



Town of Palm Beach

Internal Audit Report
Construction Project Bidding
And Contract Administration
May 2010

Town of Palm Beach

Internal Audit Report Construction Project Bidding and Contract Administration

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I. Executive Summary

Crowe Horwath LLP (Crowe) performed an internal audit of the Town's Construction Project Bidding and Contract Administration functions for a sample of construction projects from the time period spanning October 1, 2008 to March 31, 2010.

OVERVIEW

The overall objective was to review the policies, procedures and controls over the Town's construction project bidding and contract administration for the period noted above. The basis for our project plan was developed from two primary documents. The first document was Procedure No. 1-02-7 *Construction Contracts and Project Management Procedures* (the "Construction Policy") and the second document was the Town's Purchasing Policy and Procedures Manual (the "Purchasing Policy") that has an effective date of October 2009. For projects that were sampled prior to this effective date, we reviewed these in conjunction with the purchasing policies and procedures effective at that time. We discussed compliance with these policies and procedures with employees of the Town's Departments of Public Works and Purchasing and reviewed certain available records from project files.

REPORTING METHODOLOGY

In this report, we provide a summary of our results and recommendations as well as management's responses. To assist you in analyzing our recommendations, we have provided our suggestions for corrective action based on the finding's exposure to loss or increased regulatory scrutiny, as follows:

High – Requires *immediate* remedy and, if left uncorrected, exposes the Town to significant or immediate risk of loss, asset misappropriation, data compromise or interruption, fines and penalties, or increased regulatory scrutiny.

Moderate – Requires *timely* remedy and, if left uncorrected, may expose the Town to risk of loss or misappropriation of company assets, compromise of data, fines and penalties, or increased regulatory scrutiny. These issues should be resolved in a timely manner, but after any high priority issues.

Low – Should be addressed as time and resources permit. While it is not considered to represent significant or immediate risk, repeated oversights without corrective action or compensating controls could lead to increased exposure or scrutiny.

Best Practice – Represents operational efficiencies or improvements for consideration by management based on industry best practices and Crowe's experiences.

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SUMMARY OF RESULTS

The table below displays the number of recommendations identified through our procedures, categorized by priority.

Risk Rating	Total
High	2
Moderate	5
Low	-
Total	7

Best Practice	2
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Detailed observations and recommendations are provided in Section II – Results and Recommendations. The most significant issues identified during our assessment include the following:

- **Unapproved Purchase Orders** – Instances were noted where purchase orders were executed without adherence to the Town's Policies and Procedures.
- **Adequacy of Bid Documents** - Instances were noted where bid specifications, contract plans and drawings submitted for bids were unclear or inconsistent with approved needs.
- **Billing Requisitions and Change Orders** - Instances were noted where billings or change orders were approved under lump sum requests and did not use an appropriate form for requisitions and were not accompanied by a schedule of values.
- **Written Status Reports** – We were unable to verify that written status reports were provided to the Town Manager on a monthly basis.
- **Controls over the Receipt of Supplies and Materials** – Through our inquiry with the Town's Purchasing Agent, it was found that the Town has insufficient internal controls over the receipt of inventory into the warehouse.
- **Availability of Audit Records** - Insufficient documentation was available for us to be able to corroborate if various attributes outlined in our scope of work were performed in accordance with Town Policies.

In addition to the items summarized above, other items are also documented in Section II that do not represent significant risk at this time, but offer opportunities for the Town to further strengthen controls and processes.

Thank you for this opportunity to report the results of our procedures. We also wish to thank the various Town personnel for their cooperation and assistance.

II. Results and Recommendations

Below are the results and recommendations of our procedures performed:

Finding # 1: Unapproved Purchase Orders and Invoices
Risk Rating: High

Supplies and materials purchased from HD Waterworks, invoice number 8998099, dated 9/30/2009 were purchased despite the following exceptions to Sections 6-1.3 and 14-2.1, 2.2 and 2.6 of the 2004 Town purchasing manual (effective policy as of date of purchase):

- Three written quotations were not obtained;
- Purchases were made directly from a vendor bypassing the Purchasing Division;
- Committing to a purchase before securing an authorized purchase order;
- Purchase was not made from the lowest responsible and responsive bidder;
- Purchase lacked approval by an authorized party.

