

**Report of Internal Audit
Authorized Contracts and Payments – FY2013
June 26, 2014**

**City of Charlotte
City Auditor's Office
Gregory L. McDowell, CPA, CIA**

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Purpose and Scope

The intent of this audit was to evaluate the City's spending with the entities paid the most in FY13, whether related to a new or existing contract, a Council-approved disbursement, electronic transfers, purchase order, procurement card, or direct payment. We examined supporting documentation to determine that payments to these entities were valid and that a proper procurement process was followed. In addition, applicable Council or City Manager approved renewals, change orders and amendments were tested. Tests were designed to determine whether:

- The solicitation process was in accordance with the City's procurement policies;
- Payments were in accordance with the original bid estimation or amendment amounts;
- Grant funding agreements were approved and payments were in accordance with grant requirements;
- Contract terms appropriately reflect contractor and subcontractor details, as approved by Council; and
- Land purchases exceeding \$10,000 were Council-approved.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion and Summary Results

For entities paid the highest amounts by the City in FY13, payments were properly authorized, and based upon solicitation processes and contracts which complied with City Council approvals and existing City policies. For these entities, a high level of accuracy, supporting documentation and compliance with grant funding agreements were verified, as follows:

- Payments on behalf of fourteen departments were included in the testing. Only the Planning Department did not have vendors who met the threshold. See Attachment A for a listing of entities tested.
- About \$479 million (68% of \$706 million) paid by the City in FY 2013 was verified as accurate, supported, and in compliance with Council's approval and the City's accounts payable policy.

- 56 entities (vendors/contractors/service providers) were tested, and each was paid over \$1.4 million in aggregate, from one to nine City departments, in FY 2013. The thirty-nine highest paid entities received over \$4 million each, and 17 entities judgmentally selected were paid at least \$1 million.
- Over 99.9% of payments tested were determined to be sufficiently supported by the entities' invoices and documentation.

Payments made on behalf of two departments did not follow City policy and/or best practices for managing contract expenses. Those issues, discussed in Finding #2, are being appropriately addressed by the Departments.

Background

The City currently procures and pays for commodities and services in several ways: contracts, purchase orders (either in association with a contract or independently), procurement cards, electronic transfers, and direct pays. (See Attachment B for detailed distribution by method.) However, Citywide policies and procedures are being updated to reflect changes necessitated by the implementation of the City's Enterprise Resource Planning System (MUNIS) in July 2014. Total payments processed in FY13 exceeded \$705 million. Purchase requisitions and subsequent purchase orders as well as authorization for payments (construction) are processed using GEAC, the City's financial accounting system.

The City's Procurement Management Division negotiates common commodity contracts which can be used by all City departments, and is responsive to departments' requests for purchasing assistance. The decentralized nature of the City's procurement policies allows divisions to purchase goods and services on their own while Procurement Management purchasing agents are available to assist, upon request. Procurement Management also provides service and technology procurement activities and acts in a consulting capacity to advise and guide internal and external customers through the process.

The product or service procurement type and the dollar amount dictate the method of procurement to be used. The following table details the authorized procurement methods and award authority for non-construction related procurements (procurement of equipment and commodities).

| Dollar Threshold | Method of Procurement | Authority |
|-------------------------|--|--|
| \$0 - \$9,999 | Procurement Card or minimum of one quote | Department Director Designee |
| \$10,000 - \$49,999 | Informal Solicitation Process | Department Director or City Manager Designee |
| \$50,000 - \$99,999 | Informal Solicitation Process | City Manager or Assistant City Manager |
| \$100,000 plus | Formal Solicitation Process | City Council |

Construction-related procurements are managed individually by the applicable department – primarily Aviation, Engineering and Property Management (EPM), Charlotte Area Transit

(CATS), Charlotte Mecklenburg Utilities Division (CMUD), and Charlotte Department of Transportation (CDOT). Departments that administer construction projects are required to adhere to applicable North Carolina statutes. There are instances when these departments collaborate with each other. Major architectural, engineering and surveying service contracts for some departments are managed by the City's Engineering and Property Management Department. Selection of a firm to provide these services is based on several North Carolina state statutes, which require local governments to:

- Announce all requirements for architectural, engineering, and surveying services;
- Select firms qualified to provide such services on the basis of demonstrated competence and qualification for the type of professional services required, without price information; and,
- Negotiate a contract for these services at a fair and reasonable fee with the best qualified firm.

