



Jerry E. Abramson  
Mayor

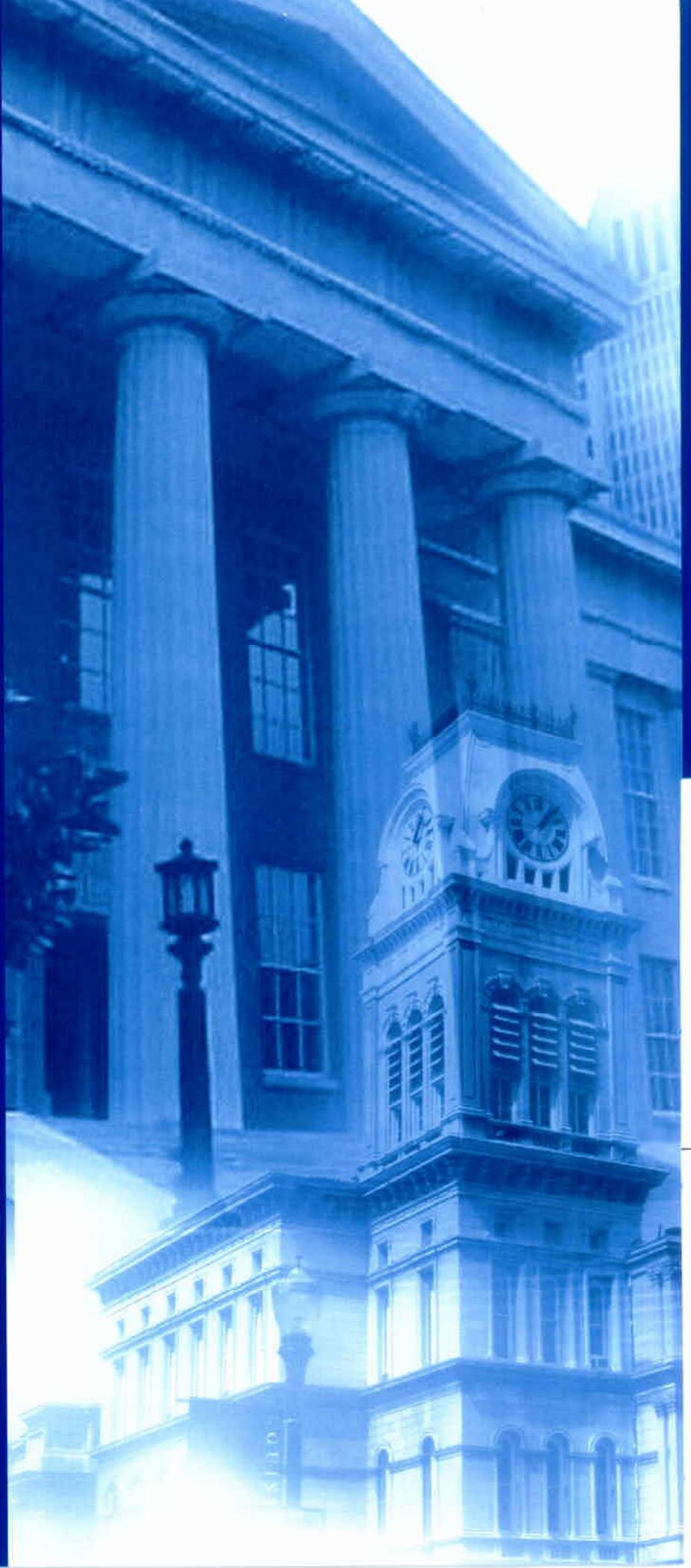
26 Member  
Metro Council

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# Office of Internal Audit

Facilities Management

General Repairs Contract



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JERRY E. ABRAMSON  
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LOUISVILLE, KENTUCKY  
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA  
CHIEF AUDIT EXECUTIVE

## **Transmittal Letter**

November 11, 2003

Councilwoman Denise Bentley  
Louisville Metro Council  
601 West Jefferson Street  
Louisville, KY 40202

**Subject: Review of General Repairs, Renovations and Construction Contract  
B-22684**

### **Introduction**

As requested, we reviewed general repairs, renovations and construction contract activities. This was a contract compliance review, focusing on activity covered under contract B-22684. We have previously provided the results of our reviews of vehicle repair contracts for both the Logan Street and Newburg Road fleet facilities. This is the last review of single contracts awarded to multiple vendors without ranking.

Prior to merger, the City Department of Public Works primarily administered this contract, but other agencies also used it independently. Currently, Metro Facilities Management administers the contract and is solely responsible for coordinating all activity.

Particular attention was given to the distribution of work awarded to the five vendors covered by this contract. The contract specifies the format and procedures for bids. This includes the number of contract bids required and the awarding of work. As illustrated in the Appendix, payments to the five vendors covered by this contract exceeded \$597,000 for fiscal year 2003.

### **Scope**

The operating procedures for administering general repairs, renovations and construction contract activities were reviewed through interviews with key personnel.

