

CDM SMITH
CONTRACT
COMPLIANCE AUDIT
UTILITIES DEPARTMENT



Fort
Smith
ARKANSAS

NOVEMBER 15, 2017

PREPARED BY

VANESSA M. JOHNSON, CPA, LLC
INTERNAL AUDIT | SOX | PROCESS IMPROVEMENT



Vanessa M. Johnson, CPA, LLC

November 13, 2017

The Honorable Carl Geffken
City Administrator
City of Fort Smith
623 Garrison Ave, 3rd Floor
Fort Smith, AR 72901

RE: Utilities Department - CDM Smith Contract Compliance Audit

Dear Mr. Geffken:

The Internal Audit Office contracted with Vanessa M. Johnson, CPA, LLC (VMJ CPA) to provide professional independent internal audit services. We have completed the CDM Smith Contract Compliance Audit for the City's Utilities Department.

The primary objectives of this audit were to:

1. Determine contractor compliance with the key administrative terms and conditions of agreements selected for testing and any related contract amendments;
2. Determine that selection of the contractor was properly justified;
3. Verify agreements are valid/properly authorized and approved; and
4. Identify and document internal controls related to the contractor/vendor billing and payment process, which includes verifying invoices charged are valid, reasonable, and accurate according to contract terms & conditions; validating personnel assignment; and properly approving invoices for payment.

The audit period consisted of calendar years 2015 and 2016. As it is noted that the Utilities Department is under new management, there were significant issues identified throughout the audit that are outlined in the attached report, a couple of which I would like to highlight in this transmittal as follows:

- There are poor administrative and monitoring controls over contracts.
- There are poor invoice processing controls.

We would like to thank the Utilities Department and CDM Smith for their assistance and cooperation during the course of the audit.

Sincerely,

Vanessa M. Johnson

Vanessa M. Johnson, MBA, CPA, CIA
Managing Director

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EXECUTIVE SUMMARY

INTRODUCTION

VMJ CPA has completed a contract performance audit of the professional engineering consulting services provided by Camp, Dresser, & McKee Smith (CDM Smith), an external vendor managed by the Utilities Department. The audit considered vendor and department compliance with key terms and conditions of the contract, as well as, the effectiveness of administrative internal controls and monitoring activities in place. The audit was included in the calendar year 2017 Audit Plan and was a direct result of our Risk Assessment process conducted earlier this year.

BACKGROUND

The City of Fort Smith (City) contracts with CDM Smith to perform professional engineering consulting and related services regarding the program management services for the Consent Decree and Infrastructure Improvement Initiatives. The City has entered into several individual Agreements with CDM Smith to perform these services. Table 1 below outlines the Agreements with CDM Smith during the audit period of calendar year 2015 (January 1, 2015 – December 31, 2015) and calendar year 2016 (January 1, 2016 – December 31, 2016), noting those that were randomly selected for testing.

The primary services contracted with CDM Smith include developing and implementing the Consent Decree program, complying with Consent Decree monitoring and reporting requirements, providing technical support and oversight, providing coordination and oversight of design consultants and construction contractors, and supporting the City with the development and implementation of improvements to the collection and transmission system as requested and as needed. Fees are specified in the Scope of Work of each Agreement.

The primary services are performed throughout the month and invoiced monthly for services rendered in the prior month. The contract language, in conjunction with the Scope of Work, defines the types of services covered and authorized in the agreement.

TABLE 1 – CDM SMITH AGREEMENTS					
Agreement No.	Resolution No.	Service Description	Approval Date	Maximum Agreement Amount	Status
15-05-ED1*	R-56-15	Hydraulic Model Update, Capacity Assessment Report and Remedial Measures Plan	3/17/15	\$630,550	Closed
15-14-ED1*	R-82-15	P Street & Massard Wastewater Treatment Plant Effluent Blending & Capacity Assessments	5/5/2015	\$198,600.00	Closed
14-07-ED1	R-104-14	P Street Sewer Basin Hydraulic Model Update	8-5-14	\$108,436.00	Closed
15-13-ED1*	R-81-15	Program Management Services for Consent Decree Compliance Program & Infrastructure	5/5/2015	\$1,220,269.00	Closed
16-06-ED1*	R-30-16	Program Management Services for Consent Decree Compliance Program & Infrastructure	3/1/2016	\$8,514,088.00	Open
14-09-ED1	N/A – Agreement Under \$75,000 threshold	Redundant Electric Service Massard Wastewater Treatment Plant	1/22/16	\$74,510.00	Closed
15-08-ED1	R-55-15	Wastewater Collection & Transmission System CMOM Program and Implementation Plan	3/17/15	\$925,150.00	Closed

