



Audit of General Engineering and Professional Services Contracts

Project #10-26

**Prepared by
Office of Inspector General**

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SOUTH FLORIDA WATER MANAGEMENT DISTRICT

August 11, 2011

Audit and Finance Committee Members:

Mr. Timothy Sargent, Chair
Mr. Glenn J. Waldman, Vice Chair
Mr. James J. Moran, Member
Mr. Juan M. Portuondo, Member

Re: Audit of the General
Engineering and Professional
Services Contracts
Project No. 10-26

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. The objectives focused on determining whether General Engineering and Professional Services work orders are awarded in an equitable manner to prime contractors; whether prime contractors are utilizing Small Business Enterprise subcontractors; whether adequate documentation is maintained to substantiate the level of effort/hours negotiated for executed work orders; and whether project managers are evaluating contractors' performances as required. This report was prepared by Tim Beirnes and Jankie Bhagudas.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Soaker".

Dan Soaker, CPA
Interim Inspector General

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BACKGROUND

In accordance with the Office of Inspector General's Fiscal Year 2010 Audit Plan, we conducted an audit of the General Engineering and Professional Services (GEPS) Contracts.

The District's Procurement Department, situated within Corporate Resources, is responsible for acquiring goods and services, and establishing other contractual relationships in support of District programs, projects and operations within the parameters of applicable laws, rules, policies and procedures.

The District initially awarded 104 contracts to 60 prime contractors for engineering support services in 11 disciplines during the period August 2007 through April 2008. The contracts were executed through the Consultants' Competitive Negotiation Act (CCNA) - Request for Proposal (RFP) process and resulted in agreements with contractors capable of providing engineering support services in various engineering disciplines including the following: civil and structural engineering; electrical and mechanical engineering; environmental engineering, planning and permitting; modeling; dam design & safety; surveying & mapping; modeling; construction management; and full service engineering. The contracts were for three-year terms with two one-year renewal options that have been exercised by the District and are due to at various times in 2012 and 2013. Further, the contracts are intended to streamline the delivery of engineering and professional services by authorizing the District to use the pre-qualified firms for services and are obtained on a work order basis (as-needed basis).

There are 5 to 17 pre-qualified contractors within each of the 11 disciplines. Each contract contains negotiated individual hourly rates for the prime contractor's staff and staff on the contractor's team of subcontractors that are District-certified as Small Business Enterprise. Thus, when a work order is assigned by the District to a prime contractor, the only items left to be negotiated are the level of effort (the number of hours and the level of staffing) and other direct expenses (e.g., travel per diem and mileage reimbursement). Prime contractors are not allowed mark-ups on subconsultant's costs or other direct expenses. As of August 2010, approximately \$140 million in work orders

have been executed and assigned.¹ Refer to Appendix A for the amount of work awarded by discipline and the types of project within each discipline.

The GEPS contracts were awarded based on several factors including prime contractors' commitment to use businesses certified by the District's Small Business Enterprise (SBE) Program as subcontractors to spur economic development and support small businesses, including women-owned and minority owned business. Prime GEPS contractors were awarded up to 10 points in the RFP evaluation process depending on their proposed Small Business Enterprise subcontractor participation. It is important to note that 20 (19 percent) of the 104 GEPS contract were awarded to Small Business Enterprise prime contractors.

Based on the initial contact agreements, contractors were entitled to a three percent rate escalation each year. However, due to economic conditions the Governing Board, at its monthly meeting in September 2009, determined that it was in the District's best interest to request that all GEPS contractors consider holding their fiscal year 2009 hourly rates for work orders that may be authorized during the remainder of the three-year term. Most of the contractors agreed not to escalate their fiscal year 2010 rates. As a result, the fiscal year 2009 rates were in effect until September 30, 2010. Further, the rates for the two-year extension term were escalated only by three percent beginning October 1, 2010.

¹ As of March 18, 2011, approximately \$140.1 million in work orders have been executed and \$20.1 million were in the process of being negotiated.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objectives focused on determining whether GEPS work orders are awarded in an equitable manner to prime contractors; whether prime contractors are utilizing Small Business Enterprise subcontractors; whether adequate documentation is maintained to substantiate the level of effort/hours negotiated for executed work orders; and whether project managers are evaluating contractors' performances as required.

To accomplish our objectives we obtained an understanding of the administration of the GEPS contracts by interviewing key personnel in the Procurement Department and reviewing relevant policies and procedures, e.g., *GEPS Procedures for Project Managers*. We also analyzed GEPS work orders that were assigned and executed as of August 13, 2010, to determine whether work was being distributed in an equitable manner. In instances, where it appeared that work was not spread equitably amongst the contractors, we obtained explanations from the Procurement Department's staff.

In addition, we determined whether contractors were adhering to their Small Business Enterprise utilization goals and obtained explanations in instances where Small Business Enterprise subcontractors were not utilized. Further, we determined whether there was adequate documentation to support the cost for executed work orders and whether project managers were evaluating contractors' performances as required. We also reviewed a report, prepared for the District by a paid consultant, on GEPS contract compliance to determine whether the report was useful.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Executive Summary

Overall, our audit revealed that there are adequate controls in place to ensure that GEPS work orders are distributed equitably among prime contractors considering the many factors that may affect the amount of work assigned to a contractor. The Procurement Department is responsible for assigning work orders to GEPS contractors and in instances where project managers request a particular contractor they must provide justification. In addition, all assignments must be approved by the Director of the Procurement Department. Work order assignments are also monitored by the District Leadership Team to ensure compliance with the Governing Board's policy of fostering equitable distribution of work. As part of our tests, we analyzed all executed and assigned work orders as of August 13, 2010, and concluded that although it is not possible for all contractors to be awarded equal amounts of work, the Procurement Department takes several factors into consideration to ensure that work is equitably distributed among GEPS contractors.

