

Audit Report



Sam M. McCall, CPA, CGFM, CIA, CGAP
City Auditor

“Audit of the City’s Contract with MasTec Energy Services, Inc.”

Report #0520

March 10, 2005

Summary

This audit reviewed City payments to MasTec Energy Services, Inc., (MasTec) during the period October 1, 2001, through July 30, 2004. Our objectives were threefold: (1) to determine that payments made to the contractor were correct, for completed work, timely, and properly recorded in the financial records of the City; (2) to determine whether the City had proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments; and (3) to determine whether the contractor’s quality assurance program and inspection system were effective and acceptable to the City.

During the audit period, the City made 1,216 payments to the contractor totaling \$9,237,360. For our audit testing, we randomly selected 50 transactions (\$298,677) and judgmentally selected four transactions (\$293,353) totaling \$592,030. This represented 6% of the total amount of the payments made to the contractor.

Based on our audit, we provide the following conclusions:

- For the sample transactions that we reviewed, payments to MasTec were correct and were properly recorded in the financial records of the City.
- Our on-site review of six work sites representing \$56,537 or 10% of the sample transactions (three Electric and three Gas) showed that payments to MasTec were for

completed work.

- We could not determine whether the City’s payments to MasTec were made timely as the invoices sent directly to the City’s user departments were not consistently date stamped when they were initially received, rejected, or when corrected invoices were received. We recommend the departments consistently date stamp invoices when: received; rejected and returned to contractor; and received corrected from contractor. Adequate documentation should be retained to support any delays in payment to the contractor.
- The City had proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments.
- MasTec was requested but could not provide required documentation to support the existence of a quality control program or inspection system. City inspectors were, however, satisfied with the quality of MasTec’s completed work, as evidenced by notes and comments documented in City daily inspection reports, “as built” drawings, and project files.

During our audit, we also noted other process related issues that were not significant to our audit objectives. We discussed these issues and the related recommendations with management for their consideration and disposition.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

Scope, Objectives and Methodology

The scope of this audit included a review of contract payments the City made to MasTec Energy Services, Inc., (MasTec) for the work the City assigned them for the provision of underground gas and electric utilities services during the period October 1, 2001, through July 30, 2004.

The objectives of this audit were to determine whether: (1) payments made to the contractor were correct, for completed work, timely, and properly recorded in the financial records of the City; (2) the City had proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments; and (3) to determine whether the contractor's quality assurance program and inspection system were effective and acceptable to the City.

To address the stated audit objectives, we performed the following procedures.

We reviewed relevant contract documentation, including the City's request for proposal for the provision of underground gas and electric services, the City's Prompt Pay Policy (#APP 501), the prompt payment requirements of Section 218.735, Florida Statutes, and the contract between the City and MasTec.

We reviewed expenditure records on file in the PeopleSoft Financial Management System (Financial System), payment records and contractor invoices in the Electronic Data Management System (EDMS) maintained by the Office of the Treasurer-Clerk, and we reviewed departmental administrative and

project management files containing detail records of work issued to and completed by MasTec.

We obtained an understanding of the City's procedures for planning, approving, and assigning work to the contractor, inspecting the completed work, and processing contractor invoices for payment by interviewing: Procurement Services staff within the Department of Management and Administration; Electric Utility staff (Hopkins Plant, Power Engineering, Transmission and Distribution – Operations and Maintenance Divisions); Gas Utility staff (Administration and Transmission and Distribution Divisions); Traffic Systems Division staff within the Public Works Department; and managers with MasTec.

We also visited selected completed work sites to verify the work performed by the contractor and verify the accuracy of the billing.

During the audit period, the City made 1,216 payments to the contractor totaling \$9,237,360. For our audit testing, we randomly selected 50 transactions (\$298,677) and judgmentally selected four transactions (\$293,353) totaling \$592,030. This represented 6% of the total amount of the payments made to the contractor.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, as appropriate.

