



October 28, 2015

**VENDOR PERFORMANCE AUDIT**

# B&D Industries, Inc.

Citywide

**Audit No. 15-101**



Photo Credit: B&D Industries Website

**CITY OF ALBUQUERQUE  
OFFICE OF INTERNAL AUDIT**

VENDOR PERFORMANCE AUDIT REPORT  
B&D INDUSTRIES, INC.  
CITYWIDE  
REPORT NO. 15-101

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# B&D Industries, Inc. Vendor Audit

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Audit #15-101

The purpose of this audit was to review and report on the compliance with contract terms and calculation of invoices by B&D Industries, Inc. and was included in the Fiscal Year 2015 Audit Plan.

## Summary

The City paid B&D Industries, Inc. (B&D) more than \$16.4 million for work performed on all of its contracts during the 5-year period from July 1, 2010 to June 30, 2015. Although B&D has various contracts with the City, the audit was limited to Electrical and HVAC On-Call Service contracts.

Numerous contract requirements were not met by B&D for both of the On-Call Service contracts. As a result, the City was overcharged on some invoices, formal authorization to start work was not obtained by B&D, cost estimates were not provided prior to the performance of services, and subcontractors performed work on City facilities without City approval. One hundred percent of the invoices sampled were missing at least one item required by the contracts. B&D and the City should work together to increase compliance with contract terms. B&D overcharged the City \$23,936 on the invoices sampled and should refund the overcharges to the City.

***B&D agrees that additional improvements are needed to ensure that requested invoice information is available to the City. B&D has taken steps to incorporate many of the recommendations into current procedures.***

## Recommendations & Benefits

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By completing a thorough review of the HVAC Request for Bid and Electrical Request for Proposal documentation, along with the resulting contracts B&D can increase compliance by:

- Providing cost estimates for all projects, (and quotes only when required by the contract),
- Obtaining a CRO from the City prior to performing work,
- Identifying additional information required to be included on, or with, invoices submitted for payment,
- Providing support for labor and material costs when invoicing the City,
- Updating internal forms to present required information for City invoices, and
- Ensuring subcontractors have been approved by the City.

By providing all required documentation to support invoices, B&D will help the City process payments quickly.



# City of Albuquerque

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*Office of Internal Audit*

October 28, 2015

Accountability in Government Oversight Committee  
P.O. Box 1293  
Albuquerque, New Mexico 87103

Audit: Vendor Performance  
B&D Industries, Inc.  
Audit No. 15-101

**FINAL**

## INTRODUCTION

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The Office of Internal Audit (OIA) conducted a vendor performance audit of contracts between B&D Industries, Inc. (B&D) and the City of Albuquerque (City). The audit was included in the approved fiscal year (FY) 2015 audit plan. The audit objectives, scope and methodology information can be found in **Appendix A**.

The City determined the best way to ensure reliable and timely response times to service requests for vital building functions was to develop On-Call contractor service pools for electrical, HVAC and plumbing services. At the time the audit began, in June 2014, B&D had five contracts in place with the City. The City paid B&D more than \$16,400,000 for work performed on all of its contracts during the 5-year period from July 1, 2010 to June 30, 2015. This audit was limited to the City's Electrical and HVAC On-Call Contracts with B&D that were in force during FY2014. The report is divided in two sections; one for each Contract.

## FINDINGS

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*The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.*

The findings in this report are based on random statistical samples of invoices paid during FY2014. The sample sizes were 22 invoices totaling \$157,061 for work performed under the Electrical Contract, and 22 invoices totaling \$23,726 for work performed under the HVAC Contract.

### **ELECTRICAL ON-CALL SERVICES CONTRACT**

The On-Call electrical contractor service pool performs routine and emergency electrical services at various municipal facilities. Additionally, the contractor service pool may be used for City electrical service improvement projects. The electrical contractor service pool includes five contractors. The City makes an effort to contact all pool contractors when electrical services are required; however, selection of a contractor is at the discretion of the City department requiring the service. Payments to B&D for On-Call electrical work during FY2014 totaled \$530,985.

