

**CITY OF FORT LAUDERDALE
INTERNAL AUDIT OFFICE
AUDIT REPORT**

**Review of Modified Sanitary Sewer
Agreement Between
Maison Sainte-Antoine, L.L.C.
and the
City of Fort Lauderdale
Progresso A Sewer Improvements
Project 9766A**



**AUDIT NO. 03/04-XX-01
DATED October 23, 2003**

MEMORANDUM NO. 04-10

DATE: October 23, 2003

TO: Assistant City Manager/Greg Kisela

SUBJECT: *Review of Modified Sanitary Sewer Agreement Between Maison Sainte-Antoine, L.L.C. and the City of Fort Lauderdale Progresso A Sewer Improvements – Project 9766A*

Enclosed is the “subject” Final Report of Audit.

Allyson C. Love
Internal Audit Director

1 Attachment - Final Report of Audit

c: Acting City Manager/Alan Silva
Assistant City Manager/Bud Bentley
Finance Director/Terry Sharp
Water Works 2011 Program Manager/Paul Bohlander

ACL/cs

REPORT OF AUDIT NO. 03/04-XX-01

DATE: September 19, 2003

TO: Assistant City Manager/Greg Kisela

VIA: Internal Audit Director/Allyson C. Love

FROM: Assistant Director of Internal Audit/James Hamill/522-2604x52

SUBJECT: *Review of Modified Sanitary Sewer Agreement between Maison Sainte-Antoine, L.L.C. and the City of Fort Lauderdale, Progresso A Sewer Improvements Project 9766A*

BACKGROUND

The City of Fort Lauderdale (herein “City”) contracted with CH2M Hill, Inc., as the Program Manager to provide professional engineering services in the form of overall program management services in connection with the Water and Wastewater Master Plan Capital Improvement Program, Project No. 10365. CH2M Hill, Inc. coordinates engineering design and construction services during the implementation of the WaterWorks 2011 Program, including assisting the City in the procurement process, establishing a master construction schedule, preparing monthly cash projections, monitoring monthly construction-related expenditures and providing community outreach in neighborhood areas affected by the construction projects.

On May 7, 2002, the City Commission authorized the City to enter into a Modified Sanitary Sewer Agreement with developer Maison Sainte-Antoine, L.L.C. (herein “MSA/Developer”) for the construction of a gravity sewer system, lift station and force main in the Old Progresso Village neighborhood of the City known as Project 9766A (herein “Project”). The original contract value was \$1,250,000. On September 4, 2002, the City issued an amendment to the original contract, which increased the contract to \$1,577,307. MSA contracted with John B. Smith Engineers, Inc. and Camp, Dresser & McKee (herein “CDM”) for the design work on the project and the construction part of the work was awarded to Lanzo Construction Company. This project was prioritized as part of the Water Works 2011 Immediate Action Plan.

REPORT OF AUDIT NO. 03/04-XX-01

The City designated an Assistant City Engineer to act as the City's Program Manager responsible for oversight of CH2M Hill, Inc. and the Waterworks 2011 Program.

SCOPE

The overall objective of our review was to determine if MSA complied in material respect with the provisions of the Modified Sanitary Sewer Agreement with the City for the Progresso A Sewer Improvements. The audit included a review of:

1. payment requests to determine if they were appropriately documented/supported;
2. insurance policies to determine if they are current and meet/exceed contractual requirements;
3. contract retainage percent(s) applied to determine if accurate and justified; and,
4. the quality and reliability of field testing and inspection.

We reviewed documents and transactions from May 2002 through July 2003 during the months of June and July 2003 according to generally accepted government auditing standards. This interim audit is part of Internal Audit's effort during the implementation of the Water Works 2011 Program to review certain selected task orders to verify compliance with contract provisions and the adequacy of the internal control environment. To this end, Internal Audit evaluated the effectiveness and efficiency of CH2M Hill's program management services.

OVERALL EVALUATION

The Developer generally complied with the requirements of the Modified Sanitary Sewer Agreement. However, the following deficiencies/opportunities for improvement were identified. The City varied the contractual retainage percentage on payment amounts withheld without due consideration of the quality of the Contractor's performance and/or actual field conditions. The Developer/Subcontractors did not have adequate insurance coverage contrary to the contract provisions. Contingency dollars allowed in the contract were not expended as

REPORT OF AUDIT NO. 03/04-XX-01

intended/authorized in the contract. Payments were made to the Developer without evidence that satisfactory test results were obtained to substantiate the payment request.

FINDING 1

The City inappropriately reduced the retainage percentage on the Project, which is contrary to the guidelines contained in the Blue Book.

*MSA Contract paragraph 8 states under Retainage that the City shall retain a portion of each partial reimbursement equal to **10%** of any monies due as retainage to be released to Developer when all work under this agreement has been completed to the satisfaction of the City.*

*The City Construction Standards and Specifications (Bluebook), paragraph 5-42 states **all** estimates...The Engineer further reserves the right to increase or decrease the percent retained by the City if the job conditions warrant such action.*

Draw #	Current Values			Cumulative Values			Justification
	Amount Billed	Retainage Amount	%	Amount Billed to Date	Retainage to Date	%	
1	\$547,073.67	\$54,707.37	10	\$547,073.67	\$54,707.37	10	Per contract
2	349,578.75	34,957.87	10	896,652.42	89,665.24	10	Per contract
3	283,852.25	(30,640.01)	*	1,180,504.67	59,025.23	5	Not warranted
4	107,083.75	5,354.19	5	1,287,588.42	64,379.42	5	Not warranted
5	125,413.00	76,920.72	*	1,413,001.42	141,300.14	10	Per contract
6	0	(70,650.07)	*	1,413,001.42	70,650.07	5	Not warranted

*Calculation does not result in a meaningful percentage in light of the year to date adjustment occurring in this period.

The City's Program Manager indicated part of the motivation to reduce the retainage percent to 5% was to expedite payment/cash to the Contractor based upon receipt of a letter from the contractor's attorney declaring a breach of contract because of seriously past due payments. However, this reasoning is not relative to actual job conditions.

Withholding of the required level of the retainage (10%) will provide leverage to guarantee successful completion of the project.

REPORT OF AUDIT NO. 03/04-XX-01

RECOMMENDATION 1

The City's Program Manager should follow the established policy and agree to reduce the project to date retainage at the request of the Contractor only when actual job conditions warrant it. Additionally, objective criteria should be developed to guide CH2M Hill's Construction Manager/Program Management Team in their assessment/evaluation of the quality of the Contractor's Performance according to actual job conditions.