Background

The City's Utility Services departments contract with MasTec for installation of underground utility materials and services. If City utility crews were used, it would require additional staffing, training, and significant capital investment in equipment. The Gas Utility Department relies on MasTec to provide trenching and boring equipment and labor to

prepare the ground for installation of gas pipeline and fittings that they provide to relocate or extend gas mains and install gas service taps for new and existing residences and commercial dwellings. The Gas Utility Department does not have equipment or staff to perform these services. The Electric Department primarily contracts with MasTec to install conduit for underground electric utility services and will also assign work related to street light repairs. The contract permits the Electric Department to consider costs, staffing, and scheduling when planning their work and assigning work to MasTec. The City's Traffic Systems Division of the Public Works Department has also used MasTec to install conduit in the ground for installation of communications wiring.

The City issued the contract to MasTec to provide installation of underground utilities services on September 24, 2000, after evaluating bids received in response to a request for proposal. The contract was for a three-year period from September 24, 2000, to September 23, 2003, with an option to the City to extend the contract for two one-year periods on September 24, 2003, and September 24, 2004. The City exercised its options to extend the contract for both one-year periods; the current contract expiration date is September 23, 2005. The contract was issued with an estimated expenditure of \$17 million over the five-year contract period.

For the period of October 1, 2001, to July 30, 2004, the City made 1,216 payments to MasTec totaling \$9,237,360, as shown in Table 1 below.

Table 1
Analysis of Payments

Department	Number of Transactions	Amount of Transactions
Gas	714	\$ 5,018,235
Electric	491	\$ 4,161,518
Other	11	\$ 57,607
Total	1,216	\$ 9,237,360

In the City, there are various departments responsible for the different contract stages and activities. Procurement Services is responsible for facilitating the development of the contract, being the contract administrator, monitoring the contract, and facilitating the payment of contractor invoices (Accounts Payable). Departments that use City contracts also have responsibilities related to procurement of contractual services, receipt, and approval for payment.

**Audit Results,
Issues, and Recommendations**

Objective 1 – whether payments made to the contractor were correct, for completed work, timely, and properly recorded in the financial records of the City.

Our audit showed that for the sample of transactions that we reviewed, payments to MasTec were correct and were properly recorded in the City's financial records.

We visited six work sites representing \$56,537 or 10% of the sample transactions (three Electric and three Gas), and we noted that payments to MasTec were for completed work.

We could not determine whether the City's payments to MasTec were made timely as the invoices sent directly to the City's user departments were not consistently date stamped when they were initially received, rejected, or when corrected invoices were received.

The MasTec contract states that it is the policy of the City of Tallahassee to fully implement the provisions of the State of Florida Prompt Payment Act (Florida Statute Section 218.70). The State Prompt Payment Act refers to State of Florida Statute Section 218.74(1) that requires the City to date stamp the contractor invoices when received by the City. Florida State Statute also requires the City to communicate to the contractor in writing those

items on the invoice that need correcting. This requirement in State law implies that the City should have written record of when notice was given to MasTec in writing that the invoice needed to be corrected, what needed to be corrected, and when the corrected invoice was received. We found that departments did not consistently date stamp invoices when received, rejected, and received corrected. We also found that departments had not consistently retained written documentation that showed the City's communication to MasTec of those items on the invoice that needed correcting.

Without date stamps on invoices and written documentation of what needed correcting on invoices, the City is at risk of not paying invoices timely and may owe interest to the contractor. Absent documentation, the City has no written record to support delays in payment to a contractor.

To address these issues, we recommend that: 1) invoices should be consistently date stamped when: received; rejected and returned to contractor; and received corrected from contractor; and 2) that adequate documentation be retained to support any delays in payment to the contractor.

Objective 2 – whether the City had proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments.

Our audit showed that City departments have a proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments.

Objective 3 – whether the contractor's quality control program and inspection system were effective and acceptable to the City.

