



Maricopa County

Internal Audit Department

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March 10, 2011

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Audit of Contract #2009-001 Parsons Transportation Group (PTG): Northern Parkway Program Maricopa County Department of Transportation (MCDOT)

Summary of Results

Under the direction of Internal Audit, the consulting firm Jefferson Wells reported the following contract audit results.

Funding and Accounting	
1. Intergovernmental Agreement (IGA)	The City of El Mirage reports that budget issues prevent them from funding \$9.5 million share of program costs. The remaining program participants should amend the IGA to reflect the loss of El Mirage funds.
2. Project Accounting	Parkway construction occurs in phases; MCDOT did not separate Phase I and Phase II costs. To improve accounting and financial reporting, MCDOT should close each phase as it is completed.
3. Unallowable Costs	The vendor invoiced \$265 for costs that occurred prior to the contract award, and invoiced \$171 for meals that included MCDOT employees. MCDOT should obtain credit.
Procurement	
4. On-Call Contract	MCDOT awarded program management to PTG as an "on-call" contract, even though the work assignments exceeded the \$500,000 maximum amount allowed for on-call awards per Procurement Code, Article 5. MCDOT should comply with the Procurement Code.
5. Change Order	A pending change order would allow tasks to be awarded as lump-sum instead of not-to-exceed. This change would not allow the County to share in cost savings. MCDOT should continue to issue tasks with not-to-exceed amounts.
6. Evaluation Process	Controls were not in place to prevent an error in summarizing the prequalification results; however, the error did not affect the contract award.

Overview

Under the direction of Internal Audit, the consulting firm Jefferson Wells reviewed the On-Call Management Consultant Services, Contract #2009-001 for the Northern Parkway Program. MCDOT is managing this program for the County and the cities of Glendale, Peoria, and El Mirage. MCDOT selected PTG as the program management consultant and awarded work assignments on an on-call basis.

Purpose of the Review

The purpose of the review was to determine if the: (1) management consultant contract was awarded in accordance with County policies, procedures, and applicable regulations; (2) contractor billings did not exceed actual costs; (3) project costs represented value received and were appropriately charged to the project; and (4) payments were received from participating partners in the program. The audit scope was from the contract award date, August 5, 2009, through September 17, 2010.

Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require the following:

- An independent audit staff and audit organization
- An objective audit staff performing the work
- A competent staff, current with continuing education requirements
- A system of quality control procedures
- Sufficient and appropriate evidence based on audit objectives

Consultant's Report

Within the attached report by Jefferson Wells, you will find specific information on the areas reviewed and responses to the recommendations. Jefferson Wells reviewed this information with MCDOT management. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at (602) 506-7539.

Sincerely,



Ross L. Tate
County Auditor

Attachment

C: David Smith, County Manager
Sandi Wilson, Deputy County Manager
Kenny Harris, Assistant County Manager, Public Works
John Hauskins, Director, MCDOT

**MARICOPA COUNTY
DEPARTMENT OF TRANSPORTATION
NORTHERN PARKWAY DESIGN CONTRACT
AUDIT ASSISTANCE**

AUDIT REPORT

Presented by



11811 North Tatum Boulevard, Suite 1085
Phoenix, Arizona 85028

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EXECUTIVE SUMMARY

I. Engagement Scope and Objectives

Jefferson Wells completed an audit of the Northern Parkway Program On-Call Project (Program). The Maricopa County Department of Transportation (MCDOT) manages the Program. The audit was conducted on behalf of Maricopa County Internal Audit.

Parsons Transportation Group (PTG) was selected as the management consultant. PTG was awarded work assignments on an on-call basis. The following is a summary of the work assignments and contract value as of October 31, 2010.