Further, our sample of ten executed work orders revealed there is adequate documentation to substantiate the level of effort/hours negotiated for each work order. Specifically, our review of the Procurement Department's GEPS files and cost data maintained by project managers and contract specialists disclosed that the correct labor rates were used and other back-up documentation (e.g., negotiation notes) was adequate. However, our review of the invoices for one of the work orders disclosed an incorrect billing rate. As a result, the District overpaid the contractor approximately \$22,911 during the period March 2010 to November 2010. Based on our review, the District and contractor staff met to discuss this issue. As a result, the contract was amended to increase the billing rate; however, there was no adequate documentation to support the increased rate.

We found that the Small Business Enterprise Participation utilization percentages indicated in the Small Business Enterprise Participation section of executed work orders were not always correct. Specifically, our review of seven revised work orders where Small Business Enterprises were utilized disclosed that in six of the seven instances the

utilization percentages indicated on the revised work orders were either overstated or understated. It is important that the Small Business Enterprise utilization percentages are recorded accurately on work orders because the SBE Section uses the percentage indicated on work orders to determine whether prime contractors are complying with their Small Business Enterprise utilization commitments.

Our audit revealed that certain prime contractors are falling behind their Small Business Enterprise utilization goals. Our analysis of Small Business Enterprise utilization proposed by the 64 non-SBE prime contractors that were awarded work orders as of August 13, 2010, disclosed that 34 of the 64 of the consultants (53%) would have to increase utilization in future work orders to meet their utilization commitments. Under-utilizations ranged from \$2,854 to \$318,169 and totaled \$2,783,632. In addition, the Procurement Department's Small Business Enterprise Utilization spreadsheet used to track utilization contained calculation errors and several executed work orders were not included; thus the utilization data was inaccurate.

Payments made to Small Business Enterprises by prime contractors are not accurately reflected in District records. Specifically, our review of 35 payment verification letters sent to prime contractors in February 2010 requesting confirmation of Small Business Enterprise payment amounts reflected in SAP disclosed that in 19 of the 35 instances the prime contractors did not agree with the payment amounts per District records. The discrepancies were due to several reasons, for example, contractors were not submitting *Small Business Enterprise Utilization Reports* along with each invoice and reports were submitted but were not forwarded to the SBE Section for input in SAP.

We also found that project managers are completing contractors' final performance evaluations as required, which is a major improvement compared to findings during our previous reviews of GEPS contracts. However, we noted a minor issue with the completion of quarterly evaluations.

Work Orders are Assigned Equitably Among GEPS Contractors

Overall, our review revealed that there are adequate controls in place to ensure that GEPS work orders are distributed equitably among prime contractors. Work order assignments are approved by the Procurement Department and closely monitored by the District Leadership Team to ensure compliance with the Governing Board's policy of fostering an equitable distribution of work. In addition, project managers are not allowed to contact contractors until the selection is approved by the Procurement Department. In certain instances where on site contract workers are required, the District Leadership Team's approval is required.

A Procurement Department contract specialist is responsible for ensuring that work is awarded as equitably as possible by monitoring work awarded to each contractor and for determining which contractors are next for new work order assignments. In instances where a contractor has contracts in multiple GEPS disciplines, the contract specialist takes into consideration the total work awarded to the contractor in all disciplines before determining whether any additional work should be assigned. As a result, a contractor with contracts in multiple disciplines may not be considered for work in a particular discipline if the same contractor was awarded a large amount of work in another discipline.

Project managers may request the use of specific GEPS contractors; however, their requests must be justified. Based on the justification provided, the Procurement Department either approves the request or assigns another contractor. Before a contractor is assigned work, project managers are required to complete a *Work Order Assignment Request* form, which requires certain information; such as, work summary, cost estimate, the number of work orders that will be required to complete the project, GEPS discipline, and the project manager's justification for a particular contractor. The Procurement Department Contract Specialist reviews each request and either approves the requested contractor and recommends another contractor. The Procurement Department's Director reviews each contractor assignment and has the final approval.

In addition to the above measures used to ensure that work is distributed equitably, each week the Procurement Department provides the District Leadership Team

with a cumulative list of the dollar amount of work awarded and assigned to each contractor. In addition, the District Leadership Team's Procurement Subcommittee must approve certain work orders, for example, work orders over \$500,000.

As part of our tests, we analyzed all executed work orders as of August 13, 2010, to determine whether work is equitably distributed. We concluded that there is a process in place to ensure that work is distributed equitable among GEPS contractors. However, it is not always possible to ensure that all contractors receive an equal dollar amount of work. Specifically, the dollar amount of a work order awarded to a contractor within a particular discipline may be much larger than the amount of other work orders awarded to other contractors within the same discipline. Thus, it may appear as though work is not being spread around.

In other instances certain contractors were awarded more work orders than other contractors; however, we concluded that the awards were justified. For example,

- A contractor may have performed work under a General Engineering Services (GES) work order and the project manager recommended that the same contractor continue the work under a GEPS work order since the contractor was already knowledgeable about the project or services required. There are also instances where projects are completed in phases and work orders are issued for each phase. It is more cost efficient for the same contractor to continue each phase of the project.
- A contractor who was the architect/engineer of record of the project under previous work orders is usually retained to provide engineering services during the construction phase of the project because it is more cost effective.
- Project managers recommended that certain contractors be retained to continue a project or provide additional services required as the contractors possess the required specialized skill levels.
- A prime contractor may have a Small Business Enterprise on their team that is the only qualified contractor to perform the work.
- A contractor's home office in relation to the project site is taken into consideration when assigning work.

As part of our audit tests to determine whether GEPS work orders were awarded equitably, we obtained and reviewed spreadsheets maintained by the Procurement Department that are used to determine which contractor should be assigned upcoming work orders. During our review, we noted a few instances of incorrect work order amounts, missing work orders, and cancelled work orders. Listed below are a few examples:

- Contract #4600000888: Work Order #2 for \$421,520 is listed on the Procurement Department's spreadsheet, but not included in the total work assigned and executed to the contractor. Therefore, total work assigned and awarded to the contractor was understated by \$421,520.
- Contract #4600000852: Work Order #5 for \$867,680 was assigned in December 2009 and included in the total work executed and assigned to the contractor. However, the work order was never executed. It appears that the spreadsheet was not updated.
- Contract #4600000933: Based on the Procurement Department's spreadsheet assigned and executed work orders totaled \$2,224,992. However, our analysis disclosed that the total should have been \$2,936,404, a difference of \$711,412.

