



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

1240065

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

Water Services Department Construction Audit – Northwest Master Plan Package 3

October 3, 2023

Report Highlights

City Policies and Procedures

*City policies and procedures did not address key project
administration and management areas.*

Payment Application Review

*The payment application review and approval process ensured
payments were supported and accurate.*

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Executive Summary

Purpose

The City Auditor Department contracted with REDW Advisors & CPAs (consultant), an external audit firm, to (1) assess relevant internal controls within the contracted management process, and (2) determine whether the contractor complied with the contract terms. Specifically, the consultant evaluated compliance with contract terms, including payments and service delivery.

Background

The City of Phoenix (City) Water Services Department (Water) contracted with Sundt Construction, Inc. (Sundt), an Arizona corporation, to construct the Northwest Water and Wastewater Master Plan Package 3. Sundt Construction Inc. was responsible for furnishing all labor, materials, equipment, transportation, utilities, services, and facilities required to perform all work necessary under contract no. CON154039-0 and subsequent amendments. Water also contracted with Wilson Engineers, LLC (Wilson) to design the project and later perform construction administration and inspection (CA&I) services.

See Attachment A for a copy of the consultant's report.

Results in Brief

City policies and procedures did not address key project administration and management areas.

The consultant obtained and reviewed contract monitoring policies and procedures (Standards), site visit documentation, and progress reports. The consultant noted that there were Standards over change orders and contract amendments, contingencies and allowances, and project close-out steps. However, the Standards did not address contract compliance, documentation and retention, or communication and reporting between Project Managers and management.

The Standards also did not address Project Manager site visit documentation or how to utilize the information during the payment application review process.

The payment application review and approval process ensured payments were supported and accurate.

From the two payment applications selected for testing, the consultant verified that 1) Sundt submitted monthly applications and provided the required documentation, 2) Wilson reviewed and certified the accuracy of the applications within seven days of receipt, and 3) City staff approved the application for payment within 14 days of receipt.

The consultant also verified that 1) payment application packets included required information, 2) project status information was provided to Water management, 3) line items tested were supported, and 4) City staff utilized the construction payment application checklist.

Recommendations

See Attachment A for the consultant's recommendations.

Standards

This audit was conducted by REDW Advisors & CPAs. REDW Advisors & CPAs was contractually obligated to conduct this performance audit in accordance with generally accepted government auditing standards. Those standards require that REDW Advisors & CPAs plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives.

Department Responses to Recommendations

Rec. 1.1: The Water Services Department should draft Standards over various contract monitoring steps to ensure key processes are documented. Roles and responsibilities, as well as documentation requirements when performing monitoring steps should be included in the Standards so project teams are aware of their roles and responsibilities. As the Standards are being developed, it may be beneficial to establish a working group within the Water Services Department and/or other departments involved with construction related projects, such as the City Engineer's Office, to ensure consistent processes can be implemented to guide those who are responsible for managing these projects and help ensure consistency in project administration city-wide. It may also be necessary for the City Engineer's Office to approve any Standards prior to implementation.

Response: The Water Services Department will draft Standards of key processes for project management including contract monitoring.

Target Date:
October 4, 2024

Explanation, Target Date > 90 Days: Since this item will require the establishment of a working group within Water Services Department to develop the Standards, this task is expected to take 1 year.

Rec. 1.2: The Water Services Department should document all site visits through the use of a standardized report template and/or checklist. In addition, documentation should be maintained to verify the City Project Manager reconciled their observations on the site visit with contractor/engineer daily reporting. In addition, the City Project Manager should maintain a record of all site visits through the use of a log, recording at a minimum the date, time, and attendees.

Response: The Water Services Department will develop a standardized site visit report template and log to document project site visits.