****Denotes Agreements selected for testing.***

AUDIT SCOPE AND OBJECTIVES

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

1. Determine contractor compliance with the key administrative terms and conditions of agreements selected for testing and any related contract amendments;
2. Determine that selection of the contractor was properly justified;
3. Verify agreements are valid/properly authorized and approved;
4. Identify and document internal controls related to the contractor/vendor billing and payment process, which includes verifying invoices charged are valid, reasonable, and accurate according to contract terms & conditions; validating personnel assignment; and properly approving invoices for payment.

The engagement scope covered activities and transactions occurring during calendar year 2015 and 2016 for the agreements selected for testing, as noted above.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

- Obtained and reviewed agreements and scope of work outlines;
- Obtained and reviewed City Ordinances related to procurement process for professional service contracts and other related City policies and procedures;
- Performed walkthroughs with Utilities and Purchasing to assess internal control design;
- Performed walkthroughs of internal billing processes with CDM Smith;
- Obtained and reviewed evidence to support contractor compliance with contractual insurance certificate provisions;
- Obtained and reviewed invoices submitted for services performed under contracts selected for testing during calendar year 2015 and 2016 and selected the following number of samples for substantive testing:

Agreement No.	# of Samples
16-06-ED1	4
15-14-ED1	6
15-05-ED1	6
15-13-ED1	6

- Verified that the services and billed amounts for Other Direct Costs reflected the current contractual agreement; and
- Reviewed GL payments made to CDM Smith for the audit period.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Utilities Department. Management is responsible for establishing and maintaining a system of internal

controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

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.

AUDIT OBJECTIVE 1 - Determine contractor compliance with the key administrative terms and conditions of agreements selected for testing and any related contract amendments.

CONCLUSION

Based on the results of the audit procedures performed the audit team noted that CDM Smith was not compliant with the administrative requirements of the agreements. Based on inquiries conducted during the audit and supporting documentation reviewed, we determined:

- CDM Smith maintained partial insurance coverage for some agreements under review, with the exception of agreements 15-05-ED1 and 15-13-ED1, as this coverage could not be evidenced as being maintained due to no certificates on file with the Utilities Department or CDM Smith. Moreover, it is not evidenced that CDM Smith maintained the proper comprehensive automobile liability coverage and the proper coverage that covers restoration of plans, drawings, field notes, and other documents in the event of their loss or destruction while in CDM Smith’s custody. The Utilities Department was not aware of whether or not CDM Smith was in compliance with the administrative requirements, as they have never requested proof of insurance from CDM Smith or subcontractors for any of the agreements. Certificates of Insurance that were provided came from CDM Smith directly when we requested them during the audit. **(See Finding #2)**
- There was no Notice To Proceed (NTP) issued for Agreement 16-06-ED1 as outlined in the Scope of Work, Section 8. In addition, for all of the other agreements selected for testing with CDM Smith, there was no provision for an NTP; thus, none of the agreements were issued NTPs from the City. **(See Finding #3)**

AUDIT OBJECTIVE 2 - Determine that selection of the contractor was properly justified.

CONCLUSION

Based on the results of the audit procedures performed, the audit team noted that Utilities Department was not in compliance with the City’s procurement policies and procedures for

soliciting services for professional service contracts. Based on inquiries conducted during the audit and supporting documentation reviewed, we determined:

- It was not evidenced that the Utilities Department followed the proper procurement procedures as outlined in the City Ordinance, Section 2-182 (d) (4) and (5) for soliciting professional services and evaluating contractors. There was no supporting documentation maintained by the Utilities Department to evidence the number of statements of qualification received and evaluations performed to ensure the contractor selected was in the best interest of the City. **(See Finding #1)**

AUDIT OBJECTIVE 3 - Verify agreements are valid/properly authorized and approved.

