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mesaaz.gov/auditor

Date: September 2, 2010

To: Audit and Finance Committee

From: Jennifer Ruttman, City Auditor 

Subject: Skilled Trades Contracts Follow-up Review

cc: Bryan Raines, Deputy City Manager
Tom LaVell, Contracts Administrator
Dennis Ray, Facilities Maintenance Department Director
Ed Quedens, Business Services Department Director

Attached is the report on our follow-up review of the City's skilled trades contracting practices. The report includes our findings, two recommendations, an Appendix with further details, and responses from the Facilities Maintenance and Business Services Department Directors. If you have any questions about this review, please feel free to contact me at x3767 or Tami Steadman at x5059.

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date: August 16, 2010

Departments: Facilities Maintenance and Business Services

Subject: Skilled Trades Contracting Practices

OBJECTIVE

The objective of this review was to determine whether the Facilities Maintenance and Business Services Departments have implemented the corrective actions presented in their responses to a March 2009 review of skilled trades contracting practices.

SCOPE & METHODOLOGY

To meet this objective, we:

- Interviewed City staff members.
- Reviewed and analyzed expenditure data.
- Reviewed contracts, invoices, & other relevant documents produced since the review.

BACKGROUND

In March 2009, the City's Contracts Administrator, Tom LaVell, investigated a complaint regarding the City's skilled trades contracting practices and prepared a report that indicated that improvements were needed in "the City's procurement and contract management policies and expectations." The report included seven recommendations, which can be briefly summarized as follows:

1. *Rebid the City's skilled trades contracts; use multiple qualified vendors instead of one.*
2. *Ensure that all skilled trades work on City buildings is coordinated through the Facilities Maintenance Dept.*
3. *Document that contractors provide required insurance and liability coverage.*
4. *Verify that all contractors are properly licensed to perform the contracted work.*
5. *Prior to awarding work to contractors, carefully review all required estimates/bids, verifying licenses, contract numbers, hourly rates, and materials costs.*
6. *Ensure required documentation is included with all invoices prior to payment.*
7. *Maintain complete files on all vendors, including contracts, estimates, invoices, correspondence and documented performance history.*

In response to these recommendations, Facilities Maintenance Director Dennis Ray and Business Services Director Ed Quedens each submitted to the City Manager a memo detailing specific actions they had taken or planned to take to address the issues.

At the March 24, 2009 Audit & Finance Committee meeting, the City Auditor presented the final report and responses, along with one additional recommendation: that management institute a follow-up procedure to ensure that the corrective actions were implemented.

CONCLUSION

At the direction of the City Manager, two new contracts were established in April 2009 for painting and general maintenance work, each creating a pool of several qualified contractors to perform these services. We found that while the maintenance services

contract has generally been used as intended, the painting services contract has not. Over the past 15 months, approximately 95% of the painting jobs associated with this contract have been performed by one vendor, Larkin Painting; and three of the five primary contractors have yet to be contacted for a single job.

In addition, we found that the Departments had not implemented the other planned improvements related to file documentation, insurance, bid specifications, invoice review & approval, training, and communications.

Overall, we found that only a few of the actions listed in the departments' responses were implemented as planned. A few more were implemented in June 2010, when the departments were notified that this follow-up review had begun. However, the majority had still not been implemented as of July 31, 2010. For a complete list of the changes promised by the departments in 2009, along with our corresponding findings regarding their implementation status at the time of this review, please see the attached Appendix.

RECOMMENDATIONS

1. The Facilities Maintenance and Business Services Department Directors should ensure that all of their respective corrective action plans are implemented as stated in their March 2009 memos to the City Manager.
2. The Facilities Maintenance and Business Services Department Directors should each provide written quarterly status reports to the City Manager or designee regarding their respective action plans. These reports should include specific data and/or other supporting documentation, and they should continue for a minimum of one year. The need for reports beyond the first year will be determined by the City Manager.

