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

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

SUBJECT: Audit of HDR Engineering Services Contract

DATE: January 19, 2012

For your review and filing in the Official Records, I am enclosing a copy of the report dated January 19, 2012 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
  John Wesley White, Interim Executive Director, DEI
  Jorge Quintas, Director, DEI Engineering and Technical Support
  Sig Ruiz, Manager, Financial Reporting Section, DEI
  Steve Carroll, Director, DEI Finance
  Beth Thomas, Department Administrative Manager, DEI Finance
  Jim Bennett, County Attorney
  Claretha N. Harris, Chief Deputy Director, Finance Division
  Ernst & Young
AUDIT OF
HDR ENGINEERING SERVICES CONTRACT

Audit Services
Division of Inspector General

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

Hector Collazo, Jr., CFE, CFS, CISA, CIG, CIGI, CRISC
Director/Inspector General/Chief Audit Executive
Division of Inspector General**

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JANUARY 19, 2012
REPORT NO. 2012- 02

*Regulated by the State of Florida
**Accredited Office of Inspector General
By the Commission of Florida Law Enforcement Accreditation
January 19, 2012

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted an audit of the HDR Construction Engineering and Inspection (CEI) Services contract (HDR contract). Our audit objectives were to:

- Determine if contractor invoices submitted for payment were properly approved at the appropriate level of Public Works department management.
- Determine if contractor invoices submitted for payment were billed for contract-approved positions.
- Determine if contractor invoices submitted for payment were billed with contract-approved hourly rates.

We conclude that contractor invoices submitted for payment for the HDR contract were properly approved by Public Works' management. Contractor invoices submitted for payment were billed for contract-approved positions and contract-approved hourly rates, except as noted. However, controls for contract invoice review could be improved to ensure invoices for contract services are accurate and in accordance with the contract rate schedule. In addition, controls could also be improved by establishing formal written procedures approved by management for the contract invoice review process.

An Opportunity for Improvement is presented in this report.

We appreciate the cooperation shown by the staff of the Public Works Engineering and Finance departments during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,

[Signature]
Hector Collazo, Jr., Director
Division of Inspector General

Approved:

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

*Regulated by the State of Florida
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<td>1. Internal Controls Over Processing and Payment of Contract Invoices are Weak.</td>
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INTRODUCTION

Synopsis

Contract invoices are properly approved by Public Works' management. However, formal procedures should be established to improve internal controls over contract invoice processing. In addition, billing errors should be resolved and reimbursement requested from the consultant.

Scope and Methodology

We conducted an audit of the HDR Construction Engineering and Inspection (CEI) professional engineering services contract (HDR). Our scope covered whether HDR complies with the contract provisions. Contract compliance was also determined with any subconsultants utilized by HDR. We determined if the Public Works (PW) department is complying with any applicable policies, plans, procedures, and laws regarding this process.

To meet the objectives of the audit, we interviewed PW management to understand the processes and procedures related to these processes. We evaluated the adequacy of these policies and procedures, as well as the internal controls. We tested, on a sample basis, the PW payments to HDR as related to the provisions of this agreement.

The objectives of the audit were to:

1. Determine if contractor invoices submitted for payment were properly approved at the appropriate level of Public Works department management.
2. Determine if contractor invoices submitted for payment were billed for contract-approved positions.
3. Determine if contractor invoices submitted for payment were billed with contract-approved hourly rates.