#### **1. B&D SHOULD COMPLY WITH ELECTRICAL CONTRACT COST ESTIMATE AND QUOTE REQUIREMENTS.**

B&D does not consistently submit written costs estimates prior to beginning electrical work for the City. B&D did not provide cost estimates for any of the 22 project invoices selected for testing, all of which required a cost estimate.

Cost estimates are required for projects categorized as maintenance and repairs which do not exceed \$2,000. The Electrical Contract states: “the Contractor will assess the situation/problem and provide a cost estimate. The cost will have itemized labor, material, gross receipts and total estimated cost.” When the user department anticipates a maintenance and/or repair project will cost \$2,000 or more, the City requires the requesting department to obtain quotes from the contractor pool.

The sample consisted of four invoices for maintenance and repairs, which were each under \$2,000, and eighteen invoices for new or rehabilitation work, which all require written cost estimates. However, B&D prepared firm fixed-price quotes for 11 of the new and rehabilitation projects included in the sample. The quotes for the projects ranged from \$465 to \$56,283 and the projects were invoiced at the full amount of the quotation, regardless of B&D’s actual costs. According to the Electrical contract, these new and rehabilitation projects required cost estimates with itemized labor, material, gross receipts and total estimated cost.

B&D is expected to be knowledgeable of the Electrical Contract requirements and should have provided cost estimates instead of quotes. If B&D had invoiced the projects based on actual labor hours and materials costs the City would have paid a net \$7,900 (5%) less than the total invoiced amount of \$157,061 for the 22 invoices in the sample.

#### RECOMMENDATIONS

B&D should:

- Refund the \$7,900 in overcharges identified by the audit.
- Provide written cost estimates to the City for projects categorized as maintenance and repairs which do not exceed \$2,000, and for all new and rehabilitation work.

#### RESPONSE FROM B&D

*“This audit has helped us recognize that regardless of the terminology used by our customers we need to follow the specific contract terminology. It is common in the construction industry that when the term “quote” is used it entails a firm fixed proposal to be invoiced accordingly. In addition, with the use of the term “cost estimate” being used we understood that there were two types of pricing and billing structures allowed. Because our invoices were being reviewed, approved and paid without comment we believed we were in compliance with the contract. B&D acknowledges and agrees that ultimately it is our responsibility to abide by the contract we hold with the City and we will refund the \$7,900.00.”*

#### ESTIMATED COMPLETION DATE

*“Action taken - Providing cost estimates and billing according to our contract has since been communicated verbally and in writing to our electrical and mechanical divisions.”*

#### 2. B&D SHOULD ONLY CHARGE FOR APPROVED ELECTRICAL CONTRACT LABOR CATEGORIES.

B&D charged the City for 68 hours of project management labor at a total cost of \$3,593 for labor plus tax on 21 invoices in the sample that had labor charges. The Electrical Contract does not include a cost category for project management. The Electrical Contract allows B&D to charge for the following labor classifications: Journeyman Electrician, Certified Apprentices years 1 to 4, and general laborers.

According to B&D personnel, the Electrical Division Manager is a licensed electrical journeyman who provides non-management electrical work on City projects, as well as

project management. However, B&D personnel could not provide evidence that the manager performed electrical work because they do not separately track the project manager's time spent performing non-management work on projects.

The project management charges represent 2.3 percent of the total billings of \$157,061 for the sample.

#### RECOMMENDATIONS

B&D should:

- Refund the \$3,593 in Project Management labor charges identified in the audit.
- Comply with the Electrical Contract and include only labor charges allowed by the contract.
- Develop a payroll classification for instances when managers perform non-management work on projects.