Our audit procedures included reviewing MasTec's inspection system and quality assurance program, as well as the City's inspection records.

Subsection 4.7., "Evaluation of Services – Fixed Price, paragraph (b)" of the contract states that: "The contractor shall provide and maintain a quality control program acceptable to the City covering the services under the contract. If requested, complete records of all quality control work performed by the contractor shall be maintained and made available to the City."

Subsection 4.8., "Inspection of Supplies – Fixed Price, paragraph (b)" of the contract states that: "The contractor shall provide and maintain an inspection system acceptable to the City covering supplies under this contract and shall tender to the City for acceptance only supplies that have been inspected in accordance with the inspection system and have been found by the contractor to be in conformity with contract requirements. As part of the system, the contractor shall prepare records evidencing all inspections made under the system and the outcome. These records shall be kept complete and made available to the City during contract performance and for as long afterwards as the contract requires."

During our audit, we found no evidence that City departments requested MasTec to provide their records of quality control work. MasTec management, when requested, was not able to provide records that showed evidence of their inspections or quality control program. MasTec management noted that creation and submission of an invoice to the City was their written record that the work had passed their internal inspection process.

Since MasTec was not able to provide records that showed evidence of their inspections or quality control program, we reviewed City inspector daily inspection reports and their notes on the “as built” drawings of individual projects to determine whether the number of “punch list” items for projects assigned to MasTec showed evidence of the quality of workmanship MasTec’s staff provided the City. Based on that documentation, we concluded that City departments were satisfied with MasTec’s quality of work.

If future contracts include language as shown in Subsections 4.7 and 4.8 above, we recommend the City clarify what is expected when requiring a contractor to “provide and maintain” a quality control program and inspection system.

Other Process Related Issues

Additionally, other process related items came to our attention that were not significant to our audit objectives in the areas of prompt payment policy, procuring of goods and services, and contract administration. We have discussed these issues and the related recommendations with management for their consideration and disposition.

Conclusions

Overall, for the transactions included in our audit testing, we are able to provide assurances that the payments to MasTec were correct, properly recorded in the financial

records of the City, and for completed work as evidenced by inspection reports. In addition, we determined that the City had implemented proper segregation of duties between individuals for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments.

We did note that improvements could be made to ensure that departments consistently date stamp invoices when: received; rejected and returned to contractor; and received corrected from contractor; and retain adequate documentation to support any delays in payment to the contractor. Additionally, future contracts should clarify what is expected when a contractor is required to maintain and document its quality control program and inspection system.

We would like to acknowledge the full and complete cooperation and support during this audit of Procurement Services staff, Electric Department staff, and Gas Department staff.

Response from Appointed Official

City Manager:

I appreciate the thoroughness of the audit related to our contract with MasTec Energy Services. The overall conclusion indicated that all payments were proper and for completed work. Staff will consider all recommendations to improve the process. I want to thank the City Audit staff for their diligent work.

Copies of this Audit Report #0520 (project #0410) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Report prepared by:

Jerry L. Edwards, CIA, CCSA, CGAP, Senior Auditor

Beth Breier, CPA, CISA, Audit Manager

Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor

Appendix A - Action Plan

Action Steps	Responsible Employees	Target Date
A. Timely Payment of Invoices		
1. Responsible department(s) should adequately date stamp invoices when: received, rejected and returned to contractor, and received corrected from contractor.	Joseph Love, Accounts Payable	9/30/05
	Mike Tadros, Gas Utility	9/30/05
	Betty Armstrong, Electric Utility	9/30/05
2. Responsible department(s) should retain adequate documentation to support any delays in payment to the contractor.	Joseph Love, Accounts Payable	9/30/05
	Mike Tadros, Gas Utility	9/30/05
	Betty Armstrong, Electric Utility	9/30/05
3. Ensure that applicable future contracts include adequate wording to clarify what is required of contractors to provide and maintain an acceptable quality control program and inspection system.	Cathy Davis, Procurement	9/30/05