

**OFFICE OF
INSPECTOR GENERAL**

Brandon J. Patty

Clerk of the Circuit
Court and Comptroller

St. Johns County, Florida



PUBLIC WORKS DEPARTMENT

*Internal Audit: Construction Contract
Management Process*

REPORT NO. 2020A-02
September 30, 2020

Curtis Evans Jr. CPA, CIG, CFE
Inspector General



Brandon J. Patty
St. Johns County Clerk of the Circuit Court and Comptroller

4010 Lewis Speedway, Saint Augustine, Florida 32084
Office: (904) 819-3600 Fax: (904) 819-3661

TO: Neal Shrinkre, Director, Public Works
Greg Caldwell, Assistant Director, Public Works

FROM: Curtis Evans Jr., Inspector General

SUBJECT: Audit of the Public Works Construction Contract Management Process

DATE: October 9, 2020

Pursuant to the Inspector General's Comprehensive Audit Plan for Fiscal Year ending September 30, 2020, I hereby submit the internal audit report for the St. Johns County Public Works' construction contract management process. The primary objective of this audit was to determine if controls over monitoring construction projects, including change orders and contract amendments, are in place and operating effectively in compliance with County policy.

We determined that the Public Works department's controls over contract monitoring and change orders/contract amendments are generally adequate for the construction contract management process; however, opportunities exist for improving and strengthening the Public Works' contract management process. Our recommendations are included within the attached report.

We appreciate the fine level of assistance provided by management and staff of the Public Works department and the cooperation of the Purchasing department in completing this audit.

Respectfully Submitted,

Curtis Evans Jr.
Inspector General

Approved:

Brandon J. Patty
Clerk of the Circuit Court and Comptroller

CC: The Honorable Chairman and Members of the Board of County Commissioners
Hunter S. Conrad, Esq., County Administrator

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Background.....	1
Objective.....	2
Scope.....	2
Methodology.....	2
Overall Conclusion	3
OBSERVATIONS & RECOMMENDATIONS	4



INTRODUCTION

Background

The St. Johns County (SJC) Public Works Department (PWD) consists of six divisions, which includes Information Systems, Solid Waste, County Engineering, Road and Bridge, Administration, and Fleet Maintenance. PWD is responsible for engineering services and project management relating to construction and maintenance of streets, roadways, sidewalks and other public right-of-ways within the County. PWD Engineering also manages engineering and construction of all facilities (buildings) Countywide including design, permitting and construction for capital projects for several departments including Fire Services, Parks and Recreation, Sherriff's Office, Library, and the Amphitheater. Additionally, PWD is responsible for solid waste management, drainage maintenance and traffic engineering and management.

In terms of asset management, PWD's responsibilities include the following:

- Over 950 miles of roadway
- Over 250 miles of drainage pipes
- Over 2,000 acres of maintained landscape
- 143 traffic signals
- Over 34,000 signs
- Over 200 street lights
- Over \$100 million in CIP annually
- Garbage collections, disposal, recycling to over 200,000 residents
- Servicing of over 1,000 vehicles and equipment Countywide
- Over 12,000 work orders annually

For the scope of our audit, we focused on the Engineering division, which has the highest volume of construction contracts for PWD. The Engineering division is comprised of five units, which includes:

Right of Way Management
Traffic Operations
Capital Improvement Projects (CIP)

Planning
Facilities and Special Projects (also referred to as Construction Services)

We noted during our audit that as SJC continues to experience significant growth, PWD faces a multitude of challenges with project delivery. There has been a major challenge with PWD recruiting and retaining quality staff while still needing to meet service expectations and protecting County facility and equipment investments, operating in some cases with unrealistic timelines for project delivery. More specifically, there has been a high rate turnover in leadership positions within the Engineering division within recent years, (3 county engineers in the past 5 years). A couple of key engineering positions, which had been vacant for a long duration of time, were newly filled near the end of the audit. A trend of inclement weather has also severely impacted the progress of construction projects resulting in delays in project delivery and posing a challenge with balancing quality versus quantity as the County has experienced back to back hurricanes within the more recent years. Furthermore, PWD provides support to SJC Emergency Management during situations including storms, natural disasters and



other incidents that may threaten public safety, which may require a shift in resources and often, there is no warning of such emergencies.

Objectives

The primary objectives of this audit were to:

- Determine if PWD controls over monitoring construction projects are in place and operating effectively, in compliance with the SJC Purchasing Procedure Manual (PPM), and
- Determine if PWD controls over change orders and contract amendments are in place and operating effectively, in compliance with the SJC PPM.

Scope

The scope of the audit included construction contracts, change orders and contract amendments issued for projects administered and performed by the Engineering division during the period October 1, 2017 to March 31, 2020.

Methodology

Our audit methodology consisted of three phases:

- **Planning:** Audit procedures were developed based upon research, audit objective, scope and the preliminary meetings.
- **Field Work:** Preliminary observations and findings were discussed. Evaluations and tests were conducted to complete audit fieldwork.
- **Reporting:** audit observations and recommendations were discussed with management and audit report was finalized.