The following contracts or awards were issued prior to the participation of the Purchasing Division which violates requirements noted in Section 6 of the Town's purchasing manual:

PO Number	Contract	Contractor	Final Contract Value
801356	D-8 Collection SSRP	Chaz Equipment	\$ 1,763,256
100445	STP Consulting Services	Applied Technology Mgt	\$ 162,670
901350	Restoration of Dunes	Applied Technology Mgt	\$ 69,000

We also noted related to PO 900271, (D-8 Storm, Dee Griffin, \$21,300), the project proceeded without a competitive bid and any documentation supporting the rationale for limited competition or sole vendor selection purchase as required by section 6-1.3 of the purchasing manual.

Departures from established policies increase the risk that the Town may pay significantly more for supplies and materials than required.

Recommendation

Greater emphasis needs be placed on the importance of compliance with established policies and procedures. Employees should be aware of remedial action to take in response to deviations from such policies and provided with a means to communicate concerns, anonymously if preferred, without fear of retribution. Actions that can assist in the Town's efforts include:

- Implement a whistle-blower program for employees to use if incidents have been reported to their immediate supervisor and not adequately resolved or reporting to their supervision would be inappropriate.
- Require periodic completion of training and awareness programs that promote ethical behavior.
- Periodically remind employees of the Town's code of ethics, policies and procedures, with remedial and disciplinary actions to be taken in the event of violations.
- Require periodic inspections of key processes and procedures by parties independent of the processing source.

Management Response/Action Plan

Invoices

HD Waterworks, invoice number 8998099, dated 09/30/2009 - The materials purchased from HD Waterworks were approved by Public Works staff but had not been approved by Purchasing prior to placing the order. These materials were not part of an emergency repair and should not have been purchased without the necessary purchase order number. All Public Works employees have been informed that this type of direct purchase is not permitted even in the case of an emergency. Additional remedial training will be provided as necessary and employees who bypass the appropriate process will be disciplined accordingly.

Purchase Orders

P.O. # 801356 - CHAZ EQUIPMENT - Three quotations were obtained by Public Works.

P.O. # 100445 and # 901350 - APPLIED TECHNOLOGY MANAGEMENT - The RFP process for both of these items was conducted by Public Works.

P.O. # 900271 - DEE GRIFFIN – A single quote was obtained by Public Works. Notes on requisition approval indicated that it was an emergency: “Work is needed to be done prior to 11/14/08 milling and re-surfacing. Contractor has been approved by Town Council for general utility work.”

Town staff met with legal counsel, Bruce Alexander, in 2007 - 2008 to evaluate our contracting methods. The following purchasing method was identified through the consultation and was used for several capital projects, including P.O. 801356 and P.O. 900271:

- Prequalify contractors for general areas of work (i.e. underground utilities, pump station construction, etc.)
 - Competitively bid projects between the group or
 - Negotiate a price with an individual contractor for smaller projects (less than \$100,000)
1. Following the advice of legal counsel, it was determined that awarding work to one of the pre-qualified contractors without competitive bidding among all contractors was an appropriate procurement method for expediting projects. Nevertheless, this practice has been discontinued. All projects will follow the bidding policies and procedures set forth in the Purchasing Manual. The Purchasing Division will handle all bid and RFP solicitations and will review all Council Agenda items recommending award. Items requiring Town Council approval will include a new section in the memo to the Mayor and Town Council, titled “Purchasing Review”. Similar to the “Town Attorney Review”, this will provide verification of the Purchasing Division’s involvement with the procurement process.

Individual(s) Responsible: Peter Elwell, Town Manager and Jay Boodheshwar, Director of Recreation and Special Projects
Due Date: October 12, 2010

2. As per recommendation by Crowe Horwath that greater emphasis be placed on the importance of compliance with established policies and procedures, the Town Manager has issued a directive and several Payday Post communications to all employees indicating that all purchases must be conducted in strict compliance with the Town Purchasing Policies and Procedures.

Individual(s) Responsible: Peter Elwell, Town Manager
Due Date: Completed

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3. A Power Point presentation has been developed regarding Purchasing Policies and Procedures. Seminars have been conducted with each department. This included question and answer session and the distribution of the current Purchasing Manual.

Individual(s) Responsible: Peter Elwell, Town Manager and Lynda Venne, Purchasing Agent
Due Date: Completed

4. A whistle-blower program for employees exists in the form of the Town's Ethics Hotline. Dissemination of information, reminding employees of the Ethics Hotline will be completed.