Our 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. The audit period was December 23, 2008 through December 31, 2010. However, transactions and processes reviewed were not limited by the audit period.
Overall Conclusion

We conclude that contractor invoices submitted for payment for the HDR contract were properly approved by Public Works management. Contractor invoices submitted for payment were billed for contract-approved positions, except as noted. Contractor invoices submitted for payment were billed with contract-approved hourly rates, except as noted. However, controls for contract invoice review could be improved to ensure invoices for contract services are accurate and in accordance with the contract rate schedule. In addition, controls could also be improved by establishing formal written procedures approved by management for the contract invoice review process.
## Action Plan

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<th>FINDING NO.</th>
<th>FINDING (CAPTION) RECOMMENDATIONS</th>
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<td>1</td>
<td><strong>Internal Controls Over Processing and Payment of Contract Invoices are Weak.</strong></td>
<td></td>
<td></td>
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<tr>
<td>A.</td>
<td>Resolve invoice errors and request reimbursement for overbillings of up to $4,407.</td>
<td>✓</td>
<td>✓</td>
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<td>B. 1.</td>
<td>Strengthen preventative controls in the invoice review process by reviewing future invoices for this contract for correct rates and position titles and resolving errors on invoices prior to submitting for payment. This would include requesting HDR to reissue invoices with correct rates and titles going forward for any new invoices which do not agree with the contract rate exhibit.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>B. 2.</td>
<td>Establish formal written procedures, beyond the current informal steps, that address review of CEI contract invoices and how to handle invoices that do not comply with contract billing terms prior to submitting for payment. The procedures should be approved by management and dated. Procedures should also include which position performs what task and which position approves tasks and decisions.</td>
<td>✓</td>
<td>✓</td>
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Background

Pinellas County Public Works’ (PW) mission is to serve the citizens and visitors of Pinellas County by providing, implementing, operating and maintaining transportation, surface water, and building programs in a professional manner which supports economic and community growth. The Pinellas County PW department plays a major role in developing and maintaining the county’s transportation and surface water management programs. It provides engineering and construction services to other Pinellas County departments (i.e. Parks Department, and Community Development).

Public Works maintains a number of pools of general engineering consulting agreements, which include:

- General Engineering
- Survey & Mapping
- Geo-Technical
- Others

Each pool has different:

- Agreement term dates
- Renewal option periods
- Number of consultants

One of the pools of contracts used by Public Works is for CEI (Construction Engineering and Inspection) Consultants. For the consultants on this list, Public Works (PW) has contract purchase agreements executed for these consultants and then uses the agreements on a work order basis. The amount of the contract purchase agreement is not encumbered, but instead, it is just a “not to exceed” amount for the contract purchase agreement.

The HDR CEI contract in this pool was selected for audit. It was one of eight contracts in this pool. The following information pertains to this contract:

<table>
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<tr>
<th>Contract</th>
<th>Term</th>
<th>NTE Amount</th>
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<tr>
<td>HDR CEI Engineering Services</td>
<td>12/16/08 – 12/15/11</td>
<td>$6,000,000</td>
</tr>
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</table>

The contract term is December 16, 2008, to December 15, 2011. The contract states this is a three-year term, unless terminated at an earlier date, or extended by amendment. Further, it has a three-year option of renewal, subject to written notice of agreement by the County
Administrator and Consultant, only if all prices, terms and conditions remain the same. The contract has a not-to-exceed (NTE) amount of $6,000,000 and the Board of County Commission (BCC) approval is needed to exceed this limit. The general scope of this contract includes a list of services to be furnished by the consultant. This includes not only CEI services, but also other miscellaneous engineering services as directed by the Director of Public Works and Transportation or designee. Although this contract allowed for CEI services, it was primarily used for construction project administration tasks.
Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunity for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Internal Controls Over Processing and Payment of Contract Invoices are Weak.

Internal controls over processing and payment of contract invoices are weak and should be improved. Invoices were processed which did not comply with position titles and rates in the contract. In addition, PW Finance management has not established a formal written procedure approved by management that details the steps for processing invoices for Construction Engineering and Inspection (CEI) and Administration services contracts.

A. Invoice Processing Errors

Invoices for contractors' labor were paid that did not comply with the contract terms for the labor function description and/or the labor hourly rates. Although invoice rate and position title differences were identified by Public Works’ staff during the contract period and reviewed for correction, several invoice rates, which did not agree to the contract, still have not been corrected. In addition, HDR contract invoices with position titles and rates that did not agree to the contract had been initially processed for payment before Public Works' management identified that a problem existed.

