



## **INTERNAL AUDIT UNIT**

**Department of Public Works,  
Consultant Services and Project Management Division**

Report 2020-02

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## Internal Audit Unit

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In accordance with Administrative Order 1-10 and in conjunction with the FY 2018 Risk Assessment, the Internal Audit Unit undertook a limited scope audit of the Public Works Department (Public Works), Consultant Services and Project Management Division (CS&PM) and its administration of contracts for the audit period of January 1<sup>st</sup>, 2016 to December 31<sup>st</sup>, 2018. The Audit Results are presented on page 1. Management's responses to our audit recommendations are presented immediately following the recommendations, as well as at the end of the report.

Internal Audit may perform a follow-up audit twelve months after this report is issued to verify that each recommendation has been implemented or that the findings documented have been resolved in a manner that addresses the cause of the issue or risk identified.

We would like to thank the staff from the CS&PM Division for their assistance and cooperation during the course of the audit.

Respectfully submitted,

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## Introduction

CS&PM is responsible for the oversight and management of capital improvements projects funded through local, state and/or federal public funding. These infrastructure projects are typically designed by professional consultants and constructed by private contractors. Guidelines governing these projects vary depending on funding, but can include the Local Assistance Procedures Manual (LAPM), the Measure C Strategic Implementation Plan, the TIGER Performance Measure Plan, or the Economic Development Administration Standard Terms and Conditions for Construction Projects. The CS&PM division manages complex projects from preliminary design through final plan approval and to completion of construction. Staff in CS&PM, particularly the division's Project Managers (PM), has the mission of delivering infrastructure projects on time and within budget.

Based on the FY 2019 risk assessment and the number of high dollar consultant service contracts Public Works oversees, the Internal Audit Unit (Audit) performed a limited scope audit of CS&PM contracts. The overall purpose of the audit was to determine if consultant service contracts are being effectively managed. The audit was based on the consultant services contracts report. Audit selected the top ten percent of the population by choosing projects with the highest appropriations and sampled contracts issued for those projects. The audit was based on the period of January 1, 2016 to December 31, 2018 and included the following:

- To determine if effective internal controls were implemented to ensure compliance with statutory requirements
- Review of policies and procedures regarding the payment of invoices
- Review of oversight regarding the implementation of consultant agreements

## AUDIT RESULTS

### **Finding 1: Insufficient policies and training for contract administration**

CS&PM has a Project Manual to govern the division's management of any given project they oversee. CS&PM staff periodically receives formal and informal trainings on the policies/procedures outlined in this manual during staff meetings, bi-monthly division meetings, and as part of joint presentations with the California Department of Transportation (Caltrans). However, policies and procedures in the Project Manual need to be further developed and updated for PMs to effectively manage projects in compliance with local, state, and federal funding requirements. These procedures should include review by a Public Works Manager to ensure the necessary steps are

being taken to properly oversee projects. Without these policies and procedures, CS&PM staff may submit invoices for payment without proper authorization or approve payments without enough supporting documentation. This may also hinder their ability to meet requirements to reporting agencies.

## **Recommendations**

CS&PM should update their policies and procedures. The policies and procedures should detail the responsibilities of the PMs and what is expected of invoice and supporting documentation submissions by consultants. In addition, the now-periodic training and guidance given to the division's PM on how to oversee capital improvement projects should be held on a regular (monthly or quarterly) basis.

### ***Management Response:***

*The audit findings mentioned CS&PM providing training to project managers through various means but mentioned additional policies and procedures that need to be put in place for project managers to effectively manage projects. While CS&PM management does not dispute the finding, it should be noted that management has been actively increasing training for project managers over the past 18 months. CS&PM management has also been rewriting the division policies and procedures for capital project delivery. The original Project Managers Manual was drafted in 2006 and was never finalized or updated since the original drafting. The division is currently creating a new Capital Projects Delivery Manual (CPDM), which has been in process for nearly 18 months. This document is anticipated to be complete in approximately 18-24 months, due to limited resources and staff availability. New City policy/procedures along with Caltrans Local Assistance updates for Federal-Aid Highway Program (FAHP) funding projects will require continual updates to the CPDM, once complete.*

*CS&PM is in agreement with the audit recommendations. These recommendations will be included in the CPDM.*