#### RESPONSE FROM B&D

*“The 68 hours identified were the result of employee (Journeyman Wireman) misclassification in our Payroll System rather than intentional over charging. B&D has recently identified a way in our payroll program to charge an electrical licensed manager on the project as a Journeyman Wireman (JW). This process will entail the manager documenting his time sheet as a JW and completing the B&D project forms accordingly detailing the services rendered by that individual.”*

#### ESTIMATED COMPLETION DATE

*“Action taken – The improved process is now in place for all future work.”*

### 3. B&D SHOULD OBTAIN CITY APPROVAL FOR SUBCONTRACTORS THAT WORK ON CITY ELECTRICAL PROJECTS.

B&D used three subcontractors, on projects in the sampled invoices, that were not included in the listing of subcontractors submitted with its original Request for Proposal (RFP) response. The three subcontractors worked on three City projects at a total cost of \$12,443. B&D only included information for its other divisions as potential subcontractors on the Subcontractor's Statement of Qualifications and the Subcontractor Listing Form. The RFP section 2.1.5 states:

Each Offeror shall complete the Subcontractor Listing Form included in this proposal. The Offeror shall provide a list of all subcontractors that will perform work

on this project. The Offeror may not change any of the listed subcontractors without the City's consent.

B&D did not request approval to add the three subcontractors to the listing before the subcontractors performed work on City projects. The Subcontractor's Statement of Qualifications covers proof of licensing, experience, capacity and capability to perform the work, safety standards, insurance, and certification of no labor code violations.

#### RECOMMENDATIONS

B&D should:

- Refund the \$12,443 related to unapproved subcontractors' charges identified by the audit.
- Request approval from the City to add the three additional subcontractors to its list of approved subcontractors, if they will be used again on City projects.
- Complete a new "Subcontractors Statement of Qualifications" for each subcontractor and request approval from the City in advance of using any previously unidentified subcontractors.

#### RESPONSE FROM B&D

*"The contracted work was successfully fulfilled by the subcontractors used, often with the verbal agreement/knowledge of the customer. Although B&D has paid for these subcontracted services, we recognize that we did not follow the contract by updating our approved subcontractor list and agree to repay the city."*

#### ESTIMATED COMPLETION DATE

*"We have since identified the subcontractors we have used in the past on this contract in addition to subcontractors that we may potentially use. This list will be submitted to the city via the Subcontractors Statement of Qualifications timely after receiving the city's current template."*

#### 4. B&D SHOULD COMPLY WITH ALL ELECTRICAL CONTRACT INVOICING REQUIREMENTS.

B&D's Electrical Contract with the City includes a list of information requirements for invoices. The random statistical sample of 22 invoices was tested for the requirements. All of the electrical invoices in our sample included the following requirements:

- service date,
- department,

- a brief description of the service, and
- invoice total.

The sample of B&D's electrical invoices should have but did not consistently include the following required information.

A. **Contract Release Order (CRO)** - not included on 11 of 22 sample invoices

The CRO is the City's notice to the vendor to proceed. When a CRO is created it ensures City funds are available to pay for the work. The Electrical Contract states, "Once approved by the user agency, the contractor shall receive a CRO and will perform the needed work or repairs and submit invoices detailing the time and labor charges and the parts/materials used to the requesting department within 30 calendar days."

B. **Service Time** - not included on 21 of 21 sample invoices with labor charges

Service time is the start and end time of each vendor employee who worked on the project. Service time supports the number of labor hours charged on the invoice. B&D timesheets only require the total number of hours worked on each project during the day. Currently, the detailed information is not captured by the vendor. Additionally, B&D electricians do not ask a City employee to verify the hours worked at the time the work is performed. As a result, there is not a way to verify the hours charged on an invoice.

C. **Hourly Rate** – not included on 11 of 21 invoices with labor charges

The hourly rate identifies the contracted rate for each labor classification. When hours worked by category are included on the invoice, labor costs can be verified. There were 11 invoices which were for "quoted" work and included only the total quoted costs. B&D's quotes do not indicate the number of hours or labor classifications, just a lump sum amount for labor.

D. **Work Sheet/Job Ticket No.** - not included on 21 of 22 invoices

The Department of Municipal Development (DMD) Facilities and Energy Management Division uses this number to track payments. The Electrical Contract specifically lists this as a required item to be included on invoices.

E. **Material Cost Verification** – not included on 17 of 19 invoices with materials charges

The invoice should identify all materials charged, segregated by B&D's stock or materials purchased from a supplier. Invoices should list the costs for stock materials and the trade list **less** an 18 percent contracted discount for materials purchased, and should be supported by documentation of the costs.

