

SEMINOLE COUNTY
DEPT OF ENVIRONMENTAL SERVICES
CONSTRUCTION, ENGINEERING,
AND INSPECTION SERVICES
LIMITED REVIEW OF
CH2M HILL CONTRACT (PS-5190-05/DRR)

REPORT NO. 020708

FEBRUARY 2008

Prepared by:
Internal Audit Division
Clerk of the Circuit Court



MARYANNE MORSE
Clerk of the Circuit Court
Seminole County

February 07, 2008

The Honorable Brenda Carey
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, FL 32771

Dear Madam Chairman:

I am very pleased to present you with the attached limited review of the CH2M HILL Contract (PS-5190-05/DRR).

The review found conditions that warrant management's attention. These conditions and management's corrective action plans are included in the report that follows.

I would like to personally thank the men and women of the Environmental Services Division for their assistance throughout the course of this review. Their assistance was deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

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Prepared by: Internal Audit Division Clerk of the Circuit Court

**Seminole County
Department of Environmental Services
Construction, Engineering, and Inspection Division**

Limited Review of

CH2M Hill Contract (PS-5190-05/DRR)

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a review of the contract between Seminole County and CH2M HILL (PS-5190-05, DRR). This contract is under the management of the Construction Engineering and Inspection Division of the Environmental Services Department.

PURPOSE

The purpose of the review was to determine if the administrative controls over the contract are adequate and operating as intended in compliance with applicable laws, regulations, and other Seminole County policies and procedures. Specifically, the purpose of the audit was to ensure that all payments to CH2M Hill were made in accordance with established terms, conditions, laws, and regulations.

BACKGROUND

In April 2005, the county advertised a Request for Proposal (RFP) for program management services. On March 7, 2006, CH2M Hill was awarded the contract. CH2M Hill's duties include but are not limited to:

1. Establishing a program management team to ensure that the projects are properly coordinated;
2. Validating Construction In Progress (CIP) cost data and assuring that records are being maintained in an organized, complete, and accurate fashion;
3. Performing value engineering review services and providing interpretations of the plans, specifications, and contract provisions;
4. Providing cost estimates, cash flow analysis, and recommendations to the county to resolve disputes in relation to the construction contracts; and
5. Maintaining an adequate level of surveillance of the contractors' activities.

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The consultants are responsible for the professional quality, technical accuracy and the coordination of all plans, studies, reports and other related services. They also act to ensure that the projects are completed in conformity with plans and specifications.

CH2M Hill is also responsible for maintaining records and reporting the status of the projects to the county, and reviewing bids received by major construction contractors.

During the period from May 2006 through September 2007, payments to consultants for these services totaled \$7,127,100.00. The results of the audit are included in the following report.

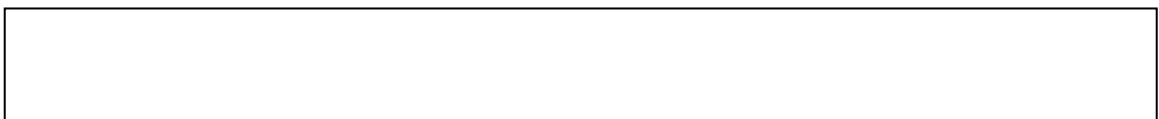
SCOPE

The scope of this audit included a review of the billings and supporting documentation for the period from May 2006 to September 2007. All source documents related to these invoices were subject to review.

The audit included:

- Review of procedures used to ensure compliance with established purchasing policies and procedures, Florida Statutes, and other applicable regulations;
- Review of internal controls to ensure that all payments to the contractors are in accordance with established terms, conditions, laws, and regulations;
- Review of invoices for accuracy, completeness, and timeliness;
- Review of the work order process used by the county to ensure that the awards are fair, consistent, and in compliance with policy;
- Review of the process used by the Environmental Services Division to monitor the firms billings to the county; and,
- Review of the special terms and conditions contained in the contract.

