TO: The Honorable Chairman and Members of the Board of County Commissioners

FROM: Ken Burke
Clerk of the Circuit Court
Ex Officio County Auditor

SUBJECT: Follow-Up Review to Audit of Pinellas County Utilities Water Distribution System Mains Expenditures

DATE: March 12, 2010

For your review and filing in the Official Records, I am enclosing a copy of the follow-up review dated March 12, 2010 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Jim Bennett, County Attorney
Tom Crandall, Director, Pinellas County Utilities
Kevin Becotte, Assistant Director, Pinellas County Utilities
Mike Sweet, Director, Engineering
Stephen B. Carroll, Director, Utilities Finance & Business Support
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young
FOLLOW – UP REVIEW TO AUDIT OF PINELLAS COUNTY UTILITIES WATER DISTRIBUTION SYSTEM MAINS EXPENDITURES

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Division of Inspector General

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MARCH 12, 2010
REPORT NO. 2010-05

*Regulated by the State of Florida
March 12, 2010

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted a follow-up review of our audit of Pinellas County Utilities Water Distribution System Mains Expenditures. The objectives of our review were to determine the implementation status of our previous recommendations.

Of the twelve recommendations contained in the audit report, we determined that five have been implemented, four have been partially implemented, and three have not been implemented. The status of each recommendation is presented in this follow-up review.

We appreciate the cooperation shown by the staff of the Utilities Department during the course of this review.

Respectfully Submitted,

Hector Collazo, Jr., Director
Audit Services, Division of Inspector General

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor

*Regulated by the State of Florida
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INTRODUCTION

Scope and Methodology

We conducted a follow-up review of our audit of the Pinellas County Utilities (PCU) Water Distribution System Mains Expenditures. The purpose of our follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

1) Determine if Pinellas County procurement procedures were followed for obtaining construction contracts.
2) Determine if construction projects are adequately monitored to ensure work is performed in accordance with contract and project scope.
3) Determine if contractor invoices submitted for payment were approved at the appropriate level of PCU management, accurate and properly supported.
4) Determine if PCU management has a reasonable methodology for development of the annual capital expenditures budget for Water Distribution Mains – Water Renewal and Replacement.

To determine the current status of our previous recommendations, we conducted an interview with management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the process of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Principles and Standards for Offices of Inspector General, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the months of October and November 2009. The original audit period was October 1, 2004 through September 30, 2006. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Of the twelve recommendations in the report, we determined that five were implemented, four were partially implemented, and three have not been implemented. We commend management for implementation of most of our recommendations and continue to encourage management to fully implement the remaining recommendations.
Background

The Water System is responsible for providing quality cost-effective potable water service to Pinellas County (County) retail and wholesale customers. It does this by planning, constructing, financing, operating and maintaining water supply, treatment and distribution facilities in accordance with state and federal laws, rules and regulations. The system is continually being upgraded to provide customers with a safe and sufficient water supply for domestic needs as well as for fire protection. The system also continues to educate its customers on important water conservation issues. The water system is a part of Pinellas County Utilities (PCU). Utilities consist of the:

- Water System
- Sewer System
- Solid Waste Management

Utilities has a staff of over 600 employees who are responsible for the administration, operation, and maintenance of the County’s water, wastewater and solid waste functions. Utilities is the primary provider of water and wastewater services to County residents.

The Water Distribution System Mains (WDM) cost center accounts for the costs associated with the renewal, replacement and improvements to water distribution mains. It is a cost center within the Water system. The WDM cost center budget for Fiscal Year 2006 was $6,045,000. Personnel from various departments of Utilities are involved in the management and review of these dollars including Engineering, Finance and Contract Services departments.

