



# MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT  
Internal Audit Division

## INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City  
VIA: Kathie G. Brooks, Budget and Performance Improvement Director   
FROM: James J. Sutter, Internal Auditor   
DATE: December 17, 2008  
AUDIT: Public Works Maintenance Contracts and Capital Renewal and Replacement Projects Audit  
PERIOD: October 1, 2006 through March 31, 2008

This report is the result of an audit of the sufficiency of documentation maintained by the Contracts Coordinator and Capital Projects Coordinator for sampled maintenance contracts and capital renewal and replacement projects during the audit period.

### INTRODUCTION

The City's adopted 2007/08 budget book states "*The Property Management Division is responsible for the operation, maintenance and repair of over 240 municipal buildings and properties, 39 bridges, 3 monuments, 12 water fountains, 3 swimming pools, over 2 miles of Boardwalk, playground equipment, parking garages and street furniture. The Division provides oversight for project development of construction and renovation projects of all City facilities and develops programming, bid specifications, architectural plans and provides construction management for renovation of City facilities. The Property Management Division is responsible for space planning for relocation and renovation of City departments and provides roof surveys, asbestos surveys, and the development of specifications, cost estimates, and contracts necessary for the repair/replacement of all operational equipment, roofs, and building systems. The Division is also responsible for graffiti control throughout the City {for City infrastructure}.*"

Maintenance contracts are monitored by the Contracts Coordinator, who reports directly to the Property Management Division Director. Tested items were chosen from an Eden System General Ledger and Purchasing Modules listing of twenty-two different contracted vendors ranging from janitorial to extermination with budgeted purchase orders totaling approximately \$1.2 million for general ledger account number 520-1720-000325 (contract maintenance) for the 2007/08 fiscal year. Maintenance contracts represent those whereby work is done regularly to keep a machine, building, or piece of equipment in good condition and working order.

Five vendors totaling \$500,150 for janitorial services were excluded from our review since the Public Works Department previously discovered a procedural error in the contract reassignment. As a result, this contract was heavily scrutinized by the City Administration and subsequently corrected by City Commission resolution. On October 17, 2007, the City Commission approved the issuance of a RFP for new city-wide janitorial services. Three vendors (Omarcio Cleaning Services Inc., Diamond Contract Services Inc. and Vista Building Maintenance Services Inc.) were selected for contracts and approved by the City Commission on July 16, 2008 with the new contracts becoming effective on October 1, 2008.

The remaining seventeen vendor maintenance contracts monitored by Property Management were

Internal Audit Report  
Public Works Maintenance Contracts and Capital Renewal and Replacement Projects Audit  
December 17, 2008

approved by the City Administration and are included in the budget. Bids are solicited from a minimum of three vendors with the lowest and most capable one selected. For contracts up to \$25,000, only the City Manager or his designee has the ability to bind the City. When the amount of a contract exceeds \$25,000, the City Commission shall award the contract to the lowest and best bidder, or may delegate to the City Manager the power to award such contract to the lowest and best bidder.

Capital renewal and replacement projects were managed by the Capital Projects Coordinator, who is currently supervised by the Assistant Public Works Director. Capital renewal and replacement projects can be defined as those that replace or repair buildings, facilities, etc. that are either completely or partially worn, broken or no longer suitable for use in their current condition. These projects tend to differ from the aforementioned maintenance projects in that they are typically of larger amounts and longer duration, are approved by the City Commission on a project specific basis as part of the City's annual Renewal and Replacement budget and do not recur annually.

The City Commission via resolutions approves a list of projects, the scope of work, the total cost and the funding source (which relates to a general ledger account number) for each fiscal year. The total cost of each project is calculated by VFA, Inc., an independent company with no additional contingencies or other costs built in. However, the City Commission does build in an overall annual contingency to be used if needed. For example, Resolution No. 2006-26400 for 2006/07 fiscal year capital renewal and replacement projects contained a contingency of \$180,502 while Resolution No. 2007-26653 for the 2007/08 fiscal year had a \$4,754 contingency. Testing was performed on eight different projects selected from a listing provided of sixty-two projects (12.9%) with appropriated monies during the audit period.. Internal Audit was able to successfully reconcile the listing's amounts and projects with the annual resolutions approved by the City Commission so we found the listing to be complete.