The audit was performed by Bill Carroll and Gail Joubran.



OVERALL EVALUATION

P/S – 5190-05/DPR is a five year, \$49.7 professional services contract. This contract reimburses for cost of temporary employee relocations, travel expenses, meals, business conference luncheons and other related expenditures. As such, more pre-award planning should have been required to make certain that the financial controls over the contract were adequate, payments made to the CONSULTANT were accurate and sufficiently supported and in compliance with the terms and conditions of the contract. For instance, written policies and procedures and/or a formal agreement regarding the financial controls should have been agreed to with the CONSULTANT prior to the start of the program.

The following conditions warrant management's attention:

- County Manager's Policy and Procedure Manual Section P (Professional Services and Work Orders) is not being complied with;
- There are no written policies and procedures or formal agreement regarding "reimbursable expenses";
- No formal agreement exists regarding the costs covered by the "multiplier" within the negotiated rates; and,
- Possible violations of Administrative Code Policy 105.0.

Our detailed findings and recommendations are included in the following report.

FINDING NO. 1

County Manager's Policy and Procedure Manual Section P (Professional Services and Work Orders) is not being complied with.

Section 3 of the contract states:

"Authorization for performance of professional services by the CONSULTANT under this agreement shall be in the form of written work orders issued and executed by the county and signed by the CONSULTANT."

Twenty work orders have been issued to date; four as "Time Basis", the other 16 as "Fixed Fee".

The County Manager's Policy Manual suggests that staff should issue work orders on a cost reimbursable basis (i.e., Time Basis Method) if the scope of work is not clearly defined. Based on the work orders reviewed, it appears that much of the work falls within this definition. However, a majority of work orders, awarded to CH2M Hill were fixed priced, even though county policy recommends using the

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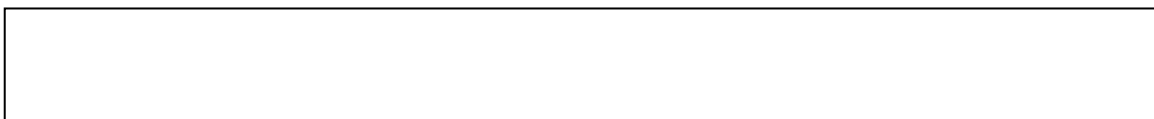
Time Basis Method. For these work orders, CH2M Hill is paid a percentage of its fee when it accomplishes a scheduled milestone (i.e. deliverable). We also found some minor inconsistencies with the terms, conditions, and administration of the work orders. Some did not have completion dates, others CH2M Hill continued to bill even though the completion dates had past.

The County Manager's Policy Manual provides the following guideline for issuing work orders:

- (a) **Fixed Fee Basis** – “If the Scope of Services is clearly defined. The amount of reimbursable expenses must be included in the fixed fee amount. Backup shall be submitted by the labor categories and rates in the Master Agreement to support the recommended fixed fee.”
- (b) **Time Basis Method** – “for Scope of Services that cannot clearly define the extent, cost or duration of the work. If a not to exceed amount is provided, the Consultant shall perform all work required by the Work Order, but in no event, shall the Consultant be paid more than the not to exceed amount specified in the applicable Work Order. “
- (c) **Time Basis Method with Limitation of Funds** – “For Scope of Services that cannot clearly define the extent, cost, or duration of work. The Consultant(s) is not authorized to exceed that amount without the prior written approval of the county. Said approval, if given by the county, shall indicate the new limitation of funds amount. The Consultant (s) shall advise the county whenever the Consultant(s) has incurred expenses on any Work Order that equals or exceeds eighty percent (80%) of the limitation amount.”