CONCLUSION

Based on the results of the audit procedures performed, the audit team noted that Utilities Department had adequate internal controls in place to properly authorize and approve agreements.

AUDIT OBJECTIVE 4 - Identify and document internal controls related to the contractor/vendor billing and payment process.

CONCLUSION

Based on the results of the audit procedures performed, the audit team noted that Utilities Department had insufficient internal controls to process vendor billings.

- No consistent review of receipts, subcontractor invoices, or other supporting documentation of Other Direct Costs and Subcontractor Costs billed to City is performed by the Utilities Department. Other Direct Costs include travel, entertainment, and miscellaneous costs. The Utilities Department currently does not know whether the costs billed for reimbursement are legitimate expenses and billed at the correct amounts. Moreover, there are no provisions outlined in the Agreements that require contractor to submit supporting documentation for reimbursement of Other Direct Costs and Subcontractor Costs billed to the City. **(See Findings #4, #5)**
- There are no provisions outlined in the agreements that require contractor to submit timesheets or other relevant documentation to verify personnel and assignments for time invoiced. In addition, there are no "Right to Audit" provisions in the agreements with contractor to rightfully allow the City to perform an audit of contractor's payroll, personnel, and other relevant records to satisfy City's compliance requirements. **(See Finding #6)**

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank both the Utilities Department and CDM Smith for their cooperation, time, and efforts throughout the course of the engagement.

Vanessa Johnson

Vanessa M. Johnson, MBA, CPA, CIA
Managing Director

DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

FINDING #1 – NOT IN COMPLIANCE WITH CITY’S PROCUREMENT POLICIES AND PROCEDURES (RISK RATING = HIGH)

BACKGROUND:

The Purchasing/Procurement activity is a decentralized process throughout the various City Departments. However, each City Department is required to follow the City’s procurement policies and procedures. We met with the City’s Purchasing Department to gain an understanding of the City’s procurement process policies as procedures. According to the City’s Code of Ordinance Section 2-182 (d) (4), “The City Administrator shall cause to be published in a newspaper, having general circulation in the city, a notice indicating that the City will receive for a 15-day period, including the date of notice, statements of qualifications and performance data from all firms who provide professional services, such as lawyers, architects, engineers, or land surveyors, or other professional services designated in the notice.” “...At any time the City enters into the procurement of any contract for such professional services, all then current statements of qualification and performance data on file with the City and all additional statements of qualification and performance data obtained by or submitted to the City, whether as a result of published notice or otherwise, shall be evaluated as part of the contract procurement process.” Furthermore, Section 2-182 (d) (5) outlines the evaluation factors to be considered.

We received from the City Clerk’s office the professional service publication notices for work to be rendered in 2015 and 2016. These notices were published in the Southwest Time Record in September 12, 2014, and September 11, 2015, respectively.

FINDING:

It was not evidenced that the Utilities Department followed the proper procurement procedures as outlined in the City Ordinance, Section 2-182 (d) (4) and (5) for soliciting professional services and evaluating contractors. There was no supporting documentation maintained by the Utilities Department to evidence the number of statements of qualification received and evaluations of qualifications and performance data submitted by contractors to ensure the contractor selected was in the best interest of the City.

RECOMMENDATIONS:

The Utilities Department should work to ensure that the City's procurement procedures are properly followed and documented to support selecting contractors to perform professional services. We recommend working in conjunction with the City's Purchasing Department to ensure these requirements are met and to streamline activities within the procurement process.

UTILITIES DEPARTMENT'S MANAGEMENT**RESPONSE:**

Concur with finding 1.