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated:
“The adjustment in retainage on this project was dictated by job conditions, as follows:

- At the time that Periodic Request for Payment No. 3 was submitted, the Progresso A project was approximately 80% complete. In addition, there were errors in the contract such that some elements of work required per the plans were not provided for in the original proposal, and some quantities were underestimated. As a result, at the time that Periodic Request for Payment No. 3 was submitted, the contractor had constructed a significant amount of additional work in accordance with the project plans (as described in Change Order No. 1), that could not be paid for until change order approval. Therefore, at the time of Periodic Request for Payment No. 3, it was indeed determined that job conditions (i.e., the amount of work completed to-date) warranted a reduction in the amount of retainage from 10% to 5%.
- At the time that Periodic Request for Payment No. 4 was submitted, the Progresso A project was approximately 88% complete. However, at that time we had become concerned regarding several issues as described in Mr. Kenyon's May 29, 2003 letter to Mr. Roth – again, issues relating to job conditions. By increasing retainage *back to* 10%, it was our intention to draw the Contractor's attention to these issues, while at the same time not delaying payment owed for contract work performed and accepted under Periodic Request for Payment No. 4 (i.e., by contract we were entitled to withhold retainage – but had concerns regarding our prompt payment obligations).

REPORT OF AUDIT NO. 03/04-XX-01

- Following our action under Periodic Request for Payment No. 4, we met with the Contractor to discuss outstanding issues, including the issues described in Mr. Kenyon's letter, as well as issues of concern that the Contractor raised (e.g., delays in payment for work performed and accepted to date). In addition to addressing our concerns, or committing to address those concerns, the Contractor successfully demonstrated that the original 5% reduction in retainage was justified based on work performed and accepted to date, payments to date, and outstanding requests for payment. Therefore, the second reduction in retainage *back to 5%* was indeed justified and agreed based on job conditions, and in fact that action contributed to a successful negotiation of remaining contract completion and claims issues, and successful close-out of the project and MSA agreement.

As indicated in the audit report, withholding of the required level of the retainage does provide leverage toward *inspiring* successful completion of the project – provided there is some degree of discretion allowed regarding adjustments to that retainage (albeit provided such adjustments are based on job conditions). **We will, however, establish a formal policy for addressing requested reductions in retainage, that is based on language included the City's Construction Standards and Specifications document, Section 5-41 and 5-42."** Estimated completion date December 8, 2003.

FINDING 2

The City paid the Developer \$54,289 before a compaction issue was resolved and documented in the project files. As a result, internal audit questions the appropriateness of the payment.

Proper Internal controls require satisfactory completion of work and identified deficiencies be resolved prior to the authorization of payments.

Our review of Progress Draw 1 sewer line installed was billed for \$164,512.50. CDM's Resident Engineer, via a letter dated February 14, 2003, recommended a 33% reduction to the amount billed totaling \$54,289.06 due to an unresolved compaction issue; yet the entire amount billed was subsequently paid (**Schedule 1**).

REPORT OF AUDIT NO. 03/04-XX-01

No mechanisms are in place to alert the Internal Control Analyst of disputed billed amounts to prevent the invoice from being further processed, approved and paid.

Implementation of procedures to prevent disputed amount(s) from being paid will save the City time and effort and potential legal costs for any overpaid amounts.

RECOMMENDATION 2

The City's Program Manager should require CH2M Hill's Program Construction Manager to establish a procedure to communicate to the Internal Control Analyst whenever a Contractor's Progress Draw is in dispute. This will allow the payment to be held pending resolution of the disputed item(s).

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated:
“Application for Payment #1 was sent to the PMT with the aforementioned CDM letter attached to it. The letter itself was attached to the Application for Payment by CDM as part of the PMT review process. All subsequent parties responsible for approving the Application for Payment (Construction Manager, Program Construction Manager, Internal Control Analyst and City Program Manager) reviewed the CDM letter. The issue was resolved to the PMT's satisfaction prior to the invoice being approved for payment. **(See Attachment 1)**”

The PMT's resolution of the backfill compaction issue was communicated to the Internal Control Analyst via an email from the City Program Manager as referenced above. **It will be stressed to the PMT that resolution of future issues related to Applications for Payment will be dealt with in writing either by notation on the Payment Request Receipt & Approval/Rejection form as described in the Contractor Payment Process Procedures or by memorandum or email hardcopy attached to the Application for Payment.”** Estimated date of completion December 8, 2003.

REPORT OF AUDIT NO. 03/04-XX-01

FINDING 3

The City made payments totaling \$979,367 to the Developer without the appropriate levels of review and approval being evidenced.

CH2M Hill’s Contractor Payment Process Procedures require all Construction Progress Draws be reviewed and approved by: (a) The Project Inspector; (b) Design Engineer of Record; (c) Construction Project Manager; (d) Program Construction Manager; (e) Internal Control Analyst; and, (f) City Program Manager.

Four (67%) of 6 Progress Payment Draws were paid without the appropriate levels of approval being evidenced on the Contractor Payment Approval/Rejection Forms, as follows.

Draw #	CDM Project Inspector	CDM Design Engineer	Construction Manager	Program Construction Manager	Internal Control Analyst	City Program Manager
1	✓	✓	✓	✓	✓	
2	✓	✓				
3	✓	✓	✓	✓	✓	✓
4	✓	✓			✓	
5	✓	✓	✓	✓	✓	✓
6	✓	✓	✓		✓	✓

Blank space indicates no evidence of review and approval.

The Internal Control Analyst did not return/reject the progress draw payments when signatures were missing from the Approval/Rejection Form before forwarding the payment request to Accounts Payable via the Engineering Department.

Evidence of signature approval from all relative parties will certify review of the quality of the Contractor’s performance prior to payment.

RECOMMENDATION 3

The City’s Program Manager should instruct CH2M Hill’s Manager of Finance and Controls to require the Internal Control Analyst to verify all necessary approvals are indicated on the Contractor’s Payment Request Receipt & Approval/Rejection Form before sending it for final payment.

REPORT OF AUDIT NO. 03/04-XX-01

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated:

“The Progresso A project included an unusual contractual arrangement among multiple parties – i.e., between the developer Maison Sainte-Antoine, L.L.C., contractually obligated to the City, for work to be constructed by the contractor, Lanzo Construction Company. Lanzo, in turn, was contractually obligated to Maison Saint-Antoine.

In order to serve the City’s needs as owner with respect to the Progresso A improvements, and even though there was no direct contractual obligation between the City and Lanzo, the PMT reviewed Lanzo’s Applications for Payment to Maison. This was done in order to determine the appropriateness of the work performed and to verify Maison’s subsequent reimbursement invoices to the City.

Early on, there was some confusion as to which (Maison’s or Lanzo’s) Applications for Payment (and corresponding Contractor Payment Request Receipt & Approval/Rejection form) should bear the PMT approval signatures. Lanzo’s Applications for Payment were the basis for determining the appropriateness of the work performed during any given period. However, any physical PMT approval (signatures) on Lanzo’s Applications for Payment simply served to advise Maison of the appropriateness of the work performed. It was up to Maison Saint-Antoine to approve payment of their funds to Lanzo.

