



City of Phoenix

Mission Statement

To improve the quality
of life in Phoenix
through efficient
delivery of outstanding
public services.

Project Team

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Project Number

1230057

This report can be made
available in alternate
format upon request.

Planning and Development Department On-Call Contractors

May 5, 2023

Report Highlights

Contracts and Payments

We found discrepancies between the invoices and the contractor time reports we selected for review. In addition, two of the on-call contractors we reviewed did not invoice the City according to contract terms.

Background Checks and Qualifications

All background checks for on-call contractors were received and documented. However, the contracted staff we reviewed were not listed on the contractor's Statement of Qualifications or did not possess the required certifications.

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Executive Summary

Purpose

Our purpose was to determine if the Planning and Development Department (PDD) had controls in place to ensure that the on-call contractors complied with the terms of their contracts.

Background

PDD uses on-call contractors to review plans and perform inspections that cannot be done by internal staff. The Department budgets approximately \$7M annually for these services. The current on-call contractor term is effective May 2022 through April 2024. The City of Phoenix (City) awarded 39 contracts to 24 contractors in six specialized disciplines including:

- Annual Facilities Permits
- Civil Field Inspections
- Landscape Plan Review and Inspections
- Building Plan Review
- Civil Plan Review
- Building Field Inspections

Each specialized area has a maximum spending limit to be used collectively by all contractors within their respective discipline. PDD uses internal documents to monitor the contract spending to ensure that they do not go over budget for these services.

All plan reviews and inspections are tracked in the KIVA system for commercial projects and SHAPE PHX (SHAPE) system for residential projects. These systems ensure permits and inspections are completed by the given deadline for each customer. In addition, the on-call contractors utilize these systems to report on their work performed and the outcomes of each assignment. PDD has a two-step review process in which project managers and administrative staff verify the accuracy and reasonableness of the contractor invoices.

We reviewed on-call contracts and tested for contract compliance, payment accuracy, background check compliance, and contractor qualifications.

Results in Brief

We found approximately \$35,000 in discrepancies between the tested invoices and separately submitted contractor time reports. In addition, two of the tested on-call contractors did not invoice consistent with the contract terms.

We found a total of \$34,946 in billing differences between the contractor invoices, and KIVA and SHAPE time reports. Specifically, the invoices contained more billed hours than what was captured in KIVA or SHAPE. PDD staff indicated that these discrepancies were likely the result of training and internal reporting issues related to the rollout of the new SHAPE system.

We verified the billing method on the contractor invoices to the individual contract terms. We found that two contractors: AZTEC Engineering Group (AZTEC) and Strand Associates (Strand) billed the City based on a fee schedule model that was not consistent with the billing method that was in the contract. PDD staff indicated that they missed these errors during the contracting process and have initiated contract amendments.

All of the tested on-call contractors background checks were received and documented. However, some of the tested contractors were not listed on the contractor's Statement of Qualifications (SOQ) or did not possess the required certifications.

We requested background screening forms and or email confirmation of a successfully completed background for 34 Plan Reviewers and Inspectors. We received 33 of the requested background forms and one email verification of the background check.

We also confirmed that the contracted plan reviewers and inspectors were identified on the contractors' SOQ. In addition, we tested to ensure that contractors had the required professional certifications. We found that nine out of the 34 tested were not included in the SOQ and six did not possess all the required certifications. PDD staff indicated that these lapses were the result of contractors adding new staff after the SOQ was provided to the City. In addition, PDD did not have a process in place to ensure that invoiced Plan Reviewers and Inspectors were being matched to the SOQ, and that the contractors were providing updated SOQs.

Department Responses to Recommendations

Rec. # 1.1: Research the \$35,000 in on-call contractor invoices and time report discrepancies and determine any necessary corrective billing actions.	
Response: PDD staff will review discrepancies as provided in CAD report and resolve any necessary billing actions with contractors prior to the target date.	<u>Target Date:</u> 8/4/2023
Rec. #1.2: Work with PDD IT staff and SHAPE vendor to fix SHAPE reports to include work hour totals to facilitate an efficient invoice review process.	
Response: PDD staff will request report change and participate in necessary design sessions with assigned business analyst on the PDD SHAPE team. New report is anticipated by target date.	<u>Target Date:</u> 5/31/2023
Rec. # 1.3: PDD develop and employ a process to review and confirm contract terms annually with contractors to promote accurate invoices.	
Response: PDD staff will develop and present a contract overview session for all on-call contractors at the mid-point of each 2-year contract cycle. This will provide a review of contract terms, invoicing procedures, and certification requirements. Supervisors and contract administrative support staff will be included in the session to answer questions from contractors as needed. This will occur every other year because new contract kick-off sessions are already part of the existing contract process. Current contracts are in effect 5/1/2022 through 4/30/2024 therefore this year's mid-term session is planned for June 2023. Documentation of session materials to be provided by target date.	<u>Target Date:</u> 8/4/2023
Rec. #2.1: Request proof of credentials from each of the Plan Reviewers and Inspectors who were not included on the SOQ and confirm that they possess the required certifications.	
Response: PDD supervisors will request credentials from affected contractors and document in contract files prior to target date.	<u>Target Date:</u> 8/4/2023