Planning

Audit procedures were developed based on the following:

- Obtaining an understanding of the policies and procedures over authorization of construction projects and amendments/change orders as stated in the SJC PPM.
- Examining construction contract backup and support documents to gain an understanding of the contract requirements.
- Obtaining an understanding of PWD's construction project monitoring and closeout processes, and related internal controls, through performing process walkthroughs, interviews with Duane Kent, County Engineer, and respective Project Managers, and inspection of supporting documents for the following contracts:
 - Bid Number 19-65 St. John's County Public Driveway
 - Bid Number Misc. 18-78 Longleaf Pine at CR244
 - Bid Number 16-49-03 Countywide Roadway Striping Services



- Obtaining an understanding of PWD’s construction project payment processes and related internal controls by performing a process walkthrough, including inspection of supporting documents and interviews with Joan Anderson, Project Specialist.
- Obtaining an understanding of the segregation of duties related to the contract management process.

Fieldwork

Our fieldwork procedures involved the following:

- Testing a sample of 25 contracts, contract amendments and change orders for proper authorization in accordance with the SJC PPM.
- Testing a sample of 25 progress/final payments for proper authorization.
 - Amounts were agreed to underlying support in executed contract, schedule of values and contractor invoices.
- Testing a sample of 25 contracts, contract amendments and change orders, including inspection of project related supporting documentation, to determine if controls related to construction contract project monitoring are effective through the review of:
 - Project files, pre-construction agenda/meeting minutes, notice to proceed and schedule of values
 - Correspondence, progress reports/meetings and inspection reports and payment applications
 - Substantial completion records, punch lists, final payments and closeout documents
- Inquiring of select staff within the department about their knowledge of suspected or actual fraud, as discussed during the audit planning meeting regarding the consideration of fraud.

Reporting

We summarized and discussed our observations and recommendations with management and incorporated their responses into our report.

Overall Conclusion

We determined that PWD's controls over contract monitoring and change orders/contract amendments are generally adequate for the PWD construction contract management process. However, opportunities for improvement exist for enhancing the PWD construction contract management process. Our audit observations and recommendations are included within the section below.

This audit was not designed or intended to be a detailed study of every relevant procedure, transaction or system. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement is needed.



OBSERVATIONS & RECOMMENDATIONS

Our audit identified the following practices, policies and procedures that could be improved:

1. Construction Contract Monitoring Policies and Procedures

While PWD has written procedures for the pavement management program, it does not have final, formal, written procedures in place for monitoring construction contracts. According to PWD management, the department is in the process of developing formal, written procedures, in which management provided the OIG with a draft of PWD's project management/contract monitoring guidelines and a draft of PWD's engineering project checklist that was in progress during the audit.

Without formal written contract monitoring policies and procedures, the department must rely on employees' institutional knowledge or customary practices to carry out day-to-day responsibilities. Having proper policies and procedures in place can help the department ensure that: (1) effective internal controls are in place; (2) internal controls are operating as intended; and (3) department personnel are performing their duties consistently, to reduce the risk of financial loss and contract noncompliance.

Policies and procedures that address the department's current functions and processes are recognized as good operating practices. Formal, written procedures would provide the department with the assurance that every person involved in a process is aware of the tasks that are to be accomplished and the acceptable methods to be used in performing those tasks.

Furthermore, formal, written procedures provide an effective mechanism for: (1) training new employees, (2) evaluating existing personnel performance, and (3) facilitating a smooth transition at the time of a change in personnel. The department's ability to ensure a smooth transition is particularly important due to the significant turnover in leadership positions.

We recommend management:

- A. Create a formal policy that establishes guidelines for monitoring contracts. The policy should define and use criteria such as contract value dollar amount, duration of a project, type, and complexity of project, to establish guidelines for the level of monitoring and documentation required for a project.
- B. Complete and finalize the draft procedures pertaining to construction contract management process.



Management's Response:

- A. *Over the past 8 years, our Capital Improvement workload has increased from approximately \$20 million (2012) to over \$100 million (2021) annually (further challenged by back to back hurricanes in 2016 and 2017). As pointed out in your summary, PWD management acknowledges your recommendations that formal construction monitoring policies & procedures will help provide a consistent and accountable system that allows PWD management to set necessary expectations of their staff and allow proper monitoring.*
- B. *As discussed through the audit process, we are working diligently to programming these formal policies and procedures including a Project Management Plan (PMP)*

2. Documentation of Pre-construction Meetings

During testing of documentation relating to pre-construction meetings, we noted six instances where pre-construction documentation was not provided and the explanation provided by the department was that pre-construction meetings were not applicable in those cases. There is no formal policy and written procedure that establishes when pre-construction meetings are required or guidelines with regard to the expectations for documenting pre-construction meetings.