During our audit, we brought these errors to the Procurement Department's attention and the spreadsheets were corrected. It is important that the information on the spreadsheets is accurate because it is one of the tools used to determine which contractor should be sourced new GEPS work. Incorrect information on the spreadsheets could result in work assignment to the wrong contractor.

Adequate Documentation to Substantiate Cost of Work

As part of our review, we sampled ten executed work orders to determine whether there was adequate documentation to substantiate the level of effort/hours negotiated and whether the accurate rates were used to determine the labor costs. Based on our review of GEPS files maintained by the Procurement Department, cost data maintained by project managers and contract specialists, we concluded that overall there was adequate

documentation to substantiate the level of effort/hours negotiated for the ten work orders. In addition, the correct rates were used to determine labor costs.

Incorrect Invoiced Rate Resulted in Overpayment

Our review of invoices and other documentation for a contract disclosed that the District overpaid approximately \$22,911 to the contractor during the period March 2010 to November 2010, for a Level 4 Senior Administrative Associate who has been working on site at District facilities and is expected to be working at District facilities for over a year.

Based on the rates specified on the contract's Exhibit "L" (hourly rate schedule), the hourly rate for a Level 4 Senior Administrative Associate during the review period was \$53 per hour and hourly rates are reduced by 30 percent for consultants working on site at District facilities for a period exceeding one year. It appears that the consultant will be working on site at District facilities for over a year; therefore the District should have been billed at a reduced rate of \$37 per hour (a 30 percent reduction per hour) instead of at the full hourly rate of \$53 per hour. We noted that the invoices were reviewed and approved for payment by District staff but the erroneous billing rate was not detected.

The Level 4 Senior Administrative Associate position was not included in the initial contract; as a result, the contract had to be amended. During the negotiation process the contractor proposed a rate of \$82 per hour; however, based on the contract's Exhibit "L" the rate was negotiated to \$53 per hour. Rates listed on each contract's Exhibit "L" reflect the fully burdened hourly negotiated rates and do not reflect any discount; however the contractor contends that the \$53 per hour rate reflected the on-site reduction. When considering the factors used in establishing the other hourly rates for the contract, we determined that the \$53 hourly rate for the Level 4 Senior Administrative Associate reflects the fully burdened rate before the 30 percent discount.

Based on our calculations, during the period March 2010 to November 2010, the contractor invoiced the District \$76,373 for services provided by the Level 4 Senior

Administrative Associate. A 30 percent reduction in the hourly rates could result in a repayment of \$22,912 to the District.

As a result of our review, District and contractor staff and satisfactorily resolved this issue.

Small Business Enterprise Utilization Percentages Not Always Accurately Recorded on Work Orders

We found that the Small Business Enterprise Participation utilization percentages indicated in the Small Business Enterprise Participation section of executed work orders were not always correct. Specifically, based on our review of seven work orders that were revised and where Small Business Enterprises were utilized, we noted that in six of the seven instances the utilization percentages indicated on the revised work orders were misstated. It should be noted that in these cases the cost of the revised work was determined accurately; however, the Small Business Enterprise utilization percentage recorded on the executed work order was the issue. In instances where the initial scope of work is revised and the work order amount is changed, the Small Business Enterprise utilization percentage is determined based on the revised amount of the work order. Based on the *Work Order Revision* form, the Small Business Enterprise utilization percentage for both the contract and the revision are required. Our review disclosed that in some instances the cumulative Small Business Enterprise utilization percentage was indicated on the form instead of the utilization percentage resulting from the revision. Several Project managers acknowledged that they are confused as to how to determine the Small Business Enterprise utilization percentages in cases of work order revisions. Further, contract specialists also need to ensure that the utilization percentages are accurate. Based on discussion with management, this issue could be addressed by revising the form to also include the cumulative utilization associated with the work order. This would help ensure that all project managers are submitting the Small Business Enterprise utilization data in a consistent format.

It is important that the Small Business Enterprise utilization percentages are accurately recorded on work orders because the SBE Section uses this information to

determine whether prime contractors are complying with their Small Business Enterprise utilization commitments. Incorrect utilization percentages could erroneously indicate to the SBE Section that contractors are not complying with their SBE utilization commitments when in fact they are in compliance and vice versa.

Some Contractors Need to Improve Utilization of Small Business Enterprises

Non-SBE GEPS prime contractors are required to subcontract an average of 25 percent of the total work awarded by the District to Small Business Enterprise subcontractors prior to the expiration of their contracts. Compliance with their contractual Small Business Enterprise utilization goal is based on the cumulative value of all work orders awarded during the contract period. Contractors are not required to meet their contract utilization goal on every work order since Small Business Enterprise utilization on all work orders may not be possible. As a result, if Small Business Enterprise subcontractors are not utilized on a particular work order, the prime contractor will need to make up the difference on subsequent work orders.

The Procurement Department's SBE Section is required to monitor Small Business Enterprise utilization as work orders are issued to ensure that utilization goals will be achieved over the life of each contract. Further, the SBE Section is responsible for the following:

- Investigating low Small Business Enterprise utilization and require prime contractors to specify how they intend to meet their Small Business Enterprise participation contract goal.
- Documenting reasons for low utilization. In cases where contractors are not achieving their goals, SBE Section staff are required to inform the project managers and/or contract specialists or contact the contractors and document the reasons for low utilizations.
- Recommending suspension or disbarment of contractors that do not comply with their Small Business Enterprise utilization goals because it could be considered a material breach of the contract.