The WDM projects include improvement of traffic flow, drainage and bridge projects. These projects can be initiated by:

- The County Public Works Department
  - The mission of Public Works (PW) is to maintain or improve the County roads and those in unincorporated areas. The County has major roads that go through several cities (e.g. Starkey Road).
- The Florida Department of Transportation (FDOT)
  - FDOT maintains state roads (e.g. US 19, or a section of Gulf Blvd south of Walsingham Road).
- A City/Municipality
  - The city/municipality maintains the city roads, but may have projects that impact the County water distribution mains (e.g. relocation work required).
- PCU Engineering
- An emergency

PCU uses different resources depending on the project. For projects initiated by:
Follow – Up Audit of Utilities Water Distribution System Mains Expenditures

- FDOT - the FDOT is usually responsible for the solicitation of bids, awarding the bid and overall project coordination.
- Public Works - Public Works is responsible for overall project coordination.
- PCU - PCU may use an outside contractor or the County General Maintenance Department (GMD). PCU does use onsite inspectors for PCU impacted work.

The following table indicates the ending annual budget for the WDM cost center for the last several fiscal years.

<table>
<thead>
<tr>
<th>WATER DISTRIBUTION SYSTEM MAINS BUDGET</th>
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<td>$6,045,000</td>
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*Budget amount includes County-wide galvanized pipe replacement program
STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of Pinellas County Utilities Water Distribution System Mains Expenditures. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

1. The Water System Reserve May Be Excessive.

Pinellas County Utilities (PCU) has an informal standard which established a $20,000,000 reserve for the water system. However, the average reserves over the last three years are $90,527,156 or $70,527,156 (353%) over the PCU standard.

The graph below highlights the water system reserves for Fiscal Years 2004, 2005 and 2006:
PCU Finance management indicated the dollar standard for the PCU water system reserves is $20 million. This standard covers capital reserves and operating reserves. Operating reserves generally represent two months of budgeted expenses. They stated the system reserve was an industry standard determined by the PCU Director based on years of experience in ratemaking and in the utility industry.

Management stated they monitor the budgeted and forecasted reserve level against the $20 million standard with each rate forecast prepared (twice per year) and when performing “what if” scenarios. Management indicated that the high reserve levels are partially the result of the selling of PCU assets and its efforts at rate stabilization until the reserves have been spent down. Management stated annual projected expenditures exceed revenues which decreases the reserve levels annually and is a method of keeping water rates stabilized until the reserve levels are reduced to their current standard.

To obtain comparative data, we reviewed the Orlando Utilities Commission (OUC) water system reserves standard. The OUC has a formal policy for water reserves for two water reserve “funds.” The policy expresses the reserve standard or target for the water reserve funds as a percentage of annual water revenues as opposed to a dollar amount. It also lists the purpose of each reserve. The reserve target or standard for the Water Stabilization Reserve is 10% of annual water revenue. The Water Stabilization Reserve is used to stabilize water rates during times of loss of revenue or significant increase in expenditures. The reserve target or standard for the Renewal and Replacement reserve is 15% of annual water revenue.

OUC was not aware of any industry standard for reserves for the water system. They conducted a study in 2006 to determine the factors affecting their reserve and to determine if their reserves were sufficient. OUC reviews its reserves each year with their finance committee; they do not deem it necessary to do a detailed study any more frequently than every 5 years. The 2006 study indicated their reserve levels were appropriate.

Although the standard for the dollar reserve level for the PCU water system is based on the PCU Director’s experience, there is no documentation of the standard in a formal policy. There is no documentation of periodic benchmarking data of reserve levels for other comparable entities to measure reasonableness of the amount. Burton & Associates, an outside consultant, recently completed a water, wastewater and solid waste rate study for PCU Management that was dated March, 2006. Management stated that there have been significant changes since the report was published. The objectives of the study were to perform a cost allocation and revenue sufficiency analysis. For revenue sufficiency, the objective was to evaluate the sufficiency of the County’s current water, wastewater and solid waste retail rates over a 10 year projection period. It included development of a financial management program that identified the total uniform annual rate increases that would provide sufficient revenues to fund all of Utilities’ requirements from Fiscal Year 2006 through 2015. We reviewed the report and did not see any mention of an industry standard for capital reserves for the water system.
Management may not have periodic quantitative data to measure against the current water system reserve level standard to monitor the appropriateness of the amount on an ongoing basis. As reserve levels are integral to the budgeting and forecasting process, PCU may have limited assurance that the reserve level for the water system is at the appropriate or optimum level for stabilization of rates and to meet operating or capital obligations.