By not following policy, the county is placed in a less than favorable financial position. As a hypothetical example, if Work Order #20 (a \$20 million fixed priced order) was suddenly cancelled, it might get very complicated as what is owed CH2M Hill. There might be possible billing and tracking issues to be considered. Thus, the county might end up paying more than the cost of the work actually completed. Nevertheless, although it is our opinion, the work orders are a binding contractual arrangement that both the county and CH2M Hill are required to comply with.

Complying with policy ensures that contracts and work orders are consistently administered.



Recommendation

On future professional services contracts, the county should follow its own guidelines in the County Manager’s Procurement policy manual.

Management Response

Management concurs with this recommendation. However, this finding suggests partial noncompliance with the County Manager's Policy and Procedure Manual as it applies to defined scopes (fixed fee). We do not concur with this interpretation and would like to offer a rebuttal to the finding with a demonstration of existing program control measures.

County Manger’s Policy guidelines stipulate a **fixed fee** contract if a scope is **defined** and time basis if the scope "cannot clearly define the extent, cost, duration of the work..."

The Master Agreement for Program Management Services, PS 5190 is clearly defined in its extent as it was presented in the RFP and subsequently in the executed contract. From the onset of the solicitation the scope states “Seminole County is seeking a Consultant to provide program management services to assist with the delivery of the county’s capital improvement program (CIP).” The county’s CIP program is a long established program with a rolling 5 year CIP plan. This 5 year CIP plan is derived from periodic updates to the Utility Master Plan and hydraulic models. The extent of the scope is bounded and rooted in these projects. The scope of services further elaborates the intended services and deliverables by listing applicable components. We would like to reference two of the listed bullets.

First is the second bullet in the list, which states “validate CIP project scopes and cost data with optimization tools”. The other is the fifth bullet down that delineates “Develop and maintain detailed program master schedules”. Both of these tasks were completed in the first Work Order issued 3/15/2006, which was Time Basis Limitation of funds. From the deliverables of this first work order, one is able to confine all subsequent work orders to the extracted cost and duration from the master schedule and validation report as submitted to the bonding agent. Therefore, the scope for all work orders issued as fixed fee can be clearly presented and monitored for delivery performance.

To demonstrate the monitoring of the performance, we offer the following response to the hypothetical example cited in the finding "WO 20". The report states "if WO #20 was suddenly cancelled, it might get very complicated as to what is owed CH2M HILL. There might be possible billing and tracking issues to be considered".

We have attached 3 key tracking tools (production schedule by PM, auditable control points graph, production sign off sheet) used in the program. The first is the production schedule. This schedule is an excerpt from the master schedule for a group of CIP's assigned to an individual County Project



Manager (PM). Every two weeks this production schedule is updated in a work session with the Project Managers (PM), Construction Managers, Design Managers, and Schedule Data Trackers. County PMs determine the level of progress and dictate the approved percent complete correlating to the auditable control points (second attachment). This information is then recorded on the production sign-off sheet (attached). These key tools roll up into the program performance which is then summarized in monthly reports submitted with the invoice. An invoice is not processed for payment unless this status report is submitted and validated. Every invoice must have a status report and each county PM is responsible for validating the listed status. Therefore, if WO #20 were to be canceled, a clear and definitive line of progress can be made and payment would only be for what has been recorded.

Auditor Comment

Management has the responsibility for the successful completion of this project and we respect their expertise in project management. Management has determined through a professional evaluation of the project that the rate payers and taxpayers of Seminole County would be better served issuing work orders on a fixed price basis.

FINDING NO. 2

There are no written policies and procedures or formal agreement regarding "Reimbursable Expenses".

The contract does not address all of the special circumstances that pertain to a long term professional services contract. In particular, reimbursements for temporary employee relocations, travel expenses, meals, business conference luncheons and other related expenditures.

Section 6 of the contract states "Reimbursable Expenses may include actual expenses made by the CONSULTANT, his employees or his professional associates in the interest of the Project for the expenses listed in the following paragraphs:

- (a) Expenses of transportation, when traveling in connection with the Project, based on Sections 112.061(7) and (8) or their successor; long distance calls and telegrams; and fees paid for securing approval of authorities having jurisdiction over the project
- (b) Expense of reproductions, postage and handling of drawings and specifications.