The level of Small Business Enterprise participation for each work order is determined when the work orders are being negotiated by District project managers. It should be noted that the SBE Section does not monitor Small Business Enterprises that are prime contractors because work awarded to them is considered 100 percent Small Business Enterprise utilization.

To determine whether prime contractors were taking steps to achieve their Small Business Enterprise utilization commitments, we analyzed utilization percentages proposed by the 64 non-SBE prime contractors that were awarded work orders as of August 13, 2010. Based on our analysis, we concluded the following:

- 30 of the 64 (47%) contractors appear to be in compliance with their contract Small Business Enterprise utilization goals. Specifically, these contractors appear to be exceeding their Small Business Enterprise utilizations anywhere from \$6,275 to \$572,221.
- 34 of the 64 (53%) contractors do not appear to be in full compliance with their contract Small Business Enterprise utilization goals. Specifically, Small Business Enterprise under-utilizations ranged from \$2,854 to \$318,169 and totaled \$2,783,632. Stated otherwise, based on GEPS contract Small Business Enterprise utilization commitments, the 34 consultants should have awarded an additional \$2,783,632 to District-certified Small Business Enterprises.

The under utilization ranges are illustrated in the following table.

Ranges of Small Business Enterprise Utilization Deficits, as of August 13, 2010	# of Contracts
Less than \$5,000	3
\$5,000 - \$20,000	8
\$20,001 - \$50,000	9
\$50,001 - \$100,000	8
>\$100,000	6
Total Contracts with Small Business Enterprise Utilization Goal Deficits	34

There may be some valid reasons for Small Business Enterprise utilization deficits, nevertheless, contractors are required to ensure that the shortfalls are made up in

subsequent work orders. Listed below are some examples where it was not possible to utilize Small Business Enterprises:

- Work order amounts were small.
- Work awarded was deemed as “emergency” work therefore there was no time to use Small Business Enterprises.
- Work was highly specialized and could only be performed by prime contractors.
- Work order was for one to two consultants employed by the prime contractor who were required to be on-site at the District.
- Prime contractor staff previously provided services under General Engineering Services work orders and District project managers cited that it was not efficient to utilize Small Business Enterprises due to costs and training issues.

Our review of the Small Business Enterprise files disclosed that the reasons for low Small Business Enterprise utilizations were also not always documented as required. It should be noted that in our prior review (*Project #09-15*) our conclusion was the same. Documenting the reasons for low Small Business Enterprise utilizations are important because they help explain why prime contractors are falling behind their utilization goals.

Monitoring Utilization of Small Business Enterprises Need Improvement

The SBE Section is required to monitor Small Business Enterprise utilization to ensure that contractors are not falling behind their overall Small Business Enterprise utilization goals. During our last GEPS review (*Project #09-15*), we noted that the SBE Section did not have an efficient method of monitoring prime contractors’ utilization of Small Business Enterprises. As a result, we developed a spreadsheet to calculate each contractor’s required and proposed Small Business Enterprise utilization for executed work orders. The SBE Section adopted our spreadsheet as a tool to track utilization.

As part of our audit, we obtained and reviewed the SBE Section’s utilization spreadsheet, as of August 2010. Our review disclosed that the Small Business Enterprise utilization spreadsheet contained several deficiencies, thus the utilization data was inaccurate. We noted that there were numerous calculation errors and several executed

work orders were not included on the spreadsheet. Listed below are two specific examples of the inaccurate data.

- Construction Management Contract #4600000775: Based on the SBE Section's utilization spreadsheet, the contractor's Small Business Enterprise utilization deficit was \$326,733. However, our analysis disclosed the contractor was exceeding their Small Business Enterprise utilization goal by \$94,841.
- Full Service Engineering Contract #4600000852: The SBE Section's utilization spreadsheet did not include Work Order #4 for \$690,935.

Since the SBE Section's spreadsheet contained errors, the SBE Section could not readily and accurately determine actual utilization levels. It is important that the SBE Section's utilization spreadsheet reflect accurate and up to date information because it is the only current tool to proactively and efficiently monitor Small Business Enterprise utilizations.

Several Issues with External Review of General Engineering and Professional Services Contracts

The Procurement Department has a process in place to ensure that contractors are accurately reporting SBE utilization to the District. Specifically, the Procurement Department send letters to the GEPS prime contractors annually requesting that they confirm payments made to Small Business Enterprises they have reported to the District via their *Small Business Enterprise Subcontractor Utilization Reports*. (Prime contractors are required to submit a *SBE Subcontractor Utilization Report* with every invoice and the SBE Section uses the payment information on the reports to update SAP to reflect payments made by prime contractors to Small Business Enterprises.) If the prime contractors agree with the payment amounts, the SBE Section then send letters to the Small Business Enterprises to confirm the payment amounts. In instances, where the prime contractors disagree with the payment amounts the SBE Section work with the prime contractors to resolve the discrepancies, then send the verification letters to the Small Business Enterprises to confirm payments reported by the prime contractors.

In February 2010, the SBE Section reviewed SAP to determine total payments made to each GEPS prime contractor by the District and total recorded payments each GEPS prime contractors reported to the District that they paid their Small Business Enterprise subcontractors through January 31, 2010. Based on the initial SAP payment information, the SBE Section prepared a spreadsheet comparing total payment made by the District to each prime contractor to the payments each prime contractor reported via *SBE Subcontractor Utilization Reports* that they paid their Small Business Enterprise subcontractors. The SBE Section's review disclosed that 35 of the GEPS prime contractors reported that they paid their Small Business Enterprise subcontractors less than ten percent of the total payments received from the District. The SBE Section then sent payment confirmation letter to the contractors to confirm the payment amounts.