Appendix

<u>Corrective Action</u>	<u>Implementation Status</u>
Facilities Maintenance:	
1. Educate all supervisory staff of state licensing requirements to ensure that our vendors/contractors are correctly licensed and only perform work permitted within the scope of their license.	Implemented.
2. All supervisors/foremen will participate in the Contract and Grant Agreement Monitoring class offered by the City.	Not fully implemented. The Facilities Work Coordinator has not attended the class.
3. All work requested to be performed by our service contractors will have an accurate written scope of work properly defining the City's expectations and requirements, before any work is performed.	Not fully implemented. Many projects did not have a detailed scope of work, and many quotes submitted did not have an adequate detailed scope of work, which enables a proper comparison of quotes.
4. Estimates and invoices will not be accepted from our contractors without proper contract identification numbers, hourly rates, and the number of hours billed. Also required is an itemized cost of materials, and applicable tax.	Not implemented until after the start of this follow-up review.
5. Prior to commencement of work, and in addition to requiring written proper insurance certification from our contractors, we will ensure that the City is always properly named as an additional insured for future projects.	Not implemented until after the start of this follow-up review.
6. When utilizing State contracts, we will ensure in writing that all terms and conditions are the same for the City and that those State contract insurance obligations also apply to the City.	Not implemented.
7. Re-write and bid a new Contractor Maintenance Services contract. We will develop a list of qualified contractors to better provide competition and flexibility in completing City projects.	Not fully implemented. New contracts were established, however, many of the contractors who were awarded primary status have not been offered work or bid opportunities.
8. Continue to work closely with the Procurement Services department to better educate other City departments to coordinate maintenance work on City buildings with Facilities Maintenance to better ensure proper scoping, licensing,	Not fully implemented. Most work is being coordinated through Facilities Maintenance; however, they have not ensured proper scoping, licensing, permitting, completion, invoicing, and payment.

Corrective Action	Implementation Status
permitting, completion, invoicing, and payment.	Additional cooperative effort between the two departments is needed to ensure all requirements are met.
9. All invoices from our vendors and contractors will be reviewed and approved by the foreman involved, and the Work Coordinator for completeness and accuracy before it is submitted for payment.	Not fully implemented. Not all invoices were approved by the Work Coordinator.
10. Facilities Maintenance will maintain complete files for each vendor/contractor. Each file will contain the valid contract, copies of all estimates, invoices, and other pertinent communication and performance history between the City and contractor.	Not implemented.
Procurement Services:	
1. Work with Facilities Maintenance to issue a new solicitation with revised specifications. The solicitation will be written with the intent to award to a pool of qualified vendors, instead of a single vendor.	Implemented.
2. Continue to support the directive that work done to City facilities should be coordinated through Facilities Maintenance.	Implemented.
3. Ensure that for any service contracts that are done through a cooperative, a certificate of insurance will be obtained.	Not implemented.
4. Ensure copies of the certificate of insurance and copies of contractor's licenses are obtained before work is initiated.	Not fully implemented. Certificates of insurance were not obtained before work was initiated.
5. Work with Facilities and incorporate into our citywide training programs best practices on reviewing quotes including licensing and insurance requirements.	Not implemented.
6. Incorporate into our citywide training programs best practices on reviewing invoices to ensure adherence to quote terms prior to initiating a payment request.	Not implemented.
7. Incorporate into our citywide training programs best practices on documenting vendor interaction.	Not implemented.

**FACILITIES MAINTENANCE AUDIT RESPONSE
SKILLED TRADES CONTRACTING PRACTICES - AUGUST/2010**

Please respond below to the audit recommendations that correspond to your department. If a recommendation will not be implemented, please explain your alternative plan to address the observation noted in the corresponding CAP. The cells of the table will expand as necessary to fit your text.

