



CITY AUDITOR'S OFFICE

Memorandum No: 23/24-5

Date: February 6, 2024

To: Honorable Mayor and Commissioners

From: Patrick Reilly, CPA *PR*
City Auditor

Re: Audit of Asphalt Mills and Resurfacing Contract

Objective

The objective of this audit was to determine whether internal controls are effective when: 1) issuing contract work, and 2) accepting and validating services received in accordance with payment terms and conditions of the contract.

Conclusion

The City Auditor's Office (CAO) found that, overall, the city's internal controls are working effectively. Also, M&M Asphalt Maintenance Inc. (DBA All County Paving) complied with the contract's terms and conditions. However, the CAO has identified opportunities for enhancement in the areas of policies and procedures, standardization of the supporting documentation for Task Orders, and contract capacity tracking.

Scope and Methodology

The audit covered the current Asphalt Mills and Resurfacing Contract with M&M Asphalt Maintenance Inc., approved by the Commission on March 3, 2020, which is a two-year contract with two one-year options to extend. The Audit Program was focused on the execution of the contract and broken down to three main areas: 1. Task Orders 2. Purchase Orders, Invoices, and Funding Source, and 3. Contract Capacity.

The CAO tested the areas described below, including, but not limited to:

1. Auditing Task Order Key Controls

- Task order created for work tied to the contract's terms and conditions (Annual Asphalt Mill and Resurfacing; March 3, 2020),
- Approval of scope by Public Works Department (PWD) Engineering,
- Approval of budget availability by PWD Engineering Finance,

- Approval by Procurement,
 - Adequacy of supporting documentation,
 - Accuracy of budget and encumbered funds,
 - Approval by Procurement/Finance,
 - Exceptions resolved - if applicable,
2. Auditing the Purchase Orders and Invoices related to the selected Task Orders and Ensuring that the Funding Source is Accurate.
- Matching of Purchase Orders (POs) to Invoices for the selected Task Orders,
 - Verify funding sources (each department is paying for their own work from their own budgets).
3. Reconciling the Task Orders to the approved contract to ensure the contract is not exceeded at any time.

The CAO conducted its assessment of internal controls using the May 2013 updated Internal Control—Integrated Framework established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework defines internal control, describes the components of internal control and underlying principles, and provides direction for all levels of management in designing and implementing internal control and assessing its effectiveness. The five components of the COSO framework are: control environment, risk assessment, control activities, information and communication, and monitoring activities.

The audit methodology included but was not limited to:

- Performing data reliability and integrity assessment of related computer systems, as applicable.
- Reviewing applicable regulatory guidance, policies and procedures, and related requirements.
- Reviewing records and reports.
- Performing process walk-throughs and conducting a review of controls.
- Interviewing appropriate personnel; and
- Performing detailed testing on selected activities.

The CAO has identified one (1) Finding and three (3) Observations during the audit. A Finding results from a failure to comply with policies and procedures, rules, regulations, contracts, and fundamental internal control practices. An Observation represents an opportunity to improve on design or functionality of an existing internal control. The audit's finding is considered to have a combination of internal control significant deficiencies.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. The CAO believes that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Background

M&M Asphalt Maintenance Inc. is a locally owned and operated company that offers professional line striping, pavement marking, and asphalt repair solutions to the commercial, industrial, and municipal sector for over 40 years. They also design new parking layouts and provide assessment as well as consultation for existing pavement structures.

The current Asphalt Mills and Resurfacing Contract with M&M Asphalt Maintenance Inc. was approved by the Commission on March 3, 2020 (CAM #20-0127). The project was estimated to be \$2,000,000 (two-year total); and the Commission authorized the City Manager to approve two, one-year renewal options, contingent upon the appropriation of funds. Currently, the overall contract capacity has been increased to \$4,600,000 (*see Exhibit 2 for full schedule*):

- \$2,000,000 – 2-year contract approved by the Commission (CAM #20-0127) on 3/3/2020
- \$ 200,000 – Administrative increase of 10% on 6/6/2021
- \$1,000,000 – 3rd year renewal on 3/10/2022
- \$ 100,000 – Administrative increase of 10% on 3/10/2022
- \$ 300,000 – Contract increase by the Commission (CAM#22-0361) on 6/7/2022.
- \$1,000,000 – 4th year renewal on 2/6/2023