Based on the SBE Section's review of payment information reflected in SAP, the Procurement Department contracted with a consultant (KE2 Contract, LLC), in February 2010, at a cost of \$30,000 to perform the following tasks:

- Review the payment data compiled by the SBE Section to determine the contractors that paid their Small Business Enterprise subcontractors less than 10% of the total payments received from the District.
- Conduct follow-up calls to the 35 prime contractors and their Small Business Enterprise subcontractors that did not return payment verification letters.
- Review the Procurement Department's contract files for correspondences to support the prime contractors' failure to meet Small Business Enterprise goals and provide detailed explanation in a chart to support low utilization.
- Update Small Business Enterprise files to reflect reasons for low Small Business Enterprise payment percentage.

As part of our audit, we reviewed the contractor's four page report, charts, and documentation. For the 35 contracts, the contractor concluded the following:

- 16 of the prime contractors paid their Small Business Enterprise subcontractors 10% or more total payments received from the District.
- 8 of the contract files contained documentation to substantiate Small Business Enterprise low utilization levels.

- 11 of the contract files did not contain documentation to substantiate the low Small Business Enterprise utilization levels.

Based on our review of the Procurement Department's contract deliverables and the consultant's tasks and conclusions, we concluded that the use of the external contractor was an inefficient use of limited District resources. Our conclusion is based on the following:

1. The Procurement Department's required the deliverables were not the most reliable tool to determine adequate Small Business Enterprise utilization levels since several factors impact payments to Small Business Enterprises. In sum, low payments amounts to Small Business Enterprises are not necessarily as indication of low Small Business Enterprise utilization. For example,

- A prime contractor may have committed to utilize Small Business Enterprises for specific tasks; however, at the time of the Small Business Enterprise payment analysis the subcontracted portion was not completed. In these instances, it would appear that the prime contractors are not utilizing Small Business Enterprises.

A more accurate and cost efficient method to determine Small Business Enterprise utilization would be for the SBE Section to use the Small Business Enterprise utilization spreadsheet since it provides each non-Small Business Enterprise prime contractor's required and proposed Small Business Enterprise utilization for each executed work order. Further, it includes each executed work order's start and end dates and Small Business Enterprise utilization percentages such that payments amounts could be compared to the spreadsheet information as a gauge to determine whether prime contractors are utilizing Small Business Enterprises and could also explain low payment amounts. The Small Business Enterprise utilization spreadsheet is a more proactive monitoring tool. We believe that using the proposed Small Business Enterprise utilization percentage per the executed work orders provides a timely indication of Small Business Enterprise participation whereas in the payment verification method utilization cannot be accurately determined until the work order is completed and all payments have been made.

During our audit, we explained to the SBE Section how the cost of each work order is determined to ensure they understand the importance of monitoring proposed utilization. Specifically, how the cost of each work order is based on a negotiated level of effort/hours required for a work order by task/deliverable. In instances where Small Business Enterprises are utilized, their labor rates are used to determine the tasks/deliverable they are contracted to perform. Thus, the cost of any Small Business Enterprise contracted work is incorporated in the total work order amount.

2. The SBE Section is responsible for documenting the reasons for low Small Business Enterprise utilization; however, it has not been adequately documenting the reasons. Consequently, the task requiring the consultant to review the Procurement Department's contract files for correspondences to support the prime contractors' failure to meet Small Business Enterprise goals was partly futile. We also noted in our prior review (*Project #09-15*) that the reasons for low Small Business Enterprise utilizations were not adequately documented. The SBE Section can further enhance the Small Business Enterprise utilization spreadsheet by including the reasons for low Small Business Enterprise utilization. This requirement would ensure that reasons for low utilizations are documented, readily identified, and justified.
3. The SBE Section made almost all of the follow-up calls to the prime contractors and the Small Business Enterprise subcontractors that did not return payment verification letters. As a result, the consultant did not fully perform this task.
4. Some of the consultant's conclusions were inaccurate, for example:
 - 11 contractors paid their Small Business Enterprise subcontractors 10% or more total payments they received from the District, not 16 contractors as reported by the consultant.
 - Certain documentation cited by the consultant as support for low utilization levels did not substantiate low Small Business Enterprise utilization, for example, the consultant cited the addition of a Small Business Enterprise to a prime contractor's Small Business Enterprise team as support for low utilization.

It should be noted that in February 2009, the Procurement Department contracted the same consultant to perform significantly more tasks for \$35,000.

Inaccurate Small Business Enterprise Payments Reflected in District Records

Our review of 35 payment verification letters sent to prime contractors in February 2010 requesting confirmation of Small Business Enterprise payment amounts reflected in SAP disclosed that in 19 of the 35 instances (54%) prime contractors did not agree with the payment amounts per District records. Upon further examination, we concluded that the Small Business Enterprise payments were not accurately recorded in SAP by the SBE Section primarily due to the following reasons:

- Prime contractors were not consistently submitting a *Small Business Enterprise Subcontractor Utilization Report* along with each invoice. Further, it appears that in some instances where contractors submitted the reports, copies were not forwarded to the SBE Section for input in SAP. Consequently, all Small Business Enterprise payments were not reflected in the District's records. Based on the initial GEPS contract agreements, contractors were required to submit invoices to the Accounts Payable Division. The Accounts Payable Division was then required to forward copies of the utilization reports to the SBE Section. However, according to SBE Section staff, the Accounts Payable Division did not always forward the reports. Further, according to SBE Section staff, they requested that project managers and the contractors forward the reports to them, however, the reports were still not submitted in a consistent manner. To address this issue, the terms and conditions of all GEPS renewal contract amendments were revised to formally require contractors to submit invoice copies along with *Small Business Enterprise Utilization Reports* directly to the SBE Section.
- Prime contractors were not completing the *Small Business Enterprise Subcontractor Utilization Report* accurately. Based on our review, the SBE Section had to assist some prime contractors to ensure the reports were completed correctly. Since the

GEPS contracts have been in effect for over three years, contractors should be able to accurately prepare the reports.

- Reports were submitted to the SBE Section, however, utilization was not recorded in SAP.