Individual(s) Responsible: Peter Elwell, Town Manager and Danielle Olson, Director of Human Resources
Due Date: November 1, 2010

5. Periodic Inspections of procurement process will be completed by the Town's auditors. A designee of the Town Manager will also conduct random audits from time to time.

Individual(s) Responsible: Peter Elwell, Town Manager and Jane Struder, Director of Finance
Due Date: February 1, 2011

Finding # 2: Bid specifications, contract plans and drawings are unclear or inconsistent with approved needs

Risk Rating: High

Specifications submitted under a solicitation to bid for PO # 901217, the Sand Transfer Plant, required multiple addendums caused by various revisions to approved engineering plans.

Of the contracts selected for testing, the following projects had change orders ranging from 18% to 110% of the original contract value:

PO Number	Contract	Contractor	Initial Value	Final Value	CO as % of Initial Contract Value
801356	D-8 Collection SSRP	Chaz Equipment	\$ 839,148	\$ 1,763,256	110%
900945	Par 3 Course - Site Infrastructure	Chaz Equipment	\$ 498,737	\$ 759,879	52%
901172	E-11 Lift Station SSRP	Chaz Equipment	\$ 122,500	\$ 151,138	23%
901217	Sand Transfer Plant Renovation	Murray Logan	\$ 2,248,000	\$ 2,647,239	18%

The absence of appropriate documentation for changes in the scope or contract price of projects represents a significant fraud risk and exposure to loss.

Recommendation

Controls over estimating and bidding should provide for adequate documentation, clerical verification, and overall review that contract specifications, plans and drawings reflect all relevant cost elements. The Town should have prescribed procedures to review the completeness and reasonableness of the final bid specifications and plans presented for bidding; for example, a second independent review / estimate may be desirable on complex or large contracts.

Management should review and regularly evaluate the status of the total estimated costs and status on contracts in progress to provide information that would enable management to take corrective action, where applicable, to effectively manage contracts. Management's review should be comprehensive and documented in the individual project's files. Detailed actual costs plus reasonable estimate of costs to complete all phases should be compared with the details of the original estimate and the total contract price. Information considered in the review should include:

- Cost records
- Open purchase orders and commitments
- Engineering progress reports
- Project management status reports
- Conferences with project engineers and independent architects
- Correspondence files, and
- Change orders

Controls should be established over claims, extras, back charges and similar items to provide reasonable assurance such items are authorized, properly documented, and provide for accumulation of related costs.

Management Response/Action Plan

Purchase Orders

P. O. # 801356 - CHAZ EQUIPMENT CO. - D-8 COLLECTION SSRP - The purchase order was issued in the amount of \$839,148.00. There were 7 change orders issued with a final value of \$1,763,256 for an increase of 110% of the original contract. The majority of the increase in project cost was due to the addition of water line work that was reimbursed by the City of West Palm Beach. Staff should have bid this work as an alternate, as opposed to using the change order process. The remaining is attributable to increases in scope of work during construction that should have been addressed in the design phase.

P. O. # 900945 - CHAZ EQUIPMENT CO. - PAR 3 GOLF COURSE RENOVATION - The purchase order was issued in the amount of \$498,737.00. There were 5 change orders issued with a final value of \$759,879.66 for an increase of 52% of the initial contract value. The main reason for the increase in contract value related to the installation of sewer pipes in the swale for an unrelated project. Although piggybacking on the Par 3 contract was intended to save costs, such as mobilization, and perform the additional work while the golf course was under construction, this is not a good practice and will be avoided in the future.

P. O. # 901172 - CHAZ EQUIPMENT CO. - E-11 LIFT STATION SSRP - The purchase order was issued for \$122,500. There were two change orders issued with a final value of \$151,138 for an increase of 23% of the initial contract value. The first change was for overlaying Pelican Lane to avoid the need for two utility trenches (aesthetics) and the second one was for upgrading the capacity of the lift station lid to

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withstand traffic weight loads because the final location of the structure extended out into the travel lane instead of being on the shoulder. The paving item should have been addressed during the design phase of the project.

