as well as the four action plan steps due for completion after September 30, 2016, in our subsequent follow-up engagement.

We appreciate the cooperation and assistance provided by Public Infrastructure and Procurement Services staff and management during this audit follow-up.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance 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 follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Original Report #1604

The scope of our initial audit (report #1604) included contracts and related solicitations initiated through the former Public Works Department, for which material and/or service quantities impacted the bid evaluation scores (which in turn impacted which vendor was awarded the resulting contract). Applicable materials and services as determined by the audit

included asphalt and related milling/paving services, concrete, and sod.

The objective of the audit was to evaluate the former Public Works Department’s practices for procuring major goods and services, for which estimated quantities impacted the bid evaluation and vendor selection process, and determine if those practices (processes) were efficient, reasonable, and the most beneficial to the City.

To address the stated objective, we interviewed staff in the former Public Works Department and Procurement Services, and reviewed and analyzed recent competitive bid solicitations and evaluations, related contracts, and acquisitions made through those contracts.

Report #1705

This is our first follow-up on action plan steps identified in audit report #1604. The purpose of this follow-up is to report on the progress and status of efforts, as of December 31, 2016, to complete action plan steps due for completion no later than September 30, 2016. To determine the status of the action plan steps, we interviewed staff and reviewed relevant documentation.

Background

City Reorganization

In January 2016, the former Public Works Department was eliminated as part of a City reorganization. Functions performed by that former department were incorporated into other City departments. The activities addressed in and pertinent to the scope of our initial audit are now performed by the Public Infrastructure Division within the Underground Utilities and Public Infrastructure Department. The Public Infrastructure Division assumed responsibility for completing the action plan steps developed and designed to address the recommendations made in our initial audit report (#1604).

Overview

As indicated previously, our initial audit addressed the former Public Works Department's competitive procurement processes where estimates of quantities of items to be purchased under the resulting contracts had a direct impact on the bid/proposal evaluation process, thereby impacting the selection of a vendor to whom the resulting contract was awarded. We determined there were three commodities and related services for which that process was used – asphaltic materials and services, concrete, and sod. Each of these is discussed in the following paragraphs.

Asphalt. The City acquires asphaltic materials and services primarily for repair and maintenance of City streets and roads. For the most part, the maintenance (e.g., resurfacing) services were conducted by contractors hired by the City through competitive procurement practices. The majority of the repair services were conducted by City Public Works staff using asphaltic materials also acquired from vendors through the same competitive procurement process. For the asphalt contracts reviewed in our initial audit, the City had expended in excess of \$6 million as of the time of that audit.

For applicable asphaltic materials and services, Public Works staff through Procurement Services solicited bids and awarded contracts to vendors (contractors) that performed the services or provided the materials needed for all City jobs during a defined period (e.g., three years). In preparing the bid solicitations, Public Works staff estimated the quantities of materials and services that would be needed on an annual basis during the planned contract period. The bid solicitations requested the responding vendors to quote a price for each item at the indicated quantities.

The contracts were to be awarded to the vendor that provided the “lowest overall costs” (prices). To determine the overall lowest costs, the quantities estimated by Public Works staff for each applicable item (material or service) were multiplied by the per unit cost bid for the item by the responding vendors. Costs for all applicable items were then totaled for each vendor. The

vendor with the lowest total was awarded the contract.

Under the above-described process, the quantities served as a “weighting factor,” as they directly impacted the determination of the bid with the lowest overall costs. Accordingly, quantity estimates prepared by City staff for the bid process should be based on sound logic and reasoning to ensure the award process results in the actual lowest costs for the City. Further, because quantity estimates likely impact the per unit price at which proposing vendors will bid, it is important that the City determine accurate estimates for the benefit of those vendors.

Concrete. The former Public Works Department used concrete for maintenance tasks in its Street Preservation and Drainage Operations Units. Uses included repair and replacement of sidewalks, curbs and gutters, and ADA ramps along roads. Other uses included construction or maintenance of stormwater ponds, headwalls, and drainage pipe lining enclosed pipe structures. As of the date of the initial audit, the City had expended \$580,000 through the concrete contract reviewed in that audit.

Similar to asphalt, competitive procurement methods were used to select capable vendors to execute contracts for the provision of concrete for City jobs and needs over a defined period. Also similar to asphalt, Public Works staff estimated the quantities of concrete (by type and size) that would be needed on an annual basis during the planned contract period. Those estimated quantities served as a weighting factor in the process for determining the capable vendor that bid the lowest overall costs (for vendor selection purposes). Accordingly, quantity estimates based on sound logic and reasoning were critical to the contract award process.

Sod. Sod was acquired and used by the former Public Works Department primarily for erosion control and to stabilize areas disturbed during drainage system and road and sidewalk repair and maintenance. As of the date of the initial audit, the City had expended \$155,000 through the concrete contract reviewed in that audit.

