

**BETTER JACKSONVILLE PLAN  
HDR ENGINEERING CONTRACT**

**March 07, 2006**

**REPORT #613**



**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building

March 7, 2006

Report No. 613

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

On September 5, 2000, residents approved The Better Jacksonville Plan (BJP). The Better Jacksonville Plan is a \$2.25 billion comprehensive growth management strategy that provides road and infrastructure improvements, environmental preservation and targeted economic development, and new and improved public facilities. The Plan is funded through a half-percent sales tax and by leveraging existing revenue sources. The Department of Public Works is responsible for the administration of the Better Jacksonville Plan.

With \$1.5 billion set aside for road and infrastructure improvements, neighborhoods in all parts of the city were to benefit from the Plan. The Plan also included funding to improve the environment through land preservation, enhancing neighborhood parks, and sewer infrastructure in critical areas. Finally, the Plan was to provide residents with quality public facilities and includes funding for improved neighborhood libraries as well as a new main library, sports and entertainment arena, baseball park, and county courthouse.

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of the Better Jacksonville Plan Northwest Roadway Projects, as it relates to the Project Management Consultant (PMC) services contract (#8216), between the City of Jacksonville and HDR Engineering. The primary service provided by HDR is the management of Northwest roadway construction projects. An additional service added, in 2004, as a result of the hurricanes, was the verification of yard waste disposal volumes that were loaded onto debris removal vehicles.

The total PMC contract amount for the road projects through Amendment 6 is \$23,190,522 and the debris removal invoices totaled \$1,202,769. Included in the total contract amount of \$23,190,522 are Program Management Fees of \$12,197,763.01. At the inception of the project in December of 2001, these Project Management Fees were awarded in the amount of \$6,332,281.01 (including November 2001 seed money of \$100,000). Since the inception of the contract, there have been three Program Management Fee amendments totaling \$5,865,482 (See Exhibit 1).

## **STATEMENT OF OBJECTIVE**

The Objective of the audit was to determine whether the City payments paid to HDR Engineering for contract work performed were in accordance with the terms of the contract including whether documentation supported the payments.

## **STATEMENT OF SCOPE**

Our scope included the payments to HDR Engineering from November 2001 to December 2004 and the services received per the contract (Contract # 8216) between the City and HDR Engineering the Project Management Consultant (PMC) for the construction of various road projects for the Better Jacksonville Plan and storm debris removal due to hurricanes. The scope of the audit included the review of a sample of payments related to the road projects and all invoices associated with the debris removal effort in 2004.

## **STATEMENT OF METHODOLOGY**

We reviewed the agreement and interviewed staff in order to obtain an understanding of contract payment and amendment processes. We also performed analysis on requests for payment including such items as, but not limited to, cost detail reports, payroll records and subcontractor agreements that related to various invoices exhibited in the Contract between the City of Jacksonville and HDR Engineering.

## **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Responses to the findings and conclusions have been inserted in the body of the report and are attached in their entirety as Exhibit 2.

## **AUDIT CONCLUSIONS (*Public Works Responses in Italics*)**

- The HDR contract as written did not protect the best interest of the City.  
*Although we don't necessarily agree that the HDR contract did not protect the best interest of the City, we have amended the contract to the "cost-plus" type, and pay based solely on hours worked.*
- Program Management Fee payments were made based on the passage of time and were not based on services actually rendered. Program Management Fees are not tied to the performance of specific functions or specific projects with time deadlines. By not holding the

PMC accountable for their services with specific deadlines for their performance, the City has no control over costs.

*Commentary and discussion about this conclusion are contained in our response to Finding #2.*

- Although it appears that the City payments made to HDR Engineering were for work within the scope of the contract, they were not in accordance with the terms of the contract nor were all payments properly supported.

*We in good faith believe that payments have been made in accordance with the contract as we interpreted it to be a "lump sum" contract in accordance with approved PSEC motions which were signed by the Mayor.*

- Roadway work was commenced prior to amendment approval.

*We agree with this conclusion, and agree it is not a good practice.*

- Storm debris contract over payments were made in the amount of \$17,252.06.

*We are scheduling a meeting with OGC to review the payments made to HDR in connection with hurricane debris clean-up.*

## **AUDIT OBJECTIVE**

In order to determine if the required City payments made to HDR Engineering were for contract work performed and were in accordance with the terms of the contract including documentation to support the payment requests, we reviewed a sample of invoices and supporting documentation and compared them to the HDR contract terms.