P. O. # 901217 - MURRAY LOGAN CONSTRUCTION INC. - SAND TRANSFER PLANT RENOVATION - Bid No. 2009-13 – Four addendums were issued to the bid and four change orders were issued to the purchase order. The original purchase order was issued for \$2,248,000 with a final value of \$2,647,239.93 for an increase of 18% of the initial contract value. The vast majority of the increase in project cost was due to unforeseen concrete repairs necessary to restore the structure. These types of restoration projects should allow for additional field investigation during the design phase to minimize the additional unanticipated construction cost.

1. Additional controls are being developed to provide adequate review of contract specifications, plans and drawings that will reflect all cost elements prior to issuance of a bid document. Procedures will be developed documenting that the specifications, plans and drawings have been reviewed for completeness and reasonableness. The final bid specifications, plans and drawings shall be 100% complete prior to bidding. As outlined in the Construction Contracts and Project Management Procedure, a quality control review will be conducted for each project with the design engineer and Town personnel prior to advertising for bids for any underground work. The appropriate amount of geotechnical evaluation and underground utility location will be secured to ensure a thorough review of the underground conditions, when applicable. Cost estimates shall be obtained and a peer review will be conducted for verification of cost estimates on the complex larger contracts. Pre-bid meetings will be conducted as standard procedure to address any issues with the bidding contractors to assist in alleviating any potential ambiguities resulting in change orders after award. Separate contracts will be considered when significant increases in scope occur.

A new set of Professional Service Agreements for Civil Engineering services associated with the Capital Improvement Program has recently been executed. These services include complete bid specifications, construction drawings, construction phase services (inspections, verification of pay requests/change orders), and as built drawings. Staff also has budgeted for and is in the process of securing additional professional resources to oversee the capital program. This will include technical assistance on individual projects/programs as well as assistance with strengthening our overall procedures in accordance with the audit comments in this finding.

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects
Due Date: December 1, 2010

2. With the increased scrutiny of the plans and specifications and the procedure for thorough investigation of the existing project site, change orders are expected to be reduced. However, a procedure will be developed for processing change orders that will include items such as a Request for Information (RFI) to the design engineer for their evaluation of the change order request and development of an estimated cost. The design engineer will document the necessity for the change and the appropriate corrective action. All changes will be thoroughly documented and investigated by the design engineer and the Town Project Engineer. Change order requests will have the design engineer changes reflected in the specifications and/or plans, cost estimate, contractor proposal and use of AIA form signed by each party.

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The Town has recently begun using different contract delivery systems such as Construction Manger at Risk (i.e. Town Hall renovation, Seaview Tennis Center improvements, and Worth Avenue improvements), which has proven to be extremely successful with quality and budget controls. This has typically been reserved for larger projects. Staff has begun “bundling” some smaller projects (i.e. sections of force mains) into one larger project to take advantage of this delivery mechanism.

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects
Due Date: January 1, 2011

- In addition to the written status reports indicated in Finding #4, Public Works management will maintain a reporting system that provides the current status of each project, making it easy for completing reviews. This report shall provide an ongoing comprehensive overview and will document the review process being utilized by management in keeping projects on track. Management reviews will be documented in each individual project file. Emphasis will be placed on detailing actual cost and comparison with original engineering estimates and total contract price. This will assist in completing projects within budget and on time.

Information to be considered in the management review will include:

- Cost records
- Open purchase orders and commitments
- Engineering progress reports
- Project management status reports
- Conferences with project engineers and/or independent architects
- Correspondence file
- Change orders

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects, Paul Brazil, Director of Public Works
Due Date: October 1, 2010

Finding # 3: Approval of payment requests
Risk Rating Moderate

We found instances where partial billings of lump sum contracts did not use the designated form for requisitions and were not accompanied by a schedule of values. The approval of the invoice was not accompanied by documentation from a member of the Public Works department that evidenced the percentage of completion was reasonable at the date of requisition. In addition, billing requisitions for contracts noted below were processed without evidence of the Administrator’s approval:

PO Number	Contract	Contractor	Final Contract Value
801356	D-8 Collection SSRP	Chaz Equipment	\$ 1,763,256
900945	Par 3 Course - Site Infrastructure	Chaz Equipment	\$ 759,879
901350	Restoration of Dunes	Applied Technology Mgt	\$ 69,000

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The lack of substantive documentation as to the percentage of completion on open projects increases the likelihood that payments will be made prior to the work being performed and the Town losing leverage on the contractor should these be performance issues on the job.