B&D charged the City cost **plus** 18 percent mark-up. B&D representatives for the Electrical Division stated that if B&D used the trade list less an 18 percent discount, they would not be competitive when bidding on projects. According to B&D's representatives, B&D used cost plus an 18 percent mark-up because it is a "better deal" for the City. Trade list prices, before discounts, should be the same from every vendor. B&D could offer a higher percentage discount from trade list if it wished to increase the competitiveness of its bids.

The Electrical Contract states, the "contractor shall provide all necessary material invoices with a description of item purchased, catalog number, cost and shall include signature of the authorized contractor representative." This information was not provided. Additionally, B&D did not provide documentation to support the costs charged for materials used from its stock. In some cases the stock materials were included in a lump sum described in B&D's records as "Misc. Materials/0131/Permits."

#### RECOMMENDATIONS

B&D should:

- Ensure that invoices submitted to the City for payment include all information and documentation required by the Electrical contract.
- Not initiate work until the City department provides a valid CRO number, except for emergency situations.
- Require personnel to document and have City personnel verify the service time on City projects and include the detail with invoices to the City.
- Identify the individual employees working on each City project, their hours worked including start and end times, and the hourly rate charged.
- Include the DMD work sheet/job ticket number on each invoice.
- Comply with the Electrical Contract terms and detail all charges on every invoice submitted for payment.
- Provide a detailed list of all stock materials used and the costs associated with each item.
- Provide the information on the trade list pricing less the B&D specified discount of 18 percent for purchased materials.
- Comply with the Electrical Contract terms and include a listing of all purchased materials along with the supporting invoices and other required documentation when submitting invoices to the City.

#### RESPONSE FROM B&D

*"B&D agrees there is room for improvement adhering to the detail required to be provided on our invoicing per the requirements listed in our contract(s). We are currently working on improving our billing process to*

*include all required information. B&D's ultimate goal is to accommodate our customers and provide the utmost level of service. With this mind set, and in order to meet our customer's needs, on several occasions our staff made the business decision to promptly proceed with work without a CRO #, rather we proceeded with verbal authorization. Although it will be difficult to break this mind set we recognize this is a requirement of the contract and are currently improving our communication with the City departments to obtain the CRO # prior to starting work. We hope that the City's purchasing department can also help communicate the CRO requirement to the building managers so they understand why we cannot start work until we have obtained the CRO #."*

#### ESTIMATED COMPLETION DATE

*"Improvements in the above are underway and we will continuously strive to work in conjunction with our customers to obtain required reference numbers and approval. These requirements have already been communicated to our divisions and their field staff. Our office staff will review write ups as they are turned in for customer approval. Immediately we have enforced that we will strictly follow the material billing requirements and the associated discounts in our contract.*

*"B&D has recently procured a service program, Field Connect, to make our service calls more efficient for the field and office staff. This program identifies actual times on and out on the project in addition to other more detailed project information. We are currently working on scheduling training and implementation.*

*"In general, we anticipate a much cleaner process to roll out in the next 30 days with major improvements once our new software program is fully implemented (estimated at close of 2015)."*

#### 5. B&D SHOULD CREATE OR UPDATE A FORM TO CAPTURE REQUIRED INFORMATION AND REQUIRE ITS USE.

B&D has a form for documenting work performed. The form includes sections for:

- B&D's purchase order (PO),
- contract number or PO,
- dates worked,
- assigned journeyman,
- customer name and organization, phone and fax numbers,
- scope of work performed,
- hours of labor,



### RECOMMENDATIONS

B&D should:

- Create a new form or update the current form to include fields for the start and end times for City projects.
- Require B&D employees to consistently complete the form, including the hours on site.
- Require B&D employees to obtain an authorized City employee's signature on the form.
- Submit the completed and signed form with the invoice as support for the hours worked and materials used.