It should be noted that in our prior review, we also found that *Small Business Enterprise Subcontractor Utilization Reports* were not maintained in the Small Business Enterprise files. Since GEPS contracts have been effective since 2007, issues regarding *Small Business Enterprise Subcontractor Utilization Reports* should have been resolved.

It is important that the *Small Business Enterprise Subcontractor Utilization Reports* are completed accurately, submitted to the SBE Section, and that payments are recorded in SAP since payment amounts are used by the Procurement Department to verify Small Business Enterprises payments reported by prime contractors. Accurate payment amounts would ensure that the annual Small Business Enterprises payment verifications are completed efficiently.

Project Managers are Completing Contractors' Performance Evaluations

A final performance evaluation is required to be completed by project managers at the completion of every work order. Overall our review of GEPS contractors' performance evaluation data maintained by the Procurement Department disclosed that final performance evaluations are being completed by District project managers as required. Specifically, we found that 15 of 21 final performance evaluations that were overdue as of September 30, 2010, were completed within 30 working days after the due date and the remaining six were completed within 90 days of the due date.

The completion of the final performance evaluations is an improvement compared to finding cited during our prior review (*Audit #09-15*). Specifically, the prior review found that final work order evaluations were not prepared for 23 of the 81 GEPS completed work orders and the evaluations were overdue anywhere from 15 days to 318 days as of April 30, 2009. As a result, we recommended that management take appropriate steps to ensure project managers are completing contractors' performance

evaluations as required. Management agreed with the audit recommendation and stated that a monthly report on overdue performance evaluations will be provided to the Director of the Procurement Department and the Deputy Executive Director of Corporate Resources and that the report may then be provided to other resource area directors to enforce contractor performance evaluation requirements. Our review disclosed that reports are being provided to upper management. Further, other steps have been taken to ensure that the performance evaluations are completed, for example, if final evaluations are not completed by the end of the month they are due, the Procurement Department forwards a list of all overdue evaluations to a Financial Analyst in Everglades Restoration & Capital Projects Resource Area who has been assigned the task for ensuring that project managers complete their overdue evaluations. The Financial Analyst follows up with the project managers by emails, voice mails and even face-to-face requests until the evaluations are completed and provides a weekly status update to the Director of the Procurement Department and other relevant staff.

As evident by our current findings, improvements have been made to ensure project managers are completing performance evaluations. It is important that all required performance evaluations are completed because they are a record of current performance and can be used in the evaluation process of future solicitations released by the District and help ensure the selection of quality contractors.

In addition to completing final performance evaluations, project managers were also required to complete interim evaluations when work orders were about 50 percent completed. However, as of May 2010, the Procurement Department began requiring performance evaluations on a quarterly instead of on an interim basis for all GEPS work orders, except surveying work orders because in most cases the work product was not received until at the end of the work order. The Procurement Department is responsible for ensuring the quarterly evaluations are completed. Our review revealed a minor issue with quarterly evaluations. Specifically, as of September 30, 2010, ten quarterly evaluations were overdue and as of January 3, 2011, quarterly evaluations still were not completed for four of the ten work orders. Quarterly evaluations are important because they can be used to encourage improvement in a contractor's work or to put the contractor formally on notice that its performance is inadequate. In addition, quarterly

evaluations provide a very strong basis for a final marginal or unsatisfactory evaluation if a contractor's performance does not improve.

Recommendations

- 1. Take steps to ensure that project managers are carefully reviewing invoices and back-up data in cases where consultants are working on-site at District facilities. In these instances, project managers should ensure that the billing rates and on-site discount percentages specified in the contract's Exhibit L are applied.**

Management Response: Agreed. Project Managers currently review and process invoices presented for payment. Procurement will continue to provide training to Project Managers to ensure that they understand the billing rates. In addition, Project Managers will be required to submit payment requests to Procurement for quality assurance review of all invoices for GEPS on-site work orders to ensure accuracy in consultant billings. After Procurement review, payment requests will be submitted to Accounts Payable.

Responsible Department: Procurement

Estimated Completion: October 1, 2011

- 2. The Procurement Department should ensure that all negotiated rates are adequately documented.**

Management Response: Agreed. Currently all labor rates are negotiated and documented by Procurement. Rate changes are reviewed and approved by Procurement. Procurement reviewed the rate in question to determine if the rate was fair and reasonable compared to current competitive rates used in similar GEPS contracts. The new negotiated rate was found to be competitive. The change of rate review was not documented in the files by the reviewing Contract Specialist; however, an amendment to the contract was executed to document approval of the

new rate. A “check list” will be developed to ensure that all required steps are followed.

Responsible Department: Procurement

Estimated Completion: October 1, 2011

- 3. The Procurement Department should ensure that the information on the spreadsheets that track assigned and executed work orders are accurate.**

Management Response: Agreed. The spreadsheet is updated daily by the Contract Manager as work orders are issued and revised. This particular work order arrived when the manger was on vacation, and the work order was processed without entry into the spreadsheet. A procedure has been established to ensure that a Contract Staff member is assigned as “back-up” for the Contract Manger during times of absence.

Responsible Department: Procurement

Estimated Completion: Completed

- 4. The Procurement Department should instruct contract specialists and project managers on how to correctly calculate Small Business Enterprise utilization percentages. In addition, consider revising the *Work Order Revision* form to include the cumulative Small Business Enterprise utilization associated with the work order.**

Management Response: Agreed. The total work order revision will be used to calculate percentages for work orders and the contract SBE Utilization Goal. The total work order and the percent of the individual revision will be calculated and listed on the work order document. Instructions for calculation and submission of the supporting documentation, as well as a revised Work Order form, will be issued to District Staff.

Responsible Department: Procurement

Estimated Completion: October 1, 2011

- 5. Consider taking appropriate action to ensure that prime contractors who are falling behind on their Small Business Enterprise utilization goals will increase utilization in future work orders.**

Management Response: Agreed. At the time of the audit, the District was reviewing participation levels annually. Those consultants showing below 10% of their goal were sent letters of concern for their low participation. Participation levels will be reviewed quarterly. Those consultants showing diminished utilization will be monitored and receive updated status letters to remind them of their current contractual requirements.