The scope of the contract is described as "This Project is located Citywide, in the City of Fort Lauderdale. The work to be accomplished under this contract includes, but is not limited to, installation of an estimated 100,000 square yards of Type S-3 asphalt, 3000 square yards of FDOT Superpave 9.5 asphalt, 20 ADA access ramps, thermoplastic pavement marking, milling, and leveling of existing asphalt pavement, and other items quantified in the proposal pages of this contract." (*page 7 of 322, Annual Asphalt Mill and Resurfacing contract, March 3, 2020*)

The Public Works department (PWD) is assigned to manage the contract, ensuring that both the scope of work and contract capacity are adhered to. While PWD is responsible for contract management, other departments, such as Transportation and Mobility (TAM), can also piggyback on the contract according to their needs and funding availability.

Task Orders are issued against the contract to break up the planned work. Task Orders are approved according to the Approval and Routing Grid by the PWD or the Task/Change Order Routing form by TAM. Supporting documentation for the Task Orders include the estimated labor and material tied to the contract terms and pricing, budget availability, and the location of the work.

All Task Orders indicate the Purchase Order utilized for the scope of work and their associated invoices. Upon completion of the work detailed in the Task Order, invoices are approved by the PWD Engineer, Inspector, Project Manager, Senior Project Manager, and Assistant Director prior to payment.

The Infor system matches invoices to purchase orders for each project and houses the approvals for the invoices. For each payment, there are designated funding sources. PWD uses the gas tax (Fund 332) and TAM uses the parking services fund (Fund 461).

The Finance team within PWD reconciles all Task Orders to the contract approved capacity to ensure that it is not exceeded at any time. If the project is initiated outside of PWD, such as TAM, TAM contacts PWD to request a Task Order number and the allowed spending limit.

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FINDINGS

Finding 1 – Inconsistent Task Order Approvals and Supporting Documentation by Transportation and Mobility (TAM).

Condition

Task Order approvals and supporting documentation are inconsistent by TAM. While the Task Orders are related to the Annual Asphalt Mill and Resurfacing contract managed by the PWD, TAM is not following PWD's approval and documentation requirements (see criteria section below).

The following conditions are noted:

- There is a duplicate Task Order 16. One Task Order 16 is utilized by PWD and the other by TAM. The Task Orders are not related.
- There is no Master Purchase Order number on the Task/Change Order Routing form for Task Order 16 by TAM.
- Task Orders 16 and 17 were created by TAM, and approved by TAM Finance, but not by PWD Engineering Finance and Procurement/Finance as required by the PWD's approval and routing policies.
- For Task Orders 16 and 17, there is no support showing the original budget and the remaining budget after the Task Orders were completed.
- Task Order 17 had been completed by TAM; however, for the "The Venice Lot Parking Improvements" - there is no additional supporting documentation attached to the Task Order stating why this parking lot maintenance is needed, how was it prioritized, and budgeted.

MITIGATING CONTROLS for Task Orders 16 and 17: There are "Paving Plans" for the locations, outside of the Task Orders and TAM received Commission approval to increase the contract capacity for their work.

Criteria

PWD Route Form requires approvals from the Project Manager, Senior Project Manager, Chief Engineer, Assistant Director, Assistant Procurement Manager, and Procurement/Finance.

Supporting documentation requires:

- 1) The Task Order total is tracked against the Contract Award total,
- 2) contract price estimates are included and approved with relevant contract prices, and
- 3) the location/specifics of the work are detailed or a map is attached.

Cause

TAM is following its own Task/Change Order Routing Form which is less comprehensive than the PWD form. Moreover, the TAM approval form does not require any formal approval from PWD.

Effect

Inconsistent documentation attached to the Task Orders. In addition, a lack of formal acknowledgment and approval by PWD of TAM's project could lead to non-compliance with the contract scope and exceeding contract capacity.

Recommendations:

The CAO recommends that the City Manager directs PWD and TAM to develop a formalized approval process to ensure that the contracting department reviews and approves all Task Orders. In addition, contract capacity, budget availability, and scope of work should be required as supporting documentation for all Task Orders.

Management Response:

Management concurs with this finding. To resolve the issue of task orders not following the proper approval channels, Public Works will establish a standardized and comprehensive policy and process for task orders. These documents will address task orders originating within the Department as well as those originating outside the Department and will clearly define reviewer responsibilities, ensure compliance with essential requirements, including contract capacity, budget availability, and detailed scope of work, and will implement measures to ensure that all task orders undergo the requisite approvals as per established procedures.

