

SPECIAL AUDIT REPORT

OF

MANAGEMENT OF MOUNTAIN WEST GOLFSCAPES, INC.
CONTRACTS

DEPARTMENT OF MUNICIPAL DEVELOPMENT

REPORT NO. 08-107



CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS

Special Audit – Management of Mountain West Golfscapes, Inc. Contracts
Department of Municipal Development
Report No. 08-107
Executive Summary

Background:

The Office of Internal Audit and Investigations (OIAI) conducted a special audit of Management of Mountain West Golfscapes, Inc. (MWG) Contracts. The audit was requested by a citizen. MWG is a licensed landscaping contractor used by the City of Albuquerque (City) Department of Municipal Development (DMD) for park development and rehabilitation projects, and street median landscaping. The City has 11 different contracts with MWG totaling \$32.3 million. Eight of the 11 contracts had 23 change orders, totaling approximately \$9.4 million. The City has paid MWG \$26.3 million during the period from January 2001 through December 7, 2007. Two of the 11 contracts were project specific. The remaining nine were on-call contracts.

Objective:

Did DMD pay MWG the correct unit prices, in accordance with the contracts?

- Seven of 23 (30%) MWG invoices tested included work order items not listed in any of the work order authorizations, the original contract or in any change order
- Three of 23 (13%) MWG invoices tested included work order items not listed in the original contract or in any change order. Two of the items were listed in a work order authorization and one in a purchase order adjustment that was issued after the work was completed.
- A Roman Fountain and Granite Walls with Engraving had been added to a MWG work order. These two items were not listed or priced in the original contract which MWG had bid on, nor in any subsequent change order. An architect's cost estimate in February 2007 for these two items was \$114,459. MWG proposed a price of \$187,272 and DMD accepted the proposed price. The DMD project file did not contain any explanation for the \$72,813 difference between the architect's cost estimate and the price proposed by MWG nor did the project file contain an explanation if DMD determined the MWG proposed price was reasonable. In February 2009, DMD contacted the architect who prepared the cost estimate to determine the reasons for the difference.
- A work order issued to MWG included design fees services for a civil engineer of \$36,070, which were not part of the original contract. The services should have been selected through the Selection Advisory Committee (SAC) process, which requires

public advertising and evaluation based on proposals received for professional services costing \$25,000 or more.

- MWG performed services on a \$22,000 work order item prior to the work order being issued.

Recommendations: DMD should:

- Only pay for work order items listed in contract documentation.
- Document why contractors' proposed prices exceed estimates prepared by architects.
- Comply with the requirements of the SAC Ordinance in the procurement of professional services.
- Ensure goods or services are not acquired before a work order is issued.

Objective: Does DMD have a process to determine if the quantities billed on MWG invoices are accurate?

- Nine of 9 (100%) work order items tested were missing field note documentation of DMD field measurements. It was not possible to verify if DMD had taken field measurements and compared them to quantities billed by MWG.
- Fourteen of 121 (12%) concrete materials tests for four different park projects did not meet the City's Standard Specifications for Public Works Construction (City's Standard Specifications).

Recommendations: DMD should:

- Ensure field verification measurements are performed, documented and compared to quantities billed.
- Review concrete test results to ensure they meet City Standard Specifications.

During our fieldwork, we noted no exceptions for the following objectives:

Were the contracts to MWG awarded in accordance with City Ordinance § 5-5-10 (C) ROA 1994: Public Purchases Ordinance?

Were the contracts to MWG administered in accordance with the City's Standard Specifications, with respect to the issuance of change orders?

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

April 16, 2009

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Special Audit
Management of Mountain West Golfscapes, Inc. Contracts
Department of Municipal Development
08-107

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a special audit of Management of Mountain West Golfscapes, Inc (MWG) Contracts. The audit was requested by a citizen. MWG is a licensed landscaping contractor used by the City of Albuquerque (City) Department of Municipal Development (DMD) for park development and rehabilitation projects, and street median landscaping.