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(c) If authorized in writing in advance by the county, the cost of other expenditures made by the Consultant in the interest of the project”

In other words, if the expense does not fall under (a) or (b), a written authorization by the county is required. On a regular basis, expenses were included in monthly billings from CH2M Hill that were not pre-approved in writing as required in (c) above.

It was and is not unusual for CH2M Hill employees to host a business luncheon and/or dinner and then bill the county. There is nothing in the files to support advance approval. Expenses submitted by CH2M Hill for “Reimbursable Expenses” were not adequately supported with appropriate backup.

Additionally, on certain occasions, expenses were submitted with no names of attendees on the receipts. An itemized receipt from the restaurant was often not included showing what was actually purchased. By not having an itemized receipt from the restaurant, it is difficult to determine the reasonableness of the expense.

On April 24, 2006, a CH2M Hill employee submitted an expense for dinner at the Chart House for \$165.00. There was no itemized receipt submitted showing what was purchased, how many people attended or who attended the dinner. Without this it is very difficult to determine if the expense was reasonable. On April 10, 2006 another dinner expense for \$98.48 was submitted without justification (i.e., no names, number of attendees, business purpose).

These are examples of the types of issues that should be addressed in a formal written agreement between CH2M Hill and the county.

Having a written agreement ensures both county and consultant are in agreement as to what is reimbursable and what is required for back up documentation. Also, it ensures that there is no misunderstanding between the consultant and county as to reimbursable expenses.

CH2M Hill has reversed many of the expenses paid by the county that might have been considered inappropriate.

Recommendation

Establish a written agreement (i.e. memorandum of understanding) between county and CH2M Hill regarding “Reimbursable Expenses”. The memorandum should include the agreed reimbursable costs and approval requirements. Also, should address the back up documentation required to receive timely reimbursement by county.



Management Response

Management concurs with this recommendation. Environmental Services has instituted both pre-approval and invoicing processes with the Consultant in order to ensure that services are authorized and invoiced in compliance with county requirements. In October 2007 at management's directive, the Consultant issued Program Instructions to their staff including guidance regarding proper documentation of allowable expenses charged to the program. CH2M HILL has conducted an internal review of prior invoices and identified and credited to the county those items deemed to have been incorrectly billed.

Environmental Services and the Consultant will execute a Memorandum of Understanding (MOU) delineating acceptable reimbursable expenses for work orders issued under the master services agreement. The formal authorization of these agreed-to services will accompany the MOU. For the expenses noted in Finding No. 2, namely the \$165.00 and \$98.48 charges, were reimbursed in a credit invoice from CH2M HILL.

FINDING NO.3

No formal agreement exists regarding the costs covered by the "multiplier" within the negotiated rates.

During the negotiation process, the county and CH2M Hill agreed on a "multiplier" to be added to raw labor rates. Although we believe the intent of the "multiplier" added to the raw labor rates is to cover the consultant's indirect costs, there is nothing in the contract or other signed agreement which formally defines the costs that are to be included within the multiplier.

Indirect costs by definition are those costs that are not identifiable with a specific product, function, or activity. In other words, it could be an employee who supports multiple clients and activities but the hours associated with each client are not identifiable. An example might be an accountant who processes payroll and expense reports, or balances the general ledger. Another example is a department secretary who handles multiple administrative duties. Indirect costs are costs that have no direct association with one particular project. It is just too difficult for an employee to guess how much of his or her time should be allocated to a particular project.

It is very common for CH2M Hill employees within the home office to charge time in very small increments such as 1/10th, 3/10th, 2/10th, of an hour. We believe these employees might already be covered by the multiplier. One tenth of an hour is six minutes, three tenths of an hour is eighteen minutes etc. It is difficult to visualize what significant work is accomplished in 6, 12, or 18 minutes.