OBSERVATIONS

Observation 1 – The Task Order Approval and Routing Policy by the Public Works Department lacks detail on the scope of approvals and does not include all approvers.

Condition

The Task Order Approvals & Routing policy by PWD requires that five people approve each Task Order within the department. However, there are no specifics on what each individual approves.

Moreover, the Task Order Approvals and Routing policy does not list all current approvers as required by the Routing Form. The current Project Manager and Program Manager are not listed.

Criteria

COSO provides the following guidance relevant to adequate internal control design:

COSO Principle 10 - The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

COSO Principle 12 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

COSO Principle 16 - The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Cause

The policy does not specify what each approver is responsible for when approving a Task Order. Additionally, not all approvers are listed who approve the Task Orders.

Effect

The approvers could be evaluating a Task Order for the same criteria instead of their specific area of expertise. Project resource monitoring, budget availability, technical specifications, and time considerations might not be assessed by the respective approver.

Recommendations:

The CAO recommends that the City Manager directs PWD and TAM to enhance the Approval and Routing Policy to reflect the current approvers and their individual responsibilities. Project resource monitoring, budget availability, technical specifications, and time considerations should be assessed by the individual approvers as part of their specific roles. Moreover, the number of approvers could be reduced, and the process could be streamlined thus providing a timelier approval, if duplicative reviews are identified. In addition, an automated approval process should be considered.

Management Response:

Management concurs with this observation. As recommended in the audit report, Public Works will collaborate with Transportation and Mobility in the development of these formalized documents.

Observation 2 – Invoice approval automation should be considered, specifically for construction projects.

Condition

The invoice approval process for PWD and TAM construction projects appear to be lengthy and cumbersome.

Auditor Note

The Accounts Payable Clerk utilizes the Infor system to pay all city invoices following a 3-way match process (involving the purchase order, invoice, and acknowledgment of goods/services receipt). However, before payment is made, construction project invoices undergo a multi-level approval process, which is conducted manually by PWD and TAM, separate from Infor or any other systems.

Criteria

COSO provides the following guidance relevant to adequate internal control design:

COSO Principle 10 - The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

COSO Principle 12 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

COSO Principle 16 - The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Cause

There is no automated workflow established for invoice approvals.

Effect

It takes additional time and effort to complete the manual approval process since multiple signoffs are required.

Recommendations:

The CAO recommends that the City Manager directs ITS, PWD, and TAM to evaluate implementing enhancements to the approval process, for example, more automation, which may expedite approvals for the vendor payment process.

Management Response:

Management has reviewed this observation and while the current process is lengthy and cumbersome, we believe that it provides a high level of control over the review and approval of construction pay applications. The Public Works Department manually reviews all construction pay applications to ensure quantities match with approved construction plans, inspector reports,

and other contract requirements, as well as any retainage required. The system of checks and balances incorporated in the current process ensures accuracy of payments being made, prior to submittal to the Finance Department for processing. Staff has reviewed its current procedure and believes it is sufficient to meet the City's needs to comply with applicable policies and laws.

Observation 3 – The Increased Contract Capacity of \$250,000 in the Infor System is Not Supported.

Condition

There is no documentation to support an increase of \$250,000 to this contract. Reconciliation of the approved contract capacity totals \$4,600,000. However, The Infor system shows the contact capacity of \$4,850,000.

AUDITOR NOTE (see Exhibit 2 for full schedule):

\$2,000,000 – 2-year contract approved by the Commission (CAM #20-0127) on 3/3/2020
\$ 200,000 – Administrative increase of 10% on 6/6/2021
\$1,000,000 – 3rd year renewal on 3/10/2022
\$ 100,000 – Administrative increase of 10% on 3/10/2022
\$ 300,000 – Contract increase by the Commission (CAM#22-0361) on 6/7/2022.
\$1,000,000 – 4th year renewal on 2/6/2023
\$4,600,000 - Total

Criteria

COSO provides the following guidance relevant to adequate internal control design:

COSO Principle 10 - The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

COSO Principle 12 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

COSO Principle 16 - The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Cause

PWD and Procurement were unable to provide documented approval to increase the contract capacity by \$250,000.

Effect

The contract capacity is overstated in the Infor system, so departments could spend \$250,000 more than allowed.

Recommendations:

The CAO recommends that the City Manager work with PWD and TAM to either reduce the contract capacity by \$250,000 or find the supporting documentation for the increase.