Rec. #2.2: Develop a process to ensure that contractors provide PDD with appropriate documentation of certifications for any Plan Reviewer or Inspector who is hired after the contract is awarded, or if they are not on the SOQ.

Response: PDD will update supervisor checklist for all new on-call contract staff that includes verification of certifications in addition to the existing resume review and background check that must be completed prior to hire. Training for PDD supervisors will be conducted in May 2023 to discuss updated checklist and documentation requirements. Certification requirements will also be addressed with contractors in contract overview session planned for June 2023 as described in Rec. 1.3. Documentation of session materials to be provided by target date.

Target Date:
8/4/2023

1 – Contracts and Payments

Background

Chapter 43 of the Phoenix City Code and *Administrative Regulation 3.25 Procurement of Design and Construction Services* require that the City contract for professional services. The Law Department provides guidance on the contract components for professional services contracts over \$10,000. The components are to ensure clear and concise contract language as well as to limit the City's liability.

Payment terms for on-call services are in Section 3: Compensation and Payments, and Attachment 2: Billable Rates of each contract. PDD assigns on-call contract monitoring to six project managers with specific experience and knowledge of the project and discipline. The assigned contract monitor reviews the contractor work hours reported in KIVA or SHAPE and compares those reports to the submitted invoices. Once approved by the contract monitor, the documents are forwarded to administrative staff for a secondary review of calculations. Should the administrative staff have questions regarding the invoice totals, those notations are made on the contract summary spreadsheet for follow-up with the assigned monitor and/or the contractor. If no discrepancies are noted, the invoices and back-up documentation are forwarded to PDD Financial Services for review prior to the Finance Department processing the payment.

We reviewed the on-call contract payments in the City's accounting system (SAP) and matched them to a current contract. In addition, we obtained on-call contracts and tested them for compliance with City contract terms. We reviewed PDD payment processes and procedures and conducted staff interviews. We tested contractor invoices for accuracy and compliance with contract terms.

Results

All payments for on-call services were tied to a current contract, and all tested on-call contracts contained the required components.

We identified the cost centers used for on-call contractors in SAP and then ran a cost center payment report for May through September 2022. We confirmed that all payments were linked to a current on-call contract.

The Law Department identifies 16 contract components for professional services contracts. These include:

- Contract Number
- Recitals with Ordinance Number
- Project Description
- Period of Service
- Contract Total
- Compensation and Payments
- City's Responsibility
- Consultant's Responsibility

- Background Screening
- Insurance and Indemnification
- Travel Reimbursement
- Plan Review/Inspection Checklist
- Certification Requirements
- Scope of Service
- Billable Rates
- Insurance Certificate

We tested the eight on-call contracts and found that all were in compliance with these required contract components.

Two of the six tested on-call contractors used a billing method that was not consistent with the contract terms.

The on-call contracts specified the billing methods and hourly rates for each position title. For our testing, we selected one contractor from each of the six disciplines based on payments made between May through September 2022.

- AZTEC Engineering Group
- Bureau Veritas
- Civil Solutions
- On Site Engineering
- Strand Associates
- Willdan

We verified the billing method on the contractor invoices to the individual contract terms. We found that two contractors: AZTEC Engineering Group (AZTEC) and Strand Associates (Strand) billed the City based on a fee schedule model.

PDD staff explained that in prior contracts with AZTEC and Strand, invoiced amounts were based on a percentage of fees assessed per a designated fee schedule. AZTEC and Strand perform landscape and civil plan reviews which are traditionally billed on the percentage of fees method. However, this clause was not included in the current contract, and PDD staff did not review the contract to confirm this stipulation was added. PDD is in the process of amending these contracts to reflect the percentage of fees billing method.