Table: Summary of Work Assignments					
Work Assignment	Description	Amount	Phase	Job Number	Date
A	Program Management	\$1,327,419.00	I	TT195	August 5, 2009
B	VE Workshops	\$142,463.00	I	TT195	August 5, 2009
C	Right of Way	\$85,564.00	I	TT195	August 5, 2009
D	Interim Design	\$2,227,081.00	I	TT195	August 5, 2009
E	Right of Way	\$82,081.00	I	TT195	March 16, 2010
F	Geotechnical Services	\$57,018.28	I	TT195	May 5, 2010
G	Geotechnical Investigation	\$57,340.25	I	TT195	June 4, 2010
H	Right of Way	\$38,520.00	I	TT195	June 15, 2010
I	Program Management	\$973,818.00	II	TT195	August 17, 2010
J	Design Update	\$759,349.00	II	TT195	August 17, 2010
K	Right of Way	\$119,199.00	II	TT195	August 17, 2010
L	Stakeholder Coordination	\$131,340.00	II	TT195	August 17, 2010
M	Preliminary Design	\$399,695.00	II	TT195	October 14, 2010
N	Design Plans	\$79,336.00	II	TT195	October 13, 2010
		<u>\$6,480,223.53</u>			

The audit scope was from the date of the contract award through September 17, 2010 and included:

- Review of the award process
- Review of all costs incurred in the job cost
- Assessment of monthly invoices

The primary objectives were to:

- Confirm the contract was awarded in accordance with policies, procedures, and applicable regulations.
- Verify that contractor billings were not in excess of actual costs.
- Ascertain that project costs represented value received and justifiably charged to the project.
- Verify that payments were received from the partners participating in the program.

II. Overall Summary

We reviewed the award process and the accounting for the Program. During our review, we noted the following issues involving the Program funding and accounting and the procurement process.

Funding and Accounting

1. MCDOT entered into an Intergovernmental Agreement (IGA) between the City of El Mirage, City of Glendale, and the City of Peoria. The IGA requires the cities to fund the project sixty days before the funds are committed for any services rendered. While funds were received from the City of Glendale and City of Peoria, the City of El Mirage has not submitted any funds. We were advised that the City of El Mirage did not intend to fund the project. The IGA has not been modified nor does it address this situation.
2. The Program has different phases, which are identified by time periods. The work assignments for Phase I and Phase II were coded to Job Number TT195. MCDOT may be unable to identify accurately the costs associated with an asset when it is placed into service from these phases.
3. We noted instances where PTG invoiced and was paid for unallowable costs. The costs were related to labor and meals.

Procurement

4. The project was awarded on an “on-call” basis. Work assignments were awarded to PTG that may not have been based on the intent of the Maricopa County Procurement Code, Article 5.
5. Pending Change Order #3 has been drafted which would allow tasks to be awarded on a lump sum basis. Awarding a task on a lump sum basis would not be in the best interest of MCDOT or the County.
6. We noted that there was an error in summarizing the results of the prequalification process. The error did not influence the contract award; however, controls should be in place to ensure that an error does not affect a contract award.

Our detailed observations are noted beginning on page 6 of this report.

This report is intended solely for the use of Maricopa County's internal management and is not intended to be and should not be used by any other parties without the prior written consent of Jefferson Wells International.

Respectfully Submitted,

Jefferson Wells

January 6, 2011

Jefferson Wells

Date

III. Detailed Observations – Funding and Accounting

1. Intergovernmental Agreement

MCDOT entered into an Intergovernmental Agreement (IGA) between the City of El Mirage, City of Glendale, and the City of Peoria. The IGA requires the cities to fund the project sixty days before the funds are committed for any services to be rendered. While funds were received from the Cities of Glendale and Peoria, the City of El Mirage has not submitted any funds. Based on the budget at the time of the IGA, the minimum contribution for El Mirage was \$9,474,600. We were advised that the City of El Mirage did not intend to fund the project. The IGA has not been modified nor does it address this situation.

Recommendation

MCDOT should amend the current IGA between the Cities of Glendale and Peoria to address the parties' responsibilities. In addition, this situation should be communicated to the appropriate individuals within the County to ensure adequate funding for the project exists.

2. Project Accounting

The Program has different phases, which are identified by time periods. For example, Phase I applies to Fiscal Years 2006 through 2010. The work assignments were coded to Job Number TT195, which is for Phase I. The work assignments for Phase II were also posted to TT195. MCDOT may be unable to identify accurately the costs associated with an asset from these phases when it is placed into service.

Recommendation

MCDOT should account for each phase separately.