The City has 11 different contracts with MWG totaling \$32.3 million. Eight of the 11 contracts had 23 change orders, totaling approximately \$9.4 million. The City has paid MWG \$26.3 million during the period from January 2001 through December 7, 2007. Two of the 11 contracts were project specific. The remaining nine were on-call contracts. According to DMD's On-Call Contract procedures:

- An on-call contract is a contract which is awarded to a contractor to do work on an as-needed basis.
- The contract is awarded for a specified amount which becomes the limit of the contract.
- The actual work authorized is given through work orders.

Contract	Original Amount	Change Orders a	Revised Amount	Percentage Increase	Contract Status as of December 7, 2007
First	\$ 1,000,000	\$ b 1,432,168	\$ 2,432,168	143%	Closed
Second	916,607	1,583,000	2,499,607	173%	Closed
Third	1,340,021	1,409,979	2,750,000	105%	Closed
Fourth	1,699,321	2,275,000	3,974,321	134%	Active
Fifth	1,335,095	1,600,000	2,935,095	120%	Active
Sixth	1,727,395	912,605	2,640,000	53%	Active
Seventh	2,706,035	0	2,706,035	0%	Active
Eighth	2,050,399	565,220	2,615,619	28%	Active
Ninth	1,953,305	0	1,953,305	0%	Active
Tenth	4,785,266	0	4,785,266	0%	Active
Eleventh	3,450,985	(396,610)	3,054,375	(11%)	Active
Total	\$ 22,964,429	\$ 9,381,362	\$ 32,345,791	41%	

a - The City's Standard Specifications for Public Works Construction (City's Standard Specifications) defines a change order as a written order to the contractor authorizing an addition, deletion, or revision in the work or an adjustment in the contract price. The City's Standard Specifications are standard contract language which are included in all DMD construction contracts.

b - The \$1,432,168 consisted of 5 change orders. Three of these change orders, totaling \$1,355,114, were not approved by the Capital Implementation Program (CIP) Official, but were approved by a former Chief Administrative Officer.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Were the contracts to MWG awarded in accordance with City Ordinance § 5-5-10 (C) ROA 1994: Public Purchases Ordinance?
- Were the contracts to MWG administered in accordance with the City's Standard Specifications, with respect to the issuance of change orders?
- Did DMD pay MWG the correct unit prices, in accordance with the contracts?
- Does DMD have a process to determine if the quantities billed on MWG invoices are accurate?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the award and administration of the MWG contracts. Our scope was for the 11 contracts for the period from the origination of the first MWG contract in 2001 through December 7, 2007.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, September 12, 2008, and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

OIAI interviewed City personnel who administered the MWG contracts. Documents and processes reviewed included the following:

- Contracts between the City and MWG
- Invoices paid by the City to MWG
- Change Orders
- Work Orders

FINDINGS

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. DMD SHOULD ONLY PAY FOR WORK ITEMS LISTED IN CONTRACT DOCUMENTATION.

A. MWG Invoices

OIAI tested a statistical sample of 23 of the 725 MWG invoices paid by DMD. These 23 invoices consisted of 267 work order items and totaled \$1,128,769.

- Seven of 23 (30%) invoices included work order items not listed in any of the work order authorizations, the original contract or in any change order.

- Three of 23 (13%) invoices included work order items not listed in the original contract or in any change order. Two of the items were listed in a work order authorization and one in a purchase order that were issued after the work was completed.

DMD procedures do not require personnel to review vendor invoices to ensure payment for only items listed in contracts and change orders.

Administrative Instruction No. 3-4 (AI 3-4): Vendor Performance Evaluation requires commodities and services purchased and received to be in accordance with all provisions set forth in the contract.

Administrative Instruction No. 3-7 (AI 3-7): Payments to Vendors Doing Business With the City requires all vendors to be paid in accordance with the terms of the contract.

The City's Standard Specifications state additional work performed without authorization of a field order or change order will not entitle the contractor to an increase in the contract price; and that the contract price may only be adjusted by a change order.