The Utility Department uses the established process to choose professional services (construction, design, project oversight). This process includes review of current SOQs, which were submitted under Section 2-182(d)(4) which are on file at the City Clerk's office. The professional service providers SOQs demonstrates the qualifications for performing the required work. The appropriate contractors on the SOQ list are sent an invitation to submit a letter of interest (LOI) for the project. This LOI is intended to identify additional qualifications (such as outlined in Section 2-182(d)(5)), related experience and to establish the provider's interest in the project. A selection panel evaluates the LOIs submitted by interested companies. The panel will rate each LOI based on the type of project. The scores are averaged and the top three (3) providers are invited to interview. The selection panel will again individually evaluate each provider. The selection panel will rate each interview and the firm with the highest average score is chosen to enter into negotiations. Section 2-182(d)(6) is then followed.

There may be limited times when a firm will be chosen without the LOI procedure. This may happen when only one SOQ is on file to perform the necessary work, in case of an emergency, or the overall agreement with the provider is below \$75,000 (current approval level). Documentation will be placed in the project file describing why an alternate selection process was used. All documentation supporting the final selection of the firm will be included in the project file.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: Fully Implemented June 5, 2017

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #2 – REQUIRED ADMINISTRATIVE DOCUMENTS NOT ON FILE
(RISK RATING = HIGH)**

BACKGROUND:

We selected 4 contracts (Agreements), during the audit period, that the City has executed with CDM Smith to provide professional engineering consulting services. Due to the nature of the contracted work, the contractor is responsible for successfully managing the Consent Decree Compliance Program and the related Infrastructure Improvement Initiatives based on the professional experience and qualifications of the contractor (including subcontractors). Moreover, the contractor and its subcontractors have access to City facilities when field employees are performing services under the Agreement.

Language in the Agreements state, “Prior to the execution of [this] Agreement, the Engineer shall furnish to the Owner certificates of insurance reflecting policies in force, and it shall also provide certificates evidencing of all renewals of any expiring insurance policy required hereunder within 30 days within the expiration thereof.” These administrative requirements often serve as controls to ensure risks and exposures are mitigated. Both the City’s Purchasing Division and the Utilities Department have monitoring roles to ensure these contract provisions are followed and operate effectively. Effectively monitoring the administrative provisions allows the City to identify when contract provisions are not being followed and minimize potential risks and exposures. CDM Smith should be able to produce documentation of compliance, when requested. The Utilities Department or the City’s Purchasing Division should maintain the administrative documentation required by the Agreements.

FINDING:

Documents demonstrating contractor and subcontractor compliance with administrative requirements were not contained in the Utilities Department files. The lack of documentation hinders the City’s ability to comprehensively monitor compliance.

We requested documents supporting contractor and subcontractor compliance with the insurance contractual provisions to determine if those requirements had been met. Documents requested included those related to evidence insurance coverage for CDM Smith and their subcontractors for the Agreements selected for testing.

- CDM Smith maintained evidence of insurance coverage during the periods under review, except for agreements 15-05-ED1 and 15-13-ED1, as this coverage could not be evidenced as being maintained due to no certificates on file with the Utilities Department or CDM Smith.

-
- It was not evidenced that CDM Smith maintained the proper comprehensive automobile liability coverage at the required limits for the entire audit period for all agreements.
 - There is no evidence to support that CDM Smith carried the proper insurance that covers restoration of plans, drawings, field notes, and other documents in the event of their loss or destruction while in CDM Smith's custody.
 - It could not be evidenced that all subcontractors had insurance coverage for the duration of assigned projects.
 - The Utilities Department was not aware of whether CDM Smith was in compliance with the administrative requirements, as they have never requested proof of insurance from CDM Smith for any of the agreements.

RECOMMENDATIONS:

The Utilities Department should ensure the administrative documentation currently required by Agreements are on file within their department. This should be requested from contractor prior to commencement of any work under the Agreement to ensure risks are properly mitigated.

UTILITIES DEPARTMENT'S MANAGEMENT RESPONSE:

Concur with finding 2.