Written policies are necessary to communicate management’s intent or provide guidance over areas or operations that are significant. Policies regarding key financial measures or targets that relate to sustaining ongoing operations are especially important. Also, a strong system of management control would include a process for reassessment of the key financial measures on a periodic basis. In addition, a system of continuous improvement would include benchmarking key measures against comparable organizations to provide reasonable assurance that these measures are within acceptable ranges. Management should compare this industry comparable data to the benchmark for the Pinellas County water system and evaluate whether the standard or target for Pinellas County is reasonable or should be changed. Other factors to consider would be the impact of large increases for capital budgets or operating expenditures in the budget and 5 year forecast. Management should document the results of the benchmarking and use it as a basis for evaluation for the current period as well as future benchmarking evaluations. Indication of how often and which organizations have been used in the benchmark analysis may be included as guidelines in the policy for the reserve level.

When excess reserves accumulate in an enterprise fund funded by user charges, the appropriate methods of reducing reserves to the needed level are to reduce rate to water customers and/or consider a rebate to the customers. It would be improper to consider diversion of any of these reserves to the County’s General Fund, since these monies were paid by water customers for water service and not to fund general government operations. Any such transfer would amount to a hidden tax and a use of funds that was not intended by water customers.

**We Recommend** Management:

A. Develop a written policy for a reserve level standard for the water system. This would include:

- The dollar amount of the reserve standard for the water system.
- How it was determined.
- The factors and/or criteria affecting the development of the reserve for future reference.

B. Periodically (at a minimum, every 5 years or more frequently if conditions warrant) obtain benchmark data on reserve level standards for the water system from other similar organizations (counties) for comparison.
C. Consider reduction in water rates and/or rebate to its water system customers the excess reserves (funds) above the reserve standard for the PCU water system and those amounts reasonably needed to stabilize water rates.

**Status:**

A. Not Implemented. Management stated they did not develop a formal written policy for reserves. However, management stated the methodology for establishing reserve levels has been shared with the Board. We continue to encourage management to implement our recommendation.

B. Implemented. Management completed a survey.

C. Acceptable Alternative Implemented. Since Utilities management reviewed a forecast of revenues, expenses and reserve levels, and presented it to the Board, they performed an analysis to evaluate a rate decision. They determined a rate increase was needed instead of a reduction at that point in time.

2. **The CIP Budgeting Process Needs To Be Improved.**

We noted the following concerns relating to the CIP Budget Process:

A. For fiscal years ending 2002 to 2006, Utilities spent only 45.5% of the amounts budgeted for capital improvements. In total, in excess of $34 million was budgeted, but not spent. For the projects we reviewed, the Engineering Department could not provide any supporting documentation to substantiate the amounts budgeted. It is essential that budgeted amounts be realistic to present a reasonable plan as to the resources that will be needed each fiscal year, along with the resources that will be remaining. The Capital Improvement Projects (CIP) budgeting process for the Water Distribution Mains cost center needs to be improved.

We reviewed the annual budgeted amounts vs. actual expenditures (variance) for the WDM for Fiscal Years 2002 to 2006. We noted that for one of these 5 years, about 72% of the budget was spent, and for four of the 5 years, only about 35% to 44% of the budget was spent. The PCU Director of Finance stated that the "industry average is that Utilities departments generally spend about 50% of their budget" (no documentation was provided to verify this statement).

| Water Distribution Mains - Renewal & Replacement (Excluding Galvanized Pipe Replacement Program) |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Ending Budget                   | $6,045,000     | $8,235,000     | $15,940,000    | $12,445,000    | $21,127,000    | $63,792,000    |
| Actual (1)                      | 2,282,437      | 3,475,242      | 6,995,858      | 8,944,438      | 7,319,205      | 29,017,180     |
Status of Our Recommendations
Follow – Up Audit of Utilities Water Distribution System Mains Expenditures

<table>
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<tr>
<th>Water Distribution Mains - Renewal &amp; Replacement (Excluding Galvanized Pipe Replacement Program)</th>
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<tbody>
<tr>
<td>Variance</td>
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<td>Actual as % of Budget</td>
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*Amount excludes County-wide galvanized pipe replacement program for Fiscal Years 2003 through 2005.
(1) Year to Date Fiscal Year 2006 Actual is as of November 14, 2006.