## **OVERALL OPINION**

The lack of documentation provided by the Property Management Division and the subsequent dismissal of the Contracts Coordinator significantly impacted testing over maintenance contracts. As a result, little consensus could be reached other than the need to maintain more detailed records going forward and the need for closer managerial supervision.

For the capital renewal and replacement projects handled by the Public Works Department, the Capital Projects Coordinator files were well documented and properly organized to facilitate independent review. Bids were solicited and received for tested projects and they appear to have been awarded to the appropriate vendor in compliance with Procurement rules.

Any noted shortcomings in need of corrective action are addressed in the section entitled "Findings, Recommendations and Management Responses" and are separated by the corresponding City employee responsible.

## **PURPOSE**

The purpose of this audit is to determine whether the maintained documentation for Property Management's maintenance contracts and Public Works' capital renewal and replacement projects

was sufficient to determine if vendors were properly selected based on the City's procurement policies.

## SCOPE

Scope limitations arose during the testing of the Contracts Coordinator's duties due to the lack of provided documentation and his termination in April 2008 shortly after the audit began. Therefore, much testing in this area was based on inquiries with Property Management and Procurement Division personnel. A follow-up audit of this area will be scheduled to determine if the recordkeeping has improved. Meanwhile, sufficient supporting documentation was provided for testing of the sampled capital renewal and replacement projects managed by the Capital Projects Coordinator.

1. Confirm that timely prepared, accurately completed and properly authorized documentation is maintained.
2. Confirm that service solicitations were obtained in accordance with designated Procurement rules.
3. Confirm that purchase orders adequately reflect operating needs and that change orders were not consistently required to complete the work.
4. Confirm that tested general ledger entries into Property Management Division's repairs/maintenance supplies account were correct.

## FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### Public Works (Property Management Division) – Maintenance Contracts

1. Finding: Incomplete Documentation  
The basis for testing was an Eden printout of general ledger account 520-1720-00325 (contract maintenance) for the 2007/08 fiscal year. It listed twenty-two different vendors contracting with the Property Management Division ranging from janitorial to extermination totaling approximately \$1.2 million budgeted. The Property Division Director claimed that all of these contracts were to be monitored by the Contracts Coordinator.

Vendor contract files were subsequently requested from the Contracts Coordinator but the only ones received were for janitorial, elevator, security and energy management services. The sole documentation provided for the remaining contracts were the financial files maintained by the Office Associate V. These files were helpful but typically contained a copy of the purchase order and any corresponding invoices paid thereby reducing the balance and future monies available. As a result of this missing documentation, a scope limitation was created and testing was curtailed.

The Contracts Coordinator was dismissed from this position in April 2008 after sixty-two months and is now working elsewhere in the City. An interim Contracts Coordinator was appointed from within the division until the position is advertised and filled permanently. Among other duties, this interim person has been working on restoring the files and is trying to making them complete. In addition, several of the maintenance contracts were reassigned to departmental operational supervisors (i.e. air conditioning services would be now monitored by the air conditioning supervisor, etc.). Consequently, a follow-up audit will be scheduled.

Recommendations:

The Contracts Coordinator should have detailed knowledge on all services/contracts that fall under his/her control. Accordingly, separate complete vendor contract files should be maintained that could stand in his/her absence. For example, files should at a minimum contain the current contract terms and measure the vendor's corresponding level of compliance, record vendor communications, maintain inspection logs, ensure compliance with Procurement rules, etc.

Designated Property Management employees that will continue to monitor contracts should receive training in the Eden System's Contract Management Module. This module should be used going forward as among other benefits it would help centralize important contract information to facilitate sufficiency, accountability and independent review of the vendor's performance.