It should be noted that the City Program Manager signed and approved each of Maison Saint-Antoine’s Applications for Payment. **(See Attachment 2)**

In addition, as indicated on Attachment 2, all approval signatures were captured on either Lanzo’s or Maison’s Payment Request Receipt & Approval/Rejection form prior to final processing of Maison’s Applications for Payment (with the exception of #2 for which the Program Construction Manager was ill).

The Contractor Payment Request Receipt & Approval/Rejection form was not designed to be the document on which official approval signatures are located. The official Progress Draw is the document that is officially approved for payment via authorized signature.

REPORT OF AUDIT NO. 03/04-XX-01

The City's Program Manager approves all Design Consultant Invoices and Contractor Applications for Payments. The City's Public Services Department will not process any payment without his signature, and the City's Finance Department will not pay any WaterWorks 2011 Program invoices without his signature.

The PMT will re-emphasize the current policy of having all Applications for Payment and Design Consultant invoices include the proper completed Payment Request Receipt and Approval/Rejection forms prior to the City Program Manager approving those invoices." Estimated completion date December 8, 2003.

FINDING 4

The City used \$61,390 of contingency funds without clear evidence that an unforeseen field condition existed, which may be in violation of the authorized use of funds per the contract.

MSA contract Section 3, paragraph (e) titled Reimbursement requires in the event a change in the scope of work of the Project as set forth in the Plans and Specifications approved by the City is required by any applicable local, state, or federal governmental or quasi-governmental agency having jurisdiction therefore other than the City or any unforeseen field condition not resulting from the action of inaction of Developer, its employees, contractors or agents (a "Non-City Change Order"), then the cost of same shall be paid from the "Contingency".... To the extent there are insufficient Contingency funds to pay all such non-city change orders, then, subject to approval of the City Commission of City, such insufficiency shall be paid by City (by reimbursement to Developer) within forty-five (45) days of such final determination.

The City processed two change orders for \$146,173.41 of which \$61,390 (42%) represents questionable use of contingency funding (**Schedule 2**).

No guidelines have been established to clearly define unforeseen field conditions. Thus, subjective assessments are used to support the basis for utilization of contingency funds.

Clear delineation of what is classified as "unforeseen field conditions" will not allow contractor inefficiencies and systemic design errors and omissions to go undetected and the appropriate parties to be held accountable.

REPORT OF AUDIT NO. 03/04-XX-01

RECOMMENDATIONS AND MANAGEMENT COMMENTS

The *City's Program Manager* should require *CH2M Hill's Program Director* to:

Recommendation 4. *Develop a consensus understanding amongst all interested Program Management Team (PMT) staff to clearly define what constitutes an unforeseen field condition. The characteristic qualities of an unforeseen field condition should be written and communicated to PMT staff and used as a benchmark to evaluate actual changes once construction activities begin.*

Recommendation 5. *Develop and implement a policy to establish clear accountability/responsibility to the Design Engineer who completed the Constructibility Review to prepare a report for the City's Program Manager that explains how changes identified during the construction phase not attributable to unforeseen field conditions, could have been identified during the Constructibility Review to promote learning and process improvements.*

Recommendation 6. *Develop a policy/procedure to follow-up with the contracted Design Engineer when significant cost increases can be attributed to major design oversights for possible reimbursement from the Design Engineer's errors and omissions Professional Liability Insurance.*

Management Comment. *Management concurred in principle with the finding and recommendations 4, 5 and 6 and stated: "During construction of underground improvements within established public right-of-way, and in the vicinity of existing underground infrastructure, unforeseen conditions are often encountered that result in additional project costs. The intent of the establishment of the Contingency funding in the Agreement with Maison Sainte-Antoine, L.L.C. was to acknowledge that fact, and to provide funding for unforeseen occurrences during the construction of Progresso A improvements. And while we acknowledge that the wording of Section 3(e) is obtuse, it was intended to "limit" the use of that Contingency funding to project scope changes that could be imposed upon the City (and therefore the developer) by other jurisdictions, and those project scope changes that might result from any unforeseen condition not the fault of the developer.*

REPORT OF AUDIT NO. 03/04-XX-01

That is, it was intended to preclude the use of that Contingency funding for developer errors, omissions, and or scope changes.

From Schedule 2: Items identified as being ineligible under unforeseen field conditions

Sewer Laterals

On a Program level we are struggling with issues (and additional contract costs) associated with the difficulties in properly anticipating necessary lateral locations and numbers prior to bidding and in advance of construction. Typically, in spite of efforts to obtain information regarding desired and/or necessary lateral locations in advance of bidding and construction, many lateral locations must be identified during construction – i.e., must be located based on field conditions. The unforeseen condition in this scenario is the private property information that dictates the optimum lateral location and numbers. That said, exhaustive pre-bid, pre-construction analysis to definitively identify appropriate lateral numbers and locations based on investigation of private property information/existing conditions may prove to be cost-prohibitive – we continue to seek the appropriate cost-benefit balance.

Sewer Main and Manholes (14'-16' depth)

The depth of the Progresso A was increased post-bid due to the discovery during Progresso B design of a utility conflict that had not been anticipated – clearly an unforeseen condition.

Credit for Asphalt Reduction

Proximity of Progresso B construction (future) with Progresso A construction allowed for a reduction in asphalt restoration and associated cost – clearly an unforeseen condition.

Delay/Demobilization/Remobilization

Clearly the problems that occurred as a result of two contractors – Lanzo working on Progresso A, and Astaldi working on Progresso B – working in the same area were unforeseen. While schedules were planned to avoid this conflict, unavoidable delays in the progress of the Progresso B project resulted in both contractors in the same area at the same time.

REPORT OF AUDIT NO. 03/04-XX-01

Damaged Pipe Repair

Clearly the need to repair the damaged pipe in the vicinity of the pump station was an unforeseen condition.

Based on the above, we are confident in stating that exceptions referred to in the Audit report resulted from unforeseen conditions, were not the fault of the developer, and were representative of the sort of scope change/change order contemplated in Section 3(e) of the Agreement.

The PMT will develop general definitions (guidelines) concerning what constitutes an unforeseen condition, errors and omissions, and owner directed change. These general guidelines will provide the framework for evaluation of change items on a case-by-case basis.

In addition, a requirement will be added to the Design Manager and Construction Manager (CM) responsibilities to insure that apparent design oversights are questioned and that an explanation is provided by the designer. This dialogue has occurred on current projects, however, it will be strengthened in the future by making the process more formal and by the development of the general guidelines referenced above.

Each change occurrence will be evaluated on its own value and merit to determine if the design consultant is liable for some portion of the cost of the remediation activities or if the required action should be limited to a change in process for the benefit of future projects.” Estimated date of completion December 8, 2003.

FINDING 5

The City paid \$25,338 to the Developer for post-test water main and sewer pipe installation without evidencing all necessary testing was completed and documented in the project files. As a result, internal audit could not substantiate the basis for the payments.