### RESPONSE FROM B&D

*“B&D agrees there are some improvements that can be made to our form and our procedures while utilizing the form. With the implantation of our new software we will utilize the recommendations when creating the electronic template.”*

### ESTIMATED COMPLETION DATE

*“The electronic template will be created during our implementation phase of the new software. As state above, we anticipate to be up and running prior to 2016.”*

## **HVAC ON-CALL SERVICES CONTRACT**

The On-Call HVAC contractor service pool performs routine and emergency HVAC services at various municipal facilities, and may also be used for new City HVAC improvement projects. There are six contractors in the HVAC contractor service pool. Payments to B&D for On-Call HVAC work during FY2014 totaled \$486,006.

### **6. B&D SHOULD SUBMIT ACCURATE INVOICES.**

B&D's invoices included both overcharges and potential undercharges. Ten of the twenty-two HVAC invoices in the sample included overcharges resulting from incorrect material amounts, incorrect labor rates, incorrect labor hours, and invoices that included project management labor hours. The overcharges totaled \$1,088 (4.6 %) on the 22 invoices, which totaled \$23,726.

The HVAC Contract allows for a set labor rate for work performed from 7:00 a.m. to 5:00 p.m. on weekdays. When work is performed outside those hours and on holidays, a higher

labor rate is paid. B&D did not always charge the higher rate when it was allowable. An additional \$1,186 could have been charged for work performed outside normal work hours and for work hours B&D did not include on one invoice.

The HVAC Contract requires the contractor to submit an invoice to the City “delineating all charges upon completion of the Contract Release Order (CRO). . . [If requested] the contractor(s) shall submit certified payroll registers for any work order or project issued by the City.” Invoices should also include all supporting documentation for purchased materials.

Because the overcharges and undercharges net to a small undercharge to the City, repayment for overcharges on the HVAC Contract is not recommended at this time.

### RECOMMENDATIONS

B&D should:

- Review invoices for accuracy before submitting them to the City.
- Document that the hours charged agree to the certified payroll registers.
- Comply with the HVAC Contract terms and detail all charges on every invoice.
- Provide all invoices for materials used.

### RESPONSE FROM B&D

*“B&D has since (2014) staffed our divisions sufficiently to allow more time and quality invoicing practices.”*

### ESTIMATED COMPLETION DATE

*“Action complete - Our current division members are fully aware of the contract’s invoicing requirements.”*

## 7. B&D SHOULD COMPLY WITH HVAC INVOICE REQUIREMENTS.

B&D’s HVAC Contract with the City includes a list of information requirements for invoices. The random statistical sample of 22 invoices was tested for the requirements. All of the HVAC invoices in our sample included the following requirements:

- name of the department and requester,
- service date(s),
- hourly rate(s),
- an itemized listing of material and labor costs, and
- invoice totals.

The sample of B&D's HVAC invoices did not consistently include the following required information:

**A. Contract Release Order (CRO)** - not included on 20 of 22 sample invoices

The CRO is the City's notice to the vendor to proceed. When a CRO is created it ensures City funds are available to pay for the work. The HVAC Contract states, "Contractor must request and be issued a contract release order (CRO) number by the requesting department or division prior to performing services (excluding emergencies, after-hours and holidays)."

HVAC work performed in an emergency, after-hours or on holidays is an exception and does not require a CRO prior to performing services, however, the CRO should be requested by B&D the next business day and the CRO number should be included on the invoices.

**B. COA Work Order No.** - not included on 17 of 22 invoices

The Department of Municipal Development (DMD) Facilities and Energy Management Division uses this number to track payments. The HVAC Contract specifically lists this as a required item to be included on invoices.

**C. Service Time** - not included on 22 of 22 sample invoices with labor charges

Service time is the start and end time of each vendor employee who worked on the project. Service time supports the number of labor hours charged on the invoice. B&D timesheets only require the total number of hours worked on each project during the day; currently the detailed information is not captured by the vendor.

**D. Brief description of service and materials** – not included on 1 of 22 invoices

The description identifies the work performed and the materials used. One invoice for labor did not include any description of the issue or work performed. The HVAC Contract lists this as one of the requirements for invoices.

