



# CITY AUDITOR REPORT CAPITAL PROJECT BIDDING AND PAYMENT CONTROLS JANUARY 11, 2021

## AUDIT PROJECT BACKGROUND

Construction, improvement and maintenance of capital asset infrastructure is a key priority for the City of Olathe. **Maximizing reliable and sustainable infrastructure for future generations is a key goal in Olathe's 2040 Future Ready Strategic Plan.** Olathe's infrastructure-related capital assets include land, buildings, improvements, vehicles and equipment, park and pool facilities, storm sewers, bridges, streets, and water and sewer lines.

Capital infrastructure budgeting and spending is facilitated through a five year Capital Improvement Plan (CIP), which estimates costs to construct, upgrade and replace infrastructure assets. The City's most recently adopted CIP details **over 85 capital projects totaling \$432.7 million planned for the 2021-2025 time period.**

This audit project focused on processes and controls operating within capital asset infrastructure project bidding, materials/service receipt and payment, and project completion certification. **Change order justification and contract term/condition compliance are not in the scope of this audit.**

## AUDIT SUMMARY

**This audit found no control exceptions in the infrastructure bidding and payment areas reviewed.** One **potential process enhancement** for management's consideration in the current uncertain economic environment is the review the bidder credit standing; this opportunity is discussed at **page 4.**

**Objectives** of this audit are detailed at **page 2.** **Detail Audit Conclusions** are at **pages 2-3.** The **Potential Process Enhancement** for management consideration is discussed at **page 4.** The **Audit Methodology** used to conduct this project is detailed at **Appendix I** on **page 5.** Detail information on **Capital Infrastructure Projects Reviewed** for the project is at **Appendix II** on **page 6.**

The Auditor appreciates the assistance, time and expertise provided by Public Works, Engineering, and Purchasing teams throughout this project.

## **AUDIT OBJECTIVES**

The objectives of this audit were to determine processes and controls are in place to ensure:

- Capital asset project bids are confidential, to ensure optimal services/materials prices are obtained by the City
- Project specifications are accurate and well-defined, to ensure bids reflect needed materials and services for construction and limit change order potential
- Communication with bidders to clarify bid terms or scope, and any resulting revisions/addendums, are appropriately communicated and documented
- Bid evaluation teams contain needed technical/subject expertise
- The basis of awarded bids is established, documented and communicated/approved as required
- Bidders are vetted to ensure they are technically competent, with sufficient performance ability and capacity
- Sole source bidding is appropriately justified, documented and approved
- Materials/services are received by personnel with knowledge to determine their conformance/suitability
- Project invoices are appropriately verified and approved by personnel with sufficient knowledge to ensure invoice validity
- Segregation is established between bid award, material/service receipt and invoice payment duties (or compensating controls exist to limit potential misuse or errors in these processes)
- Final project payments and project completion certifications are appropriately reviewed, verified, documented and approved

## **DETAIL AUDIT CONCLUSIONS**

### **BIDDING:**

- **Project scope and specifications** reviewed within Invitations for Bid/Requests for Proposal or Qualifications were appropriately:
  - **Developed/established by experienced City procurement/Operations/Engineering personnel, or** a hired engineering firm as applicable
  - Documented in **sufficient detail to define the project's location, purpose, and objectives**
  - **Clarified/amended via policy-required addendums** if requested, and **communicated to all bid recipients/bidders**
- **Bid solicitation for the projects was conducted as required by Purchasing Policies and Procedures Manual** via the City official newspaper *or* the public bid web portal publicpurchase.com. Use of the website and paper for bidding purposes was verified by reviewing advertisements *or* individual bid website information.

## **DETAIL AUDIT CONCLUSIONS, continued...**

- **Reviewed online project bid responses were confidentially maintained via administrative access controls established in the publicpurchase.org website.** Test attempts to log in or access the portal without authorized credentials were not successful, indicating access restriction controls are functioning.
- **Paper bid/proposal/qualification responses are required to be held as confidential prior to bid award** per various provisions of **Purchasing Policies & Procedures Manual Section 30; understanding of this** requirement was confirmed with applicable personnel with access to bid information.
- **Tested bids/proposals submitted were completely and accurately reflected on bid tabulations.**
- **Bid tabulations were furnished for review and approval** to Purchasing Policy/Procedure required levels of department management, the City Manager's Office, and/or the governing body.
- **For the one sole source instance noted in tested transactions, a procurement policy-required 'Competitive Exception/Sole Source' justification form was completed, reviewed and approved.**
  - Detecting only one such instance in the 156 invoices reviewed also indicates that sole source purchases do not appear to be frequent.