John B. Smith Engineering, Inc. Bid Specification Package, incorporated by reference to the MSA contract states:

Water Main

Payment for furnishing and installing ductile iron pipe will be made at the unit price, per linear foot of pipe named in the Bid Schedule...No more than 75% of

REPORT OF AUDIT NO. 03/04-XX-01

payment will be made for pipe until satisfactory leakage (hydrostatic) testing has been completed.

Sewer Pipe

Payment for furnishing and installing gravity sewer pipe will be made at the unit price per linear foot of pipe named in the Bid Schedule and shall constitute full compensation including...leakage inspection and testing (exfiltration), deflection testing (lamping)...No more than 75 percent payment for pipe in place until television inspection (lamping) and leak tests demonstrates that no leaks exist in the new pipe.

Our review of the Contractor's progress draws/payments revealed payments totaling \$25,338 were made without all necessary testing (**Schedule 3**).

CH2M Hill's Construction Manager did not verify all essential testing was completed and documented in the project files prior to the authorization of payments.

Verification that all essential testing has been satisfactorily completed will minimize the risk of cost prohibitive subsurface remediation.

RECOMMENDATIONS AND MANAGEMENT COMMENTS

The *City's Program Manager* should require *CH2M Hill's Program Construction Manager* to:

Recommendation 7. *Advise Construction Managers to verify that satisfactory test results exist in the project files in Document Control for all post-test water main and sewer pipe installations before a progress draw is approved for payment.*

Management Comment. *Management concurred with the finding and recommendation and stated:* "All current construction contract periodic request for payment forms (on all current construction contracts) include separate pre and post-test (75%/25%) amounts (quantities & dollars) for water main line items. An additional item has been added to all Internal Control Contractor Checklist forms. (The Internal Control Contractor Checklist documents all requirements/deliverables that are to be included on or with each Construction Application for Payment).

REPORT OF AUDIT NO. 03/04-XX-01

All future periodic requests for payment will be rejected for 25% testing line items that do not have corresponding satisfactory test results included in the PMT Document Control files.” Estimated completion date December 8, 2003.

Recommendation 8. *Update CH2M Hill’s Construction Management Manual to include the verification of satisfactory test results as an integral part of the Construction Manager’s review of the Contractor’s progress draw.*

Management Comment. *Management concurred with the recommendation and stated:* “Language will be added to the Construction Management Manual dictating that the CM shall review pipe testing results to determine that they are: 1) Included in Document Control files; and 2) Satisfactory in nature.” Estimated completion date December 8, 2003.

FINDING 6

Internal controls were not adequate to assure lamping and exfiltration test results are captured in a meaningful way and timely submitted to CH2M Hill’s Program Office.

Well designed data collection systems capture information in a meaningful way and require that it be timely submitted to management to assure its relevance for decision-making needs.

Internal audit identified, through review of the documented test results associated with the Project, the following issues relative to the quality of the testing (**Exhibit**).

- ◇ The lamping test results were not captured in a standard form and were not available from the project files in Document Control four months after the actual testing was completed.
- ◇ The exfiltration test results may not be based on accurate/scientific measurements of actual quantities of water displaced during the test since the documented test results shows the measured leakage (gallons) as zero; opposed to an actual value.

REPORT OF AUDIT NO. 03/04-XX-01

- ◇ The exfiltration test form does not capture the results in a meaningful way to verify the post-test quantities billed by the Developer. The test quantities measure the linear feet between manhole stations, which often represents/ties to more than one line item on the progress draw.

Timely and efficiently captured test results will assure the City is paying for quality work.

RECOMMENDATIONS AND MANAGEMENT COMMENTS

The City's *Program Manager* should require *CH2M Hill's Program Director* to:

Recommendation 9. *Advise the Resident Project Representative(RPR) that test results should be based upon accurate measurements, which are captured in standard form templates¹ from Expedition. The forms should be printed and signed and be submitted to Document Control within one week after completion.*

Management Comment. *Management concurred with the finding and recommendation and stated:* "As described in Recommendation 10, the PMT is currently in the process of developing alternate tools to assist in capturing test information in a more detailed and organized fashion. The PMT intends to implement these tools beginning with the Lauderdale Manors Phase 2 project. In conjunction with the implementation of any new tools and methods, CM's and RPR's will be instructed in the use of these tools." **Estimated completion date December 8, 2003.**

Recommendation 10. *Redesign the test forms to capture the test results in a manner that ties to billable line items to facilitate a thorough and expeditious review by the Construction Manager.*

Management Comment. *Management concurred with the recommendation and stated:* "The PMT believes that it may be difficult to tie in testing/inspection activities to specific billable segments of work on progress draws. The Daily Report (prepared by the RPR) is a log of the day's construction activity on the job and was not specifically designed to be used as an accounting tool.

¹ Gravity Sewer Exfiltration Report and Hydrostatic Test Results and Sewer Lamping Test Results.

REPORT OF AUDIT NO. 03/04-XX-01

Daily testing/inspection activities (reports) are not captured in the Primavera Program Construction scheduling software. The daily testing activities are captured within Expedition as a separate “as-built” schedule. There is not a link between the as-built schedule and the Program Construction schedule, nor is it possible to modify either software to do so.

The PMT believes that there are adequate compensating controls in place to validate the accuracy of the progress draws. These controls include the following:

- Construction Contracts are Lump Sum, Line Item based (Contractor cannot be paid over the total contract amount without a Change Order *and* line item amounts cannot be exceeded without a Change Order).
- Retainage amounts held until full completion of Contract.
- Final quantity calculations (to correct inaccuracies).
- The lag in amounts billed to the owner at any given time vs. the amount of unbilled construction activity performed by and unbilled by the contractor since the submittal date of the last progress draw.
- All construction progress draws are reviewed by the RPR, Design Consultant, Project Construction Manager, Program Construction Manager, Internal Control Analyst and City Program Manager before being submitted for payment.

We believe the amount of resources (re-formatting Daily Report forms/software improvements and increased work load for Resident Project Representatives in the field) needed to accomplish the recommendation would not achieve a corresponding benefit in Internal Control.

The PMT is currently in the process of developing alternate tools to assist in capturing test information in a more detailed and organized fashion. The PMT intends to implement these tools beginning with the Lauderdale Manors Phase 2 project.” Estimated completion date December 8, 2003.

REPORT OF AUDIT NO. 03/04-XX-01

Recommendation 11. *Update CH2M Hill's Construction Management Manual to include specific mention about the methods used to capture test data and how often it should be submitted to Document Control.*

Management Comment. *Management concurred with the recommendation and stated:* "The Construction Management Manual will be amended to include language stating what type of testing methods are/should be employed as well as instructing CM's that test data should be gathered and submitted to Document Control on a monthly basis." **Estimated completion date December 8, 2003.**

FINDING 7

The City's quantity of environmental allowance items in the standardized contract documents is not representative of project specific risks associated with the project. As a result, the City may not have adequate allowance funds reserved for potential environmental risks.

