



# Sub-Basin P002 & P003 Capacity Improvement Project Audit

August 2022

2022-U1



Internal Audit Department  
Lucretia Perkins, Utility Auditor

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## *EXECUTIVE SUMMARY*

### *INTRODUCTION*

City of Fort Smith Internal Audit Department conducted an internal audit of one of the Consent Decree Initiatives, P002 & P003 Sub-Basin Capacity Improvements Project. The internal audit focused on compliance with the City's ordinances, resolutions, key contractual requirements, and the effectiveness of internal controls. The audit was included in the 2022 Audit Plan and was a direct result of our Risk Assessment process conducted in 2021.

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### *BACKGROUND*

The City of Fort Smith has a population of approximately 89,000 citizens. The Utility Department's mission is to ensure the sustained delivery of quality water and wastewater services that promote health, safety, and quality of life for all customers. The City has approximately 627 miles of sewer lines, 12,800 manholes, 23 sewer pump stations, and 2 wastewater treatment plants. The City of Fort Smith Utility Department's (FSUD) largest capital expenditures are from new construction, facility upgrades, and infrastructure improvements. A single project can run into the millions of dollars, involving engineering, design, contractors, materials, and construction. The Engineering Team within the Utility Department is responsible for the design, construction, and maintenance of the City's water and wastewater infrastructure and the management of its real property. As part of the Consent Decree that was lodged January 2, 2015, several projects have been designed to address the wet weather overflows that occur throughout the sanitary sewer collection system. One of those projects was the P002 & P003 Sub-Basin Capacity Improvements.

The P002 & P003 Sub-Basin Capacity Improvements Project began in February 2016 with the Design, Construction began in June 2018, and the project was completed in June 2020. The cost of the project was \$11 million; including \$9.5 million for construction. The Project was funded primarily through the 2015 and 2018 Water and Sewer revenue bonds.

### *AUDIT SCOPE AND OBJECTIVES*

The audit scope covered activities and transactions occurring during calendar years 2018- 2020. Sub-Basin P002 & P003 Capacity Improvements, Project 16-03 was selected from the 2021 Risk Assessment and 2022 Audit Plan.

Our audit objectives, as refined during research and the risk assessment process occurring throughout the course of our work, were as follows:

1. Comprehensive policies and procedures for Construction Management have been established and are consistently followed;
  2. The City is in compliance with all applicable laws and regulations;
  3. The City has an effective system of controls in place that assist in appropriately managing construction-related costs;
  4. Construction project bids were awarded in compliance with applicable rules and regulations;
  5. Changes from the initial contract award amount and the final contract price were appropriately negotiated and documented;
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6. Internal controls over change orders to the contract are appropriate and adequately documented;
  7. Information systems are reliable and timely, and accurate information is available to management and the Board; and
  8. Contractors complied with the provisions stated in the contract.
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### ***CONCLUSIONS AND SIGNIFICANT ISSUES***

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

Based on the results of the audit procedures performed the following exceptions were noted:

- FSUD does not consistently follow the policies and procedures to maintain the contract management database e-Builder. Documents necessary for the project could not be located in e-Builder, documents named that were not the actual document, documents were not related to the project, etc...
  - FSUD does not properly review payment requests. Purchase Orders were submitted that did not have a date, number, and no invoice was submitted. Materials were placed in the incorrect line item and paid out before any work began.
  - FSUD should improve the operating effectiveness of internal controls to properly manage related costs.
  - The project bids were awarded properly. However, there is no bid log maintained to record date/time bid received to ensure all bids considered were timely. (Repeat finding of prior audit.)
  - Certain factors that contributed to the final contract price were not properly outlined in contract documents and documented throughout the course of the project.
  - The weather days, additional days requested, field change orders, requests for proposals, and change orders are not appropriate and adequately documented.
  - Contractor did not fully comply with the provisions stated in the contract.
  - Substantial Completion is not adequately defined in contract documents.
  - Request for proposal and change order procedures and policies are not followed.
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