Responsible Department: Procurement

Estimated Completion: Completed

- 6. Ensure that the SBE Section's Small Business Enterprise Utilization spreadsheet is accurately maintained and the reasons for low utilization are adequately documented in the Small Business Enterprise files. In addition, consider including the reasons for low Small Business Enterprise utilization on the spreadsheet.**

Management Response: Agreed. The method utilized to capture SBE utilization is inefficient and lends itself to producing inaccurate information. An enhancement for recording utilization has been identified and a request presented to the SAP Solutions Center for implementation. Due to budget constraints, the request has been put on hold. The current method will be reviewed to add additional columns for recording the suggested information.

Responsible Department: Procurement

Estimated Completion: November 1, 2011

7. **Consider discontinuing contracting with external consultants to evaluate GEPS contract compliance. If this practice is continued, then the District should ensure that the deliverables are sound, accurate, and an efficient use of District resources.**

Management Response: Agreed. At the time of the audit, the 3rd party assistance was viewed as a form of staff support of the SBE annual review. This work can be performed with the existing internal staff.

Responsible Department: Procurement

Estimated Completion: Completed

8. **Implement a process to ensure that *Small Business Enterprise Utilization Reports* are submitted to the SBE Section and payments are accurately reflected in SAP.**

Management Response: Agreed. Procurement recognized this problem in 2010 and modified its contracts to make delivery of the Small Business Enterprise Utilization Reports directly to the SBE Section. This established the delivery to this specific location as a contractual requirement for the Primes. The SBE Section reviews the documents for errors, and once confirms the documents are accurate, enters the data into SAP.

Responsible Department: Procurement

Estimated Completion: Completed

- 9. Take appropriate action to ensure that quarterly performance evaluations are prepared by project managers in a timely manner.**

Management Response: Agreed. Procurement continues to monitor and distribute the monthly report documenting overdue performance evaluations, which include quarterly evaluations.

Responsible Department: Procurement

Estimated Completion: Completed

APPENDIX A
Office of the Inspector General
General Engineering and Professional Services Contracts
Awarded and Assigned Work Orders, as of August 2010, AND
Potential Projects within Each Discipline

Discipline (%)	Awarded & Assigned Work	Potential Projects within Discipline
Full Service Engineering - 32.80%	\$45,930,374	<ul style="list-style-type: none"> • Culvert and bridge designs • Water control structure and spillway designs • Site planning, site civil engineering, industrial and administrative building design • Hydraulic and hydrologic modeling • Levee and reservoir design • Canal dredging, widening and bank stabilization • Storm water pump station design including all ancillary electrical and mechanical systems • Telemetry and communication equipment installation at water control sites for monitoring and control • Construction management, inspections and certifications • Cost estimating • Structure inspections including structural analysis, corrosion investigations and mechanical/electrical system evaluations
Construction Management - 28.73%	\$40,237,272	<ul style="list-style-type: none"> • Culvert construction • Levee construction • Canal excavation • Dredging • Communication towers and equipment • Control and automation • Public use sites • Embankment and dam construction • Water control structure construction and installation • Reservoir construction • Pump station construction and installation • Bridges and roadways construction • Inspections and certifications
Civil and Structural Engineering - 14.04%	\$19,661,658	<ul style="list-style-type: none"> • Culvert design • Bridge design, inspections, and refurbishments • Water control structure and spillway designs, inspections, and refurbishments • Site planning, site civil engineering, industrial and administrative building design • Existing building modifications including hardening exterior components (walls, roofs, windows, doors, fans, etc.) to provide better protection from storm damage • Levee and reservoir design • Canal dredging, widening and bank stabilization • Trash rake installations • Construction engineering, inspections and certifications • Cost estimating • Environmental Permitting (FDEP, USACE, and NPDES) to support civil/structural projects • Structure inspection including structural analysis, corrosion investigations and mechanical/electrical system evaluations • Geotechnical exploration, surveying, testing to support civil/structural projects • FEMA Emergency response support (i.e. providing site inspections of damages, designing emergency repairs, assisting with Federal reimbursement process, etc.) • Standards development (i.e. modifying, updating or providing new Civil/Structural standard or guideline drawings, details and specifications)

Discipline (%)	Awarded & Assigned Work	Potential Projects within Discipline
Surveying & Mapping - 7.50%	\$10,495,627	<ul style="list-style-type: none"> • Right-of-Way surveys that include establishing boundaries, monumentation of right-of-way lines, & locating encroachments, as well as providing final right-of-way maps • Horizontal and vertical geodetic control surveys • Canal and levee cross sections and profiles • Boundary surveys including extensive retracement of original sectionalized land systems boundaries • Topographic surveys • Specific Purpose surveys • Hydrographic surveys • Construction layout surveys, records or as-built surveys and quantity surveys • Field reconnaissance • Provide professional surveying and mapping review services • GIS (geographic information systems) services • Aerial Photogrammetry surveys
Modeling Services - 4.90%	\$6,857,643	<ul style="list-style-type: none"> • Regional model development, implementation, application, calibration, verification and pre- and post processing of regional modeling results in packages that allow decision making by various management levels at the SFWMD. • Numerical and physical modeling in support of project planning, design, alternative evaluation, permit obtainment, construction and operation plans • Numerical and physical based model development, modification and enhancement to meet sub-regional and project specific modeling needs of Acceler8, CERP and non-CERP projects • Modeling for storage reservoirs, storm treatment areas, water control structures, levees, wells, culverts, canals and flow-ways, pump stations, advance water treatment technology, wetlands, Aquifer Storage and Recovery (ASR), etc. Modeling of canal and routing connections between the major systems outlined in previous listing • Data collection, analysis, management, preprocessing, results post processing, model output interpretation in tabular, paragraph and graphical formats • Hydrodynamic & water quality modeling of regional/isolated wetlands, estuaries & bays • Development of modeling protocols • Technical support and review • Uncertainty and Sensitivity Analysis • Information Technology and GIS support for Modeling • Model web browser tool maintenance and enhancement • Conduct, facilitation and management of model code Peer Reviews • Technical writing in support of new computer code User's Manuals, Code Theory Manuals, computer software educational programs, Peer Review responses, etc.
Dam Safety and Design - 2.64%	\$3,700,410	<ul style="list-style-type: none"> • Dam siting and feasibility studies • Dam layout alternatives • Soil cement armoring and embankment armoring • Seepage barrier walls • Seepage studies • Permitting related to dams/impoundments • Geotechnical engineering pertaining to dams/impoundments • Survey services pertaining to dams/impoundments • Construction engineering, monitoring, inspections and certifications • Instrumentation design and layout including SCADA for monitoring • Hydrological studies including inundation, flow net mapping and storm surge modeling • Inventory of District impoundments, levees and structures including development of compliance criteria with Federal programs • Operation and Maintenance/Emergency Action Plans • Technical Evaluations • Risk Assessments and Cost Estimating
Environmental	\$3,563,546	<ul style="list-style-type: none"> • Hydraulic and Hydrologic Flow Measurement and Modeling (including DBHYDRO)