According to paragraph, 5 Allowance from the Measurement and Payment section of the standard contract document - Payment for contaminated soil and product disposal and groundwater treatment: Payment for this work will be a combination of lump sum and unit price items as follows: The allowance amount shown on the bid schedule is an estimate of potential material to be removed. Payment will be made based upon the actual volume of material removed including all labor, equipment supplies, sampling, analyses, transportation and disposal, and all other costs necessary to complete the work.

CH2M Hill's standard contract document (Measurement and Payment Section) provides for an itemized environmental allowance totaling \$196,360, which is \$146,360 greater than the \$50,000 actual environmental allowance included in the contract, as follows.

REPORT OF AUDIT NO. 03/04-XX-01

Contract Provision	Description	Unit	Unit Cost	Quantity Estimate	Amount
Al-1	HASP & AHA Prep	Lump sum	2,000	1	\$ 2,000
Al-2a	Liquid Removal	Gallon	60	200	12,000
Al-2b	Vacuum Truck & Labor	Hour	220	24	5,280
Al-3a	Soil removal	Ton	70	500	35,000
Al-3b	Laboratory Smpling & Aalysis	Each	420	24	10,080
Al-4a	Mobilization\Demob	Lump sum	5,000	1	5,000
Al-4b	GAC Equipment	Month	20,000	1	20,000
Al-4c	GAC Equipment	Week	5,000	4	20,000
Al-4d	GAC Carbon	Pounds	3	3,000	9,000
Al-4e	GAC Equipment	Day	1,000	60	60,000
Al-4f	18,000 Holding Tank & Equipment	Day	300	60	18,000
				Sub-total	\$ 196,360
	Less: Contractual Environmental Allowance				50,000
	Excess Environmental Allowance relative to the quantities indicated in the Bid Document				\$ 146,360

CH2M Hill’s Program Construction Manager was not aware that the standard boilerplate language (one size fits most) in the contract would not address project specific risks/conditions adequately.

Contract language, which isn’t clear or relevant to the project at hand, creates unnecessary ambiguity and could result in costly avoidable litigation.

RECOMMENDATION 12

The City’s Program Manager should require CH2M Hill’s Program Construction Manager to undertake a critical review of the boilerplate language in their standard contract document and provide variable fields to facilitate customization.

MANAGEMENT COMMENT

Management non-concurred with the finding and recommendation and stated: “The audit report states that the quantities established in the environmental allowance for the Progresso A project were insufficient to cover the potential risk associated with the project. The report further recommends that the program construction manager review the contract

REPORT OF AUDIT NO. 03/04-XX-01

“boilerplate” and provide customized contract documents specific to each project. The report also states that standard contract document is a CH2MHILL standard document. It is in fact, a City of Ft. Lauderdale standard contract document.

While the bid items under the environmental allowance section are in fact “boilerplate” from the perspective that they will be pretty much the same for all projects constructed within City rights of way, they are actually project specific in two ways:

1. The estimated quantities for each item are developed for each contract and based on the published Department of Planning and Environmental Protection data relative to known contaminated conditions expected to be found in the project area. The environmental baseline for each project is determined by program staff.
2. The value of the allowance is also based on this knowledge and the contract unit price costs in an existing City remediation contract.

The requirement for the contractor to bid these items in order for the bid to be responsive was to insure we had an avenue to get the work done under the contract if we did run into contaminated soils. The way the contract is set up, the itemized environmental bid section does not figure into the basis of award.

The \$50,000 allowance included in the actual bid tab is meant to represent a portion of the items included in the itemized environmental allowance schedule above. Prior experience has shown that rarely, if ever, is there usage of more than a few of the listed items on any given contract.

This method has been used on past projects (pre-program) and never over-run the allowance. It is anticipated that the current projects will not generally exceed the allowance values. Further, there have been no contract disputes or claims associated with implementation of the allowance on past projects.

None of the \$50,000 allowance was used on the Progresso A contract.

We do not feel that the contract language is ambiguous and as stated above, it is tailored to the specific project.” **This item is closed.**

REPORT OF AUDIT NO. 03/04-XX-01

FINDING 8

The City did not require the Developer and related Sub Contractors to have the required insurance for the Project.

MSA contract, Section 18, labeled Insurance requires at all times during the term of this Agreement, Developer at its expense shall keep and maintain or cause to be kept and maintained and shall require its contractors to pay for, keep and maintain in effect the following:

- 1. Worker’s Compensation Insurance for all employees;*
- 2. Comprehensive General Liability with a minimum policy limits for this of One Million (\$1,000,000.00) per occurrence combined single limit.*
- 3. Automobile Liability with limits as follows: (a) Bodily Injury \$100,000 per person; (b) \$300,000 per incident; and, (c) Property Damage \$50,000 per occurrence.*
- 4. Builder’s Risk Insurance for the full insurable value of the project being constructed.*

Listed are the issues related to insufficient insurance coverage, as follows.

Company	Deficient Insurance Coverage	Site Specific	City Named as an Additional Insured	30-day Advance Cancellation Notice to City
MSA/Developer	No Insurance	No	No	No
Lanzo Construction	No Builder’s Risk	No	Yes	Yes
John B. Smith Engineering, Inc	No Auto & Worker’s Compensation Expired	n/a	No	No
Camp, Dresser & McKee, Inc	Adequate Coverage Limits	No	Yes	Yes
Trio Development Corp.	No Workers Comp & No Builder’s Risk	No	No	No

CH2M Hill’s Construction Manager did not verify that all Contractors/Sub Contractors working on the project have adequate insurance according to what is specified in the contract documents.

Without adequate insurance coverage, the City may not be fully protected against losses resulting from defects or improper performance of work under the contract and can expose the City to material financial liability.

REPORT OF AUDIT NO. 03/04-XX-01

RECOMMENDATION 13

The City's Program Manager should require CH2M Hill's Program Construction Manager to establish a procedure to have the individual Construction Managers verify the adequacy and current status of insurance for all contractors, subcontractors or developers working on their projects.

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated: "In the future, the PMT will ensure that the Contractor lists the City as additional insured and based upon the advice of the City's Risk Management Consultant, the PMT will continue to verify that the prime Contractor's insurance coverage fully meets contractual requirements and is valid throughout the course of the Project. However, it was determined that it was properly the contractors responsibility to manage and enforce insurance issues related to the Contractor's subcontractors." (See Attachment 3)

EVALUATION OF MANAGEMENT COMMENTS

Management comments provided and actions taken and/or planned are considered responsive to the recommendations with the exception of recommendation 12.