We also noted one instance for Contract 18-49 (Installation & Implementation of Access Control Security System at SJC Detention Center) with a contract value of \$4,069,303.02 where the pre-construction meeting was not documented. Based on review of an email dated 11/26/19 with the subject 'Kick off meeting jail controls' that was provided by the department, an on-site meeting for the contract, which was executed on 11/25/2019, was scheduled for 12/02/19. However, no other documentation from the meeting itself, such as a meeting agenda, minutes or other records was provided for review.

We recommend management:

- A. Develop a policy to define when pre-construction meetings are required (e.g. contract values over a certain threshold and/or the duration of the contract). Written documentation of the meeting should be maintained, including, date, time, location and those present.

Consideration should be given to developing and utilizing a standard template for pre-construction meetings. Also, for small-value contracts or those of very short duration, while an in person meeting may not be necessary, consideration should be given to the scheduling of a telephone conference to allow the opportunity for questions and to clarify and resolve any potential misunderstandings.

Management's Response:

- A. *It is our general position that pre-construction meetings should be held for every construction project. This requirement is clearly noted in our bidding documents. However,*



Brandon J. Patty
St. Johns County Clerk of the Circuit Court and Comptroller

we acknowledge your recommendations on the need of procedures and formal communication to staff via training that clarify when pre-construction meetings may not be needed.

The Contract 18-49 was an isolated occurrence that staff has acknowledged the mistake. A pre-construction meeting was held, however, documentation was only made via an email. We acknowledge the error.

3. Documentation of Contract Monitoring Processes

Overall, PWD maintained sufficient documentation demonstrating that monitoring activities were conducted for the contracts tested, however, there were a few instances where documentation was not available for testing and could be improved. During testing, we noted that the following documents were missing or could not be located:

- Four instances of documentation supporting the monitoring of contract time to ensure projects are completed timely and identify any potential assessment of liquidated damages, and
- Two instances of documentation for progress meetings.

We recommend management:

- A. Evaluate the current procedures for document retention, establish a consistent systematic contract file inventory for contract monitoring activities, and implement a formalized process, whereby construction monitoring documents can be efficiently accessed to support required internal control processes being performed.

Consideration should be given to utilizing the project meeting template that management exhibited during the audit kick off meeting as a standard template for progress meetings, whenever applicable.

Management's Response:

- A. *We acknowledge the recommendations.*

4. Document Review Related to Progress Payments

During testing, there was one instance for contract 18-05-12 (Task Order# 5- Repair/ Replacement of Necessary Components of Micklers Weir) with an original contract value of \$611,167.50, whereby the contractor's final request for payment did not properly reflect a deductive change order of \$73,750 on the County's Request for Payment form.



Although the final payment was correct and the total paid for the contract accounted for the deductive change order, the amounts included on the final approved Request for Payment form for the ‘Total for Change Orders’, ‘Total Previous Request’ and the adjusted contract amount lines, were incorrect. Thus, giving the appearance that the deductive change order had not been considered for the overall contract value and there possibly being an overpayment of \$73,750. The contract number reflected on the form was also incorrect, 19-76 was included instead of 18-05-12. While payment was deemed to have been appropriate and approved by an authorized person, the approver of the invoice should have noted the inconsistency of the deductive change order not being reflected on the Request for Payment form.

We noted that the department did not have formal documented procedures for the approval, review and monitoring of payment to contractors. For the same contract mentioned above, we noted that the first 5 of 6 payment requests were approved by the department and County Administration while the final payment request was only approved by the department. PWD management explained that approval by County Administration is not always required and that approval by the department is sufficient.

We recommend management:

- A. Create written procedures for approval, review and monitoring of payments to contractors.

Management’s Response:

- A. *Per our conversation with the appropriate staff, both of these instances were isolated events that staff has acknowledged as mistakes.*

Related to the written procedures of approval, review and monitoring, PWD management acknowledges the recommendations.

5. Documentation of Substantial Completion/Final Inspection/Project Closeout

During testing of documentation, we noted 11 instances of substantial completion, 5 instances of final walkthrough, and 15 instances of project close out activities, where documentation was not provided and the explanation provided by the department was that the particular activity was not applicable. For most of the instances noted, this was due to the projects pertaining to the pavement management program or pavement striping program, in which the projects were completed based on an annual work plan by contractors on continuing contracts via task orders. Some of the instances pertained to the project being small in scale and duration.

During testing, we noted that the following documents were missing or could not be located:

- One instance of a substantial completion letter and punch list and
- Five instances of documentation relating to final inspections and walkthroughs.

We recommend management:



Brandon J. Patty
St. Johns County Clerk of the Circuit Court and Comptroller

- A. In conjunction with developing a construction monitoring policy, complete and adopt the engineering project checklist and project closeout form that were exhibited during the audit kick off meeting, to ensure all required documents are on file, prior to payment of the final retainage. This list should include any lien waivers from subcontractors, warranty letters, consent of surety, verification of the completion of punch list items/final inspection, review of as-builts drawings, as necessary.

Management's Response:

- A. *We acknowledge the recommendation. Project close-out is an area that PWD management is very aware of the need of a consistent policy and procedure and are working toward it.*