The requirement for the contractor to provide this information is contained in the boiler plate clauses of the contract/agreement. We have reinstated/re-emphasized the requirement for contractors to provide the information that is required by the contract/agreement. The required documentation is included in the submittals that contractors are required to submit prior to start of work. Staff will review the files on all open contracts to ensure information is in the contract folder. If not, staff will contact contractors and request that the missing information be provided.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: May 25, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #3 – REQUIRED ADMINISTRATIVE DOCUMENTS NOT ON FILE
(RISK RATING = MEDIUM)**

BACKGROUND:

Agreement 16-06-ED1 outlines CDM Smith to provide professional engineering consulting services regarding the management of the Consent Decree Compliance Program and Infrastructure Improvements. Language in the Agreement 16-06-ED1- Scope of Work, Section 8 states, “The scope of services...will be performed...starting from the date of the Notice to Proceed [NTP]...” The NTP serves as the official document to the contractor that the Agreement has been signed and executed by all parties, outlining the services to be performed. No work should be commenced by the contractor prior to the NTP.

FINDING:

There was no Notice to Proceed (NTP) issued for Agreement 16-06-ED1 as outlined in the Scope of Work, Section 8. In addition, for all the other agreements selected for testing with CDM Smith, there was no provision for an NTP; thus, none of the agreements were issued NTPs from the City.

RECOMMENDATIONS:

The Utilities Department should ensure NTPs are provisions within the Agreements and provided to contractors to ensure work is not started prior to the authorized date of the Agreement. We also recommend that prior to making any changes to contractually required administrative requirements, the Utilities Department should work with the Legal Department and other advisory personnel to ensure any risks mitigated by those requirements are covered by other compensating controls.

UTILITIES DEPARTMENT’S MANAGEMENT

RESPONSE:

Concur with finding 3.

The current practice is to provide written notice to proceed (memo or email) for all contracts, agreements and change orders. The engineer in charge of the project will provide the NTP upon Board approval of the funding.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: Action Completed September 5, 2017

ASSESSMENT OF RESPONSE: Management’s response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #4 – INTERNAL CONTROLS FOR INVOICE REVIEW & PAYMENT ARE POOR
(RISK RATING = HIGH)**

BACKGROUND:

We performed a walkthrough with the Utilities Department's Engineering Team, to gain an understanding of the invoice review/approval processes. Invoices are submitted via E-builder by the contractor through the workflow to obtain approval by Engineering. Invoice amounts are checked against the percentage completed of the project. If the amount seems reasonable, the invoice is approved.

The City currently does not have a Travel Policy for third parties working with the City to provide guidance on requirements to obtain reimbursement for travel and other related expenses incurred when performing services on executed City contracts.

FINDING:

No review of receipts or other supporting documentation of Other Direct Costs billed to City is performed by the Utilities Department. Other Direct Costs include travel, entertainment, and miscellaneous costs. During the audit, we requested supporting receipts and noted expenses related to alcohol and entertainment were billed to the City and paid. These expenses are not authorized to be reimbursed by the City. Moreover, expenses related to furnishing (rugs, pillows, cutlery) the contractor personnel's apartment for relocating for the projects were billed to the City and paid, in addition to a \$605.50 relocation allowance that has not been properly supported. The Utilities Department currently does not know whether the costs billed for reimbursement are legitimate expenses and billed at the correct amounts. Moreover, there are no provisions outlined in the Agreements that require contractor to submit supporting documentation for reimbursement of Other Direct Costs billed to the City.

RECOMMENDATIONS:

The Utilities Department should work with the City's Finance Department to develop a Travel Policy, specifically for Vendors/Contractors/Third Parties, and include provisions within Agreements with contractors to require submission of receipts (expense reports) for reimbursements, according to the newly created City's Travel Policy. We also recommend that prior to making any changes to contractually required administrative requirements, the Utilities Department should work with the Legal Department and other advisory personnel to ensure any risks mitigated by those requirements are covered by other compensating controls.

UTILITIES DEPARTMENT'S MANAGEMENT**RESPONSE:**

Concur with finding 4.