Administrative costs should not be charged to county as a direct cost.

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By not having the “multiplier” clearly define covered costs, it is difficult to ascertain from an audit perspective the costs that can be billed to the contract.

Recommendation

We recommend that on future contracts the multiplier be formally defined within the contract.

Management Response

Management concurs with this recommendation. All future professional services contracts with multipliers should be more clearly defined during negotiations and contract development. As this is a Purchasing Division recommendation, we request Administrative Services Department/Purchasing Division provide separate concurrence on this finding recommendation.

FINDING NO. 4

Possible violation of Administrative Code Policy 105.0.

Administrative Code 105.0 (1) states:

“Members shall not solicit or accept any gift, either directly or indirectly, from any person or entity doing business with, regulated by, or seeking to do business with the county, or from the agent or lobbyist of any such person or entity. Members who are uncertain about accepting gifts should request an advisory opinion as set forth in the Code.”

Administrative Code 105 (2) states:

“Gift means any gratuity, benefit, or any other thing which is accepted by, or given to a member or another on the member’s behalf, either directly or indirectly, and includes by way of illustration and not limitation, the following:

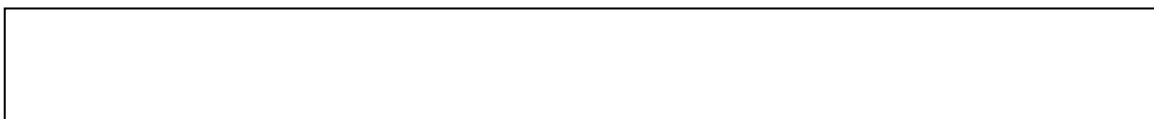
(a) Real property and/or the use thereof;

(f) Food or beverage;

(k) Any and all other similar goods or services having value not already provided for in this definition.”

In addition to these sections, 105(5) provide “Exceptions Regarding Gifts”:

- (a) When a members duties and responsibilities include attendance (such as a speaker or program participant) at business, industry or public luncheons or dinner meeting with public, industry, or business committees, organizations, or associations and these meeting are related to county business, members may participate. When a meal is provided at the function, the member is authorized to accept the meal.*



(b) Members authorized to attend meetings, seminars, conventions, etc., sponsored by professional organizations are free to participate in the social functions that are part of the meetings or sanctioned by the host.

Expenses submitted to county by CH2M Hill for reimbursement indicate that some Seminole County employees were, on a regular basis, guests of CH2M Hill at business lunches, dinners, and conferences.

On one receipt for \$235.00, two CH2M Hill employees invited a Seminole County employee and his wife out for dinner. The receipt indicated that it was for a “5yr program management kickoff”. There was also a receipt in the file for \$173.00 for beer and wine purchased from Albertsons; we believe it was for entertaining a group of people.

There are certain occasions when a “working luncheon” might be appropriate especially if it involves out-of-town attendees who are on an unyielding schedule. County policy encourages employees, however, to avoid those situations that might present a conflict of interest as some employees are in positions of authority.

Complying with county policy ensures that employees are not subject to compromising positions and are as independent as possible in both **fact and appearance**.

Recommendation

A memorandum to Department Directors should be issued reiterating policy.

Management Response

Management concurs with this recommendation.. The Environmental Services Department, including the PEI Division, does not have the authority to issue memorandums reiterating county policies to other county departments. Any memorandum reiterating county policies to department directors should be issued by the County Manager.

For the specific expenses identified in Finding No. 4, the \$235.00 charge has already been reimbursed by CH2M HILL in a previously issued credit invoice. The \$173.00 charge will be credited on a forthcoming credit invoice. Going forward, the PEI Division will abide by all County Administrative Code policies especially those pertaining to gifts, meals, etc. as stipulated in Administrative Code 105.