**City of Fort Lauderdale Internal Audit
Analysis of Overpayment re: Compaction Issue**

Sewer Ref #	Post-Test Line Item	Item Description	Unit Cost per Linear Foot.	Linear Feet Billed	Amount Billed	Less 33% Recommended Reduction	Net Amount
3	a (1)	Furnish & Install 8" PVC gravity sewer pipe 0-6' cut 75%	33.75	500.00	\$ 16,875.00	\$ 5,568.74	\$ 11,306.26
3	a (2)	Furnish & Install 8" PVC gravity sewer pipe 6-8' cut 75%	45.00	510.00	22,950.00	\$ 7,573.49	15,376.51
3	a (3)	Furnish & Install 8" PVC gravity sewer pipe 8-10' cut 75%	52.50	870.00	45,675.00	\$ 15,072.74	30,602.26
3	a (4)	Furnish & Install 8" PVC gravity sewer pipe 10-12' cut 75%	67.50	240.00	16,200.00	\$ 5,345.99	10,854.01
3	a (5)	Furnish & Install 12" PVC gravity sewer pipe 12-14' cut 75%	82.50	310.00	25,575.00	\$ 8,439.74	17,135.26
3	a (6)	Furnish & Install 15" PVC gravity sewer pipe 14-16' cut 75%	90.00	310.00	27,900.00	\$ 9,206.99	18,693.01
3	a (7)	Furnish & Install 18" PVC gravity sewer pipe 12-14' cut 75%	112.50	83.00	9,337.50	\$ 3,081.37	6,256.14
					\$ 164,512.50	\$ 54,289.06	\$ 110,223.45
<p>Auditor Note: The billed amount was paid in its entirety resulting in a \$54,289.06 overpayment. The satisfactory resolution of the compaction issue was not evident in the project files. The Construction Manager believes that the Contractor offered an extended warranty to alleviate quality concerns about the compaction issue.</p>							

**City of Fort Lauderdale
Internal Audit
Analysis of the Use of Contingency Funds**

Schedule 2

Change Order #1							
Description	Total	Scope Change Related to Another Governmental Entity	Unforeseen Field Condition	Other	Commission Approved	Eligible	Ineligible
Add restrainers to existing water line	\$ 20,050.62	no	yes, move thrust block in way of sewer pipe unforeseen ground condition	n/a	yes	\$ 20,050.62	-
Additional exploratory excavation	4,607.38	no	yes, City as-built plans showed incorrect location of existing 6" water lines	n/a	yes	4,607.38	-
Furn & install deep sewer lateral C-900 pvc > 8'	5,400.00	no	no	Original contract documents did not show sewer laterals to 2 lots on NW 3rd Ave	yes	-	\$ 5,400.00
Furn & install single sanitary sewer laterals > 8'	5,500.00	no	no	Original contract documents did not address the need for sewer laterals deeper than 8'	yes	-	5,500.00
Furn & install 12" pvc gravity pipe 14' - 16' cut	50,400.00	no	no	Original contract documents did not address the need for sewer laterals deeper than 8'	yes	-	50,400.00

**City of Fort Lauderdale
Internal Audit
Analysis of the Use of Contingency Funds**

Schedule 2

Description	Total	Scope Change Related to Another Governmental Entity	Unforeseen Field Condition	Other	Commission Approved	Eligible	Ineligible
Furn & install 15" pvc gravity pipe 14' -16' cut	56,575.00	no	no	Original contract documents did not address the need for 15" sewer pipe at 14-16' cut	yes	-	56,575.00
Furn & install 18" pvc gravity pipe 14' -16' cut	10,545.00	no	no	Original contract documents did not address the need for 18" sewer pipe at 14-16' cut	yes	-	10,545.00
Furn & install 18" pvc gravity pipe 16' -18' cut	10,000.00	no	no	Original contract documents did not address the need for 18" sewer pipe at 16-18' cut	yes	-	10,000.00
Furn & install sanitary drop manhole 14' -16' depth	14,000.00	no	no	Original contract documents did not address the need for sewer manholes at 14-16' cut	yes	-	14,000.00
Credit for asphalt reduction	(5,700.00)	no	no	Owner could reduce thickness of asphalt surface due to the temporary nature of the overlay	yes	-	(5,700.00)

**City of Fort Lauderdale
Internal Audit
Analysis of the Use of Contingency Funds**

Schedule 2

Description	Total	Scope Change Related to Another Governmental Entity	Unforeseen Field Condition	Other	Commission Approved	Eligible	Ineligible
Total Contingency Change Order #1	\$ 171,378.00					\$ 24,658.00	\$ 146,720.00
Quantity Increases to Amended Contract	82,495.00						
Quantity Decreases to the Amended Contract	187,624.50	less eligible	Net Ineligible Contingency \$ Change Order #1				
Net Use of Contingency Change Order #1	\$ 66,248.50	\$ 24,658.00	\$ 41,590.50				
Change Order #2							
Additional work required to advance the depth of wet well for the pump station.	\$ 97,574.00	no	yes	n/a	yes	\$ 97,574.00	-
Additional mobilization & demobilization because of unforeseen condition at the pump station site.	8,016.00	no	yes	n/a	yes	8,016.00	-
Additional 330 Sy of asphalt based on a Broward County permit obtained after the work was completed.	8,000.00	yes	no	n/a	yes	8,000.00	-
Additional mobilization & demobilization related to the additional asphalt restoration per item 3.	7,298.00	yes	no	n/a	yes	7,298.00	-
Additional demobilization\standby cost re contractor conflict over access to a common area	16,000.00	no	no	Additional cost re contractor scheduling dispute re access to a common work area	yes	-	\$ 16,000.00
Minor electrical changes at the pump station	1,093.00	no	yes	n/a	yes	1,093.00	-
Cost to repair a damaged pipe in a common area for which responsibility could not be affixed to either contractor i.e. Progresso A (Lanzo Construction) or Progresso B (Astaldi Construction)	3,800.00	no	no	Additional cost re contractor damage which couldn't be properly affixed.	yes	-	3,800.00
Total Contingency	\$ 141,781.00					\$ 121,981.00	\$ 19,800.00
Vacated allowance for permit fees	(8,008.09)						
Vacated allowance for FP&L	(8,848.00)						

City of Fort Lauderdale
Internal Audit
Analysis of the Use of Contingency Funds

Description	Total	Scope Change Related to Another Governmental Entity	Unforeseen Field Condition	Other	Commission Approved	Eligible	Ineligible
Vacated Environmental allowance	(50,000.00)		Net Ineligible Contingency \$ Change Order #2				
Net Change Order	\$ 74,924.91		\$ 19,800.00				
Summary							
Change Order #1 Ineligible	41,590.50						
Change Order #2 Ineligible	19,800.00						
Grand Total Ineligible Contingency \$ Change Order #1 & #2	\$ 61,390.50						