**E. Verification of Cost of Material** – not included on 13 of 13 invoices with materials charges

The invoice should identify all materials charged, segregated by B&D's stock or materials purchased from a supplier. Invoices should list the costs for stock materials and the 15 percent mark-up for materials purchased, and should be supported by documentation of the costs.

In addition to the list of required documentation, the HVAC Contract states, “Contractor shall provide all necessary material invoices with a description of item purchased, catalog number, cost and shall include signature of authorized contractor representative.”

### RECOMMENDATIONS

B&D should:

- Ensure that invoices submitted to the City for payment include all information and documentation required by the HVAC contract.
- Not initiate work until the City department provides a valid CRO number, except for emergency situations.
- Include the COA Work Order No. on each invoice.
- Require personnel to document the service start and end times on City projects and include the detail with invoices to the City.
- Comply with the HVAC Contract terms and detail all charges on every invoice submitted for payment.
- Provide a detailed list of all stock materials used and the costs associated with each item.
- Comply with the HVAC Contract terms and include a listing of all purchased materials along with the supporting invoices and other required documentation when submitting invoices to the City. Separately state the 15 percent mark-up for purchased materials.

### RESPONSE FROM B&D

*“B&D agrees there is room for improvement adhering to the detail required to be provided on our invoicing per the requirements listed in our contract(s). We are currently working on improving our billing process to include all required information. B&D’s ultimate goal is to accommodate our customers and provide the utmost level of service. With this mind set, and in order to meet our customer’s needs, on several occasions our staff made the business decision to promptly proceed with work without a CRO #, rather we proceeded with verbal authorization. Although it will be difficult to break this mind set we recognize this is a requirement of the contract and are currently improving our communication with the City departments to obtain the CRO # prior to starting work. We hope that the City’s purchasing department can also help communicate the CRO requirement to the building managers so they understand why we cannot start work until we have obtained the CRO #.”*

ESTIMATED COMPLETION DATE

***“Improvements in the above are underway and we will continuously strive to work in conjunction with our customers to obtain required reference numbers. These requirements have already been communicated to our divisions and their field staff. Our office staff will review write ups as they are turned in for customer approval. Immediately we have enforced that we will strictly follow the material billing requirements and the associated discounts in our contract.”***

8. B&D SHOULD OBTAIN CITY APPROVAL FOR HVAC WORK COMPLETED.

B&D’s HVAC personnel use the forms mentioned in Finding 5, above, to record their work on City HVAC projects. The forms are partially completed by the workers, and rarely include City approval of the work. Only two of the 22 forms for projects in the sample were approved by City employees. One form was initialed and the other included a signature, but both were illegible, making it difficult to determine who approved the work.

The HVAC Contract states, “final acceptance or rejection of the work shall be made by the [C]ity promptly after the vendor has notified the [C]ity official or designee that the project is ready for final inspection.” Four of the forms indicated the customer was “not available” and the remaining 16 had blank customer signature lines.

RECOMMENDATIONS

B&D should:

- Require B&D employees to obtain an authorized City employee’s signature approving the HVAC work performed.
- Submit the completed and signed form with the invoice as support for the hours worked and materials used.

RESPONSE FROM B&D

***“B&D has communicated the project approval requirement to our divisions and their field staff members.”***

ESTIMATED COMPLETION DATE

***“Action taken – The contract requirement has been discussed and will be a part of our close out process for all future work.”***

9. B&D SHOULD PREPARE COST ESTIMATES FOR CITY HVAC PROJECTS.

B&D does not submit written costs estimates prior to beginning HVAC work for the City. A written cost estimate is required for each project performed under the HVAC contract. The HVAC Contract has the following performance standard for work requests.

Prior to performing requests for service, (excluding emergencies, after-hours and holidays) the contractor shall submit a written estimate including an itemization of material, labor and applicable taxes per [HVAC] contract price schedule for the proposed project, [to] an authorized representative of the department or division requesting service. All service requests for work in DMD maintained facilities must be approved by the facilities official or his designee prior to commencement of work.