## **FINDING # 1**

The Contract, as written, has provisions of a "lump sum" contract, and a "unit-costing" contract with "amount not to exceed" provisions depending on the services to be provided. During our audit, we determined that the HDR contract Amendment #1 has conflicting language that allows for different interpretations. Language in Article 3.1 states, "The City shall pay to the PMC, in monthly increments proportional to satisfactory completion, for all services actually, timely and faithfully rendered up to the maximum amount indicated". This language implies that payments should be made on the basis of percentage of completion or some other logical method that quantifies services provided by the PMC. Section 3.1 further states, "All reimbursable costs of services provided by the PMC shall be paid at the rates (including direct labor, indirect costs and profit) shown in the "Contract Fee Summaries" (see Exhibits "B", "C-1" through and including "C-4", "D-1" and "D-2", "E", "E-1" through and including "E-18")". The exhibits have unit cost rates that suggest employee hourly rates would be used to quantify services provided and used to calculate payments to HDR. However, exhibits also indicate amounts are "lump sum". The invoices were not paid based on employee hourly rates or services actually rendered. The conflicting language between the contract payment terms and the exhibits reduced the City's ability to control contract costs or to quantify services delivered to the City.

**RECOMMENDATION**

We recommend that Public Works request the City’s General Counsel’s Office to draft and control all terms in contracts, including exhibits, to ensure that the operating departments end up with a contract that they can enforce and a contract that serves the best interest of the City. In order to effectively defend its contractual rights, the legal expertise of the General Counsel should be used to improve, standardize, and clarify contract terms that are less ambiguous and specific in their terms and payment calculations. We further recommend that the contracts give the City quantifiable services for payments rendered against the projects.

**PUBLIC WORKS RESPONSE TO FINDING #1:**

*We agree that there is conflicting language in the contract and exhibits concerning the interpretation of whether this is a "lump sum" or "unit cost" type contract. In response to this conflict, we have recently amended the HDR contract by specifically making it a "unit cost" contract. Payments are now based on actual employee hour rates for services actually and faithfully rendered.*

**FINDING #2**

Program Management Services were contracted for on an annual basis and payments were not tied to the performance of specific functions or specific projects with time deadlines. The contract initially included Program Management Fees for 2000/2001, 2001/2002, and 2002/2003 and was amended to include 2003/2004 and 2004/2005 by Amendment #6.

Amounts as of Amendment #6 are as follows:

	<u>Program Fee Budget</u>	<u>Actual Paid thru Invoice #49 dated 9/30/05</u>
2000/2001	\$1,073,198.61	\$1,073,198.61
2001/2002	\$2,337,878.40	\$2,337,878.40
2002/2003	\$2,679,820.00	\$2,679,820.00
2003/2004	\$3,090,784.60	\$3,090,784.60
2004/2005	<u>\$3,016,081.40</u>	<u>\$2,627,750.60</u>
Total	<u>\$12,197,763.01</u>	<u>\$11,809,432.21</u>

Although the BJP includes 45 projects listed for Northwest roadway construction, only twenty-one (21) projects are included in the HDR contract for Construction Engineering and Inspection (CEI) services. This would indicate that the scope of this contract will continue to be amended and expanded. By failing to tie Program Management Fees to the performance of specific functions or specific projects with time deadlines, the City has no control over costs or any way to determine that the City is receiving appropriate value for the dollars being spent.

## **RECOMMENDATION**

We recommend that Program Management Fees be tied to the performance of specific functions and/or specific projects so that payments can be made based on contractor accomplishments rather than just the passage of time.

### **PUBLIC WORKS RESPONSE TO FINDING #2:**

*Program management services are best measured qualitatively rather than quantitatively. While design consultants and contractors are paid in accordance with achieving intermediate milestones during the prosecution of their projects, program managers are paid by the hour to manage the work and processes, issue instructions, resolve conflicts, review and approve change orders, approve pay applications, negotiate amendments, initiate joint project agreements, seek external funding from outside sources, etc., all while working on behalf of the City. Their services are administrative in nature in support of the design or construction effort.*

*I have recently sent HDR (as well as its Southside counterpart, River City Management Group) a letter setting performance expectations as we move forward in direct response to this finding. In the letter, I suggest reducing their payment amount if their services do not meet these expectations.*

### **FINDING #3**

The Public Works Project Managers and BJP administrative staffs that have administered the HDR Engineering contract have not abided by the contract terms nor have they properly reviewed invoices prior to payment. The following are the details of our review.