Competitive procurement methods were also used to select capable vendors to execute contracts for sod needed by the City over a defined period. Similar to asphalt and concrete, Public Works staff estimated the quantities of sod (by type and size) that would be needed on an annual basis during the planned contract period. Those estimated quantities served as a weighting factor in the process for determining the capable vendor that bid the lowest overall costs (for vendor selection purposes). Accordingly, quantity estimates based on sound logic and reasoning were critical to the contract award process.

Previous Conditions and Current Status

In our initial audit (report #1604) we determined, overall, that estimated quantities of goods and services provided in past bid solicitations and used in the bid evaluation and contract award decision process for asphalt, concrete, and sod were not comparable to and reflective of actual usage. Such inaccurate quantity estimates result in prospective contractors not being provided adequate information on which to determine and bid their best prices, which, in turn, increases the risk the City will pay higher prices for materials and services. Recommendations were made to enhance the procurement process for asphalt, concrete, and sod so as to help ensure those materials and services are acquired at the most favorable (best and lowest) costs to the City and in a manner that is more favorable to vendors.

Management developed ten action plan steps to address the identified issues and related audit recommendations. Six of the ten action plan steps established were due for completion as of September 30, 2016.

Table 1 that follows shows the status of those six steps as determined through our audit follow-up process. As indicated in that table, efforts have been or are being initiated to complete four of those six steps, with actions yet to be taken or initiated for the remaining two steps. We will follow up on efforts to complete these six action plan steps, as well as the four action plan steps due for completion after September 30, 2016, in our subsequent follow-up engagement.

**Table 1
Current Status of Action Plan Steps from Audit Report #1604
Due as of September 30, 2016**

Action Plan Steps Due	Current Status as of December 31, 2016
<ul style="list-style-type: none"> Public Works (<i>now Public Infrastructure Division</i>) will work with Procurement to utilize PeopleSoft Financials to record and track by contract item the quantities of asphalt materials and services acquired. 	<p>➤ <u>In Progress</u> – As an interim measure to track quantities of acquired asphaltic materials and services, the Underground Utilities and Public Infrastructure Department, Public Infrastructure Division, is now generating new reports from its existing work management system, “Cartegraph.” The new Cartegraph reports were developed to reflect, for each contract item, the associated quantities (e.g., tons) acquired and received. The sources of the information for the Cartegraph system are the delivery tickets provided to Public Infrastructure staff at the applicable worksites or at the time the materials are picked up by City staff. The Cartegraph reports reflect each purchase (by delivery ticket number), with purchases categorized by City project and related work order. To the extent delivered quantities are properly recorded in the Cartegraph system, this interim measure should provide accurate information as to the quantities of each contract item purchased and received. To help ensure that the quantities reflected in the Cartegraph system are correct, Public Infrastructure administrative staff have developed a process whereby quantities invoiced by the contracted vendor are reconciled to the quantities recorded in the Cartegraph system. That process also serves as a control to ensure that the City received the quantities invoiced by the contractor. To facilitate this reconciliation process, Public Infrastructure staff recently requested the contracted vendor to modify its invoices to provide additional detail on quantities billed.</p> <p>As noted, the above-described action is an interim measure. This is because the Public Infrastructure Division plans to migrate from the Cartegraph system to CityWorks, a different work management system that will be used by the entire Department. Upon migration to the CityWorks system, Public Infrastructure</p>

	<p>management indicated that system will instead be used to track quantities of asphaltic materials and services acquired. <u>We recommend</u> the Public Infrastructure Division continue efforts to track quantities by contract item. Additionally, upon the migration to the CityWorks system, <u>we recommend</u> consideration be given to recording and tracking acquired quantities of each contract item through the PeopleSoft Financial system, so that the process for verifying the receipt of the quantities invoiced by the vendor (before payment is authorized) can be automated through an interface between the PeopleSoft Financials system and the CityWorks system.</p> <p>We will follow-up on the actions in progress and on the actions to implement our additional recommendations in our subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> • Public Works (now Public Infrastructure Division) will work with Procurement and utilize PeopleSoft Financials to record and track by contract item the quantities of concrete acquired, or Public Works will develop an alternative tracking solution if the upgrades to PeopleSoft do not provide a practical way to track concrete purchases. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – An interim plan has been developed that provides the Public Infrastructure Division will use the existing work management system, “Cartegraph,” to track, by contract item, the quantities of concrete acquired and delivered to the City. Currently, the Cartegraph system is set up to capture information on concrete deliveries, but not in sufficient detail to identify quantities by specific contract item. Once appropriate changes are made to that system, Public Infrastructure staff plans to record concrete deliveries by contract item based on delivery tickets and/or vendor invoices. To facilitate this process, Public Infrastructure staff plans to also request the contracted vendor to modify its invoices/delivery tickets to provide additional detail on quantities billed. <p>As noted, the above-described planned action is an interim measure. This is because the Public Infrastructure Division plans to migrate from the Cartegraph system to CityWorks, a different work management system that will be used by the entire department. Upon migration to the CityWorks system, Public Infrastructure management indicated that system will instead be used to track quantities of concrete acquired and delivered to the City. <u>We recommend</u> the</p>