The primary focus of the audit was the operational and fiscal administration of the activity, along with contract compliance. Various reviews of sample data from the period July 1, 2002 through June 30, 2003 were performed. The methodology will be addressed in the Observations and Recommendations section of this memorandum. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Our examination would not reveal all weaknesses because it was based on selective review of data.

### **Opinion**

It is our opinion that contract compliance for general repairs, renovations and construction is weak. Some problems were noted as illustrated in the following examples.

- This contract has been used by several agencies. The contract requirements are not consistently adhered to. This lack of centralized administration in the past hindered contract compliance.
- File management is not sufficient to ensure activity is processed in accordance with all requirements and that activity is appropriate. This includes incomplete, inaccurate, or missing support documentation. This hampers the efficiency and effectiveness of information management, as well as, weakens the reliability of records.
- Functional operating policies and procedures are not documented and provided for contract use. This may lead to inconsistencies in administration and management of activities.

Detailed results are noted in the following Observations and Recommendations section. This contract expires January 31, 2004, so many of the issues may not apply in the future depending on whether or not it's going to be renewed. The response from the Cabinet Secretary is incorporated into this memorandum.

Sincerely,



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Members

## Observations and Recommendations

### Methodology

Key personnel were interviewed to gain an understanding of the administration, processing, and records management associated with general repairs, renovations and construction contract B-22684. This focused on agency administration of activity, along with contract compliance.

There were a total of fifty-three invoices for the five contract vendors for the period July 1, 2002 through June 30, 2003. These were identified using financial system purchase order numbers referencing the contract. A sample of eleven payments was judgmentally selected for review. This included contract activity administered by several agencies:

- Public Works/Facilities Management
- Metro Parks
- Police
- Library

The review consisted of examining vendor estimates/bid proposals, invoices, and supporting documentation to determine the authorization, completeness, appropriateness, and adherence to contractual requirements. The following concerns were noted.

### Observations

There were several problems noted with general repairs, renovations and construction contract administration. This includes compliance with the vendor contract requirements. Examples include the following.

- The (former) City of Louisville Department of Public Works awarded the contract covering general repairs, renovations and construction work for facilities. Five vendors are covered by this contract. The contract specifies the format and procedures for estimates for each facility project. While the Department of Public Works primarily administered this contract activity prior to merger, other agencies also used the contract independently. Each agency that administered activity was responsible for adhering to contract requirements and maintaining files. This previous lack of centralized administration hindered certain aspects of ensuring contract compliance.
- The bid specifications for contract B-22684 assign the responsibility of contacting vendors to provide estimates, awarding work, and the scheduling of services to staff of the agency administering activity. These staff are responsible for preparing the scope of the desired work and contacting each vendor to provide a written estimate for the services. The administering agency awards project work to the lowest and best bid. Actual practices do not adhere to the specifications. Examples include the following.
  - It did not appear as though any of the agencies using this contract performed adequate, documented tracking of contract timeliness requirements. As a result, some requirements are not strictly enforced.

- There was no evidence that agencies monitored the timeliness of estimate submission. When a request for cost estimate is made, the bid specifications state that the contractor shall inspect the job requirements and submit a written cost estimate within five days of notification. In actual practice, agencies do not strictly adhere to this requirement. The length of bid proposal response time routinely varies depending on the complexity and scope of the work.
  - According to the specifications, agencies may evaluate the ability of the vendor to complete work in a timely manner when awarding individual bids. The vendor bid proposals do not routinely include any indication of an estimated time in which work is to be completed. This does not allow for adequate documentation of issues that may be considered when awarding work.
  - The bid specifications require the successful bidder to begin work within ten days of the notice to proceed. It does not appear that this requirement is enforced. In cases managed by Facilities Management, the project file and instructions to the contractor do document a completion date by which the services must be performed, but a specific start date is not required.
- While the specifications for the general repairs, renovations and construction work contract identify the format and procedures for administering bid proposals for each project, Facilities Management does not have any type of documented manual or detailed procedures for the specific processing steps. This may lead to inconsistencies in administration and management of activities.
  - Facilities Management does not maintain any formal policy or documented reporting for cases when the contract is used for emergency repairs. In the past, Public Works advised agencies to rotate between the eligible vendors when circumstances dictated immediate response. This is not documented, nor is there any established system to monitor this type of use.
  - There were several instances in which supporting documentation was incomplete, inaccurate, or missing. It should be noted that several of these projects were administered by the agencies receiving the services (Metro Parks, Police and the Library) and not coordinated by Facilities Management.
    - There was one case in which the bid process was bypassed, with work being awarded to the vendor who performed work at the location previously. Agency staff stated that this may have been an emergency repair, but there was not sufficient documentation to determine this with certainty.
    - In some cases, each of the contract vendors may not have been afforded the opportunity to provide estimates for each project.
      - In one case, only one contract vendor was contacted to provide an estimate. All other bids were obtained from vendors that were not covered under this contract. Ultimately, the work was awarded to a vendor affiliated with this contract and the total cost was less than the other bids received.
      - In two other cases, the record of a request for proposal was not provided to ensure that the administering agency sent all five vendors a request for proposal.