Discipline (%)	Awarded & Assigned Work	Potential Projects within Discipline
Engineering, Planning, and Permitting - 2.54%		<ul style="list-style-type: none"> • Canal Conveyance Capacity planning and studies • Design of public use facilities including trail heads, boat ramps, boardwalks and kiosks • Environmental & wetlands restoration/mitigation, and reduction of pollutant loads into receiving water bodies • Modeling for canals, impoundments and water quality improvements • Groundwater transport and flow net modeling • Water quality and flow monitoring • FEMA debris removal contracts (on an emergency basis), administration and contract management • Standards development (i.e. modifying, updating or providing new Environmental related Engineering standard or guideline drawings, details and specifications) • Environmental (FDEP and USACE) and NPDES permitting, including fulfillment of NEPA requirements • Hazardous materials testing and remediation (lead paints, asbestos, etc.) • Construction engineering, inspections & certifications • Cost Estimating • Environmental monitoring including plan development • Planning Program Development, Budgeting, Feasibility Studies and Environmental Impact Statements • Technical Analysis (MFL's), Water Reservations, etc.) • Expert Witness and Independent Peer Review
Water Supply/Water Resources - 2.23%	\$3,121,390	<ul style="list-style-type: none"> • Water supply and water resource investigations and studies, including alternative water supplies • Water reuse • Desalination • Test and monitor well design, permitting, resident observation, and reporting • Database development and maintenance • Design, construction management and testing for ASR and deep injection well projects • Design and cost estimating for traditional water supply, alternative water supply and wastewater treatment technologies • Utility business structures, operations, master planning, rate studies and analysis and financial planning and funding studies • Assistance in obtaining permits for water & wastewater projects • Design of pilot studies for water and wastewater treatment technologies • Public education, relations and participation for development of alternative water supplies, including water and wastewater treatment technologies • Comprehensive project management and scope development for new and complex water supply projects including public education and participation • Technical editing • Public meeting assistance • Business structures, partnering and funding for water supply development • Modeling and analysis in support of water resource projects (including hydrologic routing analysis and ground water modeling) • General hydrogeologic services (geologic interpretations, well cutting collection and analysis, logging, contour mapping, well testing & analysis) • Review of local government ten-year water supply facility plans, capital improvement elements and capital improvement plans
Dredging and Bank Stabilization -	\$2,704,481	<ul style="list-style-type: none"> • Canal dredging, widening and bank stabilization • Lake or other water body dredging

Discipline (%)	Awarded & Assigned Work	Potential Projects within Discipline
1.93%		<ul style="list-style-type: none"> • Sediment sampling and preparing isopach or thickness map • Sediment analyses and recommendations of reuse • Dredge plans including Confined Disposal Area Design • Beneficial use of dredged material • Stabilization of underwater disposal area • Permitting of dredge plans • Geotechnical engineering pertaining to dredging • Survey services pertaining to dredging • Feasibility studies on the recreational reuse of disposal areas • Risk Assessment • Cost Estimating • Construction engineering, inspections and certifications
Electrical and Mechanical Engineering - 1.38%	\$1,936,620	<ul style="list-style-type: none"> • New storm water pump station design • Existing pump station refurbishments including all ancillary electrical, mechanical, and civil and structural components • Water control structure gate hoist and operator replacements • Telemetry and communication equipment installation at water control sites for monitoring and control • Navigation lock refurbishments (includes mechanical/electrical renovations, coatings, structural repair and environmental remediation) • Electrical services, generators, switchgear, motor control centers, and rewiring (panels and breakers) at pump stations and other structures and facilities • Construction engineering, inspections and certifications • Cost estimating • Facility inspections including corrosion investigations, mechanical/electrical system evaluations and structural analysis • Civil/Structural/Permitting services to support Electrical/Mechanical projects • FEMA Emergency response support (i.e. providing site inspections of damages, designing emergency repairs, assisting with Federal reimbursement process, etc.) • Standards development (i.e. modifying, updating or providing new Electrical/Mechanical standard or guideline drawings, details and specifications)
Communications Engineering - 1.30%	\$1,823,151	<ul style="list-style-type: none"> • Site planning and engineering for communication towers including structural design, wind load analysis and pathway studies • Site grounding and bonding including lightening and surge protection • Microwave communications shelter design and layout • Telemetry and communication equipment installation at water control sites for monitoring and control • Structured cabling systems • Voice and data communications and networking • RF and microwave communication systems engineering • Fiber optic communications • Obtaining FCC licenses / permits • Public safety communication systems • Operation and control centers for pumps and water control facilities • Software integration • Computers, mass storage and operating systems • Project and construction management, inspections and certifications • Cost estimating • Standards development
Total	\$ 140,032,172	