PCU Engineering management indicated a number of factors affect their annual budget process for the WDM cost center as follows:

- PCU management does not have control over FDOT and/or PW.
  - It is difficult to predict the timing of these projects. FDOT may delay a project if they do not get funding for their project, which may cause Utilities to delay the project. This could happen 3, 4 or 5 years in a row.
  - PCU management does not hire the contractors for these projects.
  - For PW projects with WDM work, Utilities’ management may not know the extent of the PW project at budget time and the impact to Utilities on work required as Utilities may not have their plans at budget preparation time.

A budget is a financial plan which should be based on a realistic estimate of events for the period covered. A budget can also include information on historical trends to help increase the accuracy of budgets or forecasts. Effective budgetary control includes a process that allows for systematic measuring of actual results and ongoing monitoring against the budget or estimate to measure budgetary effectiveness of the area or project.

Management should include the following in this method of budgeting:

1. An analysis of the likelihood of the project occurring.
2. A review of historical budget data for the WDM cost center.
3. Determination of annual actual vs. budget variances and any trend indicators.
4. Determination of causes of such annual variances. Some may be due to projects that were budgeted, but not started in that year. A trend on the annual percentage of this type may be useful to analyze. Others may be due to project budgets that were too high.
5. As a result of the analysis of this information, management may also determine factors that are out of their control.
6. This analysis can also be performed going forward to determine if any trends identified are changing and its impact on future cost center budgets.

B. The Utilities Engineering department could not provide supporting documentation on how project budgets were calculated for the sample projects selected. They also...
could not provide documentation on the project actual results versus the project budget and reasons for the variance. In addition, they could not provide any of the other project status related information (current status, start date, completed or postponed dates, etc.) for the sample projects. They indicated this information is not readily available. On February 16, 2007, PCU Engineering provided two examples of a recent CIP Monthly Status Report. A number of fields/sections were incomplete.

Effective project management includes establishment and periodic update of a master project status list. The list could be updated monthly and indicate status to include:

a) In process, postponed, cancelled or closed.
b) Date started.
c) Date completed.
d) Any notes explaining who postponed or cancelled a project and why.

Maintaining a master project status list would assist PCU Engineering management in the annual budget and forecast preparation process as well as providing a ready reference for analysis on the project status.

C. As a result of the analysis that we indicated in sections A and B above, we noted the need for a summary project form to document significant performance measures of the project. This form would become part of the individual engineering project file and become part of the project closure process. On this form:

a) The actual variance to budget should be documented for each year and for the project in total as well as the reasons for the variances.
b) Items affecting the actual costs for the year should be documented also, such as dates of project delays, postponements, etc. for future analysis.
c) Additional information should include project start and completion dates. This information will help monitor accuracy of budget estimates and could be used as a basis for developing more accurate project and cost center budgets in future years.

We Recommend Management:

A. Use a systematic method for determining the annual estimate of project budgets for the WDM cost center.

B. Establish a master project status list which indicates the current status for capital improvement projects.

C. Establish a standard project form to be used for each project which documents the final actual vs. budget dollars for the project as well as other project related information.
Status:

A. Partially Implemented. Management implemented some changes to improve the accuracy of the budget process. Although some projects on the Fiscal Year 2008/2009 CIP budgeting worksheet were organized in groups with one budget for the group (possibly to address uncertain likelihood of those projects occurring), there was no documentation provided to show that historical spending trends were analyzed (historical data analyzed), determination of annual actual vs. budget variances, the causes of such variances and trend indicators.

B. Partially Implemented. Management stated Utilities Engineering participates with Public Works in identifying the current status of major capital projects and that a Capital Improvement Program Status Report is completed bi-monthly for the County Administrator. However, management stated that it included only projects over $500,000.

C. Not Implemented. Management stated Utilities Engineering Management created the Project Control Form. We noted it includes various fields of information for a capital project (initial budget estimate, project description and justification, and management approval signatures), but does not include fields for final actual or final budget (as recommended in the audit). Management also stated they complete a Monthly CIP Report. We noted this report only includes the current fiscal year budget versus the current fiscal year actual payments to date. This is helpful information, but it does not include final or "project to date" budget vs. actual. This was the primary focus of the recommendation.