If DMD pays for items that are not listed in the work order authorizations, original contract or change orders, it may pay an incorrect price.

B. Field Measurement Verification

OIAI selected 9 work order items billed by MWG, totaling \$321,204, from the 23 statistically sampled invoices to determine if DMD personnel made field measurements and compared them to quantities billed. Field measurements are made at the construction site to verify that the quantities billed by a contractor were actually performed. According to DMD personnel, the field measurements and comparison are documented in field notes and kept in project files maintained by DMD. None of the 9 work order items had field note documentation. DMD management stated the field notes had been discarded.

AI 3-4 requires that commodities and services purchased and received shall be in accordance with all provisions in the contract, and it is the responsibility of the receiving department to inspect all work performed.

AI 3-7 requires all vendors to be paid in accordance with the terms of the contract.

If DMD personnel do not verify measurements and compare them to quantities billed, the City might pay for work not performed.

RECOMMENDATION

DMD should:

- Only pay for work order items listed in contract documentation.
- Ensure field verification measurements are performed, documented and compared to quantities billed.

RESPONSE FROM DMD

“DMD agrees, however, there is no indication that DMD paid an incorrect price for any work nor that DMD paid for any work that was not performed. Independent of this Audit, DMD has been updating the Project Manager’s Manual. The updated Project Manual will inform Project Managers of the correct procedures to document contractual changes and how to properly document field measurement verification. The Manual will be distributed to all present and future project managers.”

2. DMD SHOULD DOCUMENT WHY CONTRACTORS’ PROPOSED PRICES EXCEED ESTIMATES PREPARED BY ARCHITECTS.

While reviewing supporting documentation for the 23 statistically sampled invoices, OIAI noted two items (a Roman Fountain and Granite Walls with Engraving) which had been added to a MWG work order. These two items were not listed or priced in the original contract which MWG had bid on, nor in any subsequent change order.

Prior to MWG proposing a price to the City for these two items, DMD had obtained an architect’s cost estimate. Sometimes the City obtains architect’s estimates for construction projects in order to get an indication of the probable cost, prior to obtaining bids or proposed prices from contractors. This allows a basis of comparison to evaluate the reasonableness of the contractor’s bid or proposed price.

The architect’s cost estimate which was prepared in February 2007 for these two items was \$114,459. MWG subsequently proposed a price of \$187,272 for these two items and DMD accepted the proposed price. The DMD project file did not contain any explanation for the \$72,813 difference between the architect’s cost estimate and the price proposed by MWG, nor did the project file contain an explanation if DMD determined that the MWG proposed price was reasonable.

In February 2009, DMD contacted the architect who prepared the cost estimate to determine the reasons for the difference. The architect’s estimate included the price for materials and freight, specialty work and initial set up. It did not include installation,

security, lighting, electrical services, drain lines, piping, overtime so the project could be dedicated on Memorial Day, and other related costs.

DMD should ensure that in the absence of public bidding, that contractors' proposed prices are reasonable.

RECOMMENDATION

DMD should document why contractors' proposed prices exceed estimates prepared by architects.

RESPONSE FROM DMD

“The reason for the difference between the estimate and the contractor’s proposed pricing was contained in the Architect’s project file. The Division Manager authorized acceptance of the Contractor’s proposed price which was reasonable. That evaluation should have been kept in the project manager’s file. The Project Manager’s Manual update will provide guidance on how to evaluate difference in estimates and proposed prices.”

3. DMD SHOULD COMPLY WITH THE SELECTION ADVISORY COMMITTEE ORDINANCE.

OIAI identified a \$40,750 work order issued to MWG with the description of *design fees for construction drawings, electrical, and irrigation* while reviewing supporting documentation for the 23 statistically sampled invoices. The portion of the design fees for the services of a civil engineer was \$36,070. The work order item was not part of the original contract, and the services provided by the civil engineer should have been selected through the SAC process.