3. Unallowable Costs

The contract was awarded to PTG on August 5, 2009. PTG invoiced MCDOT for costs incurred prior to the date of the contract award, which the Division Manager approved. MCDOT subsequently discovered and adjusted this. However, we noted that four hours were invoiced for the Project Engineer that was incurred on July 31, 2009. The potential over billing was for Work Assignment A and invoice #1. The amount over billed, at an hourly rate of \$66.17, was \$264.68.

On PTG invoice #7A for the time period January 30, 2010 through February 26, 2010, PTG invoiced MCDOT \$170.94 for meals. The meals included costs for MCDOT employees. PTG advised us that the meals should not have been included in the invoice.

Recommendation

MCDOT should obtain credits from PTG for \$264.68 and \$170.94.

III. Detailed Observations – Procurement

4. On-Call Contract

The PTG contract was awarded on an “on-call” basis. Maricopa County Procurement Code, Article 5 (Code) I.8 Contract Maximums states: “The maximum amount for registered based on-call consultant contracts is \$250,000 for architects and \$500,000 for other professional services. If an on-call contract involving a greater amount of fiscal authority is required, a formal advertisement must be done. The procedures of MCI-504 apply.”

We were advised that the award to PTG complied with Section 2 of Article 5 “Selection and Award of Consultant Contracts exceeding \$250,000 for Architects and \$500,000 for all other Professional Services.” Section 2 sets forth the procedures for fee negotiations. After the successful firm is selected, MCDOT will negotiate the fees with the selected firm. If negotiations cannot be completed, then negotiations will be opened to the next ranked firm. As noted in the Table of this report, fourteen work assignments were negotiated with PTG. Because this is an “on-call” contract, MCDOT may be unable to negotiate with the next ranked firm(s) due to the time lapsed in negotiating additional work assignments.

Additional provisions are within County and state procurement regulations that further provide requirements for consulting contracts with maximums consistent with this Code provision. The contract maximums are established to provide guidelines for fair and reasonable pricing and for adequate internal controls. Therefore, we do not believe that it is the intent of Article 5 to award projects of this nature on an “on-call” basis. As noted in the Table, four work assignments were awarded in excess of \$500,000.

Recommendation

County Procurement Code, Article 5 should be reviewed and modified to clarify the intent of awarding “on-call” professional services agreements. In addition, MCDOT should comply with the intent of the procurement and award future projects of this nature as project specific.

5. Change Order

The Division Manager submitted pending Change Order #3. The purpose of the change order is to “allow lump-sum tasks to be assigned under this Contract whenever the County and consultant agree that a lump-sum task is appropriate.” The current tasks are not-to-exceed based on actual costs, therefore, MCDOT shares in any cost savings or difference between the not-to-exceed and PTG’s actual cost. Converting to a lump sum will not allow or provide for MCDOT or the County to share in any costs savings associated with this form of agreement.

Recommendation

MCDOT should continue to issue time and material tasks with a not-to-exceed amount.

6. Evaluation Process

MCDOT's selection process included a review and evaluation of the proposals and interviews with the selected consultants. We noted an error in summarizing the results of the prequalification process. The error did not influence the contract award; however, controls should be in place to ensure that an error does not affect a contract award.

Recommendation

MCDOT should have an independent verification of the scoring in the evaluation of proposals and interviews.

**AUDIT RESPONSE
ON-CALL MANAGEMENT CONSULTANTS
NORTHERN PARKWAY PROGRAM
March 9, 2011**

Issue #1 – Intergovernmental Agreement

The IGA requires the cities to fund the project sixty days before the funds are committed for any services to be rendered. While funds were received from the cities of Glendale and Peoria, El Mirage has not submitted funds in the amount of \$9,474,600.

Recommendation: MCDOT should amend the current IGA between the Cities of Glendale and Peoria to address the parties' responsibilities. In addition, this situation should be communicated to the appropriate individuals within the County to ensure adequate funding for the project exists.

Response: Concur--in process. The IGA allows the Executive Committee to arrange alternative payment schedules for local contributions and use developer contributions for local contributions. We will obtain written confirmation the Executive Committee has addressed this issue in compliance with the IGA.

Target Completion Date: 9/30/11

Benefits/Costs: Accurate agreement for contract conditions to date.