**City of Fort Lauderdale Internal Audit
Analysis of Testing Related to MSA Progress Draw# 3**

Sewer Exfiltration Testing								Change Order Depths		
Bill Line Item #	3 a(1)	3 a(2)	3 a(3)	3 a(4)	3 a(5)	3 a(6)	3 a(7)	-	-	
Manhole (MH) Distances	Install 8" sewer pipe 0-6' cut	Install 8" sewer pipe 6-8' cut	Install 8" sewer pipe 8-10' cut	Install 8" sewer pipe 10-12' cut	Install 12" sewer pipe 12-14' cut	Install 15" sewer pipe 14-16' cut	Install 18" sewer pipe 12-14' cut	Install 12" sewer pipe 14'-16' cut	Install 18" sewer pipe 14'-16' cut	
MH 4 to MH 5	-	-	-	-	310	-	-	-	-	
MH 5 to MH 9	-	-	-	-	-	310	-	-	-	
MH9 to MH10	-	-	-	-	-	-	106	-	-	
Sub-total Report 3/4/03	-	-	-	-	310	310	106	-	-	
MH 1 to MH 2	180	115	-	-	-	-	-	-	-	
MH 2 to MH 3		320	-	-	-	-	-	-	-	
MH 7 to MH 8	97	298	-	-	-	-	-	-	-	
MH 6 to MH 7		200	195	-	-	-	-	-	-	
Sub-total Report 3/3/03	277	933	195	-	-	-	-	-	-	
MH 3 to MH 4	-	-	318	-	-	-	-	-	-	
MH 5 to MH 6	-	-	350	46	-	-	-	-	-	
Sub-total Report 3/6/03	-	-	668	46	-	-	-	-	-	
Total LF of Sewer Exfiltration Tested	277	933	863	46	310	310	106	-	-	
Quantity Post Test Billed Progress Draw #3	500	510	870	240	310	310	130	-	-	
Ineligible Quantity/LF	223	-	7	194	-	-	24	-	-	
Unit Cost	11.25	15.00	17.50	22.50	27.50	30.00	37.50			
Ineligible \$	\$ 2,508.75	-	\$ 122.50	\$ 4,365.00	-	-	\$ 900.00	-	-	
Legend:										
LF	Linear Feet									

**City of Fort Lauderdale Internal Audit
Analysis of Testing Related to MSA Progress Draw# 3**

Bill Line Item #	3 a(1)	3 a(2)	3 a(3)	3 a(4)	3 a(5)	3 a(6)	3 a(7)	-	-
Sewer Lamping	Install 8" sewer pipe 0-6' cut	Install 8" sewer pipe 6-8' cut	Install 8" sewer pipe 8-10' cut	Install 8" sewer pipe 10-12' cut	Install 12" sewer pipe 12-14' cut	Install 15" sewer pipe 14-16' cut	Install 18" sewer pipe 12-14' cut	Install 12" sewer pipe 14'-16' cut	Install 18" sewer pipe 14'-16' cut
Manhole Distance									
MH 1 to MH 2	180	116							
MH 3 to MH 4			320						
MH 4 to MH 5					16			294	
MH 7 to MH 8	97	298							
MH 6 to MH 7		200	195						
MH 5 to MH 6			350	46					
Sub-total 3/13/03	277	614	865	46	16	0	0	294	0
MH 5 to MH 9	-	-	-	-	-	310	-	-	-
Sub-total 3/14/03	-	-	-	-	-	310	-	-	-
MH 9 to Mh 10	-	-	-	-	-	-	-	-	100
Sub-total 3/17/03	-	-	-	-	-	-	-	-	100
Total LF of Sewer Pipe Lamped	277	614	865	46	16	310	-	294	100
Quantity Post Test Billed Progress Draw #3	500	510	870	240	310	310	130	-	-
Ineligible Quantity/LF	223	-	5	194	294	-	130	-	-
Unit Cost	11.25	15.00	17.50	22.50	27.50	30.00	37.50	45.00	46.25
Ineligible \$	\$ 2,508.75	-	\$ 87.50	\$ 4,365.00	\$ 8,085.00	-	\$ 4,875.00	-	-
Ineligible Exfiltration Qty	223	-	7	194	-	-	24	-	-
Ineligible Lamping Qty	223	-	5	194	294	-	130	-	-
Total Ineligible /Overpaid \$	\$ 2,508.75	-	\$ 122.50	\$ 4,365.00	\$ 8,085.00	-	\$ 4,875.00	-	-

City of Fort Lauderdale Internal Audit
 Analysis of Testing Related to MSA Progress Draw# 3

	Water Hydrostaic Testing	Average Pressure	Install 6" water DIP (bill item 2 a)							
W1	NW 1st Ave South of NW 7th St.	155#	280							
W2	NW 2nd Ave between NW 8th St. & NW 7th St.	150#	605							
	Total LF Hydrostaically Tested		885							
	Total Billed		1500							
	Ineligible Quantity		615							
	Ineligible/Overpaid Amount		\$ 5,381.25							
	Summary of Ineligible/Overpaid Water & Sewer (W&S) Amounts									
	Total Sewer Ineligible/Overpaid		19,956.25							
	Total Water Ineligible/Overpaid		5,381.25							
	Combined Total W & S Overpaid		\$ 25,337.50							

GRAVITY SEWER INFILTRATION/ EXFILTRATION TEST REPORT

PROJECT NAME: Progresso Village A ENGINEER'S REPRESENTATIVE: Charles W Thayer
 DATE: 3/3/03 WEATHER: Clear

I. TEST CRITERIA

A. LEAKAGE IN SEWER MAINS TO BE LESS THAN 100 GALLONS PER INCH OF PIPE DIAMETER PER MILE PER DAY (CONSISTANCE BELOW MULTIPLIED BY THE SEWER MAIN LENGTH EQUAL ALLOWABLE ALLOWABLE LEAKAGE PER HOUR OF TEST DURATION FOR THEIR RESPECTIVE PIPE SIZES).

6" - .00473	15" - .01183
8" - .00631	18" - .01420
10" - .00789	21" - .01657
12" - .00946	24" - .01893

B. MANHOLE LEAKAGE TO BE LESS THAN 4 GALLONS PER DAY (EACH MANHOLE'S ALLOWABLE LEAKAGE PER HOUR IS .1667 GALLONS).

II. DATA

*180 = Billing Reference 39(1)
Line Item*

*116 = 39(2) NW 1st Ave
298 = 39(2) NW 2nd Ave
200 = 39(1) NW 3rd Ave*

SECTION TESTED	A	B	C	D
MANHOLES IN SECTION (N.H. #)	Two	One	Two	One
SEWER MAIN LENGTH (LINEAR FEET)	295	320	395	395
ALLOWABLE LEAKAGE IN SEWER MAIN (GALLONS) <i>pipe leakage</i>	7.55	8.19	10.11	10.11
ALLOWABLE LEAKAGE IN MANHOLE (GALLONS)	1.4	1.58	1.1	1.77
TEST DURATION (HOURS)	2	2	2	2
TOTAL ALLOWABLE LEAKAGE (GALLONS)	8.95	9.77	12.62	11.88
MEASURED LEAKAGE (GALLONS)	0	0	0	0
DOES SECTION MEET TEST CRITERIA (YES/NO)	yes	yes	yes	yes

Standard in WVA

III. NOTES & CONCLUSIONS

IV. WITNESSED

Charles W Thayer
(ENGINEER'S REPRESENTATIVE)

(OWNER)

(MUNICIPALITY/COUNTY)

JIM FERRARACCIO
(UTILITY COMPANY REPRESENTATIVE)

LANZO CONSTRUCTION
(CONTRACTOR)

* Limitation - depth category not shown LF shown above is distance between two manholes which usually differs from length and in terms of depth.