Recommendation #1:		The Facilities Maintenance and Business Services Department Directors should ensure that all of their respective corrective action plans are implemented as stated in their March 2009 memos to the City Manager.		Estimated Implementation Date (Month/Yr)
Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)			
CAP # 1	Agree	Education of all supervisory staff of state licensing requirements to ensure that vendors/contractors are properly licensed and only perform work permitted within the scope of their license has been implemented and is ongoing. Foremen must complete the attached FM Contract Checklist as applicable prior to service contract work being performed for the City.		March 9, 2009
CAP # 2	Agree	All supervisors/foremen have participated in the Contract and Grant Agreement Monitoring class offered by the City except for Matt Skinner who was unable to attend the class when offered. Matt has scheduled with Tom LaVell to complete this training September 2, 2010.		September 2, 2010
CAP # 3	Agree	A written Scope of Work/Specification Sheet (see attached), along with drawings when appropriate must be provided by FM staff to all the contractors submitting proposals requiring itemized labor and materials.		August 3, 2010
CAP # 4	Agree	All contractor invoices must include (prior to approval) accurate contract ID when applicable, hourly rates and the number of hours billed when applicable, itemized materials, and any tax. Invoice approval is required by the Foreman, Work Coordinator, and Financial Coordinator before final Director approval is given.		August 3, 2010
CAP # 5	Agree	The FM Contract Specialist has been assigned primary responsibility to assure that all contractors (and cooperative contracts) being utilized by FM have <u>current licenses</u> , <u>current insurance certificates</u> (assuring the City is adequately named as additional insured) are on file, and <u>current security clearances</u> have been provided. He also will continue to work closely with Municipal Security, Purchasing, and Tom LaVell to assure INS and ALWA requirements are fulfilled for both FM and any cooperative contracts the Department may utilize. As of August 26, 2010, six (6) Building Maintenance Service Contractors, and four (4) Painting Contractors have completed all required certifications along with our custodial, generator, landscape, locksmith, pest control, plumbing, and window washing contractors (see attached FM Contracts Master List).		August 26, 2010
CAP # 6	Agree	Use of cooperative contracts by Facilities Maintenance is infrequent with only the state carpet contract utilized four times and the state painting contract used once in the past two years. Tom LaVell has supplied the Co-op Letter Agreement (attached) to be used to assure that all terms and conditions are the same for the City and that those State Contract insurance obligations also apply to the City.		August 3, 2010

**FACILITIES MAINTENANCE AUDIT RESPONSE
SKILLED TRADES CONTRACTING PRACTICES - AUGUST/2010**

CAP # 7	Agree	We are continuing our concentrated efforts over the past eighteen months working with Purchasing to re-write/replace outdated service contracts. In addition to replacing the Carpentry Contract with the Contractor Building Maintenance Contract, we have also replaced the Custodial, Painting, Pest Control, and Locksmith maintenance contracts. We are currently working with Purchasing to re-write/re-bid the Automatic Gate, Chiller, Elevator, Fire Equipment Systems, Overhead Door, Plumbing, Water Treatment, and Window Washing contracts.	Began in February, 2009 and is ONGOING
CAP # 8	Agree	We have requested Procurement Services' assistance in training other departments to coordinate maintenance work through Facilities Maintenance. We have also met with the Fire Department, Police, PRCF, and Engineering to coordinate our work efforts.	Began in March 2009 and is ONGOING
CAP # 9	Agree	All invoices are reviewed and approved by the Foreman, Work Coordinator, and Financial Coordinator before final Director approval is given. Checklists have been implemented to assure completeness and accuracy.	August 3, 2010
CAP # 10	Agree	Files have been established for our contractors, containing copies of the contracts, and written communications. Invoices are filed by contractor with all pertinent estimates and other supporting documentation. With the implementation of our CMMS program, it will be easier to accumulate the required documentation and provide progress reports. Tracking of renewals and expirations will be facilitated.	Began in March 2009 and is ONGOING
Recommendation #2:			
The Facilities Maintenance and Business Services Department Directors should each provide written quarterly status reports to the City Manager or designee regarding their respective action plans. These reports should include specific data and/or other supporting documentation, and they should continue for a minimum of one year. The need for reports beyond the first year will be determined by the City Manager.			
	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.) Facilities Maintenance concurs with this recommendation. We are requiring each foreman to submit a summary of projects completed, projects underway, and projects being bid each month including the scope of work, a listing of the contractors invited to bid, and pertinent dates. At the end of each month, the Financial Coordinator will submit copies of the invoices received for service contracts that month. Using the above information, a quarterly report will be prepared by our Facilities Work Coordinator, reviewed/approved by the Department Director, and submitted to the City Manager and/or designees with documentation demonstrating compliance with our action plan. The report will be due by the 15 th of the month following the end of each quarter.	Estimated Implementation Date (Month/Yr) October 15 January 15 April 15 July 15