Issue #2 – Project Accounting

Work assignments for Phase II were also posted to TT195, which is Phase 1. MCDOT may be unable to accurately identify the costs associated with an asset from these phases when it is placed into service.

Recommendation: MCDOT should account for each phase separately.

Response: Concur—in process. We will review options to identify costs associated with phases.

Target Completion Date: 6/30/11

Benefits/Costs: Increased control over accountability and financial reporting.

Issue #3 – Unallowable Costs

PTG invoiced \$265 for four hours for a project engineer prior to contract award. In addition, PTG invoiced \$171 for meals, which included MCDOT employees.

Recommendation: MCDOT will obtain credits from PTG for \$264.68 and \$170.94.

Response: Concur- immediately.

Target Completion Date: 3/31/11

Benefits/Costs: Compliance with contract terms increases accountability.

Issue #4 – On-Call Contract

Contract was awarded on an “on-call” basis, which exceeds the Procurement Code, Article 5 \$500,000 maximum for “on-call” consultant contracts.

Recommendation: County Procurement Code, Article 5 should be reviewed and modified to clarify the intent of awarding “on-call” professional services agreements. In addition, MCDOT should comply with the intent of the procurement and award future projects of this nature as project specific.

Response: Concur in part, do not concur in part. It is correct that the maximum amount for register based on-call consultant contracts for this type of contract is \$500,000. However, this was a publicly noticed procurement pursuant to A.R.S. 34-103. This section of the statute allows for the procurement of a non-architect consultant for an amount more than \$500,000 by the method described in chapter 6 of that title. The section that sets forth those requirements is A.R.S. 34-603. This method of procurement can be used for any type of contract issued pursuant to a public notice.

There was no dollar limit listed in the procurement documents: either the Public Notice or the Request for Qualifications. The contract attached to the procurement was not an on-call contract. There was no indication that this would be limited to \$500,000 in total. In fact, because the procurement officer knew that this would be a multi-million dollar project, the procurement was issued with a Public Notice and a Request for Qualifications. It is presumed, therefore, that the contract would be in excess of \$500,000.

The Department concurs that, in hind-sight, the use of an on-call contract was perhaps not the best method for delivery of these services. The procurement officer, at the time, felt that the structure of an on-call contract best suited the way in which the project manager wished to deliver the services under this contract. At the time of procurement, the scope had not been fully defined and it would have been nearly impossible for the selected program manager to provide a proposal for services when there were unknown quantities at the time of procurement. This contracting method seemed, at the time, to be the best delivery method for the project.

A procedure will be put in place so that Project Managers will be required to provide a well defined Scope of Work to the Procurement Staff prior to publication.

Target Completion Date: June 30, 2011

Benefits/Costs: Compliance with the Maricopa County Procurement Code.

Issue #5 – Change Order

The purpose of pending change order #3 is to allow lump-sum tasks instead of not-to-exceed based on actual costs, whereby the County does not share in any cost savings.

Recommendation: MCDOT should continue to issue time and material tasks with a not-to-exceed amount.

Response: Concur - completed. The MCDOT Contracts Branch did not process change order # 3 as they recognized this issue. There is a notice of rejection for the change order.

Target Completion Date: Completed

Benefits/Costs: Increased control over accountability and compliance with contract terms and conditions.

Issue #6 – Evaluation Process

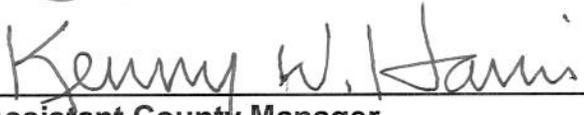
Controls are not in place to prevent errors in summarizing results during the contract prequalification process. However, the error did not affect the contract award.

Recommendation: MCDOT should have an independent verification of the scoring in the evaluation of proposals and interviews.

Response: Concur- in process. An independent verification of the scoring in the evaluation of proposals and interviews will be put in place by the target completion date.

Target Completion Date: 4/1/11

Benefits/Costs: Controls increase compliance with contract terms and conditions.

Approved By:	 _____	<u>3-9-2011</u>
	Department Head	Date
	 _____	<u>3.9.2011</u>
	Assistant County Manager	Date
	 _____	<u>3/10/11</u>
	County Manager	Date