Cost estimates were not available for 19 of the 22 projects in the sample. The three remaining projects were excluded from the requirement for a cost estimate due to the nature or timing of the work. The cost estimate is used by the City to properly set-up a CRO; ensuring funds are available to pay the invoice once work is completed. The CRO is also the notice to proceed from the City.

RECOMMENDATIONS

B&D should:

- Ensure that B&D employees provide a written cost estimate for each project to the City department requesting HVAC work, except in emergency situations.
- Obtain a valid CRO from the City department prior to beginning work on City projects.

RESPONSE FROM B&D

*“B&D agrees it has not created cost estimates if it was not verbally requested by our customer. The audit has reminded us that an estimate is always required.”*

ESTIMATED COMPLETION DATE

*“Action taken – The improved process is now in place for all future work.”*

10. B&D EMPLOYEES HAVE THE REQUIRED SKILLS AND CERTIFICATIONS TO PERFORM THE WORK REQUIRED.

The Electrical and HVAC contracts require licensed Journeyman electricians and HVAC professionals certified by the State of New Mexico and able to perform the contracted

services for different City departments. B&D provided the current license information for each Journeyman identified as working on City projects. This information was verified with the State of New Mexico's Contractor Licensing website. Also the apprentices used on electrical jobs were all verified as officially enrolled in a State licensed Apprentice program.

RECOMMENDATION

None

## CONCLUSION

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Numerous contract requirements were not met by B&D. As a result, the City was overcharged on some invoices, formal authorization to start work was not obtained by B&D, cost estimates were not provided prior to the performance of services, and subcontractors performed work on City facilities without City approval. B&D and the City should work together to increase compliance with contract terms.

B&D should repay the City for overcharges identified by the audit as follows:

### **Electrical Contract**

Overcharges due to quoted work	\$7,900
Overcharges for Project Management	3,593
Costs for Unapproved Sub-Contractors	12,443
<b>TOTAL</b>	<b><u>\$23,936</u></b>

B&D must perform a thorough review of both the Electrical and HVAC On-Call Service Contracts and the associated Request for Proposal and Request for Bid documentation to ensure that required information and documentation is provided with invoices submitted to the City. Preparing cost estimates and obtaining Contract Release Order numbers are mandatory requirements prior to B&D performing Electrical or HVAC work for the City.

Throughout the audit, the B&D personnel were cooperative and involved; often taking extra time to explain industry terminology. Their active participation, time and assistance were greatly appreciated.

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Principal Auditor

REVIEWED:

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Internal Audit Manager

REVIEWED and APPROVED:

APPROVED FOR PUBLICATION:

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Debra Yoshimura, CPA, CIA, CGAP  
Director, Office of Internal Audit

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Chairperson, Accountability in  
Government Oversight Committee

## APPENDIX A

### OBJECTIVES

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The objectives of the audit were to determine:

- Is B&D submitting all required information per the Electrical and HVAC On-Call contracts with their invoices for payment?
- Is B&D using employees with the required skills and certifications to perform the work as required by the Electrical and HVAC On-Call contracts?
- Is B&D submitting the correct charges for labor and materials for work performed as allowed by the Electrical and HVAC On-Call contracts?

### SCOPE

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The audit used two distinct populations: one population from the Electrical On-Call Contract and one population from the HVAC On-Call Contract. Our scope was limited to the objectives above for the 12 month audit period between July 1, 2013 and June 30, 2014, fiscal year (FY) 2014.

This report and its conclusions are based on information taken from a sample of transactions from the two populations and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on June 30, 2015 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

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Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Reviewing the B&D response to the Request for Proposal and the resulting Electrical On-Call Contract,
- Reviewing the B&D response to the Request for Bid and the resulting HVAC On-Call Contract,
- Testing a sample of Electrical On-Call invoices for contract requirements,
- Testing a sample of HVAC On-Call invoices for contract requirements, and
- Conducting testwork to determine B&D's compliance with employee licensing requirements under the Electrical and HVAC On-Call contracts.

Audit sampling software was used to generate statistical random samples to accomplish audit objectives. Population data was derived from payments made by the City to B&D during FY 2014 for each contract.