## **PAYMENT**

- **Tested awarded contracts/services agreements  $\geq$  \$50,000 had bid evaluation, award recommendation, and award rationale submitted to and approved by the Council as required by procurement policy.**
- **Project payment invoices tested were received and approved in the E1 financial system by knowledgeable personnel at levels required by Purchasing Policies and Procedures.**
- **Change orders and final payment/completion certifications tested were reviewed and approved by Purchasing Policy/Procedure required levels of personnel, management and the governing body.**
- **Sampled invoices tested in the E1 financial system workflow were received by knowledgeable Public Works support personnel, who were segregated from payment review and approval tasks.**

## **POTENTIAL PROCESS ENHANCEMENT OPPORTUNITY**

Currently, construction project bidders provide bid bonds, and the company which is awarded the project provides a performance bond.

**Bid bonds** are used as a risk management tool to protect the City from financial exposure if the company withdraws the winning bid *or* does not execute a final contract. **Performance bonds** are used as a risk management tool to limit the City's financial exposure for construction out of compliance with contract requirements.

**Another risk management tool which can proactively assess the potential for a company's inability or unwillingness to perform is a credit/financial inquiry.** These provide recent information on a company's payment and credit history. Credit inquiries are **now done on an ad hoc basis** by Procurement at the request of project managers. After Audit discussion of credit inquiry use with Public Works management, the department plans to communicate the benefits of using this tool to project managers.

## APPENDIX I: AUDIT TEST METHODOLOGY

Bidding and payment activity were reviewed for a judgmentally selected sample of **10 capital projects with authorized spending of approximately \$49.7 million**. The reviewed transactions in these projects were selected from the contracts/services agreements awarded to construction and services firms. For spending on these projects, review and approval requirements as stated in the City's *Purchasing Policies and Procedures Manual* are applicable. For detail of the projects reviewed, please refer to **Appendix II, Capital Infrastructure Projects Reviewed**.

- For the 10 selected projects, the following items and areas were reviewed:
  - methodology used and documentation created to establish scope and specifications for each project, based on Engineering Policies and Procedures Manual requirements
  - methodology used and documentation created to solicit, communicate, receive and record each project's bids and proposals, based on Engineering Policies and Procedures Manual requirements
  - basis used to vet bids, evaluate bidders, and arrive at bid award recommendations for each project per the Engineering Policies and Procedures Manual *and* review of bid evaluation documents created
  - the technical qualifications and educational/training requirements for members of each project's bid/proposal evaluation teams per the Engineering Policies and Procedures Manual
  - the existence of and compliance with Purchasing Policies and Procedures for documentation and communication of bid award recommendations to management and governing body members
  - sole-source vendor use, and compliance with Purchasing Policies and Procedures Manual requirements for justification, documentation and approval of sole sourcing
  - vouching a sample of 156 project payment to vendor invoices in the 1/1/17 to 6/30/20 time period, and review of these invoices for reasonableness/validity
  - review of E1 financial system role and authority levels for personnel receiving and initiating approval of sampled invoices
  - compliance with Purchasing Policies and Procedures for required levels of management/governing body approval for the sampled invoices related to change orders, final payments, and project completion certification
  - review of the segregation of duties among E1 financial system functions/roles for sampled invoice payment initiation, review and approval tasks

## APPENDIX II: CAPITAL INFRASTRUCTURE PROJECTS REVIEWED

PROJECT #	PROJECT NAME	PROJECT TYPE/DEPARTMENT	APPROVED PROJECT AMOUNT*
1-C-010-14	Van Mar Pump Replacement	City - Sanitary Sewer	\$829,235
2-C-031-16	Indian Creek/139 <sup>th</sup> & Brookwood Stormwater Improvements	City - Storm Sewer	\$2,531,796
3-C-024-16	K-7 Santa Fe Street to Old 56 Highway	City- Streets	\$4,728,936
1-C-024-18	Lakeview Sanitary Sewer	City - Sanitary Sewer	\$2,466,539
3-B-078-17	Lindenwood Road, 163 <sup>rd</sup> to 167 <sup>th</sup>	Benefit District - Streets	\$1,545,414
2-C-007-14	Mill Creek Stormwater Improvement	City – Storm Sewer	\$3,602,393
5-C-016-18	Old 56 Highway Watermain Improvements	City - Water	\$2,364,939
5-C-036-15	Harrison Street Waterline	City - Water	\$675,295
3-C-041-18	Woodland Road, K-10 to College	City - Streets	\$13,076,000
6-C-001-18	Park Maintenance Facility	City - Buildings	\$11,500,000
<b>TOTAL PROJECTS REVIEWED</b>			<b>\$49,663,009</b>

\*For *completed* projects reviewed, this amount reflects the *final* project cost, including change orders. For projects which were in progress at the date of audit review, this reflects the authorized amount at the date of review.