- In one case, there was not adequate documentation to determine the basis for awarding the work. The agency could not provide the request for proposals, scope of work or the vendor estimates.
- There were a couple instances in which payment for actual work completed could not be verified to the requested services because the agency did not document the requested scope of work.
- In some cases, there was not sufficient documentation to determine whether the labor rates and markup's charged agreed with the contract rates.

### **Recommendations**

Appropriate personnel should take necessary action to address the concerns noted. The current contract expires January 31, 2004. The Purchasing Department should be consulted to determine the best way to administer general repairs, renovations and construction activity. Many of the issues may not apply in the future if another method to award this work is going to be used. Depending on the contract method used in the future, specific recommendations may include the following.

- ✓ All contractual requirements should be adhered to. Although there may be legitimate, practical reasons for processing activity in another manner, departments do not have the discretion to disregard contractual requirements.
- ✓ Centralized coordination of contract activity with Facilities Management should help improve compliance with contract requirements. A single agency with staff assigned the responsibility of maintaining records, reviewing work and monitoring projects should improve many of the problems noted.
- ✓ The current contracts expire January 31, 2004. The Purchasing Department should be consulted to determine the best way to administer general repairs, renovations and construction activity. Many of the issues may not apply in the future if another method to award this work is going to be used.
- ✓ Depending on the contract method used to obtain these services in the future, Facilities Management may consider revising future bid specifications in regards to cost estimate, initiation of work and project completion deadlines. Specific requirements may be more appropriately included in documentation associated with each individual project.
- ✓ Facilities Management should require construction and completion schedules to be included with cost estimates.
- ✓ Sufficient documentation should be maintained to record the basis for awarding contract services. This includes all determining factors (bid amount, completion date, etc.).
- ✓ Supervisory oversight should include the review of documentation to ensure completeness, accuracy and appropriateness of activity.
- ✓ The Metro Finance Department serves as the official custodian for financial documents. Their files should contain adequate support documentation to record the purpose and authorization of the transaction. This includes sufficient detail to verify compliance with contract requirements and payment amounts.

- ✓ Written policies and procedures for general repairs, renovations and construction contract activity should be developed and updated periodically. These should correspond with and supplement applicable vendor contracts and Metro Government policies and procedures. This documentation should be distributed to all applicable personnel. This manual should include sufficient detail of the steps performed, copies of forms used and policies followed in the process, and routine monitoring responsibilities to ensure that activity adheres to contract guidelines (e.g., bid proposal requirements, approval requirements, invoicing, etc.). In addition, training of key personnel will help ensure consistent adherence to the requirements.
- ✓ Metro Finance policies and procedures provide guidance for emergency purchases. For cases in which this contract will be used, the emergency repair procedures should be incorporated in the documented policies and procedures for this activity. The policy should outline the circumstances that constitute emergency work, as well as, the manner the activity should be processed.

## **Appendix**

### **Contract Payments for Fiscal 2003**

<b>Vendor Name</b>	<b># Invoices</b>	<b>% of Invoices</b>	<b>Total Expenditures</b>	<b>% of Expenditures</b>
Bornstein Building Co.	12	22.6%	\$127,437.83	21.3%
United Construction & Design	1	1.9%	\$5,257.04	0.9%
David Cosby & Associates	0	0.0%	\$0.00	0.0%
Brasch Barry	22	41.5%	\$261,127.13	43.7%
J-Town Contractors	18	34.0%	\$203,251.62	34.0%
<b>Total</b>	<b>53</b>	<b>100.0%</b>	<b>\$597,073.62</b>	<b>100.0%</b>

**Cabinet Secretary for Public Works and Services Response**

The response from the Cabinet Secretary for Public Works and Services is included on the following page.



LOUISVILLE METRO  
OFFICE OF INTERNAL AUDIT

2003 NOV 11 AM 8:20

LOUISVILLE, KENTUCKY  
OFFICE OF THE MAYOR

JERRY E. ABRAMSON  
MAYOR

RUDOLPH DAVIDSON  
SECRETARY OF THE CABINET FOR  
PUBLIC WORKS AND SERVICES

TO: Michael S. Norman, CIA  
Office of Internal Audit

FROM: Rudolph Davidson   
Cabinet for Public Works and Services

DATE: November 10, 2003

SUBJ: **Review of General Repairs Contracts (B-22684)**

I have reviewed the audit results for the general repairs, renovations and construction contracts (B-22684). Metro Government practices have been updated and Facilities Management is now responsible for administering this contract. All agencies should coordinate requests for services through Facilities Management. These changes should address most of the issues noted in the audit report since many of the problems were associated with various agencies using the contracts independently.

The current contracts expire January 31, 2004. The purchasing department will be contacted to determine the best approach to obtaining these services in the future.

If you have any questions, please feel free to contact me.