We continue to encourage management to implement our recommendations.


Internal controls over review by PCU Engineering of contract unspecified line items billed should be improved.

A. During the bidding and contract negotiation stages, contractors are provided a listing of products, services, equipment and/or staffing which may or may not be needed for the project and then complete the rates column and submit to PCU as requested (specified items rate sheet). These serve as predetermined rates if the resources are needed. We reviewed a sample of invoices for the QRC Water Mains Installation 2005 contract. We noted invoices which had billings for unspecified items such as products, services, equipment and/or staffing with no predetermined rate.

Project Engineers stated they do review and/or approve the prices and lump sum amounts of these unspecified line items for reasonableness either before the work starts.
or once the invoice was received and after the Engineer reviews it. We were informed by the Contract Manager that no documentation could be located that would show the amounts were agreed to in advance for lump sum unspecified line items or any receipts for items based on actual cost. One invoice showed where the Project Engineer negotiated the amount down from what was billed. However, each invoice/pay application reviewed had at least one unspecified line item billed for such items as equipment or a worker with a rate not agreed to in advance of the invoice or an unspecified item for which a receipt should have been obtained. Some unspecified items billed were:

- Superintendent
- Plumber
- Pick up truck
- Removal of storm pipe per linear foot
- 6" 90 Bends
- Pulling permits

Unspecified items that could be recurring in nature (e.g. hourly rate for superintendent, rate for plumber, daily rate for pickup truck, removal of storm pipe) should be included as separate bid line items in the contract bidding process for the next annual contract so that rates are established in advance and as part of the bidding process.

B. Contract management includes not only ensuring work is performed in accordance with contract scope, but also that billings have adequate supporting documentation and are in compliance with the contract. Management should attach a copy of the documentation to the invoice/pay application for review or maintain it in project files. This will assist in resolution of potential billing disputes and ensure compliance with contract requirements regarding allowable markup and retention of records for the audit clause in the contract.

A sheet which details the line items making up the unspecified total on the invoice is attached to the invoice/pay application. However, documentation on unspecified items relating to support for cost or agreements in advance on rate or lump sum is not. The Contract Manager was unsure if these items are in a project file maintained in the PCU Engineering department files for reference, and this support could not be located.

C. Various sections of the contract address billing of unspecified items should be improved. In general, unspecified items are items billed for which there is no bid value item/rate in the contract schedule of values.

Section B.10 of the contract discusses changes in work. It states that if applicable unit values are not in the contract, the value of such extra work or change shall be determined by negotiation. It also states that for new work not covered by contract unit values, the amount of an increase shall be limited to the contractor's reasonable direct labor and material costs
and reasonable equipment costs as a result of the change (including allowance for labor burden costs) plus a maximum 10% markup for all overhead and profit. If change work is performed by a subcontractor, a markup of 10% by the subcontractor over its cost is permitted along with a maximum 5% by the contractor for all its overhead and profit for a total overall maximum markup of 15% of the amount of change work.

In addition, Section D.2 of the contract states that any additional work not specifically listed (on the bid form), but required for satisfactory completion of the work, shall be considered to be included in the scope of each project assigned, with a value agreed to before construction or installation thereof.

Last, Section D.15, Unspecified Work, states that this work, materials and equipment, when required, will be ordered in writing in a lump sum or cost plus price. It also states that the Contractor shall furnish cost data which might assist the Engineer in the establishment of an equitable rate.

As a result, for items billed based on a cost plus basis, PCU Engineering has limited assurance that prices paid are within the contract limitations of markup. For lump sum items, PCU Engineering may have limited negotiation ability on the amount billed after the work is done instead of before work has started.

We Recommend Management:

A. Include common and recurring unspecified items as bid line items in the contract bidding process, so that rates are established in advance.

B. When material items are billed in the unspecified line item, obtain receipts from the contractor and include with the pay application as documentation to justify the cost of the item.

