

# **Final Audit Follow Up**

*As of September 30, 2005*



## **“Audit of the City’s Contract with MasTec Energy Services, Inc.”**

*(Report #0520, Issued March 10, 2005)*

**Report #0604**

**January 20, 2006**

### **Summary**

***In audit report #0520, “Audit of the City’s Contract with MasTec Energy Services, Inc.,” we identified three issues related to contract management and payment documentation. To address these issues, management had developed three action plan steps that were due to be implemented by September 30, 2005. Two of the three action plan steps were completed; and the third action plan step was partially completed. Therefore, we are issuing this report as a final follow up. It is our intent to informally follow up on this last action step prior to March 31, 2006.***

*The completed action plan steps related to documenting compliance with prompt payment requirements, including adequately date-stamping invoices and documenting delays in payments. The user departments (Electric and Gas) have implemented the corrective measures.*

*For the third action plan step, Procurement Services was to have revised the contract language to ensure that applicable future contracts include adequate wording to clarify what the City expected of the contractor to support implementation of a quality control program and inspection system. This was partially completed. Instead of clarifying the language, additional wording related to technical specifications and City inspections was added to the contract to clarify material and work expectations of the contractor. The new three-year contract for underground utilities was executed in October 2005.*

*We continue to recommend that the contract language be clarified related to providing and maintaining an acceptable quality control program.*

### **Scope, Objectives, and Methodology**

The original audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate. This follow up was for the period April 1, 2005, through September 30, 2005.

#### **Report #0520**

The scope of report #0520 included a review of City contract payments to MasTec Energy Services, Inc. (MasTec), for the provision of underground gas and electric utility services during October 1, 2001, through July 30, 2004. The primary objectives of the audit were to determine whether:

- Payments to the contractor were correct, for completed work, timely, and properly recorded in the financial records of the City;
- The City had proper segregation of duties between individuals responsible for approving work, assigning task orders, inspecting work, receiving and approving invoices for payment, and issuing check payments; and
- The contractor’s quality assurance program and inspection system were effective and acceptable to the City.

#### **Report #0604**

This audit follow up is to report on the progress and status of efforts by applicable City departments to complete action plan steps due for completion during the period April 1, 2005, through September 30, 2005. This is our first and final follow up on action plan steps identified in audit report #0520. To obtain information, we interviewed staff and reviewed the relevant documentation provided by Procurement Services, Electric Utility, and Gas Utility.

**Background**

The City contracted with MasTec to provide installation of underground utility services from September 2000 through September 2005. The City estimated expending \$17 million during the contract period. At the time the original audit was conducted, payments of approximately \$9.2 million had been made to MasTec for the services they provided.

Procurement Services is responsible for: facilitating the development of the contract; serving as the overall liaison between the City and the contractor, administering the contract files, modifications, cancellations, and terminations; assisting departments on purchasing matters; and resolving conflicts involving interpretation and enforcing contract requirements.

Departments are responsible for: serving as the technical representatives; placing orders against the contract; evaluating and reporting on contractor's performance; reviewing and recommending action on contractor payment requests; and alerting contract administrator of developing and unresolved problems.

The contract states that it is the City's policy to fully implement the provisions of the State of Florida Prompt Payment Act (Florida Statutes, Section 218.70). Timely payment is to be documented through the use of date stamps on invoices and related correspondence that explain delays.

**Previous Conditions and Current Status**

In report #0520, we identified the following three areas where improvements could be made related to the approval and payment of contracted services and contract language.

1. Invoices should be consistently stamped documenting: date received; date rejected and returned to contractor; and date received as corrected from the contractor;
2. Adequate documentation should be retained to support any delays in payment to the contractor; and
3. Language in the contract should be clarified as to what the contractor is expected to provide and maintain to support implementation of a quality control program and inspection system.

As of September 30, 2005, two of the three (67%) action plan steps identified for this audit were completed. Table 1 identifies the action plan steps and describes the current status.

**Table 1  
Action Plan Steps from Report #0520 and Current Status**

Action Plan Steps	Current Status
<b>Timely Payment of Invoices</b>	
<ul style="list-style-type: none"> <li>• Responsible department(s) should adequately date stamp invoices when: received, rejected and returned to contractor, and received as corrected from the contractor.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <u>Completed</u> - We randomly selected 12 transactions and judgmentally selected two additional transactions processed for payment between March 1, 2005, and November 10, 2005, to determine whether the invoices were date-stamped appropriately. We found no exceptions.</li> </ul>
<ul style="list-style-type: none"> <li>• Responsible department(s) should retain adequate documentation to support any delays in payment to the contractor.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <u>Completed</u> - The user departments provided examples of dated notes on invoices and dated emails documenting issues that resulted in delays in payments.</li> </ul>

<ul style="list-style-type: none"> <li>• Ensure that applicable future contracts include adequate wording to clarify what is required of contractors in regard to providing and maintaining an acceptable quality control program and inspection system.</li> </ul>	<ul style="list-style-type: none"> <li>❖ <u>Partially completed</u> - The prior contract with MasTec ended in September 2005. A new three-year contract with a new vendor was executed in October 2005. The new contract included additional technical specifications addressing work quality expectations and City inspections. The additional specifications required the vendor to provide inspection checklists and has eliminated the need for a formal “acceptable quality control program and inspection system” as stated in the contract.  To clarify the contract, Procurement Services management intends to amend the contract by removing this clause and keeping the additional technical specifications recently inserted.</li> </ul>
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**Table Legend:**

- Issue addressed in the original audit
- ✓ Issue addressed and resolved
- ❖ Partially completed

**Conclusion**

As noted in Table 1, two of the three issues were addressed and resolved. The third issue, clarifying the wording in the contract regarding the contractor providing and maintaining an acceptable quality control program, was only partially completed. Therefore, we are issuing this report as a final follow up. It is our intent to informally follow up on this last action step prior to March 31, 2006, to verify the clarification of contract language by Procurement Services.

We appreciate the cooperation and assistance of the Gas Utility, Electric Utility, and Procurement Services provided in this audit follow up.

**Appointed Official Response**

**City Manager:**

I'm pleased with the results of the audit follow up. The results reflect management's commitment to internal control and improved efficiency in operations.

Copies of this Final Audit Follow Up #0604 or audit report #0520 may be obtained from the City Auditor’s web site (<http://talgov.com/auditing/index.cfm>) via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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