## **Finding 2: Inconsistent invoice approval process**

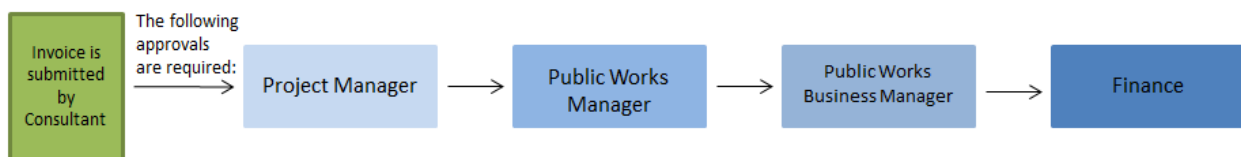
Per discussion with CS&PM personnel, invoices are required to be approved by the PM, the Public Works Manager, and the Public Works Business Manager prior to going to the Finance Department (Finance) for payment. The signatures represent acknowledgements that the expenses are legitimate, and that funds are available for payment. After invoices are approved, they are sent to Finance to create a voucher and

issue payment. However, this process as described by CS&PM staff is not documented in the current Project Manual, which states that PMs are responsible for authorizing, signing, and dating invoices. As a result of the discrepancy between the formal approval process and the informal approval process, Audit found inconsistency in the way CS&PM management is approving invoices. Audit identified 9 instances within 56 invoices (16%) where the PM or Public Works Manager approval were not evidenced on the supporting documentation.

## Recommendations

CS&PM management should develop a documented detailed capital improvement project invoice approval process for inclusion in the division's Project Manual. The process should, at minimum, specify the parties responsible for approving invoices submitted by contractors. Figure 1 provides an example of the steps of the invoice approval process that should be detailed within the policies and procedures.

**FIGURE 1: Department of Public Works – Signature approval process**



Source: Audit's entrance conference with the Department of Public Works

### **Management Response:**

*CS&PM management agrees with the audit findings for inconsistent invoice approval processes in the past, however, most of these occurrences are before 2018. Since 2018, management has taken strides to improve the consistencies for the approval process from the project manager to the supervisor/manager review and approval to pay invoices and are in agreement with the recommendations. These recommendations will be included in the CPDM.*

## Finding 3: Lack of sufficient supporting documentation

Audit found several issues with invoices that were approved for payment by CS&PM staff. One issue was the inability to reconcile the invoice amount with the invoice detail. CS&PM pays consultants based on invoices that are related to the scope of services.

The Project Manual states that the PM must: “Check the invoice to determine if the requested amount is accurate and consistent with the consultant contract.” Audit was unable to reconcile the line item details on the invoice to the overall grand total of two sampled invoices, totaling \$82.90 as shown in figure 2 below. While the dollar amount of the variance in this finding is minor, the department should insure that invoices are reviewed for completeness and accuracy.

**FIGURE 2: Invoice detail discrepancies**

Invoice Line Item Detail Total	Invoice Grand Total	Variance	Amount Paid
\$35,078.85	\$35,149.97	\$71.12	\$35,149.97
\$17,090.08	\$17,101.86	\$11.78	\$17,101.86
<b>Total</b>		<b>\$82.90</b>	

Source: Audit’s analysis of 56 invoices provided by the Public Works Department

The second issue found was that a significant number of vouchers lacked at least one element of supporting documentation. For example, several samples did not have evidence to support wages paid to contractors. Audit found that 39 of 56 (69.6%) vouchers selected lacked an element of supporting documentation or sufficient evidence to support the amount invoiced; some of these invoices had multiple exceptions. These exceptions are detailed in the table below:

**FIGURE 3: Voucher exceptions**

Types of issues identified	Number of instances
<b>Supporting invoice lacked approval by a PM</b>	1
<b>Supporting Invoice lacked approval by a Public Works Manager</b>	8
<b>Voucher lacked sufficient supporting documentation</b>	39
<b>Invoice detail does not sum up to invoice total</b>	2
<b>Invoice includes markup</b>	6
<b>Total Exceptions</b>	<b>56</b>

Please note that some samples had more than one exception.

Source: Audit’s analysis of 56 invoices provided by the Public Works Department.

## Recommendations

In the division’s Project Manual, CS&PM should establish specific documentation requirements to be included with vouchers that are submitted for payment. As an

example, status reports could be used as supporting documentation for invoices based on percentage completion.

**Management Response:**

*Finding 3 includes multiple conclusions in regards to the adequacy of approved consultant invoices. The first part of Finding 3 details two invoices that did not have supporting documentation/discrepancies for a total of \$82.90. CS&PM researched the missing information and it appears the archival scan of the invoices did not capture page two of both invoices and therefore it gave the appearance of discrepancies. CS&PM obtained the missing page for each invoice in question and provided it to the Internal Audit Unit, so the items listed in Figure 2: Invoice detail discrepancies is no longer valid. The invoices were complete at the time they were reviewed and approved by CS&PM.*