- a. **Roadway project work began before contract amendments were authorized.** We examined 15 HDR invoices. Of the 15 invoices tested, four of 15 or 27 % had invoices sent by HDR to the City for work commencing prior to the amended contract being signed and implemented. Three of 15 or 20 % of the amendments that were posted to FAMIS were posted prior to the date the amendment was signed and in effect.
- b. **Accurate and timely reconciliations between FAMIS and JaxTracs (the City's project management software system) were not completed resulting in completed projects expended amounts being greater than budgeted project amounts.** During our audit, we traced completed project amounts from the City's accounting system (FAMIS) to the contract exhibits to verify if projects were within amended budget amounts. The result of our review was that three of six or 50% of the projects exceeded budget. The total excess expenditures recorded in FAMIS, over amounts recorded in the contract exhibits are \$273,963.64. In addition, 4 of 15 or 27% of Right of Way Acquisitions and Construction Engineering unit price services exceeded their amended budgets and 9 of 15 or 60% of reimbursable costs exceeded their amended budgets. In addition in thirty-nine (39) HDR payments recorded in FAMIS, twenty-three (23) out of 532 line items or 4.3% could not be found in JaxTracs. In other words, an accurate reconciliation between payments recorded in FAMIS and JaxTracs was not done. However, in total expenditures remained within budget.

- c. **HDR invoices for the Program Management Fee portion of the contract have been paid without including supporting calculations verifying services actually rendered.** In accordance with Article 3.1 of the contract between the City of Jacksonville and HDR Engineering, payments shall be based on a monthly proportional satisfactory completion for all services actually, timely and faithfully rendered. A supporting calculation of invoice amount (i.e. employee hours worked, multiplied by exhibit rates, multiplied by the overhead rate and profit) was not included in invoice detail except for invoice #1. It appears that payments to HDR were based on a passage of time and not actual services rendered as allowed by the contract exhibits which appear to be in conflict with Article 3.1. Program Management Services Payments 3 thru 6 were for the exact same amount, of \$214,557.20 each, payments 8 thru 12, were for the amount of \$218,723.86 each, payments 15 thru 23, were for \$192,688.32 each, and payments 29 thru 37 were for \$246,789.19 each.

### **RECOMMENDATION**

In order to ensure that the work is authorized and that payments will be allowed, we recommend that work not commence before funding is approved. We also recommend that a monthly reconciliation be performed between the payments recorded in FAMIS and the expenditures authorized by contract and recorded in JaxTracs. Finally, we recommend that invoices be paid in accordance with the contract and based on services actually rendered and that the invoices contain a calculation verifying actual services rendered.

### **PUBLIC WORKS RESPONSE TO FINDING #3:**

- a. *We don't disagree that work in the past may have commenced before contract amendments were fully executed. We strive not to repeat this practice going forward.*
- b. *We agree that accurate and timely reconciliation between FAMIS and Jax TRACS has been challenging. This is a result of the complexity of the reconciliation of the two systems, performed by our program managers, and lack of adherence to accounting rules by former City staff. Public Works no longer cross-charges projects or subobjects, and we are implementing a new computer system described in Finding #6 below.*
- c. *Since June 2005, we have required supporting documentation be furnished with each invoice to justify the payment amount. Payments are now based on actual hours worked at actual labor rates times overhead rate times profit.*

### **FINDING #4**

The City HDR Project Manager initiated and submitted amendments just prior to leaving the city and going to work for HDR. Amendment # 6 was initiated and supported by a City of Jacksonville BJP Project Manager overseeing the HDR contract. The amendment was approved in January 2004. The employee separated employment with the City on March 2, 2004 and was employed by HDR in March of 2004. Total value of the amendment was \$6,977,839.87 of which \$5,836,103.55 was Program Management Fees.

## **RECOMMENDATION**

In order to ensure independence and integrity, we recommend that Project Managers and/or other significant employees sign a “No Compete” form that prohibits employment with companies with which the employee had a substantial role in the approval of financial submissions or draws in accordance with the terms of the contract. The “No Compete” term should be at least two years and should be strictly enforced.

### **PUBLIC WORKS RESPONSE TO FINDING #4:**

*We agree with this finding as written. Public Works will abide by whatever ordinances or statutes are in place that govern this finding and associated recommendation.*

### **FINDING # 5**

For the 2004 debris removal project, the City reimbursed HDR and its sub-contractors ten dollars (\$10.00) per day for each person using a cell phone, for a total reimbursement of \$13,100 for the entire project. Reimbursement for cell phone use is not addressed in the contract between HDR and the City of Jacksonville. The City was also billed for excessive auto mileage of \$548.87 and miscellaneous services in the amount of \$3,603.19. Total unauthorized expenditures invoiced by HDR Engineering and HDR Engineering subcontractors and paid by the City are \$17,252.06.