Management Response:

Management has reviewed the Commission Agenda Memos (CAM) and contract documents for this observation. When CAM 22-0361 was developed, the intent was to increase the remaining contract years (two years) by \$300,000 annually, not just a one-time increase. However, the CAM

lacked clarity on this matter and the assumption is that the only one year was approved by Commission. Out of an abundance of caution the Public Works Department reduced the contract in Infor by \$250,000 on October 12, 2023, making contract value \$4,600,000.

cc: Greg Chavarria, City Manager
Susan Grant, Assistant City Manager
Anthony Fajardo, Assistant City Manager
Alan Dodd, Director of Public Works
Ben Rogers, Transportation and Mobility Director
Tamecka McKay, Information Technology Services Director
Linda Short, Director of Finance
Thomas J. Ansbro, City Attorney
David Soloman, City Clerk

EXHIBITS

Exhibit 1 - COSO Framework and Finding Categories

The CAO conducted its assessment of internal controls using the May 2013 updated Internal Control—Integrated Framework established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework defines internal control, describes the components of internal control and underlying principles, and provides direction for all levels of management in designing and implementing internal control and assessing its effectiveness. The five components of the COSO framework are: control environment, risk assessment, control activities, information and communication, and monitoring activities.

A Finding results from a failure to comply with policies and procedures, rules, regulations, contracts and fundamental internal control practices.

A finding is categorized as a “deficiency,” a “significant deficiency” or a “material weakness” as defined below:

- *A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis.*
- *A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.*
- *A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis.*

Exhibit 2 – Reconciliation of Project Expenditures and Contract Capacity

Approval Date	DESCRIPTION	Contract Capacity Approvals	Project Expenditures/TOs	Contract Capacity Available Balance	TO Requesting Department
3/3/2020	Initial contract amount	\$2,000,000.00		\$2,000,000.00	CAM#20-0127
	Task Order #1		\$179,699.25	\$1,820,300.75	PWD
3/3/2021	Year 1 sub total			\$1,820,300.75	
6/6/2021	Admin change (10%)	\$200,000.00		\$2,020,300.75	
	Task Order #2		\$499,234.27	\$1,521,066.48	PWD
	Task Order #3		\$49,997.25	\$1,471,069.23	PWD
	Task Order #4		\$61,249.16	\$1,409,820.07	PWD
	Task Order #6		\$12,955.85	\$1,396,864.22	TAM
	Task Order #7		\$1,568.00	\$1,395,296.22	TAM
	Task Order #8		\$24,977.80	\$1,370,318.42	PWD
	Task Order #9		\$39,827.90	\$1,330,490.52	PWD
	Task Order #10		\$499,993.95	\$830,496.57	PWD
	Task Order #5		\$98,151.25	\$732,345.32	PWD
	Task Order #8		\$45,746.92	\$686,598.40	TAM
	Task Order #11		\$495,890.55	\$190,707.85	PWD
	Task Order #12		\$68,856.00	\$121,851.85	PWD
	Task Order #13		\$106,657.90	\$15,193.95	TAM
	Change Order for Task Order #8		\$1,516.30	\$13,677.65	TAM
3/3/2022	Year 2 sub total			\$13,677.65	
3/10/2022	Year 1 renewal	\$1,000,000.00		\$1,013,677.65	
3/20/2022	Admin change (10%)	\$100,000.00		\$1,113,677.65	
	Task Order #14		\$254,411.96	\$859,265.69	TAM
	Change Order for Task Order #12		\$20,495.00	\$838,770.69	PWD
	Task Order #15		\$17,421.00	\$821,349.69	TAM
6/7/2022	Commission approval	\$300,000.00		\$1,121,349.69	CAM#22-0361
	Task Order #16		\$619,972.40	\$501,377.29	PWD
	Task Order #16		\$44,974.54	\$456,402.75	TAM
	Task Order #17		\$26,551.10	\$429,851.65	TAM
	Task Order #18		\$26,551.10	\$403,300.55	TAM
3/3/2023	Year 3 subtotal			\$403,300.55	
3/10/2023	Year 2 renewal	\$1,000,000.00		\$1,403,300.55	
	Task Order #19		\$499,246.70	\$904,053.85	PWD
	Task Order #20		\$737,094.47	\$166,959.38	PWD
	Task Order #21		\$44,834.30	\$122,125.08	TAM
	Task Order #22		\$15,875.00	\$106,250.08	Parks/Cemetery
	Task Order #23		\$68,191.35	\$38,058.73	TAM
9/19/2023	Balance as of 9/19/23	\$4,600,000.00	\$4,561,941.27	\$38,058.73	