	<p>Public Infrastructure Division continue efforts to commence tracking concrete quantities by contract item. Additionally, upon the migration to the CityWorks system, <u>we recommend</u> consideration be given to recording and tracking acquired quantities of each contract item through the City’s PeopleSoft Financial system, so that the process for verifying the receipt of the quantities invoiced by the vendor (before payment is authorized) can be automated through an interface between the PeopleSoft Financials system and the CityWorks system.</p> <p>Furthermore, management acknowledged that, to date, they had not developed a plan to track quantities of concrete acquired by other City departments which utilize (“piggyback” on) the Public Infrastructure contract. Accordingly, <u>we also recommend</u> plans be developed and implemented to track, by contract item, quantities acquired by other City departments.</p> <p>We will follow-up on the actions in progress and on the actions to implement our additional recommendations in our subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> • Public Works (<i>now Public Infrastructure Division</i>) will work with Procurement and utilize PeopleSoft Financials to record and track by contract item the quantities of sod acquired, or Public Works will develop an alternative tracking solution if the upgrades to PeopleSoft do not provide a practical way to track sod purchases. 	<p>➤ <u>In Progress</u> – As an interim measure to track quantities of acquired sod, the Public Infrastructure Division is now generating new reports from its existing work management system, “Cartograph.” The new Cartograph reports were developed to reflect, for each contract item, the associated quantities (e.g., square feet) acquired and received. The sources of the information for the Cartograph system are the delivery tickets/receipts provided to Public Infrastructure staff. The reports reflect each purchase (by delivery ticket number/receipt), with purchases categorized by City project and related work orders. To the extent delivered quantities are properly recorded in the Cartograph system, this interim measure should provide accurate information as to the quantities of each contract item purchased and received.</p> <p>As noted, the above-described action is an interim measure. This is because the Public Infrastructure Division plans to migrate from the</p>

	<p>Cartegraph system to CityWorks, a different work management system that will be used by the entire department. Upon migration to the CityWorks system, Public Infrastructure management indicated that system will instead be used to track quantities of sod acquired. <u>We recommend</u> the Public Infrastructure Division continue efforts to track quantities by contract item. Additionally, upon the migration to the CityWorks system, <u>we recommend</u> consideration be given to recording and tracking acquired quantities of each contract item through the PeopleSoft Financial system, so that the process for verifying the receipt of the quantities invoiced by the vendor (before payment is authorized) can be automated through an interface between the PeopleSoft Financials system and the CityWorks system.</p> <p>Furthermore, management acknowledged that, to date, they had not developed a plan to track quantities of sod acquired by other City departments which utilize (“piggyback” on) the Public Infrastructure contract. Accordingly, <u>we also recommend</u> plans be developed and implemented to track, by contract item, quantities acquired by other City departments.</p> <p>We will follow-up on the actions in progress and on the actions taken to implement our additional recommendations in our subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> Public Works (now Public Infrastructure Division) will use the tracked quantities to develop better quantity estimates for future sod bid solicitations. 	<ul style="list-style-type: none"> ❖ Action Not Taken – As noted above in the status reported for the previous action plan step, the Public Infrastructure Division has only recently started tracking quantities of purchased sod. Accordingly, contrary to our initial audit recommendation, information concerning the actual quantities of sod purchased by the City was not available for use in the development of the City’s 2016 Invitation to Bid (IFB) document prepared for the competitive selection of sod vendors. For purposes of the 2016 solicitation, Public Infrastructure again used professional judgment in estimating the quantities. As reported in our initial audit, previous estimates, which were developed absent knowledge of the actual prior quantities

