



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

1230068

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

Water Services Department Sewer Emergency Repairs

June 15, 2023

Report Highlights

Contract Monitoring

The Water Services Department actively monitored and inspected tasks performed for sewer emergency repairs.

Payment Application Testing

Payment applications were mathematically accurate and supported; however, some costs were incorrectly listed as tax-exempt, resulting in an underpayment by the City.

City Auditor Department
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Executive Summary

Purpose

Our purpose was to determine if the Water Services Department Wastewater Engineering Division had controls to ensure that emergency tasks were properly completed and that contractor payments for emergency repairs agreed to the contract terms.

Background

In May 2021, the Water Services Department – Wastewater Engineering Division (WWE) entered a Collection System Emergency Repair and Replacement Job Order Contract (JOC) with WaCo, LLC (WaCo) to provide emergency and unplanned repairs. WaCo's services are used on an as-needed basis to provide WWE emergency services for repair or replacement of sanitary sewer lines and force mains. These agreements are essential to the health, safety, and welfare of the public and are critical operations for the City.

The master agreement had an initial contract price of \$6 million, with an option to increase by \$4 million, for a total price not to exceed \$10 million. WWE may issue Job Order Agreements (JOAs) at any time during the period of service of the master agreement. Each JOA includes a notice to proceed date, a project schedule, and a completion date that establishes the duration of work. WWE executed the first JOA in January 2022 for \$1.5 million.

A WWE Project Manager (PM) uses the services of a construction administration and inspection services (CA&I) to help in initiating, monitoring, and completing projects with WaCo. WaCo submits payment applications with supporting documentation that are reviewed by the PM and CA&I before payment.

Results in Brief

WWE tracked the progress of tasks and inspected work performed.

WWE has issued eight tasks under the current JOA. We reviewed the weekly reports and meeting minutes and determined that the PM is actively monitoring the progress of all active tasks under the current JOA with the CA&I and the contractor. There was one task completed and fully billed. We reviewed the final report for the task, which demonstrated that the repair was completed properly, and that the CA&I and PM had inspected and approved the final product. Pictures and descriptions of the work completed, and the final inspection, were included in the report.

WaCo submitted almost \$400,000 in non-taxable materials.

The total of the first job order agreement was \$1.5 million, and there was a second approved JOA for \$975,000. We reviewed all five payment applications for accuracy of payment applications, accuracy of time and materials charged, and taxable and non-taxable materials. The cost of materials was broken out by taxable and non-taxable items; however, we found that according to Arizona Revised Statutes, all costs associated with sewer are taxable. There are no costs that can be deducted from taxable costs. We found almost \$400,000 in costs that should have been taxable, amounting to approximately \$22,000 in taxes that were not charged to the City.

Payment applications were mathematically accurate and based on costs as stipulated in the contract. We found that the contractor incorrectly submitted some expenses as tax-exempt, leading to about \$22,000 in taxes not charged to the City.

Under the current Waco contract, there were five payment applications for a total of \$933,833. We found that all rates and prices matched the JOA or were based on invoices, and that all payments were mathematically correct. We found that WaCo submitted some expenses as tax-exempt, that should be taxed. According to Arizona Revised Statutes, all costs associated with sewer are taxable. There are no costs that can be deducted from taxable costs. We found almost \$400,000 in costs for piping and fittings that should have been taxed, amounting to approximately \$22,000 in taxes that were not charged to the City. The tax rate was verified and applied accurately on all other costs billed to the City in the payment applications reviewed.

Department Response to Recommendation

Rec. 2.1: Review and update payment application documents to ensure that all costs associated with sewer are taxable. Ensure that the contractor submits costs under these JOAs as taxable.

Response: Contractor was notified to include taxes on materials needed for emergency sewer repairs. City underpaid contractor for previous work since taxes were not included.

Target Date:
Completed
6/1/23

Explanation, Target Date > 90 Days: N/A

1 – Contract Monitoring

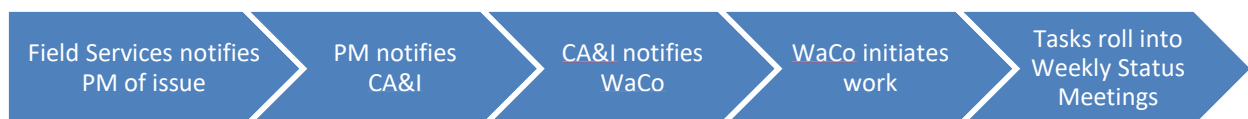
Background

WWE initiates JOAs based on timeframes and money available. WWE is currently on the contract's first JOA. WWE initiated a second JOA and it has been approved, but there has been nothing billed to it. As an emergency arises, WWE initiates a new Task for each emergency. There are seven active tasks under the JOA, and one completed task. A task does not have to be completed for billing to be sent to the City for payment. Payment applications are submitted monthly and include supporting documentation for the time and cost of materials for each task. If a task takes longer than one month to complete, then the task will have multiple payment applications. For a list of tasks performed under the JOA, see **Attachment A – JOA Tasks**.

WWE uses Brown and Caldwell as the contractor providing construction administration and inspection services (CA&I) for the JOC. The CA&I:

- Tracks the progress of each sewer repair through weekly meetings with the contractor and project manager (PM);
- Reviews the payment applications prepared by the contractor prior to submitting them to the WWE project manager for review and approval; and,
- Performs a final report and inspection to ensure proper completion of the emergency repair.