Audit Findings and Recommendations

1. Departments follow City Procurement Policies and Procedures.

Auditors reviewed departmental procurement files for proper authorization and adequate documentation. Our reviews included executed contracts, invitations to bid, requests for proposals, bid tabulation sheets (when available), requests for council action, change orders and amendments. Attachment A details total amounts examined per Department. Also:

- About \$479 million (68% of \$706 million) paid by the City in FY 2013 was verified as accurate, supported and in compliance with Council's approval and the City's accounts payable policy.
- 56 entities (vendors/contractors/service providers) were tested, and each was paid over \$1.4 million in aggregate, from one to nine City departments, in FY 2013. The thirty-nine highest paid entities received over \$4 million each, and 17 entities judgmentally selected were paid at least \$1 million.

Specifically, we reviewed:

Solicitation Processes: Departments must follow the applicable solicitation procedures for the type of product or service being procured. Testing verified that adequate documentation of the solicitation process was maintained in the contract and purchase order files.

Purchase Authorizations: There are specific dollar thresholds for the procurement of equipment and commodities which require varying levels of authorization – City Council, City Manager, Department Directors, or department employees. Before procurements are initiated, the appropriate approvals must be obtained and documented. Each applicable transaction tested was properly approved.

Contract Terms: Payments to vendors must be in accordance with the contract terms. The contract terms specify the performance requirements and expectations for a purchase or project. Sometimes the contract terms are amended. The amendment could be related to pricing or project specifications. Auditors verified that payments to vendors adhered to the contract prices established during the bid process and any subsequently amended prices.

With the exception of the issues noted in Finding #2, below, awards were based on a Council approved process and payments were made in accordance with City policy.

2. **Payments made on behalf of two departments did not follow City policy and/or best practices for managing contract expenses.**

A. **Contractor's travel-related expenses**

The City of Charlotte entered into a contract with Tyler Technologies dated January 23, 2012, for the purchase and implementation of the City's Enterprise Resource Management software, MUNIS. The original agreement plus all subsequent amendments total about \$8.8 million and included a maximum \$750,000 for travel-related expenses.

FY13 non-travel-related payments to Tyler were made in accordance with the milestones and amounts specified in the contract and were properly approved. However, the Innovation & Technology Department (formerly the Office of the Chief Information Officer, OCIO) did not follow best practices while managing the travel-related portion of the Tyler contract. The travel-related invoices lacked evidence of the Department's review for validity of the expenses. In FY13, invoices for travel-related expenses totaled \$263,211, or 35% of the total amount allowed under the contract. We noted the following examples regarding the travel-related invoices paid.

- Airfare – the \$417 expense was submitted 2/12/13 on an invoice stating the expense was incurred 1/4/13. However, the receipt is dated 7/16/12. The errors could result in duplicate payment by the City.
- Rental Car – one consultant charged \$984 per month (6 months); two additional months were each billed at \$967 and \$1,128. Charges totaled \$7,999, all without documentation that the rate was the best available, or that an economical choice was made.
- A consultant rented an apartment in Charlotte for eight months at a cost of \$25,040 in lieu of hotel accommodations. An apartment or home rental is allowed in the contract if it is more economical than a hotel. However, the rental agreement was not provided, which would assist in the determination of the reasonableness of the rental rate. There is no evidence that less expensive and suitable accommodations were not available.
- For the consultant above, March 2013 rent of \$3,130 was billed twice.

- Daily mileage was claimed by at least two consultants. The MUNIS Travel Policy indicates that consultants with designated home offices should calculate miles from their homes. More documentation should be provided by the contractor to verify that these charges are appropriate.
- Four of the twelve invoices had no backup documentation in ImageNow. Therefore, the contract administrator approved the invoices without examining or requesting backup.

Recommendation: Innovation & Technology (IT) should improve its invoice review process to ensure that charges are valid and adequately supported by applicable receipts. Invoices should be organized so that each consultant's expenses can be easily verified. Further, IT should document evidence reviewed to determine reasonableness of mileage reimbursements, accommodations and transportation, and home office designations.