Target Date:
December 15, 2023

Explanation, Target Date > 90 Days: n/a

Attachment A - REDW Advisors & CPAs Report

City of Phoenix Water Services Department

*Northwest Water and Wastewater Master Plan Package 3A
Internal Audit
August 2023*

redw
Advisors & CPAs

City of Phoenix - Water Services Department
Northwest Water and Wastewater Master Plan Package 3A
Internal Audit

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City of Phoenix - Water Services Department Northwest Water and Wastewater Master Plan Package 3A Internal Audit

Report

Introduction

We performed the internal audit services described below to assist the City of Phoenix in evaluating processes related to the construction and project administration of the Water Service Department's Northwest Water and Wastewater Master Plan Package 3A. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, relevant portions of the Generally Accepted Government Auditing Standards and the terms of our contract for internal audit services. Since our procedures were applied to samples of processes, it is possible that significant issues related to the areas tested may not have been identified.

Purpose and Objectives

The City of Phoenix Water Service Department's Northwest Water and Wastewater Master Plan Package 3A began construction in July 2021 with a total budget of \$66 million. The design portion of the project was performed by Wilson Engineers, LLC (Wilson) and a Construction Manager at Risk (CMAR) contract was entered into with Sundt Construction, Inc. (Sundt) for the pre-construction and construction phases of the project. While the core project met final completion on May 24, 2022, the City expanded the scope to include additional items that were in process as of our testing (August 2023) and the City had incurred approximately \$53 million of the budget. Many of the processes, related to design and construction services as well as construction management, were performed on an accelerated schedule to ensure the project could be completed in accordance with critical timelines.

Our internal audit focused on evaluating contract monitoring controls to ensure contractor compliance with contract terms including payment terms and service delivery. In addition, we tested to determine if established processes were following applicable rules, regulations, policies and procedures, as well as best practices.

Observations, Recommendations and Management Responses

As a result of our testing, REDW identified the following observations:

1) *City of Phoenix Standards*

City Standards (i.e., policies and procedures) are critical to ensuring employees are aware of their roles and responsibilities when facilitating various processes related to capital projects as well as the Water Services Department's expectations for how contracts are to be monitored for compliance, how project management will be done including review of applications for payment, records to be retained, etc. Our testing determined that while there were Standards in place over change orders and contract amendments, contingencies and allowances, as well as project close-out steps, the Standards did not address other key areas of project administration and management including:

- Contract management procedures over contract compliance reviews, cost recovery, and deviations from contract terms/dispute resolution, including when to involve City's Law Department;
- Project documentation procedures to ensure consistent file documentation and retention; and
- Expectations and frequency of communications and reporting related to project status between project managers, department leadership, and the City.

Potential Risk – *Moderate*: The absence of Standards increases the risk that project management may not be performed consistently (i.e. project monitoring, documentation, etc.) within the City. Given that the Water Services Department manages several projects at one time with multiple project managers, we have placed this risk at moderate.

Recommendation: The Water Services Department should draft Standards over various contract monitoring steps to ensure key processes are documented. Roles and responsibilities, as well as documentation requirements when performing monitoring steps should be included in the Standards so project teams are aware of their roles and responsibilities. As the Standards are being developed, it may be beneficial to establish a working group within the Water Services Department and/or other departments involved with construction related projects, such as the City Engineer's Office, to ensure consistent processes can be implemented to guide those who are responsible for managing these projects and help ensure consistency in project administration city-wide. It may also be necessary for the City Engineer's Office to approve any Standards prior to implementation.

2) *Project Manager Site Visit Documentation*

To ensure compliance with contract terms and conditions, City Project Managers perform periodic site visits to verify job progress and ensure agreement with the reporting submitted by Wilson regarding job status and completion of work. The information gained on the site visits is also utilized during the pay application review process to ensure the City agreed with the amounts billed. Our testing determined that site visits performed by the City Project Manager were not documented, therefore, we were unable to determine the frequency of site visits, what the City looked at to ensure information provided by Wilson was accurate, as well as how work was verified on the City's behalf for compliance with contract terms.