Sewer Emergency Repair Initiation Process



We reviewed status and inspection documents to ensure WWE properly tracks each task. We reviewed Water's contract monitoring process to ensure proper completion of the emergency and unplanned sewer repairs. We reviewed the final reports from the CA&I as part of the final inspection of the completed repair.

The contract requires WaCo to maintain commercial general liability, automobile liability, workers' compensation and employers' liability insurance, Builder's Risk Insurance, and Professional Liability when required by the JOA. We reviewed the minimum insurance maintained by the contractor to ensure it met contract requirements.

Results

WWE tracked the progress of tasks and inspected work performed.

WWE has issued eight tasks under the current JOA. One task is completed and fully billed, two tasks are completed with final billing pending, and the other five tasks are actively being worked. Tasks still in the planning phase will not have billings yet. We reviewed the weekly reports and meeting minutes and determined that the PM is actively monitoring the progress of all active tasks under the current JOA with the CA&I and the contractor. Based on interviews with the CA&I, the general practice is for the CA&I to be at the work sites monitoring the contractor's progress on a weekly basis.

There was one task completed and fully billed. We reviewed the final report for the task, which demonstrated that the repair was completed properly, and that the CA&I and PM had inspected and approved the final product. Pictures and descriptions of the work completed, and the final inspection, were included in the report.

WaCo met minimum insurance requirements.

WWE had on file all necessary certificates of insurance from WaCo. Certificates met the minimum requirements as outlined in the contract. The current JOA did not require Professional Liability insurance. No exceptions were noted.

Recommendations

None

2 – Payment Application Accuracy

Background

The master agreement with WaCo is a time and materials contract. WaCo reports work completed based on unit costs or supported by invoices of actual costs. WaCo provides unit costs after agreement by both parties.

All costs are budgeted in the JOAs. The labor rates are outlined for each position and the hours billed to the emergency task are supported by time sheets. WaCo bills owned equipment by a unit cost that is also outlined in the JOA for each type of equipment. In the case of rented equipment, WaCo must provide an invoice from the third-party that provided the equipment. WaCo bills materials and subcontractor costs from invoices as the actual costs of the repair. The JOA allows for markup on labor and materials, as well as a percentage for insurance and bond costs. The payment application documents note if costs are taxable or non-taxable.

We interviewed Water staff and obtained policies and procedures related to the processing of payment applications. We tested payment applications for mathematical accuracy, quantities charged, and price reconciliation (unit prices and mark-ups to list prices). Finally, we reviewed the invoices for any allowable deductions.

Results

Payment applications were mathematically accurate and based on costs as stipulated in the contract. We found that the contractor incorrectly submitted some expenses as tax-exempt, leading to about \$22,000 in taxes not charged to the City.

Under the current Waco contract, there were five payment applications for a total of \$933,833. The total of the first job order agreement was \$1.5 million, and there is a second approved JOA for \$975,000. We reviewed all five payment applications for completion, accuracy of time and materials charged, and taxable and non-taxable materials. We reconciled labor rates and unit prices to the JOA. In addition, we mathematically recalculated each payment application to ensure that all mark-ups and percentages for insurance and bonds were according to the JOA. We found that all rates and prices matched the JOA (or were based on invoices) and that all payments were mathematically correct.

We found that WaCo submitted some expenses as tax-exempt that should be taxed. According to Arizona Revised Statutes, all costs associated with sewer are taxable. There are no costs that can be deducted from taxable costs. We found almost \$400,000 in costs for piping and fittings that should have been taxed, amounting to approximately \$22,000 in taxes that were not charged to the City. The tax rate was verified and applied accurately on all other costs billed to the City, for the payment applications we reviewed.

Recommendation

- 2.1 Review and update payment application documents to ensure that all costs associated with sewer are taxable. Ensure that the contractor submits costs under these JOAs as taxable.

Attachment A – JOA Tasks

Task #	Contractor	Description	Start Date	Close Date	Cost (Closed)
082	WaCo	8-inch Sewer Main at 5435 East Lewis Avenue	6/17/2022	6/30/2022	\$45,166
083	WaCo	New Manhole 23-32-451	8/5/2022	Open	
084	WaCo	Lift Station 66 Force Main Repair	8/22/2022	Open	
085	WaCo	Lift Station 41 Biofilter Motor Repair	9/22/2022	Open	
086	WaCo	MH27-34-432 N Arroyo Grande	9/26/2022	12/19/2022*	\$45,870
087	WaCo	7th Avenue & Mitchell 8-inch Sewer	12/22/2022	3/28/2023*	\$8,094
091	WaCo	Longview & Osborn Townhomes	2/21/2023	Open	
092	WaCo	Lift Station 42 Gate Repair	3/23/2023	Open	

*Final report has not been issued by CA&I

Scope, Methods, and Standards

Scope

We reviewed WWE's monitoring of the Wastewater Collection System Emergency Repair and Replacement Job Order Contract. We also reviewed all the payment applications initiated on this contract, from May 2021 through March 2023.

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

- Control Environment
 - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
 - Management should implement control activities through policies

Methods

We used the following methods to complete this audit:

- We interviewed WWE staff;
- We interviewed Brown and Caldwell staff;
- We documented WWE's monitoring activities and obtained task status documentation; and,
- We obtained payment application packets and tested for compliance with contract terms.

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

Data from the City's financial system, SAP, was used to test payment applications. SAP data was previously determined to be reliable through an independent audit review.

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.