IT Response: IT/ERP Project staff reviewed the documentation presented for travel reimbursement invoices in a manner consistent with the language in the ERP Project master contract. The Tyler Technologies travel invoices have been voluminous and better organization would facilitate reviews by the ERP staff. The staff has requested that future travel reimbursement invoices be organized by Tyler Technologies employee/sub-contractor and then by date. However, Tyler Technologies is not obligated by the contract to provide this information in a specific organized way.

The IT/ERP Project staff will request information from Tyler Technologies to clarify the charges involved in the three questioned items (the apartment costs, rental car charges, and the daily mileage).

In an effort to review travel reimbursement invoices in more depth and in accordance with the contract provisions of the Tyler Technologies contract, the ERP staff will request in writing copies of actual receipts on several items in future travel reimbursement invoices.

B. Duplicate Payment

During our review of direct payments to Blythe Construction (Blythe), we noted a duplicate payment of \$70,088 (which had already been returned). The charges were processed and paid as "extra work" by Engineering & Property Management (E&PM) under its resurfacing contract provisions. This followed an established process (collaboration between E&PM and CDOT). In accordance with that process, Blythe included the cost of the service in a payment request to E&PM. However, a CDOT employee who was not familiar with the payment procedure for "extra work" also processed an invoice for the same services as a direct payment. The check was prepared and mailed to the vendor, but the vendor recognized the mistake. If the vendor had not returned the check to the City, this may not have been discovered. Two existing controls did not prevent the duplicate payment.

- The City's Accounts Payable Payment Policy (FIN6) requires purchase orders for procurements over \$10,000. If an invoice is submitted by a vendor without a corresponding purchase order, the policy requires City Manager's Office approval prior to payment. CDOT personnel forwarded the invoice to the City Manager's Office for approval and an Assistant City Manager (ACM) inquired about the legitimacy of the invoice. CDOT personnel assured the ACM that the payment needed to be made.
- Because this invoice number had already been used for another invoice from Blythe, it would have been rejected by the City's accounts payable system as a duplicate invoice. However, an "A" was inadvertently added to the invoice number, which allowed the invoice to be processed. It could not be determined who added the "A" to the invoice. Without the added letter, the duplicate would have been rejected by the accounts payable system and reported as a duplicate, which requires further review prior to payment.

C. Other

Auditors noted a long-term contract for snow removal equipment. Per CDOT personnel, the offer to provide reserve equipment services to the Street Maintenance Division (SMD) was only accepted by Blythe Construction and Blythe Development. The reserve price and the pre-negotiated mobilization fees were submitted by both firms and SMD accepted. This service has been provided to SMD by one or both firms for at least 10 years. However, there was no indication that a solicitation process has ever taken place.

Recommendation: CDOT should adhere to the City's FIN6 policy and prepared a purchase order for all procurements in excess of \$10,000. Purchase orders should be processed prior to the vendor's commencement of work. Regarding the procurement of snow removal services, CDOT should attempt to obtain informal quotes periodically from potential vendors and document the results.

CDOT Response: We agree that the two existing controls mentioned in the audit finding above did not prevent the duplicate payment. CDOT also agrees with the recommendation to encumber funds in excess of \$10,000 prior to commencement of work. Upon implementation of the City's new Enterprise Resource Planning System, MUNIS, these types of occurrences should no longer be an issue. Prior to ERP implementation, CDOT has taken steps to ensure that invoices are properly processed.

During the Summer and Fall of 2014, CDOT and E&PM staff will solicit for bids for emergency snow removal services. Based on these bids, we will select up to three qualified contractors to enter into separate five-year contracts. Depending on the amount, CDOT and E&PM will take the necessary steps to approve and properly encumber each contract.