Recommendation

For projects that are determined to be “major” lump sum contracts (as defined by Procedure 1-02-07), all requisitions for payment from vendors should be submitted on an American Institute of Architects Contract document that is supported by a schedule of values which agrees to the initial contract with any additions/reductions for approved change orders. Each line item should be scheduled documenting the percentage of completion and documentation of approval from the contract administrator should be included on a copy of the schedule of values and maintained in the contract file. A policy requiring the administrator’s signed approval on billing requisitions should be implemented and enforced.

Management Response/Action Plan

1. All requests for payment on future contracts will use the American Institute of Architect (AIA) document (or similar document providing same features), supported by a schedule of values which correlates to the initial contract with any additions/reductions for approved change orders. Each line item will be checked by the project manager and verified for completion of work and delivery of materials. Copies supporting the completion of work will be maintained in the project file. Additionally, invoices will be verified and approved by the Consulting Engineer and/or Architect and approved by appropriate Town personnel.

Individual(s) Responsible: Paul Brazil, Director of Public Works and Lynda Venne, Purchasing Agent
Due Date: December 1, 2010

2. A standardized payment request document will be developed for consultants that details work completed and that agrees with the Professional Services Agreement and the Project Proposal upon which the Scope of Work was based. Invoices will be verified and approved by the Town Project Manager and approved by appropriate Town personnel. Lump sum invoices will only be utilized for smaller and less complex projects, and all invoices will be supported by verification that the invoice is accurate.

Individual(s) Responsible: Paul Brazil, Director of Public Works and Lynda Venne, Purchasing Agent
Due Date: December 1, 2010

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Finding # 4: Written Status Reports for Major Construction Projects
Risk Rating: Moderate

The Construction Policy requires that “the Director of Public Works shall take all those steps necessary to ensure that a written status report on each major Town construction project is provided to the Town Manager not less than once a month”. The Director of Public Works should have an established schedule to ensure that all written status reports shall be issued during each month. Through our inquiry and review of project files, we were unable to determine if written status reports were being completed as required by the Construction Policy. The absences of appropriate documentation supporting the monitoring of jobs increases the risk that the jobs are not sufficiently monitored and reduces the opportunity to instigate problems as they occur on jobs.

Recommendation

The Construction Policy should be followed on all major projects with regard to reporting by the Director of Public Works and enforced by the Town Manager. It is imperative that the status reports be in writing and be included in the project file as supporting documentation.

Management Response/Action Plan

1. As per the Town’s Construction Policy, written status reports on each Town construction project will be provided to the Town Manager in a standard format. The status report will provide an overview of all the projects and their current status, including budget status. The status reports will include appropriate documentation for the Town Manager to determine that projects are sufficiently monitored and any issues are resolved satisfactorily. Supporting documents for each project will be maintained in the individual projects files.

Individual(s) Responsible: Paul Brazil, Director of Public Works
Due Date: October 1, 2010.

Finding # 5: Controls over the receipt of Supplies and Materials
Risk Rating: Moderate

Through inquiry of the Purchasing Agent, we determined that there were insufficient internal controls for the receipt of supplies and inventory into the warehouse.

Recommendation

We suggest that the Town use formal receiving reports, such as a copy of the purchase order to document the receipt of goods. Receiving personnel should be instructed to count the goods received and compare the total received to the total per the delivery tickets to verify the quantities received. Any shortages or rejections of supplies or materials should be reported to the Purchasing Agent.

Additionally, the Town should implement a receiving log to document all goods received on a daily basis. Lack of documentation identifying the party who acknowledged receipt represents a fraud risk of loss.

Management Response/Action Plan

1. The warehouse located in the Public Works facility is managed by the Purchasing Department and uses a formal computerized receiving report in the Eden software system. Packing slips are scanned as additional proof of receipt. However, this receiving function is not being used town wide. The Purchasing Division will work with Finance and Information Systems to implement this process for all departments throughout the Town so that verification of the goods and quantities received follows a consistent formal documented and verifiable process. Appropriate training will be provided to staff prior to Town-wide implementation.

Individual(s) Responsible: Jane Struder, Director of Finance, and Lynda Venne, Purchasing Agent
Spencer Wilson, Information Systems Manager
Due Date: February 1, 2011

Finding # 6: Approval of change orders
Risk Rating: Moderate

Change orders for projects noted below were approved but there appeared to be a lack of sufficient detail as to work to be performed and the pricing of the change order.