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BUSINESS SERVICES
DEPARTMENT

mesaaaz.gov

To: Jennifer Ruttman, City Auditor

From: Ed Quedens, Business Services Director 

Date: September 2, 2010

Subject: Response to Follow-Up Review: Skilled Trades Contracting Practices

I have reviewed your Follow-Up Review with Jim Ruiz, Purchasing Administrator. Unfortunately, while we thought we had addressed all of the issues last year, apparently they were not all acted upon.

On July 21, 2009 in response to my request for a follow-up, Mr. Ruiz wrote the attached memo to me indicating the steps taken to address the issues identified in Mr. LaVell's review. I do believe that he wrote the memo in good faith believing that the issues were addressed.

Specifically to the two recommendations contained in your follow-up review, we agree and will comply with both recommendations with the understanding from our discussion that recommendation number 2 has some kind of end criteria.

To the procurement issues that were found not implemented or not fully implemented, the following actions have been taken.

Corrective Action #3 & 4 (Certificates of Insurance & Licenses) – We are reviewing all open term contracts to ensure that are based on a cooperative contract to ensure that insurance requirements have been satisfied. Any future cooperative contract use will use the attached Cooperative Contract Usage Checklist. One of the items on the checklist flags insurance requirements to ensure they have been met.

It has been clarified with staff that insurance and licensing requirements need to be in-hand before a purchase order is released and work begins.

We will also remind the department directors a directors meeting to run facility repairs/work through Facilities Maintenance as well as to make sure their staffs are ensuring insurance and licensing requirements are met and documented before work is initiated.

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September 2, 2010
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Corrective Action # 5, 6 & 7 (Citywide Training) – All three issues have been included in the Purchasing Basics Training that Mr. Ruiz will be giving on September 9th. Applicable slides have been attached.

We will also be looking at developing periodic refresher training or communication efforts that will allow periodic reminders related to all three issues.

We did believe these issues had been fully addressed and we apologize that weren't.

cc: Bryan Raines
Jim Ruiz



PURCHASING DIVISION ADMINISTRATIVE MEMO

TO: Edward Quedens, Business Services Director

FROM: James Ruiz, Purchasing Administrator

DATE: July 21, 2009

SUBJECT: Division adherence to recommendations regarding painting and carpentry services

In regards to your memo dated February 20, 2009, the Purchasing staff has taken the following actions in response to the listed recommendations:

1. Request For Qualifications #2009112, Contractor Building Maintenance Services, was opened on March 19. Eighteen vendors responded, which was a large increase from the 2005 solicitation where there was only two responding vendors. The five awarded vendors covered different areas such as rough and finish carpentry, remodel work such as walls, ceilings, doors, windows, drywall, stairs, tile, masonry, concrete, etc., and small type repairs within City facilities related to Facilities Maintenance functions. Required subcontracting licenses and pertinent permits were stressed extensively throughout the RFQ. Licenses and permits of all five vendors were confirmed as current.
2. The City's paint services contract came due for renewal and the decision was made to rebid to ensure compliance to the same recommendations. Request For Qualifications #2009111, Painting Services, was opened on March 31. Fourteen vendors responded. As with RFQ #2009112, five vendors were awarded.
2. Support and enforce the City Manager's directive that all City facility maintenance and repair be routed through the Facilities Maintenance Department.
3. Link to carpentry services contractor(s) removed from the Purchasing Department's intranet home page to reduce the possibility of Facilities Maintenance being bypassed.
4. Instructed staff to weed out and research requisitions covering facility maintenance services that should have been performed with quotes using the RFQ's awarded

Purchasing Division

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vendors. Research would be doing appropriate due diligence including the acquisition of justification from end user RC explaining why the services were not done using the RFQ.