Management Responses: The division agrees with the findings and recommendations. The Contracts Coordinator position was non-productive. The new employee filling that position on a temporary basis is organizing the contracts and contract documents and will be reporting the status of contracts on a monthly basis.

2. Finding: *Renewals of Maintenance Services Should Be Competitively Bid Each Year*  
Inquiries revealed that bids were properly solicited initially for new services and the lowest bidding vendor was selected. However, as time progressed; the selected vendor was apparently often rolled over from one year to the next without soliciting new bids.

Recommendations:

Bids should be solicited annually or at the end of signed contracts to help ensure that the City is receiving the desired services for the most competitive price. The received bids should be maintained in the vendor file and reported on a bid tabulation sheet for independent review. Again, this information should be included in Eden System's Contract Management Module.

Management Responses: The division agrees with the findings and recommendations. In the past contract renewal or expiration dates were neglected and continued after expiration without renewal or documentation. This process has ceased. Contract dates are now being tracked and reported on monthly.

3. Finding: *Inefficient Budgeting and Estimation of Purchase Order Amounts*  
Inquiries revealed that the created purchase orders do not necessarily accurately reflect the actual amounts needed. For example, one listed purchase order for fountain pool maintenance totaling \$9,948 is not being used for the second consecutive fiscal year. Furthermore, the Contracts Coordinator said not to go by the initial amounts as change orders are often done. Although the initial amount of purchase orders are not always easy to calculate, their future necessity creates additional work for all parties involved, affects monies budgeted, etc. and should be avoided whenever possible.

Recommendations:

Even though occasionally difficult due to dynamic conditions, additional time should be spent trying to more accurately calculate the amount of the requested purchase orders.

Management Responses: The division agrees with the findings and recommendations. In the past, contract amounts were based on percentage increases and not forecasted maintenance needs. This practice has changed. Additionally, the division audited all of our contracts and discontinued service on approximately 20%.

4. Finding: *Contract Approval*

In summary, Miami Beach City Code Section 2-369 details the awarding of City contracts as follows:

- The City's Procurement Director has the authority to award all contracts of \$10,000 or less to the lowest and best bidder.
- All contracts, exceeding \$10,000 but less than \$25,000 shall be awarded by the City Manager or his designee to the lowest and best bidder.
- When the amount of a contract exceeds \$25,000, the City Commission shall award the contract to the lowest and best bidder, or may delegate to the City Manager the power to award such contract to the lowest and best bidder.
- The City's Procurement Director also has the delegated authority for accessing and piggy backing off previously awarded State of Florida, Miami-Dade County, School Board and General Services Administration contracts thereby binding the City to the same terms.

The Contracts Coordinator entered into a contract with Otis Elevator covering elevator maintenance at the North Shore Youth Center for the period of 02/03/05 through 02/02/10 for monthly payments of \$160. Yet, no documentation was provided indicating that he was empowered by the City Manager to do so. The Procurement Director is presently resolving this shortcoming by having the vendor re-submit the contract so that the Legal Department can review its terms before the applicable City personnel sign. All other items tested had proper supporting documentation for approval by either the Procurement Director, City or City Commission as required.

Recommendations:

Procurement policies should be closely followed. Any exceptions authorizing other City employees should be discussed with the Procurement Department and properly documented and maintained for future inspection.

The Procurement Department should hold periodic training sessions to inform City personnel of their abilities and limits regarding purchasing. These training sessions could be further supported by distributed policies and procedures to offer additional guidance. Anyone exceeding their authority should then be held accountable for their actions as a deterrent to possible future offenders.

Management Responses: Current practice is to negotiate the contract terms and send to it the appropriate person for approval. The Contract Coordinator exceeded his authority to enter into contracts and that was one of the reasons that led to his termination.