Agreements for professional services are often a "not to exceed" agreement which includes travel, lodging, food, etc. Requesting travel receipts and/or expense reports to ensure proper billing is a sound practice to track invoiced costs and ensure proper billing and reduce errors and omissions. Utilizing the federal mileage rate for reimbursement is appropriate. Contractors will be required to submit supporting documentation as part of the invoicing process. The Utilities Department is finalizing a standard "Agreement for Professional Services" which includes all of the requirements found by the audit.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: May 15, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #5 – INTERNAL CONTROLS FOR INVOICE REVIEW & PAYMENT ARE POOR
(RISK RATING = HIGH)**

BACKGROUND:

We performed a walkthrough with the Utilities Department’s Engineering Team, to gain an understanding of the invoice review/approval processes. Invoices are submitted via E-builder by the contractor through the workflow to obtain approval by Engineering. Invoice amounts are checked against the percentage completed of the project. If the amount seems reasonable, the invoice is approved.

The Agreements with contractor currently do not require contractor to submit subcontractor invoices for reimbursement.

FINDING:

Subcontractor invoices are not submitted by contractor and reviewed by the Utilities Department prior to reimbursement to the contractor. Five (5) subcontractor invoices amounts totaling \$141,915.58 were invoiced to the City by contractor for reimbursement. Four out of five invoices totaling, \$11,207.08 selected for testing were billed to City by contractor for reimbursement, but not properly supported during the initial invoice review process prior to payment by the City. We requested and reviewed supporting invoices from CDM Smith for the outstanding amounts. The Utilities Department currently does not know whether the costs billed for reimbursement are legitimate expenses and billed at the correct amounts, if supporting documentation is not provided. Moreover, there are no provisions outlined in the Agreements that require contractor to submit supporting documentation for reimbursement of Subcontractor Costs billed to the City.

RECOMMENDATIONS:

The Utilities Department should require proper supporting documentation for Subcontractor costs reimbursed to contractor and include this provision within the agreement. We also recommend that prior to making any changes to contractually required administrative requirements, the Utilities Department should work with the Legal Department and other advisory personnel to ensure any risks mitigated by those requirements are covered by other compensating controls.

**UTILITIES DEPARTMENT’S MANAGEMENT
RESPONSE:**

Concur with finding 5.

The requirement for professional service providers to submit subcontractor reimbursement information will be added to future agreements. We will also ask current contractors to submit the required documentation with their invoices.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: March 26, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #6 – INTERNAL CONTROLS FOR INVOICE REVIEW & PAYMENT ARE POOR
(RISK RATING = HIGH)**

BACKGROUND:

We performed a walkthrough with the Utilities Department’s Engineering Team, to gain an understanding of the invoice review/approval processes. Invoices are submitted via E-builder by the contractor through the workflow to obtain approval by Engineering. Invoice amounts are checked against the percentage completed of the project. If the amount seems reasonable, the invoice is approved.

The Agreements with contractor currently do not require contractor to submit supporting documentation, such as assigned personnel timesheets, to evidence hours billed to City.

FINDING:

There are no provisions outlined in the agreements that require contractor to submit timesheets or other relevant documentation to verify personnel and assignments for time invoiced before approving invoices for payment. In addition, there are no “Right to Audit” provisions in the Agreements with contractor to rightfully allow the City to perform an audit of contractor’s payroll, personnel, and other relevant records to satisfy City’s compliance requirements.

RECOMMENDATIONS:

The Utilities Department should require proper supporting documentation for time assigned personnel of contractor has charged and include this provision within the agreement. We also recommend that prior to making any changes to contractually required administrative requirements, the Utilities Department should work with the Legal Department and other advisory personnel to ensure any risks mitigated by those requirements are covered by other compensating controls.

UTILITIES DEPARTMENT’S MANAGEMENT

RESPONSE:

The “Right to Audit” language will be added to the boiler plate. The requirement to submit a by name summary of hours charged to the contract, in support of the invoices submitted, will be added to the contract boiler plate. Current contractors have been requested to start submitting this documentation as part of their invoices.

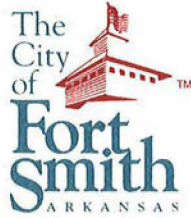
RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: March 26, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

EXHIBIT I

MANAGEMENT RESPONSES AND IMPLEMENTATION DATES



November 9, 2017

Vanessa M. Johnson
Managing Director
Vanessa M. Johnson, CPA, LLC
12335 Kingsride Lane #245
Houston, TX 77024

Dear Ms. Johnson:

Re: Utilities Department Audit Responses for CDM Smith, Inc.