5. Reinforce staff policy ensuring that all contracted vendor licenses, permits and insurance requirements are received prior to work commencement and kept current by delegating this duty to Buyer Aides and Administrative Support Assistant. This policy is applied to all work whether a City contract or PO or cooperative-use agreement is utilized.
6. Instructed Bob McNally to update the citywide Purchasing Basics course criteria to further enhance the practice of scrutinizing quotes for proper licensing, insurance and permits. Additionally, he will be stressing that all facility maintenance and repair must be done through the Facilities Maintenance Department and all invoicing must match acquired quotes before the payment process is initiated.

These changes were implemented with the dual-purpose mindset of ensuring that Facilities Maintenance oversees all facility repair and maintenance services and to guarantee that established purchasing policies are adhered to citywide in regards to the procurement of contracted services.

Sincerely,



James Ruiz
Purchasing Administrator

Cc: Darryl Woodson, Senior Buyer
Tom Lavell, Contracts Administrator
Dennis Ray, Facilities Maintenance Director

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COOPERATIVE CONTRACT USAGE CHECKLIST

Contract Title: _____

Contract Number: _____ **Contracting Agency:** _____

Effective Date: ____/____/____ **Expiration Date:** ____/____/____

Renewals: Yes ____ No ____ **If yes, Renewal Expiration Date:** ____/____/____

CHECKLIST:

- Copy of contract
- Contract has pertinent cooperative language
- Insurance Certificates/Coverage required
- Awarded vendor has positive history with contracting agency
- Award information, including PO's issued, pending renewals, etc.

List due diligence performed to check cooperative pricing value: _____

NOTES: _____

Council or Administrative Approval: _____ **Date of Approval:** ____/____/____

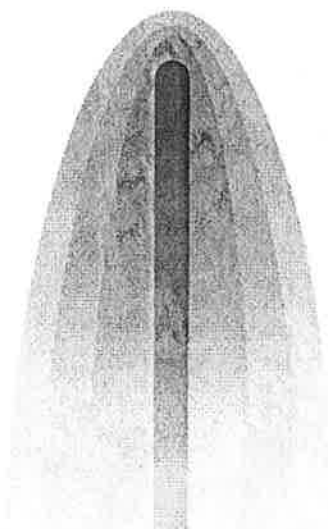
Form of COM payment: BPO RPO IFP

PO # and issue date: _____/____/____

Buyer: _____ **Date:** ____/____/____

Purchasing Administrator: _____ **Date:** ____/____/____

City of Mesa – Purchasing Basics



Jim Ruiz
Purchasing Administrator

Please sign in!

Important Notes.....

All repairs to or maintenance of any COM facility *MUST* be done through the City's Facilities Maintenance Department!

The City may be held liable if the vendor used doesn't have the correct licenses, permits or current insurance.

Important Notes.....

Facilities Maintenance has pre-qualified contractors to cover just about any service need. They monitor the insurances, licenses and permits of these vendors to ensure they are current.

For all repair/maintenance issues call X4321

After hours, call X2262

Important Notes.....

If for some reason a repair or maintenance service on any COM facility is *not* run through F.M. then remember this:

Absolutely *NO WORK* is to be started on any COM property without having the necessary insurance certificates!!

Best person to call with any insurance questions – Barry Hegrenes, Risk Management X4644

Important Notes.....

For service-type issues, quotes are still required.

REVIEW your quotes! Please make sure all of them reference needed insurance and licensing certifications before the service is started!

Important Notes.....

While we're talking about reviewing, you must also review all invoices to ensure they adhere to all quote terms before you begin the invoice payment process. Things to check:

- Pricing
- Product part #'s and quantities
- Shipping or freight terms
- Tax totals (invoice total must match quote total exactly).

Important Notes.....

One final note: Practice one of
Purchasing's biggest credos:

DOCUMENT EVERYTHING!

Jot down notes on any conversation you have
with any vendor about any purchase.