*The second part of Finding 3 shows a large percentage of the invoices not including sufficient evidence to support the amount of the invoice. CS&PM takes exception to this finding as the majority of supporting evidence is the deliverable product from the consultant by way of report submittals and plan submittals that are too large and voluminous to be included as supporting documentation with the invoicing. The project managers are reviewing the invoice and reviewing the plans for each phase/part of the project, so they are thoroughly aware of the deliverables for each project and are not to approve invoices for work not complete as determined by plan submittals/deliverables that are not included with invoices. The variance detailed in the finding is not an accurate conclusion since the Internal Audit Unit is not familiar with Architectural and Engineering contracts and the contract deliverables.*

*All of the project contracts were paid in accordance with the consultant agreements, and any amendments, for a fixed fee cost. No additional moneys were paid for "markups" for subconsultants. If the primary consultant marked up a subconsultant's invoice, the additional money would come from the fixed fee amount in consultant agreement and no overpayments were made.*

*The Invoice Exception figure details out the summary of conclusions for this audit finding. Most of these conclusions are not substantiated or were clarified as described above.*

*CS&PM is in agreement with the audit recommendations to establish a detailed policy and procedure and also suggests including language in the boilerplate consultant agreements for what is required with a detailed invoice submittal. These recommendations will be included in the CPDM.*



**Internal Audit Response:**

*Documentation for the missing \$82.90 was provided after the deadline to submit additional backup.*

*The management response states: "CS&PM takes exception to this finding as the majority of supporting evidence is the deliverable product from the consultant by way of report submittals and plan submittals that are too large and voluminous to be included as supporting documentation with the invoicing." The LAPM states "Consultants shall account for costs appropriately and maintain records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, and are allowable, reasonable, and allocable to the contract, and comply with Federal cost principles," (LAPM, Chapter 10, page 15). Audit received and reviewed invoices. However, based on LAPM guidelines, there should be further supporting documentation included with the invoices.*

**Finding 4: Project overpayment due to markups**

Of the three projects that were examined, Audit found that CS&PM personnel approved payment for markups on the Master Trail Plan project funded by a grant administered through Caltrans. Project markups are defined as additional profit added to the cost estimate. Per Caltrans Federal Cost Principles 48 CFR § 31, project markups are not permitted. Audit identified six of the project's invoices to include a ten percent (10%) markup. These markups resulted in overpayments by the City to vendors, totaling \$2,778.06. Figure 5 provides a summary of the invoices that included markups.

**FIGURE 4: Summary of charges with markup**

Sample	Vendor	Invoice total	Amount charged to City of Fresno by Fehr & Peers	Variance
#1	VRPA Technologies, Inc.	\$2,684.77	\$2,953.25	\$268.48
#1	Fehr & Peers	\$230.38	\$253.43	\$23.05
#2	VRPA Technologies, Inc.	\$4,889.96	\$5,378.96	\$489.00
#3	VRPA Technologies, Inc.	\$3,052.61	\$3,357.87	\$305.26
#4	VRPA Technologies, Inc.	\$9,414.82	\$10,356.30	\$941.48
#5	VRPA Technologies, Inc.	\$4,849.78	\$5,334.69	\$484.91
#5	Mark Thomas & Company	\$140.00	\$154.00	\$14.00
#5	Fehr & Peers	\$269.53	\$296.49	\$26.96
#6	Fehr & Peers	\$397.34	\$437.08	\$39.74
#6	VRPA Technologies, Inc.	\$1,851.84	\$2,037.02	\$185.18
Total Markup				<b>\$2,778.06</b>

Source: Audit's analysis of 6 of 56 invoices that included markup, provided by the Public Works Department

## Recommendations

PMs and Public Works Managers should ensure markups are not included in invoices submitted by consultants. Language prohibiting markups should be incorporated in the CS&PM Policies and Procedures Manual. Such verbiage should also be reflected in consultant agreements. Lastly, CS&PM personnel should review invoice details for markups and consider a means to recoup any unallowable charges.

### **Management Response:**

*As mentioned above in Finding 3, no overpayments were made to the consultants, even if they marked up a subconsultant's invoice. The agreements were total fixed fee, so any markups by the consultant would be accounted for within the total fee for each part of the consultant agreement and no overpayment would be made. If the consultant submitted an invoice for an amount more than the fixed fee amount, the additional amount would be excluded from payment. Per current City Attorney's Office approved boilerplate consultant agreements for fixed fee payment, a consultant may have profit or*

*charges that are within the fixed fee amount but are not able to show or substantiate the charges based on the audit finding even though charges do not exceed the fixed fee amount in the consultant agreement. There is no exclusion in our current fixed fee agreement for markups. In cases like these, the charges may seem like they would be unallowable just based on the invoice but when taken into account with the consultant agreement, the charges would be allowable and would not be an overage or overpayment.*