The City also reimbursed HDR for services provided by their subcontractors based on HDR invoices without supporting subcontractor invoices. Per Section 3.1 of the City’s contract with HDR, “The cost of services provided to the PMC by others shall be reimbursed at invoiced amount without mark-up by PMC.” Without the supporting subcontractor invoices, the City could not have known whether or not they had been marked up by HDR. We requested and received from HDR copies of the canceled checks paid to the subcontractors and confirmed that the amounts paid by the City to HDR agreed to the payments made by HDR to the subcontractors.

## **RECOMMENDATION**

We recommend that the Public Works Department consult with the General Counsel’s Office and take the necessary steps to recover the overpaid funds estimated at \$17,252.06 from HDR Engineering.

### **PUBLIC WORKS RESPONSE TO FINDING #5:**

*We acknowledge your concerns and have scheduled a meeting with the Office of General Counsel to review this matter.*

## **BACKGROUND**

In fiscal year 2001, the City of Jacksonville purchased a Project Management Software System

known as JaxTracs. The purpose of the system was to centralize the management of data, standardize data formats, retrieve data faster, track multiple projects simultaneously and be intuitive concerning project changes, funding and scheduling. Prolog and Prima Vera (P3) are the sub systems under JaxTracs that were to be utilized managing the Better Jacksonville Plan roadway projects. Prolog is the financial management tool and P3 was to be used for project scheduling. The two pieces, including the website application, cost approximately \$314,773. This system was to replace the current Excel process. The Excel process consists of double entering data into an Excel spreadsheet format and manually creating monthly reports.

#### **FINDING #6**

We reviewed the current use of Excel spreadsheets as a project tracking system and determined that this system requires the manual double entry of data. The use of Excel in this application is an inefficient and unnecessarily time-consuming process that requires a duplication of effort. Included in our review of the current Excel tracking process, was an overview of the already purchased JaxTracs project tracking software package. Our overview determined that if supported by senior leadership and properly utilized by City BJP project managers and financial managers, JaxTracs could be a more efficient operating system capable of tracking project completion schedules, as well as individual and total project financial data. Currently, City managers do not utilize the more capable operating system because former senior leadership never supported it.

#### **RECOMMENDATION**

In order to maximize efficiencies and improve effectiveness, we recommend that the Department of Public Works support and fully implement the JaxTracs project tracking system.

#### **PUBLIC WORKS RESPONSE TO FINDING #6:**

*My impression of JaxTracs, as conveyed to me by others, is that it is a not-so-user-friendly program which is underutilized and complex to understand without proper training. Our roadway program management firms have had extensive turnover in the position responsible for financial and schedule tracking, resulting in erroneous and outdated information in the system and the need for repetitive training by City employees. There are modules within the system that were never used by the roadway program which could be eliminated.*

*Public Works is working closely with ITD to develop an in-house project management system called "Engineering Projects Information Center" (EPIC). Project managers throughout Public Works are meeting with ITD regularly and advising what data and information would be most useful to them. In response, ITD is writing this custom program for Public Works use which will be more user-friendly, thus reducing required training. It will be inexpensive to maintain, greatly reduces double entry of financial data by interfacing directly with FAMIS, and which project managers should embrace because they will have had a great deal of input in the development process. ITD reports that the software should be ready sometime in the summer of 2006.*

We appreciate the assistance and cooperation we received from the Public Works Department and the Better Jacksonville team during the course of our audit.

Respectfully submitted

Kirk Sherman, CPA  
Council Auditor

Audit performed by:  
Fred Forbes, C.P.A.  
Thomas Carter, C.P.A.

Attachments:

Exhibit 1     HDR Engineering Contract Budget  
Exhibit 2     Auditee Response

**HDR Engineering  
Contract Budget**

	<u>Original Budget</u>	<u>Amendments 1-6</u>	<u>Budget thru Amendment #6</u>
Program Management			
Program Management Fees	\$ 6,332,281.01	\$ 5,865,482.00	\$ 12,197,763.01
Misc. Costs & Permit Fees	\$ 250,000.00	\$ 90,625.00	\$ 340,625.00
Total Program Management	<u>\$ 6,582,281.01</u>	<u>\$ 5,956,107.00</u>	<u>\$ 12,538,388.01</u>
Right of Way Acquisition	\$ 4,528,950.00	\$ 270,346.00	\$ 4,799,296.00
Construction Engineering & Inspection	\$ 4,129,864.72	\$ 830,571.88	\$ 4,960,436.60
Aerial Photography		\$ 821,824.10	\$ 821,824.10
Master Plan Traffic Study		\$ 70,576.91	\$ 70,576.91
Total HDR Contract	<u><u>\$ 15,241,095.73</u></u>	<u><u>\$ 7,949,425.89</u></u>	<u><u>\$ 23,190,521.62</u></u>