Paul Bohlander

To: Mike Furdock (mfurdock@ch2m.com); Kenyon, Leonard/DFB; Jonathan Z. Goldman (goldmanjz@cdm.com); Walt Schwarz (wschwarz@CH2M.com)
Cc: Holzenberg, Karl/FLL
Subject: RE: Progresso A - Periodic Estimate No. 1

Guys, FYI, I have initiated partial payment to Lanzo under Periodic Estimate No. 1 in the amount of \$492,366.30. Please advise regarding any outstanding issues associated with backfill and compaction, or any other issues associated with the items claimed under Periodic Estimate No. 1 - and what action we propose to address those issues. Thanks. PaulB

(Jon, Please forward above e-mail to Danny. Thanks.)

-----Original Message-----

From: Paul Bohlander
Sent: February 24, 2003 3:15 PM
To: Mike Furdock (mfurdock@ch2m.com); Kenyon, Leonard/DFB; Jonathan Z. Goldman (goldmanjz@cdm.com); Walt Schwarz (wschwarz@CH2M.com)
Subject: Progresso A - Periodic Estimate No. 1

Guys, This AM I met with Joe D'Alessandro (Lanzo) and Renee Lepean to discuss the pending Progresso A - Periodic Estimate No. 1 (City Project 9766-A). I realize that CDM has some concerns regarding backfill and compaction. I should think that at some point "we" have some degree of responsibility to resolve, or decide on this issue one way or another. What testing has been done to-date and what additional testing is planned? In addition, we have had a proposal from Lanzo pending for an extended warranty for some time now - where do we stand on that? My general understanding of the pending Progresso A - Periodic Estimate No. 1 is as follows:

- Sewer main and lateral construction is complete - but the installed system has not been tested (i.e., exfiltration and video inspection);
- Water main and service line construction is complete - but the installed system has not been disinfected or tested (pressure and bacterialogicals);
- Lanzo is requesting payment for 75% of the Sewer mains and laterals, and Water mains and service lines constructed as of 1/25/03 - with 25% held back pending successful testing of those facilities (per the contract).

I would suggest that we release Periodic Estimate No. 1 in the amount of \$492,366.30 (of the total contract amount of \$1.4M), and that we accept Lanzo's extended warranty (total 2 years) for those areas of construction where Lanzo "dove" pipe underwater - and was therefore unable to compact backfill material below the water table. I would appreciate clarification regarding the status of our efforts to test any of the improvements claimed under Periodic Estimate No. 1 (e.g., are we satisfied with test results to-date, and what else do we need to test, *other than* pressure, exfiltration, and bacterialogicals?).

It would appear as if we are being extremely conservative about the release of this payment at the contractor's expense. The contractor has been under construction since November 2002, has made reasonable progress, and has not yet been paid. While I think we *should* be extremely conservative about the release of any payments, I think we also have a responsibility to the contractor to resolve matters affecting payment promptly. If part of the challenge in this case was trying to determine standard City practice in such matters, I'd be happy to discuss this further. Please let me know if I am off-track regarding any of the above - I'm sure I don't have all the particulars and perspectives. Thanks. PaulB

(Jon, Please forward above e-mail to Danny. Thanks.)

Progresso A Approval Analysis

Draw #		CDM Project Inspector	CDM Design Engineer	Construction Mgr.	Program Construction Mgr.	Internal Control	City Program Mgr.	COMMENTS
1	Lanzo	X	X	X		X	X	Form attached to Lanzo's App
	MSA						X	
	Form	X	X	X	X	X		
2	Lanzo	X	X	X				Forms attached to both Lanzo's and MSA's App
	MSA	X					X	
	Lanzo Form	X	X	X		X		
	MSA Form	X				X	X	
3	Lanzo							Form attached to MSA's App
	MSA	X	X	X		X	X	
	Form	X	X	X	X	X	X	
4	Lanzo	X	X	X				Form attached to Lanzo's App
	MSA						X	
	Form	X	X	X		X		
5	Lanzo	X	X	X		X		Form attached to MSA's App
	MSA					X	X	
	Form	X	X	X	X	X	X	
5Ret	Lanzo							Retainage Release
	-or-	X	X	X		X	X	
	6A	Form	X	X	X		X	
6 Final	Lanzo	X	X	X				Form attached to Lanzo's App
	MSA					X	X	
	Form	X	X	X	X	X	X	



MEMORANDUM

TO: Allyson Love/Internal Audit Director

VIA Greg Kisela/ Assistant City Manager *ln mm*
Frank Coulter/Utilities Services Director

FROM: Paul Bohlander/WaterWorks 2011 Program Manager, Assistant *PRB*
Utilities Services Director

DATE: October 16, 2003

SUBJECT: Follow -Up Audit Response to Report of Audit No. 02/03-XX-12;
Review of Contract with Astaldi Construction Corporation- Project -
10377- Miami Road Area Sanitary Improvements; Recommendation 5
and Report of Audit No. 0403-XX-11; Review of Keith and Schnars,
P.A., Professional General Civil Engineering Design Consultant
Services-10377; Miami Road Area Sanitary Server Design,
Recommendations 10 and 11.

As fulfillment of the commitment made as part of our response to Recommendation 5 of the ~~Miami Road Construction Audit~~, a meeting was held on October 15, 2003 with the City's ~~Risk Management Consultant~~ and the City's Director of Finance. The purpose of this meeting was to obtain additional input on the insurance issues raised by Internal Audit in the above referenced audit reports.

With respect to the issue of site specific insurance, the advice/direction was that, as a general rule, the City's interests are best protected by having the insurance coverage that is carried by consultants/contractors, be as broad as possible. Therefore, requiring site specific insurance would serve to increase the City's exposure, not decrease it.

With respect to the recommendations requiring the PMT to verify the adequacy and current status of insurance for all contractors and their subcontractors, it was determined that it is properly the prime contractors responsibility to manage and enforce insurance issues related to the contractor's subcontractors. The PMT will continue to verify that the prime contractors insurance coverage fully meets contractual requirements and is valid throughout the course of a project.