City Ordinance § 14-7-2-5 ROA 1994: Selection Advisory Committee (SAC) process requires public advertising for professional architectural, engineering, landscape architectural and other related professional services that will cost \$25,000 or more. The SAC evaluates proposals received and assigns points to evaluation criteria. Based on the scores, the SAC submits the names of three qualified professional firms to the Mayor; the Mayor selects a firm from the list and submits the list of firms recommended by the SAC to the Council. The Council approves or disapproves the recommendations made by the Mayor.

DMD management told OIAI a work order was issued instead of following SAC requirements so the project could be completed quickly.

If work orders are issued with a current contractor, instead of following SAC requirements, the City may not get the most qualified contractor to perform the professional service.

RECOMMENDATION

DMD should comply with the SAC Ordinance.

RESPONSE FROM DMD

“DMD agrees, however, there is no indication that the selected engineer was not the most qualified for this work. The Project Manager’s Manual update will explain how to procure engineering services and will emphasize that engineers are not normally acquired through construction contracts.”

4. DMD SHOULD REVIEW CONCRETE TEST RESULTS TO ENSURE THEY MEET CITY STANDARD SPECIFICATIONS.

OIAI identified 14 (12%) out of the 121 concrete materials tests, relating to 4 different park projects, where the concrete used by MWG had a slump greater than 5 inches. Slump is an indirect field measurement of how much water is in the concrete mix. The City Standard Specifications, which are included in all of the MWG contracts, require the slump not to exceed 5 inches.

Too much water in a concrete mix reduces the durability of the concrete. According to the Portland Cement Association, which is a trade association of cement manufacturers, the water/cement ratio should be as low as possible to improve durability. Too much water in the mix will produce a weaker, less durable concrete contributing to early flaking of the surface.

The field measurements were made by an independent materials testing company at the job site before the concrete was poured by MWG. DMD construction personnel did not take any action when they subsequently received the test results indicating the slump did not meet City Standard Specifications. DMD construction management personnel said they considered it the responsibility of MWG to use concrete that meets City Standard Specifications.

AI No. 3-4 states it is the responsibility of the receiving department to inspect all work being performed by vendors to ensure that it is in accordance with the contract.

RECOMMENDATION

DMD should review concrete test results to ensure they meet City Standard Specifications.

RESPONSE FROM DMD

“DMD agrees. All DMD Divisions have been reminded of the need to ensure materials comply with the specs and reject non-conforming goods.”

5. DMD SHOULD ENSURE GOODS OR SERVICES ARE NOT ACQUIRED BEFORE A WORK ORDER IS ISSUED.

While reviewing supporting documentation for the 23 statistically sampled invoices, OIAI identified a work order item performed by MWG in the amount of \$22,000 with the description “Work Completed to Date.” DMD management said that the work had been performed by MWG prior to the issuance of the work order, but did not provide further explanation.

AI No. 3-7 states it is the responsibility of City departments to ensure that goods or services are not acquired before a purchase order or contract is finalized.

If work is performed before the work order is issued, MWG may perform work that has not been authorized by the City.

RECOMMENDATION

DMD should ensure goods or services are not acquired before a work order is issued.

RESPONSE FROM DMD

“DMD will strive to complete authorization documentation prior to the start of the construction. However, there is no indication that DMD paid an incorrect price for any work nor that DMD paid for any for any work that was not performed.”

CONCLUSION

DMD should properly administer contracts. OIAI believes that the overall recommendations will strengthen DMD's contract administration. During our fieldwork, we noted no exceptions for the following objectives:

- Were the contracts to MWG awarded in accordance with City Ordinance § 5-5-10 (C) ROA 1994: Public Purchases Ordinance?
- Were the contracts to MWG administered in accordance with the City's Standard Specifications, with respect to the issuance of change orders?

We appreciate the assistance and cooperation of DMD personnel during the audit.

Principal Auditor

REVIEWED:

Audit Manager

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APPROVED:

APPROVED FOR PUBLICATION:

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