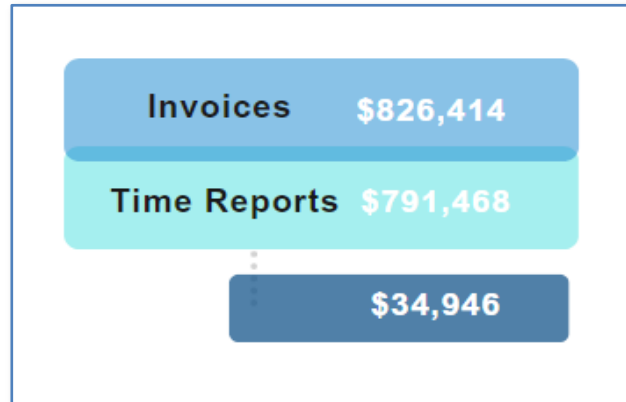
We found approximately \$35,000 in discrepancies between the tested invoices and the contractor time records entered in KIVA and SHAPE.

We selected a sample of 25 invoices that were submitted to PDD between May and September 2022. Of those reviewed, we were only able to test 15 of the 25, as 10 of the invoices from AZTEC and Strand had not provided specific billing records. As discussed in the previous finding, AZTEC and Strand were submitting invoices using the percentage of fees method.

We recalculated the individual invoices and compared the hours billed to contractor time entered in KIVA and SHAPE. We found a total of \$34,946 in billing differences between

the contractor invoices and KIVA and SHAPE time reports. Specifically, the invoices contained more billed hours than what was captured in KIVA or SHAPE.

On-Call Billing Discrepancies



Invoices were \$34,946 greater than the corresponding KIVA and SHAPE contractor time reports.

PDD staff indicated that these discrepancies were likely the result of training and internal reporting issues related to the roll out of the new SHAPE system. In June 2022, all residential plan reviews transitioned to the newly developed SHAPE system from the legacy KIVA system. During testing, it was discovered that 85% of the discrepancies on the invoice calculations were related to the residential contractors using the SHAPE system for their reports. The reports generated in SHAPE did not provide a summary of hours for each day. Many entries made by a Plan Reviewer and/or Inspector were as small as quarter-hour increments. The layout of the report required PDD administrative staff to manually recalculate each report, which was extremely labor intensive and prone to calculation errors. In addition, PDD staff reported that at the roll out of SHAPE they experienced issues with contractors learning how to enter their time into SHAPE.

The KIVA reports provided a total of inspection time, drive-time, and miscellaneous time for each day. The format of the KIVA reports allowed administrative staff to conduct their review in an efficient manner and to easily pinpoint discrepancies between the reports and the invoices. PDD staff indicated that they were aware of the issues with the SHAPE reports and have begun working with the SHAPE vendor to improve the reporting process. In addition, Staff explained that they have addressed some of these issues with additional contractor training. Our findings were provided to PDD staff for review and correction.

The tested invoices did not match the contracted rates, resulting in a total of \$106.23 in undercharges to the City.

We examined the hourly rates on the invoices and compared those figures to the rates listed in the contract. We found that the Bureau Veritas invoices did not match the contracted rate. For example, the Bureau Veritas contract rate for Plan Reviewer was \$143.42 and they invoice at \$144.38 (a \$0.96 increased hourly rate difference). We also found instances where several contractors undercharged the City based on plan rates. In our tested invoices, these over and undercharges resulted in a total of \$106.23 in undercharges to the City. The PDD internal tracking spreadsheet reflected the correct rates; however, staff did not confirm the invoiced rates to their tracking spreadsheet prior to approving the invoices. PDD staff reported that they have reminded staff to confirm rates prior to approving invoices and will work with Bureau Veritas on correcting its invoice rates.

Recommendations

- 1.1 Research the \$35,000 in on-call contractor invoices and time report discrepancies and determine any necessary corrective billing actions.
- 1.2 Work with PDD IT staff and SHAPE vendor to fix SHAPE reports to include work hour totals to facilitate an efficient invoice review process.
- 1.3 PDD develop and employ a process to review and confirm contract terms annually with contractors to promote accurate invoices.

2 – Background Checks and Qualifications

Background

Pursuant to the contract, Exhibit B, all contract workers will be subject to background screenings at the contractor's expense. Verification of security screenings must be provided to the City prior to any work being performed. During the Request for Qualification (RFQ) process, on-call contractors are required to submit a Statement of Qualification (SOQ) and a certification of good standing with the Arizona Corporation Commission (AZCC).