PO Number	Contract	Contractor	Initial Value	Final Value
900945	Par 3 Course - Site Infrastructure	Chaz Equipment	\$ 498,737	\$ 759,879
900925	Par 3 Course Renovation	QGS Development	\$ 2,819,974	\$ 2,936,799

Recommendation

Contract records should be designed to facilitate detailed comparisons of actual to estimated costs. Change orders, along with other records, should provide for the classification and summarization of costs into appropriate categories such as materials, subcontract charges, labor, equipment and overhead. Town policy should provide for review and approval of such documents prior to commencing work or submitting a requisition for payment. Review of such reports serves to identify potential problems on contracts; the overall reasonableness of the work performed to date and help minimize the potential that unauthorized costs will be charged to contracts.

Management Response/Action Plan

1. A procedure is currently being developed and will be implemented to provide a process for review of the change order requests from the contractor. A Request for Information (RFI) will be submitted to the design engineer/architect and once this information has been received, proposals will be obtained from the contractor/subcontractor and evaluated by the consultant and appropriate Town personnel to verify pricing is in line with current industry pricing.

The change order request will be completed using the AIA (or similar form) and will detail the materials, subcontract charges, labor, equipment and overhead. A review of the proposed work will be completed by the engineering consultants and Town personnel to identify any potential problems and the reasonableness of the work performed, which will minimize the potential that unauthorized costs will be

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charged to the Town. As identified in Finding # 7, the change orders shall identify engineering, construction and or manufacturing problems that could possibly be charged back to another party, where applicable.

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects and Lynda Venne, Purchasing Agent
Due Date: January 1, 2011

2. No work will be authorized until all appropriate approvals have been obtained and a formal change order issued with approval from the Town Manager (Eden approval process). Any emergency work that must be completed expeditiously will follow the procedures set forth in the Purchasing Manual and will be identified as such.

Individual(s) Responsible: Paul Brazil, Director of Public Works and Lynda Venne, Purchasing Agent
Due Date: Completed

3. Staff will continue to pursue alternative delivery mechanisms, such as Construction Manager at Risk or Design-build, which will address change orders in a more controlled and timely manner, through contingency use directives.

Individual(s) Responsible: Paul Brazil, Director of Public Works and Lynda Venne, Purchasing Agent
Due Date: Ongoing

Finding # 7: Individual Project Files
Risk Rating: Moderate

For several of our sample projects sampled, we were unable to obtain the following documentation that should be maintained in each individual project file:

- That the competitive bidding was properly executed in accordance with policy;
- Fair price estimates were determined prior to bid openings;
- Contracts were administered by qualified engineers;
- Projects were monitored to ensure compliance with specifications and budgets;
- Site visits were performed as required;
- Process used to track and resolve problems and violations;
- Approval of change orders prior to processing;
- Administrator's approval of the billing requisition;
- Change order work descriptions identifying engineering, construction, and or manufacturing problems that should be back charged to another party, where applicable.

The causes of the problem appeared to be:

- Lack of a clearly specified system for filing records;
- Failure of those who removed records from the files indicating who took the record;
- Failure to return the record to the files or misfiling it when returned;
- Lack of specific policies for removing prior year records from the files when transferring to a designated storage space.

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This condition could also present problems when documents are needed in support of other reports subject to audit by regulators, auditors, other governmental agencies or support for any potential litigation.

Recommendation:

We recommend that the following:

- Implement a systematic manner of filing documents to store the information consecutively by number, vendor, or alphabetically. The Town should implement a project "checklist" that should be included in each project file. A responsible member of Public Works should ensure that all appropriate documentation required is included in project files. This member of the Public Works department should sign off that they have reviewed all documentation and that the file is complete and accurate.
- Institute use of "sign-out" cards to be used when documents are removed. The card should be placed in the file in place of the removed document.
- Establish a policy specifying which records should be retained permanently and which records should be kept only for a specified period before being destroyed, where appropriate.

Management Response/Action Plan

1. All bid files are maintained in Purchasing and filed numerically by the Bid/RFP Number. The purchase orders are available electronically in the Eden program and include change orders and supporting documentation. Hard copies of the purchase orders are also maintained in Purchasing filed numerically by purchase order number. Hard copies of the purchase orders and change orders are sent to the using Department/Division for their files and the electronic copies can be viewed on line as well.