5. Finding: *Contract Maintenance Entries in Repair General Ledger Account*

Review of sixteen entries charged to general ledger account number 520-1720-000342 (repairs/maintenance supplies) during the audit period found that the following two contract maintenance items were incorrectly included:

Internal Audit Report  
Public Works Maintenance Contracts and Capital Renewal and Replacement Projects Audit  
December 17, 2008

<u>Vendor Name</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Invoice Amount</u>
Kone, Inc.	223420	03/08/07	\$430
Otis Elevator Company	251878	08/09/07	\$700

The \$430 charge was actually for maintenance coverage per the City's agreement with Kone, Inc. while the \$700 charge's invoice states per Miami Beach City Hall Annex (777 Building) contract. These items relate to maintenance contracts and therefore should have been charged to general ledger account number 520-1720-000325 instead.

Recommendations:

Property Management should take greater care and have better supervisory oversight to help ensure that all repair and contract maintenance payments are correctly coded in the City's Financial System.

Management Responses: The division agrees with the findings and recommendations. Administrative staff has been instructed to be more diligent in charging the appropriate accounts.

**Public Works - Capital Renewal and Replacement Projects**

6. Finding: *Insurance Policy Approvals*

Selected vendors are required to submit proof of insurance coverage to the City. Although the insurance coverage submitted for the tested projects was apparently satisfactory, they were not submitted or approved by the City's Risk Manager. This individual is best suited to determine whether the vendor has met the contract's insurance requirements and that the City is sufficiently protected.

Recommendations:

A copy of the contract's insurance requirements and the vendor submitted insurance policy should be sent by e-mail to the City's Risk Manager for approval. The returned approved copy should then be incorporated into the vendor files.

Management Responses:

The Capital Projects Coordinator will implement the recommendation as requested.

7. Finding: *Safeguarding Received Bids*

Informal bids are received from vendors directly by the Capital Projects Coordinator and her staff. Inquiries revealed that once received, they were stored on a table in the Capital Projects Coordinator's office where they may be accessed by passersby, employees, etc.

Recommendations:

Received informal bids should be properly safeguarded inside a locked cabinet until tabulation to help ensure that are not tampered with, misplaced, read by others, etc. to better protect the integrity of the process.

Management Responses:

The Capital Projects Coordinator will implement recommendations as requested.

8. Finding: *Earlier Contracts*

One of the tested projects initially began in 2001 was prior to the Capital Projects

Internal Audit Report  
Public Works Maintenance Contracts and Capital Renewal and Replacement Projects Audit  
December 17, 2008

Coordinator assuming control of the Historic City Hall Façade Restoration project in 2004. The vendor named Bea International Inc. was selected on the basis of a rotational list for professional services by the Procurement Division and therefore the work did not go out for bid. However, Property Management's provided project files did not contain sufficient documentation to support this action.

Recommendations:

All project files should be complete, regardless of the starting date. In fact, there is more of a need for the older projects in case personnel change and take their knowledge base with them. The Capital Projects Coordinator should explore the usage of the Eden System's Project Accounting Module so that it can be used to provide centralized and complete information on all capital renewal and replacement projects.

Management Responses:

We agree that the file should have been more complete but the shortcoming occurred prior to the new staff's arrival. All current tested project files were complete and sufficient.

**EXIT CONFERENCE**

An exit conference was held with Michael Alvarez, Assistant Public Works Director, James Sutter (Internal Auditor) and Mark Coolidge (Senior Auditor). A separate meeting was held with Property Management Division Director Robert Halfhill and Office Associate V Madeline Reisler. All parties were in agreement as to the contents of this report. Management responses were solicited and included in our report.

JJS:MC:mc

F:\obpi\AUD\INTERNAL AUDIT FILES\DOC07-08\REPORTS - FINAL\CONTRACT MAINTENANCE.doc

(audit performed by Mark Coolidge, Senior Auditor)

cc: Robert Middaugh Jr., Assistant City  
Fred Beckmann, Public Works Director  
Michael Alvarez, Assistant Public Works Director  
Robert Halfhill, Property Management Division Director  
Gus Lopez, Procurement Division Director  
Patricia Walker, Chief Financial Officer