The SOQ provides an overview of the company's experience with similar projects and a brief description of the personnel that will be used in the contracted services with a list of their professional licenses, certifications, and education. Upon award of the contract and prior to any work being performed, PDD verifies the required background screening outlined in the contract for each contracted worker.

We obtained the SOQ for each tested on-call contractor and confirmed good standing with AZCC. In addition, we verified that the individual contractors met the certification requirements and had passed the required security screening.

Results

All the tested on-call contractor background checks were received and documented.

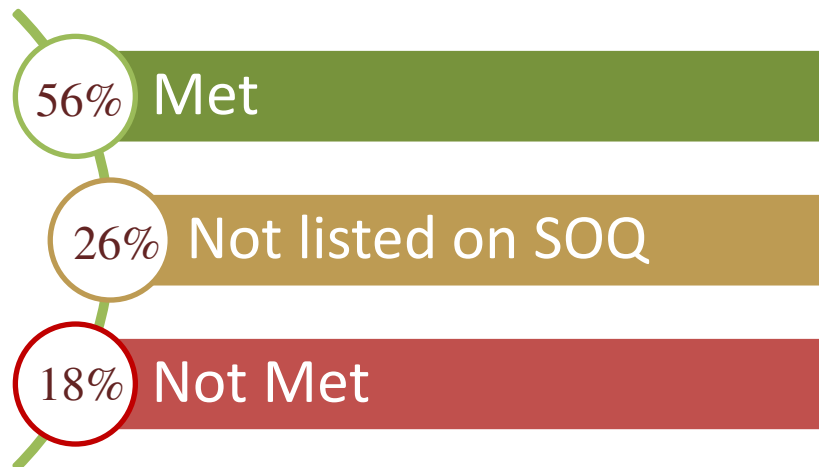
We requested background screening forms and or email confirmation of a successfully completed background for 34 Plan Reviewers and Inspectors. We received 33 of the requested background forms and one email verification of the background checks.

All tested on-call contractors provided a SOQ and were in good standing with the AZCC. However, some of the tested contracted staff did not possess the required certifications, or were not listed in the SOQ.

At the time of the RFQ, each contractor was required to submit a SOQ and to be registered in good standing with the AZCC. The SOQ contained a list of key personnel who performed the duties of the contract along with their credentials. We confirmed each contractor was registered with AZCC and had submitted the required SOQ.

The Special Inspection Program Manual, and Exhibit B of the contracts, specify that each Plan Reviewer and Inspector is required to be a licensed Professional Engineer (PE) or possess specific field-related licenses and certificates through the International Code Council (ICC) or the International Association of Electrical Inspectors (IAEI). We reviewed each SOQ and tested each of the 34 Plan Reviewers and Inspectors selected for testing. Nine of the 34 tested were not listed in the SOQ, and six did not possess all the required certifications.

Testing of Contractor Certifications



26% of the Plan Reviewers and/or inspectors were not listed on the Statement of Qualifications.

We used the information provided from the SOQs and verified the credentials for each Plan Reviewer and Inspector. PDD was not able to provide documentation for 26% (9) of the Plan Reviewers or Inspectors who were not included in the SOQ. PDD staff indicated that they do not have a process to follow up after the initial submission of the SOQ to ensure that on-call contractors that are completing assignments are qualified to perform the work. We provided the list of Plan Reviewers and Inspectors to PDD for review.

Recommendations

- 2.1 Request proof of credentials from each of the Plan Reviewers and Inspectors who were not included on the SOQ and confirm that they possess the required certifications.
- 2.2 Develop a process to ensure that contractors provide PDD with appropriate documentation of certifications for any Plan Reviewer or Inspector who is hired after the contract is awarded, or if they are not on the SOQ.

Scope, Methods, and Standards

Scope

We reviewed on-call contractor contracts for the period of May 2022 through September 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should implement control activities through policies.
 - Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve.
 - Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
- Control Environment
 - Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve.
 - Management should implement control activities through policies.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
 - Management should remediate identified internal controls deficiencies on a timely basis.

Methods

We used the following methods to complete this audit:

- Interviewed PDD staff
- Reviewed on-call contractor contracts
- Reviewed KIVA and SHAPE reports
- Recalculated invoices
- Reviewed certification requirements
- Reviewed background screening forms

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of KIVA data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

We assessed the reliability of SHAPEPHX data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.