Individual Project files are maintained in Public Works, and are in the process of being expanded to provide documentation as recommended in the report and listed below:

- Plans and Specifications
- Copies of the Bid Document and contractor response(s)
- Engineering progress reports
- Project management status reports
- Documentation of conferences with project engineers and independent architects
- Copies of all correspondence relating to the project
- Complete cost records, including copies of invoices
- Change orders with supporting documents and revised plans

Construction projects are filed alphabetically by project name. Staff has established a redundant electronic file for the same data (files and sub files by category) on the Public Works' common server.

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Project check lists will be used. Staff has obtained samples from both the public and private sectors. Staff will develop one composite checklist and use it for all future projects. A staff member will be assigned the task of reviewing the check lists and files on a regular basis. Sign out cards in the file area and training will take place to insure they are used consistently. The administrative staff will be responsible for pulling the files and re-filing to maintain the integrity of the files. The Town has a records retention policy that is based on Florida State statute and Public Works is compliant.

Including the information above each project file will also provide documentation of the following:

- Competitive bidding was properly executed in accordance with policy.
- Fair price estimates were determined prior to bid openings.
- Contracts were administered by qualified engineers
- Projects were monitored to ensure compliance with specifications and budgets
- Site visits were performed as required
- Process used to track and resolve problems and violations
- Approval of change orders prior to processing
- Administrator's approval of the billing requisition/invoice
- Change order work descriptions identifying engineering, construction and or manufacturing problems that should be charged to another party, where applicable

Individual(s) Responsible: Paul Brazil, Director of Public Works and Lynda Venne, Purchasing Agent
Due Date: October 1, 2010

Finding # 8: Objectivity of Vendor Selection Committees
Risk Rating: Best practice

The composition of the subcontractor selection committee consisted of employees from the same department and lacked representation from other departments that were fundamental to the construction process. In addition, several employees had direct supervisor/subordinate positions outside of their committee roles which may limit the objectivity of the process.

Recommendation

Policies and procedures should be established so that committees are formed from a diverse group of peers independent of each others normal work functions. To the extent possible, committees should have representation from members in key departments such as Purchasing and Finance.

Management Response/Action Plan

1. Staff concurs that representation on past selection committees was not as diverse as it could have been, with limited involvement from Town departments other than those who were needing the services of the selected contractor (this was usually, but not always, the Public Works Department). During the past few years, staff has shifted to a practice that includes a broader cross-section of Town departments and expertise in the development of selection committees. Also, per Town Council's direction, we have begun including representatives of applicable Town advisory boards/commission on selection committees, further broadening the perspective of each applicable committee. These practices have proven to be very successful. We believe they have resulted in better outcomes in the selection process for consultants and contractors. A written policy will be developed to formalize this practice, requiring that membership of selection committees to be diverse, both as to background/experience/expertise and as to areas of authority/responsibility.

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects
Due Date: November 1, 2010

Finding # 9: Major Construction Projects
Risk Rating: Best practice

We noted that from the Construction Policy that a "major construction project" shall be determined by the Town Manager after consultation with Director of Public Works. If a project is deemed "major", the project is subject to a number of additional policies and procedures which require compliance.

Recommendation

At present, the definition of a major project is based on qualitative measures and may contain an element of subjectivity. We recommend that the Construction Policy be amended to include a quantitative threshold (i.e. all projects exceeding \$100,000) to remove the element of subjectivity from this determination.

Management Response/Action Plan

1. The Town Manager will establish a clear and objective definition for what constitutes a "major construction project" in the Town.

Individual(s) Responsible: Peter Elwell, Town Manager, Paul Brazil, Director of Public Works, and Lynda Venne, Purchasing Agent
Due Date: October 1, 2010

Note: Although this was not specifically recommended by the auditors, staff will review Administrative Procedure #1-02-7 ("Construction Contracts and Project Management Procedures") in its entirety and will make all necessary revisions to reflect (1) improved procedures implemented in response to the specific audit comments addressed herein, (2) other improved procedures set forth in the updated Purchasing Manual, and (3) any other changes necessary to ensure that all obsolete sections are deleted and that all remaining sections accurately reflect the improved procedures and practices being implemented by the Town.

Individual(s) Responsible: Jay Boodheshwar, Director of Recreation and Special Projects
Due Date: March 1, 2010

III. Summary of Scope

The specific procedures performed were based on the concepts of selective testing. Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would not have been detected had procedures been changed or expanded.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.