C. For other unspecified line items involving rates or lump sum charges, obtain agreement with the contractor in advance of the work to be performed and create and maintain documentation showing such agreement.
Status:

A. Implemented. A Management review was performed on the most recent Annual Water contract to include updated common recurring unspecified items as bid line items in the contract bidding process and contract.

B. Partially Implemented. Though the contract standard Measurement and Payment section which identifies "Unspecified Work" contains acceptable language to require receipts/subcontractor invoices and other supporting documentation for the billing to attach to the pay application (invoice), there does not appear to be any department procedure or memo to staff regarding/documenting this procedure. Since we requested, but were not provided a sample invoice with support to review to confirm implementation, we deem this partially implemented.

C. Partially Implemented. Management made reference to the same standard contract section "Unspecified Work" of the recent annual contract mentioned in paragraph B above. Management stated that when the unspecified line item is used for planned work, the costs are negotiated in advance based on comparisons to other line items within the contract, comparisons to other current or recent contracts, or historical and market construction data available and deemed reasonable by the project manager. Management did not supply us with a sample copy of a related pay application for review nor any procedures or department memos regarding this procedure. Similar to paragraph B above, we deem this partially implemented.


Planning for annual contract renewals should be improved. This process would include establishing milestone planning dates for key steps and include necessary lead times.

We reviewed a sample of invoices for the QRC Water Mains Installation 2005 contract. We noted the dates of work performed covered by the invoice from the face sheet of the invoice and through discussion with the contract manager. As noted in Opportunity for Improvement No. 5, inspection reports could not be located for the sample items, and thus could not be used to verify the dates of work performed. We noted that two of the five invoices contained dates of work outside the original contract term of March 30, 2005 to April 15, 2006. The two invoices were for the first two weeks of June 2006. We selected the last three invoices (in addition to the initial sample of 5) to review for dates of work performed and noted only one exceeded the term, but did so by several weeks (May 5, 2006).

The Water and Reclaimed Mains Installation Annual Requirements 2005 contract (annual contract) was executed with QRC. The Notice to Proceed for this contract was issued to and received by the contractor on March 30, 2005. It indicated that the contractor was to commence work on or before April 6, 2005. Division X of the agreement, page X-1, states that the contractor agrees:
"To commence work under this contract with an adequate force and equipment within fifteen (15) consecutive calendar days after receipt of written notice from the COUNTY to proceed hereunder, and to fully complete all necessary work under the same within not more than Three Hundred Sixty-Five (365) consecutive calendar days. It is understood and agreed that the date on which the consecutive calendar days will begin to be charged to the project shall be the fifteenth (15th) calendar day from the date of receipt of the Notice to Proceed."

This would make the expiration date April 15, 2006.

The contract with QRC allowed an extension for another 12 months at the same terms and conditions. PCU management stated the contractor ultimately decided not to extend the contract another 12 months at the same terms and conditions as allowed in the contract. Management stated there was a verbal agreement with QRC to continue jobs already assigned and to be available for any emergency work for a couple of months. This verbal agreement was not put into writing. QRC was unsure about extending the current contract for another 12 months at the existing terms due to rising material prices. The annual contract was later rebid. In addition, management stated that the delay between annual contract effective periods was also caused by a couple of other reasons. One, there was a transition period between the old and new technical and material specifications. The new contract included new technical specifications and material specifications (for a new product) and there were some challenges in putting together the package to standardize them. Two, the new annual contract was re-bid after the initial bid to obtain a more realistic contract cost.

As a result, the County may have limited ability to enforce provisions of the contract, and it increases the exposure to liability and disputes due to operating under a contract that has expired.

Effective contract management includes ensuring that work is performed within contract scope and that the contract timeframe is still in effect and not expired. This helps to minimize liability exposure on behalf of the County and potential billing disputes.

Management should establish milestone planning dates for contracts that allow time period extensions and which consider the lead time to rebid the contract. These planning dates would allow time for contract management to discuss the extension with the contractor and obtain a decision in time to allow rebid of the contract, if necessary. This should reduce the likelihood of situations where a contractor is working under a recently expired agreement.