Potential Risk – Low: The absence of documented site visits increases the risk that the City may not have documentation in place to support due diligence steps that were taken to verify construction progress and payments. However, given that there were weekly meetings with Sundt and Wilson, it's apparent that the city was attending those meetings and engaged in the project monitoring and management processes; therefore, we have placed this risk at low.

Recommendation: The Water Services Department should document all site visits through the use of a standardized report template and/or checklist. In addition, documentation should be maintained to verify the City Project Manager reconciled their observations on the site visit with contractor/engineer daily reporting. In addition, the City Project Manager should maintain a record of all site visits through the use of a log, recording at a minimum the date, time, and attendees.

Scope and Procedures Performed

In order to gain an understanding of the controls and processes, we interviewed the following personnel:

- Troy Hayes, Water Services Director
- Brandy Kelso, Assistant Water Services Director
- Nazario Prieto, Assistant Water Services Director
- Patty Kennedy, Deputy Water Services Director
- Stacey Kisling, Water Services Civil Engineer
- Darlene Helm, Deputy Water Services Director
- Mary Ling, Deputy Water Services Director (Audit Liaison)
- Marcel Begay, Project Manager Civil Engineer III

In order to gain an understanding of the processes and controls in place we read relevant portions of:

- Agreement 154039 (GMP #1) – Northwest Water and Wastewater Master Plan Package Construction Manager at Risk Construction Services (June 2021)
- Agreement 154039-001 (GMP #2) Northwest Water and Wastewater Master Plan Package Construction Manager at Risk Construction Services (August 2021)
- Agreement 153381 – Northwest Water and Wastewater Master Plan Engineering Services (February 21, 2021)
- Agreement 153381-001 (Amendment #1) – Northwest Water and Wastewater Master Plan Engineering Services (July 1, 2021)
- Agreement 153381-002 (Amendment #2) Northwest Water and Wastewater Master Plan Engineering Services (January 5, 2023)
- City of Phoenix Water Services Department – Northwest Water and Wastewater Master Plan Package 3A – Technical Specifications Manual (July 2021)
- City of Phoenix Standard # 6.13 – Contract Close-Out/Final Acceptance (December 26, 2017)

- City of Phoenix Standard # 3.1– Treatment of Capital Construction Project Allowances and Contingencies (September 16, 2016)
- City of Phoenix Standard # 2.5 – Department Amendment and Change Order (September 17, 2019)
- City of Phoenix Water and Wastewater Engineering Guidelines – Construction Payment Application Review Checklist (October 21, 2021)
- City of Phoenix CMAR Process flowchart
- City of Phoenix Water Services Department – Northwest Wastewater Master Plan Package 3a Loop 303 Pipelines Gravity Sewer, Force Mains and Waterline, Project No. Ws85500455, Ws90500307 & Ws90501004 – Technical Specifications (July 2021)
- City of Phoenix Project Closeout Guidelines

We performed the following testwork:

Contract Monitoring Policies and Procedures: We obtained policies and procedures over contract monitoring and project administration and tested to determine if policies and procedures, desktop procedures, and/or standard operating procedures were in place and reflective of current procedures and sound internal controls.

Site Visits: We obtained site visit documentation provided by Wilson as well as the applications for payments submitted as of August 2023. From a total of 16 Applications for Payment submitted, we selected 2 Applications for Payment and tested to determine if:

- Daily site visit documentation was submitted by Wilson to the City to support the quality and quantity of work performed as well as labor and materials utilized;
- Reports recorded Sundt's work performed on the job site, major construction equipment on-site, weather conditions, a list of visiting officials and representatives of manufacturers, fabricators, suppliers and distributors, daily activities, subcontractors on-site, and any inspections;
- Site visit was performed by Wilson and/or a designated Resident Project Representative to verify information included in Sundt's daily reports and quality of work performed; and
- Documentation included evidence of site visits performed by city Project Managers verifying information submitted in Construction Daily Reports as well as Wilson's Daily Reports.