*Current Caltrans Local Assistance Procedures Manual (LAPM) has language that consultant markups on subconsultant's work is not allowed, but this may have been a change in policy by Caltrans and CS&PM is unable to verify when this change may have occurred. Previous invoicing may have had this markup but no overpayments were made to the consultant.*

*CS&PM is in agreement with the audit recommendations, especially including verbiage in the consultant agreement for fixed fee invoicing details and markups. These recommendations will be included in the CPDM.*

**Internal Audit Response:**

*Internal Audit agrees that the consultants were not overpaid their fixed fee. However, they were paid markups within 6 invoices that we identified. After correspondence with Caltrans, Internal Audit confirmed that markups are unallowable since they don't meet Federal Cost Principles in 48 CFR § 31, due to neither being a direct or indirect cost. Thus, CS&PM paid invoiced amounts that were technically ineligible under the grant that reimbursed costs for the Trail Master Plan project. Internal Audit reaffirms the recommendation that was initially made.*

**Finding 5: Statutory requirements were not met**

Audit selected one requirement from each of the selected project's funding source(s). The Master Trail Plan Update PW00699 and the Fulton Mall Recon Engineering PW00661 projects chosen for the audit were required to adhere to the LAPM. Per the LAPM, PMs are required to submit an evaluation of the consultant upon completion of the project. Audit determined that an evaluation was not completed for the Master Trail Plan Update PW00699.

**Recommendations**

CS&PM should ensure that all statutory requirements are being met for all projects.

**Management Response:**

*The current Caltrans LAPM outlines performance evaluations of consultant after the project is completed per 23 CFR § 172.9 (d) for project with FAHP funding. The LAPM does not require submittal of the performance evaluation but for the local agency to retain the evaluation for three years after the project is completed. For the projects selected and time period covered by Internal Audit, only one project, Master Trail Plan update, had failed to complete performance evaluation of the consultant. One project, South Van Ness Industrial Area, does not fall under the purview of the Caltrans Local Assistance Procedures Manual due to project being funded by an Economic Development Administration grant that has separate reporting requirements. The third project, Fulton Mall Reconstruction Project, is not complete so the consultant performance evaluation will be completed at the end of the project.*

*CS&PM cannot confirm when Caltrans added the updated language in Local Assistance Procedures Manual for consultant performance evaluation as 23 CFR CFR § 172.9 (d), was part of a Rules and Regulation update by the United States Government in 2015. It appears that this update was applied to projects in process at the time of the adoption of 23 CFR CFR § 172.9 (d).*

*No other statutory requirements were identified as not being met. CS&PM is taking corrective action to insure consultant performance evaluations are completed with our project closeout checklist. CS&PM is in agreement with the audit recommendations.*

*CS&PM will incorporate all recommendations from this internal audit into our CPDM and provide the additional training for project managers to become more knowledgeable and efficient. Establishing the proper policies and procedures is a top priority for the Division and the Public Works Department.*

## Scope and Methodology

Based on the results of the Fiscal Year 2019 Annual Risk Assessment, Internal Audit conducted a compliance audit of Public Works' Consultant Services and Project Management Division (CS&PM). The table below outlines the audit objectives and Internal Audit's methods for addressing them.

**Table 1 – Audit Objectives and the Methods Used to Address Them**

Audit Objective	Procedures
<p>1. Determine if CS&amp;PM has implemented effective internal controls to ensure that consultant agreements comply with statutory requirements.</p>	<p>A. Selected the top 10% consultant agreements with the highest dollar amount for testing.</p> <p>B. Reviewed the corresponding mandatory requirements based on the consultant agreements' funding source.</p> <p>C. Analyzed each consultant agreement to ensure each requirement was met.</p>
<p>2. Review CS&amp;PM's policies and procedures regarding the payment of invoices to assess whether it has ensured the City receives the services for which it is paying.</p>	<p>A. Interviewed appropriate CS&amp;PM staff to determine its policies and procedures related to the review and approval of invoices.</p> <p>B. Reviewed all invoices for the four consultant agreements selected to determine if CS&amp;PM:</p> <ul style="list-style-type: none"> <li>i. Followed its policies and procedures when reviewing and approving invoices for payment.</li> <li>ii. Required sufficient documentation to support the amounts invoiced.</li> </ul>
<p>3. Evaluate the level of oversight CS&amp;PM exercised regarding the implementation of consultant agreements to ensure that projects were timely and on budget.</p>	<p>A. Interviewed appropriate CS&amp;PM staff to determine its monitoring procedures of consultants.</p> <p>B. Reviewed project status reports for the top 10% consultant agreements selected to determine if CS&amp;PM's identified project variances and what steps it took to address those variances.</p>

Source: Internal Audit