**We Recommend** Management establish milestone planning dates for contracts which allow time period extensions and consider the lead time to rebid the contract in the event a contractor decides not to extend the current contract.
Status:

Not Implemented. Our review determined management stated the standard process for Utilities Engineering has always been to rebid annual contracts in a timely manner to avoid a disruption in service. They also made reference to recent reorganization of Utilities Engineering to further complement the timely rebid of annual construction contracts. However, management did not provide any documentation to support their assertions or implementation of any procedures to address the recommendation.

We continue to encourage management to implement our recommendation.


The inspection reports supporting invoices from the contractor for the annual contract were not readily available. PCU Engineering should improve the recordkeeping so that inspection reports can be retrieved by project related to the contract.

We reviewed a sample of invoices for the QRC Water Mains Installation 2005 contract. As part of this review, we requested the related PCU Inspection Reports supporting these invoices from the PCU Engineering department. The PCU Inspection Report is the form that documents the quantities of items received or installed as verified by the PCU inspector as well as other relevant project progress information. We were informed by the PCU Contract Manager the inspection reports could not be located.

Inspection reports are maintained in the PCU Engineering department files for reference and not included with the invoice sent for payment. The PCU contract manager could not locate the inspection reports for the sample invoices selected. PCU management stated there has been turnover in the contract manager position for this contract and this may have contributed to the misplaced records.

The audit provision in the QRC contract requires the contractor to maintain records related to the performance of and to substantiate charges related to the contract. The provision grants the County:

Access to the contractor's facilities and all necessary records for the duration of the work and until 36 months after final payment by the County in order to conduct audits.

County personnel should also retain significant supporting documentation such as inspection reports for the same time period to permit adequate evaluation and verification of any invoices for payment as well as provide a basis for resolution of disputes.

PCU Engineering should have a recordkeeping system that allows these reports for the related contracts to be available while the contract is open and for the duration required by the audit
provision in the contract. The recordkeeping should allow for inspection reports to be retrieved by project related to this contract. This will allow compliance with the audit provision of the contract and serve as a basis for research as necessary.

Although the Project Engineer reviewed the invoice including quantities billed, there was not adequate documentation on hand to audit whether the control of inspection of quantities was functioning as intended. In addition, the information is not available for research by the PCU Engineering department of any potential disputes related to the work performed, if necessary.

We Recommend:

PCU Engineering management ensure and maintain an adequate recordkeeping system for PCU Inspection Reports.

Status:

Implemented. Our review determined management has developed instructions for the completion and filing of PCU Inspection reports by project.

6. Inspection Reports Should Be Complete.

Documentation on the inspection reports of quantity and type of item installed could be improved.

We selected a sample of invoices for a Public Works contract with charges to the WDM cost center. We obtained the related PCU Inspection Reports supporting the billing. Although in general most areas of the reports were complete, we noted the Inspection Reports were not always properly completed. In several instances, although an item description and quantity was present, the contract bid item number was not indicated. In another instance, the item installed was not listed in the contract quantity section, but instead in a daily narrative section ("operation and location" section). The forms did include specific project progress notes in the operation and location section.

Good internal control requires that items received or installed are verified and documented for later comparison to the invoice once received. The PCU Inspection Report is the form that documents the quantities of items received or installed as verified by the inspector as well as other relevant project progress information. The inspection report form is the internal control document that is used to justify billing quantities. All sections of the form must be completed including the contract bid items installed, in its proper section, as well as project progress related information.

Although a standard inspection report form is used to document inspections, the inspector may not complete all the required fields for contract bid items. PCU management stated that inspection reports completion has been discussed at many staff meetings for the inspectors.
Although the billings for the Public Works contract for water distribution mains were correct, the form was not complete and increases the risk of inefficiencies by the Engineer in the project monitoring process or potential disputes in the invoice review process.

**We Recommend** Management communicate and reaffirm with the PCU Inspectors the importance of completing the inspection reports completely.

**Status:**

Implemented. Our review determined management has developed instructions for the completion and filing of PCU Inspection reports by project. It also mentions how often the Inspectors should review and approve the reports. In addition, the Chief Inspector has goals to perform random reviews of Inspection Reports submitted to ensure thorough, accurate reports and to work closely with Inspectors to ensure timely and accurate delivery of project as built and project close out files.