Project Progress Reports: From a total population of 40 Project Progress Meetings that occurred during the construction phase of the project through July 2023, we selected 3 consecutive Project Progress Meeting minutes and tested to determine if:

- Requests for Information (RFI) and submittal status was discussed;
- Past week's progress was discussed;
- A 3-week look-ahead schedule, including upcoming inspections, was attached to the meeting packet and discussed;
- Current issues, long lead items, and critical issues were discussed, as necessary;

- The next scheduled meeting date was noted in the minutes;
- At a minimum, the contractor (Sundt), the Engineer (Wilson), and the Owner's (City) had representatives present; and
- Highlights of the project progress meeting were communicated to upper management via COP Project Management Weekly Reports.

Lastly, we tested to ensure that the contents of the Project Progress reports, reports sent to upper management, as well as daily reports and site visit documentation produced by Sundt and Wilson were consistent.

Pay Application Review and Approval Process: We obtained a listing of all Applications for Payment submitted for the construction portion of the Northwest Master Plan Package 3A project. From a listing of 16 payment applications processed, we selected 2 and tested to determine if:

- The Contractor (Sundt) submitted an Application for Payment no more than once a month for progress payments and the application was certified by the contractor;
- At a minimum, the Schedule of Values, Consent of Surety, Project Schedule, Settlement of Claims Affidavit, Daily Construction Repots, and SBE Utilization Report were submitted with the Application for Payment;
- If any payment was requested for materials and equipment not yet utilized in the work but were delivered and stored at the construction site (or another approved location), bills of sale, invoices, or other documentation accompanied the Application for Payment;
- Application included an affidavit of the contractor stating that all previous progress payments received on account of the work have been applied on account as required by contract;
- Application for Payment included the Certification of the Contractor, indicating that amounts represented on the application were correct, no amounts due had yet been received, and all unconditional lien waivers had been submitted;
- Wilson reviewed and certified (via signature) the Application for Payment, including data and schedules within 7 days of receipt, verifying amounts were correct;
- The amount due was recommended for payment by the Water Services Department Project Manager;
- When the recommended amount became due, the pay application was approved by the Deputy Water Services Department Director within 14 days of presentation; and
- The certified payment request amount was mathematically correct and agreed to the amount paid.

In addition, we tested to determine if the Application for Payment packet contained:

- Total project cost to date;
- The total project cost during the month;
- Planned versus actual progress;
- Any actual and/or potential defaults or violations of the construction document and any remedies to issues;

- A change order/work change directive activity summary; and
- Evidence of any site visits performed by regulatory agencies.

We also tested to determine if the City Project Manager disseminated the information to upper management as required per contract or as necessary based on schedule.

Pay Application Supporting Invoices: From the total population of 16 Applications for Payment submitted during the project, we selected 3 from various project phases. From a total population of 73 line items within the 3 payment applications, we selected 26 and tested to determine:

- Line item was supported with documentation (invoices, emails, subcontractor pay applications, etc.);
- Amounts reflected on supporting documentation tied to amounts as reflected on the Statement of Values; and
- Supporting documentation fell within the payment application date range.

Construction Payment Application Checklist: We selected 2 Applications for Payment and the associated Construction Payment Application Checklist, as well as all supporting documentation and templates utilized to review the pay applications. For each area on the checklist, we analyzed the supporting documentation to ensure:

- Supporting documentation was in place to support due diligence efforts that were performed on the checklist line item;
- Supporting documentation/data agreed to the pay application line items; and
- Variances, if noted, were researched and corrected prior to payment approval.

Further, we inquired as to how information gathered from site visits as well as reporting/communication activities is utilized in the payment application review process. In addition, we considered contract requirements that might not be included on the checklist that would be beneficial to consider during pay app reviews such as review of subcontractor invoices etc.

* * * * *

This report is intended for the information and use of the City of Phoenix and others within the organization.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from personnel of the City of Phoenix previously mentioned in this report during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Phoenix, Arizona
September 11, 2023