PWD total request:	\$3,894,685.95
TAM total request:	\$651,380.32
Parks/Cemetery total request:	\$15,875.00
	<u>\$4,561,941.27</u>

PWD - Public Works Department
TAM - Transportation and Mobility

Appendix - Acronyms

CAO	City Auditor's Office
COSO	Commission of Sponsoring Organizations of the Treadway Commission
INFOR	Enterprise Resource Planning or ERP utilized by the City
PWD	Public Works Department
TAM	Transportation and Mobility Department

FULL TEXT OF MANAGEMENT RESPONSES



Memorandum

Memorandum No: 24-02

Date: January 22, 2023

To: Patrick Reilly, City Auditor

From: Greg Chavarria, City Manager 
Greg Chavarria (Jan 22, 2024 20:15 EST)

Re: Audit of Asphalt Mills and Resurfacing Contract

Management appreciates the City Auditor examining internal controls over the Asphalt Mills and Resurfacing Contract for compliance. The examination identified one (1) Finding and three (3) Observations that will be addressed by Management.

The following are Management Responses to the audit Finding and Observations:

Finding 1

Inconsistent Task Order Approvals and Supporting Documentation by Transportation and Mobility (TAM).

Recommendations:

The CAO recommends that the City Manager directs PWD and TAM to develop a formalized approval process to ensure that the contracting department reviews and approves all Task Orders. In addition, contract capacity, budget availability, and scope of work should be required as supporting documentation for all Task Orders.

Management Response:

Management concurs with this finding. To resolve the issue of task orders not following the proper approval channels, Public Works will establish a standardized and comprehensive policy and process for task orders. These documents will address task orders originating within the Department as well as those originating outside the Department and will clearly define reviewer responsibilities, ensure compliance with essential requirements, including contract capacity, budget availability, and detailed scope of work, and will implement measures to ensure that all task orders undergo the requisite approvals as per established procedures.

Observation 1

The Task Order Approval and Routing Policy by the Public Works Department lacks detail on the scope of approvals and does not include all approvers.

Recommendations:

The CAO recommends that the City Manager directs PWD and TAM to enhance the Approval and Routing Policy to reflect the current approvers and their individual responsibilities. Project resource monitoring, budget availability, technical specifications, and time considerations should be assessed by the individual approvers as part of their specific roles. Moreover, the number of approvers could be reduced, and the process could be streamlined thus providing a timelier approval, if duplicative reviews are identified. In addition, an automated approval process should be considered.

Management Response:

Management concurs with this observation. As recommended in the audit report, Public Works will collaborate with Transportation and Mobility in the development of these formalized documents.

Observation 2

Invoice approval automation should be considered, specifically for construction projects.

Recommendations:

The CAO recommends that the City Manager directs ITS, PWD, and TAM to evaluate implementing enhancements to the approval process, for example, more automation, which may expedite approvals for the vendor payment process.

Management Response:

Management has reviewed this observation and while the current process is lengthy and cumbersome, we believe that it provides a high level of control over the review and approval of construction pay applications. The Public Works Department manually reviews all construction pay applications to ensure quantities match with approved construction plans, inspector reports, and other contract requirements, as well as any retainage required. The system of checks and balances incorporated in the current process ensures accuracy of payments being made, prior to submittal to the Finance Department for processing. Staff has reviewed its current procedure and believes it is sufficient to meet the City's needs to comply with applicable policies and laws.

Observation 3

The increased contract Capacity of \$250,000 in the Infor system is not supported.

Recommendations:

The CAO recommends that the City Manager work with PWD and TAM to either reduce the contract capacity by \$250,000 or find the supporting documentation for the increase.

Management Response:

Management has reviewed the Commission Agenda Memos (CAM) and contract documents for this observation. When CAM 22-0361 was developed, the intent was to increase the remaining contract years (two years) by \$300,000 annually, not just a one-time increase. However, the CAM lacked clarity on this matter and the assumption is that the only one year was approved by Commission. Out of an abundance of caution the Public Works Department reduced the contract in Infor by \$250,000 on October 12, 2023, making contract value \$4,600,000.

c: Anthony G. Fajardo, Assistant City Manager
Susan Grant, Assistant City Manager