	<p>acquired by the City, have been shown to be significantly under or overstated.</p> <p>Notwithstanding these circumstances, the City cancelled the 2016 IFB (and subsequent rebid) after receiving only one response and determining that the City could utilize (“piggyback” on) two Leon County contracts recently awarded (November 2016) for the acquisition of sod through a competitive selection process. Based on these actions and circumstances, we will continue to follow up on future efforts by the City to use tracked quantities to develop better estimates for sod bid solicitations.</p>
<ul style="list-style-type: none"> ● Public Works (now Public Infrastructure Division) will consider awarding multiple contracts and apply the most appropriate procurement process for future purchases to help ensure sod is acquired at the best and lowest cost to the City and in a manner that is more favorable to the vendors. 	<ul style="list-style-type: none"> ❖ Action Not Taken – In the initial audit, we recommended for future competitive solicitations of sod that consideration be given to requesting potential contractors (sod vendors) to provide quotes for different job sizes. If done, vendors could be evaluated and selected based on the lowest overall cost for each job size. As a result, more than one vendor could be selected to provide the needed sod in the event the same vendor does not provide the lowest quotes for all job sizes. (If one vendor provides the lowest quote for the first job size but a second vendor provides the lowest quote for a different job size, separate contracts could be executed with each vendor for the applicable job sizes.) This revised process should help assure the City pays the best and lowest prices for sod and also provide the opportunity for more than one sod vendor to be selected. <p>As noted in the status reported for the previous action plan step, the Public Infrastructure Division has not yet revised its competitive solicitation process for sod. As also noted, the City is currently utilizing (“piggybacking” on) two recently awarded Leon County contracts to acquire sod for City projects and needs. Notwithstanding that circumstance, the City did prepare and issue an IFB in 2016 (after the initial audit report was issued) prior to deciding to utilize the Leon County contracts. In addition to bid quantities not being based on historical</p>

	<p>quantity information (see reported status for the previous action plan step), we found that the subsequent competitive bid solicitation did not provide the opportunity for vendors to provide quotes based on different job sizes. In response to our follow-up inquiry, Public Infrastructure management acknowledged that appropriate information on this matter had not been conveyed to staff preparing the 2016 bid. Accordingly, we will follow up in our subsequent audit engagements to ascertain if future sod bid solicitations are revised to consider different job sizes.</p>
<ul style="list-style-type: none"> ● Public Works (<i>now Public Infrastructure Division</i>) will continue working with Procurement to request the concrete vendor provide additional detail on delivery tickets as to the specific type of concrete delivered to City work sites. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – As noted in and prior to the issuance of the initial audit report, management of the former Public Works Department requested the concrete vendor to provide additional detail on its delivery tickets so as to allow City staff to identify the specific type of concrete (i.e., contract item) delivered to City work sites. However, during our follow-up we found the vendor did not provide that detail on subsequent delivery tickets. Furthermore, the vendor (A Materials Group, Inc.) was subsequently acquired by another company (Smyrna Ready Mix Concrete, LLC) in October 2016. Delivery tickets submitted by that company since the noted acquisition also do not provide sufficient detail to always allow City staff to identify the specific contract item delivered. In response to our inquiries on this matter, Public Infrastructure staff indicated efforts will be made to have the vendor (Smyrna Ready Mix Concrete) provide the needed level of detail. We will follow up on those efforts in our subsequent follow-up engagement.
<p>Table legend</p> <ul style="list-style-type: none"> ● Issue to be addressed from original audit. ➤ Actions to address issue are in progress. ❖ Actions not yet taken. 	

Conclusion

Table 1 above shows that, while some actions have been initiated, none of the six action plan steps due for completion as of September 30, 2016, had been completed. We recommend efforts to complete those action steps be continued.

As noted in previous sections of this report, in addition to the six action plan steps due for completion as of September 30, 2016, and addressed in Table 1, there are four additional action plan steps due for completion after September 30, 2016 (i.e., each due for completion no later than October 2017). Those other four steps pertain to:

- Using historical information obtained from tracking quantities of purchased asphalt and concrete to develop better quantity estimates for future bid solicitations for those items (*two action plan steps*).
- Consideration of awarding future asphaltic materials and services contracts to multiple vendors based on a competitive selection process whereby specific vendors are selected based on the lowest overall cost for each job size (*one action plan step*).
- Appropriately defining what constitutes an individual order of concrete in future bid solicitations and related contracts (*one action plan step*).

We will follow up and report on management's efforts to complete the six action plan steps addressed in Table 1 and the four steps due for completion after September 30, 2016, in our subsequent follow-up engagement.

We appreciate the cooperation and assistance provided by Public Infrastructure and Procurement Services staff and management during this audit follow-up.

Appointed Official's Response

CITY MANAGER

We appreciate the thorough job by the City Auditor's Office in examining the practices related to the procurement of asphalt, concrete, and sod. We recognize and understand the importance of accurate estimates of quantities in obtaining favorable prices for the various materials and services provided by area vendors. Several action steps are already in progress which will improve the procurement of asphalt, concrete, and sod. I would like to thank the Auditor for his assistance as we incorporate these controls into the newly formed Underground Utilities and Public Infrastructure department.

Copies of this Follow-Up Audit Report #1705 or the initial audit report #1604 may be obtained from the City Auditor's web site (<http://www.talgov.com/auditing/auditing-auditreports.aspx>), 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 (auditors@talgov.com).

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