We reviewed a sample of invoices representing 13% of the population to determine if rates and related position titles billed on invoices agreed to contract rates as listed on the HDR Contract Exhibit A. We also reviewed the invoices to determine if Public Works’ approvals on the invoices were proper. We noted 12 invoices (55% of sample) with instances of position title exceptions and five invoices (23% of sample) with instances of rate exceptions when compared to the rate exhibit in the contract. PW management had already identified the issue of rates and/or position titles on invoices not always agreeing to the contract. At that time, they began to perform work to resolve errors and make corrections. After we reviewed these 12 invoices with position title exceptions and five invoices with rate exceptions with Public Works Finance, we noted that three invoices (14% of sample) with rate exceptions still remained uncorrected.

Even though Public Works’ staff began to perform work to resolve errors and make corrections, we noted that three invoices with rate exceptions remained uncorrected in the amount of up to $4,407.
Engineering contract invoices should be approved and paid in compliance with position descriptions and labor hourly rates that represent provisions of the contract. Good internal controls require ensuring invoice position descriptions and rates agree to the contract terms prior to processing for payment.

**B. Lack of Formal Procedures**

We also determined that documented Public Works’ procedures approved by management did not exist that would guide employees in the internal control steps on processing billings for CEI and Administration contract services. Informal procedures for invoice review exist, but were not formally written and approved by management for effectiveness, efficiencies, proper internal control, and updates for changes in the process.

There was a lack of documented policies and procedures, which specified how to review contract invoices for this type of contract, and how to process invoices which do not conform to the contract terms. Existing informal guidelines did not address how to resolve invoices with errors (i.e., send back to the vendor to correct and resubmit, or discuss questions with vendor and have Public Works make manual changes to the invoice). Public Works management did not request contract amendments that might have clarified some questions which may also have caused some of the processing problems.

The lack of formal written procedures approved by PW management regarding contract invoice processing resulted in HDR contract invoices with position titles and rates that did not agree to the contract being processed for payment before Public Works’ management identified that a problem might exist. The lack of formal procedures also results in inconsistencies in the invoice review process and increases the likelihood that billing errors will go undetected.

PW management should have a formal, complete written and approved procedure in place for review and approval of CEI and Administration contract invoices. Written policies and procedures are always considered an important tool used to ensure adequate internal controls. Written procedures:

- Provide guidance necessary to properly and consistently carry out departmental activities at a required level of quality.
- Provide opportunity for management to ensure that an adequate structure of internal controls has been established for a process to prevent or detect errors timely.
- State the level of management review and approval for the various functions to be performed.

It is management’s responsibility to establish written internal procedures covering key departmental processes. The procedures should be current and in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect productivity. The procedures also support the cross-training and back-up for key staff functions.
We recommend Public Works’ management:

A. Resolve invoice errors and request reimbursement for overbillings of up to $4,407.

B. 1. Strengthen preventative controls in the invoice review process by reviewing future invoices for this contract for correct rates and position titles and resolving errors on invoices prior to submitting for payment. This would include requesting HDR to reissue invoices with correct rates and titles going forward for any new invoices which do not agree with the contract rate exhibit.

B. 2. Establish formal written procedures, beyond the current informal steps, that address review of CEI contract invoices and how to handle invoices that do not comply with contract billing terms prior to submitting for payment. The procedures should be approved by management and dated. Procedures should also include which position performs what task and which position approves tasks and decisions.

Management Response:

A. The Department of Environment and Infrastructure will request reimbursement for overbillings from HDR.

B. 1. The Department of Environment and Infrastructure has a current invoice review process that includes verifying contract compliance for correct rates and position titles. Errors are resolved prior to invoice payment.

B. 2. The Department of Environment and Infrastructure is currently drafting formal written procedures that address the review of contract invoices. Procedures will include normal invoice processing, and also how to handle invoices that do not comply with the contract billing terms.
DIVISION OF INSPECTOR GENERAL

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