The Utility Department has completed the review of the audit that was performed on CDM Smith, Inc., and has provided responses for the conclusions that were listed on the audit report. Please see the attached responses for the Utilities Department audit.

Please do not hesitate to contact me if you have any further queries.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Walters".

Jerry Walters
Director of Utilities

attachment

Conclusion Audit Responses – CDM Smith, Inc.

Concur with finding 1.

The Utility Department uses the established process to choose professional services (construction, design, project oversight). This process includes review of current SOQs, which were submitted under Section 2-182(d)(4) which are on file at the City Clerk's office. The professional service providers SOQs demonstrates the qualifications for performing the required work. The appropriate contractors on the SOQ list are sent an invitation to submit a letter of interest (LOI) for the project. This LOI is intended to identify additional qualifications (such as outlined in Section 2-182(d)(5)), related experience and to establish the provider's interest in the project. A selection panel evaluates the LOIs submitted by interested companies. The panel will rate each LOI based on the type of project. The scores are averaged and the top three (3) providers are invited to interview. The selection panel will again individually evaluate each provider. The selection panel will rate each interview and the firm with the highest average score is chosen to enter into negotiations. Section 2-182(d)(6) is then followed.

There may be limited times when a firm will be chosen without the LOI procedure. This may happen when only one SOQ is on file to perform the necessary work, in case of an emergency, or the overall agreement with the provider is below \$75,000 (current approval level). Documentation will be placed in the project file describing why an alternate selection process was used. All documentation supporting the final selection of the firm will be included in the project file.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: FULLY IMPLEMENTED JUNE 5, 2017

Concur with finding 2.

The requirement for the contractor to provide this information is contained in the boiler plate clauses of the contract/agreement. We have reinstated/re-emphasized the requirement for contractors to provide the information that is required by the contract/agreement. The required documentation is included in the submittals that contractors are required to submit prior to start of work. Staff will review the files on all open contracts to ensure information is in the contract folder. If not, staff will contact contractors and request that the missing information be provided.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: MAY 25, 2018

Concur with finding 3.

The current practice is to provide written notice to proceed (memo or email) for all contracts, agreements and change orders. The engineer in charge of the project will provide the NTP upon Board approval of the funding.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: ACTION COMPLETED SEPTEMBER 5, 2017

Concur with finding 4.

Agreements for professional services are often a “not to exceed” agreement which includes travel, lodging, food, etc. Requesting travel receipts and/or expense reports to ensure proper billing is a sound practice to track invoiced costs and ensure proper billing and reduce errors and omissions. Utilizing the federal mileage rate for reimbursement is appropriate. Contractors will be required to submit supporting documentation as part of the invoicing process. The Utilities Department is finalizing a standard "Agreement for Professional Services" which includes all of the requirements found by the audit.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: MAY 15, 2018

Concur with finding 5.

The requirement for professional service providers to submit subcontractor reimbursement information will be added to future agreements. We will also ask current contractors to submit the required documentation with their invoices.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: MARCH 26, 2018

Concur with finding 6:

The "Right to Audit" language will be added to the boiler plate. The requirement to submit a by name summary of hours charged to the contract, in support of the invoices submitted, will be added to the contract boiler plate. Current contractors have been requested to start submitting this documentation as part of their invoices.

RESPONSIBLE PARTY: JERRY WALTERS, DIRECTOR UTILITIES

ESTIMATED DATE OF COMPLETION: MARCH 22, 2018

EXHIBIT II

ACKNOWLEDGEMENT STATEMENT

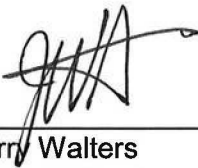
Acknowledgement Statement

November 9, 2017

SUBJECT: UTILITIES DEPARTMENT – CDM SMITH CONTRACT COMPLIANCE AUDIT

I acknowledge that the management responses contained in the above referenced report are those of the Utilities Department. I also understand that this document will become a part of the final audit report that will be posted to the City's Internal Audit website.

Sincerely,

A handwritten signature in black ink, appearing to be 'JW', written over a horizontal line.

Jerry Walters
Utilities Director