Department Authorized Contracts and Payments

Attachment A

| | Vendor / Departments | Aviation | E&PM | CMUD | CATS | Shared Services | CFD | NBS | SWS | HR | Budget | CDOT | CMPD | Finance | IT | Total Tested Per Vendor |
|----|-------------------------------|------------|------------|------------|------------|-----------------|-----------|-----------|-----------|------------|------------|-----------|---------|-----------|-----------|-------------------------|
| 1 | Blue Cross Blue Shield-NC | | | | | | | | | 50,271,281 | | | | | | 50,271,281 |
| 2 | Transit Mgmt Pay | | | | 42,984,393 | | | | | | | | | | | 42,984,393 |
| 3 | Archer Western Contractor | 33,245,673 | | | | | | | | | | | | | | 33,245,673 |
| 4 | Clerk of superior Ct | | 11,798,310 | 74,750 | 10,637,837 | | | | | | | 57,175 | | | | 22,568,072 |
| 5 | Crowder Construction | | | 21,265,956 | | | | | | | | | | | | 21,265,956 |
| 6 | Charlotte Reg'l Visitors Auth | 1,580,396 | 651,593 | | | | | 5,000 | | | 17,705,736 | | | | | 19,942,724 |
| 7 | Blythe Construction | 8,065,515 | 6,243,577 | 100,000 | 12,763 | | | | | | | 3,845,310 | | 74,370 | | 18,341,534 |
| 8 | STV/Whitehead | 91,118 | 136,995 | | 17,664,228 | | | | | | | 49,995 | | | | 17,942,336 |
| 9 | Wilson Air Cntr | 17,900,000 | | | | | | | | | | | | | | 17,900,000 |
| 10 | Horack Tally | | 693,299 | 12,419,327 | | | | | | | | 18,743 | | 10,400 | | 13,141,769 |
| 11 | Sun Trust | | 12,977,809 | | | | | | | | | | | | | 12,977,809 |
| 12 | Blythe Development | 292,165 | 8,318,070 | 2,479,227 | | | | | | | | 1,538,197 | | 280,276 | | 12,907,935 |
| 13 | Transit Mgmt Rem | | | | 12,589,646 | | | | | | | | | | | 12,589,646 |
| 14 | CAREMARK | | | | | | | | | 12,150,908 | | | | | | 12,150,908 |
| 15 | US Airways | 10,415,428 | | | | | | | | | | | | | | 10,415,428 |
| 16 | Motorola | 88,442 | | 35,273 | 1,820 | 2,695,691 | 5,296,066 | | | | | | 400,613 | | | 8,517,905 |
| 17 | Quick Fuel Fleet Srv | | | | 7,623,314 | | | | | | | | | | | 7,623,314 |
| 18 | Gillig LLC | | | | 7,063,148 | | | | | | | | | | | 7,063,148 |
| 19 | Sunshine Cleaning | 6,787,962 | | | | | | | | | | | | | | 6,787,962 |
| 20 | Charlotte Works | | | | | | | 6,527,232 | | | | | | | | 6,527,232 |
| 21 | BFI/CMS Landfill | | | | | | | 2,127,602 | 4,101,549 | | | | | | | 6,229,151 |
| 22 | Wells Fargo | | | | | | | | | | | | | 6,152,174 | | 6,152,174 |
| 23 | Atlantic Coast Cntrs | | | 3,557,667 | | | | | | | | | | 2,589,441 | | 6,147,108 |
| 24 | Ferebee Corp | | 5,205,628 | 2,900 | | | | | | | | 849,883 | | | | 6,058,412 |
| 25 | Oscar Renda Cntring | | | 3,607,298 | | | | | | | | | | 2,118,304 | | 5,725,602 |
| 26 | On Site Developmnt | | 3,700,054 | | 5,500 | | | | | | | 1,276,602 | | | | 4,982,156 |
| 27 | Triangle Grading | 190,237 | 4,490,528 | | | | | | | | | | | | | 4,680,765 |
| 28 | Allied Waste Services | | 2,608 | 148,393 | 5,524 | 506 | 830 | 939 | 4,347,300 | | | 1,630 | 4,972 | | | 4,512,703 |
| 29 | Bowers Group | 4,042,170 | | | | | | | | | | | | | | 4,042,170 |
| 30 | Myers & Chapman | | 3,996,837 | | | | | | | | | | | | | 3,996,837 |
| 31 | Charlotte Ctn City Pttrs | | 25,000 | | | | | | | | 3,814,743 | 95,000 | | | | 3,934,743 |
| 32 | Smeal Fire Apparatus | | | | | | 3,893,922 | | | | | | | | | 3,893,922 |
| 33 | Nexsen Pruet Trust | | 424,311 | 20,742 | 3,301,298 | | | | | | | | | | | 3,746,351 |
| 34 | Charlotte Meck Housing | | | | | | | 2,622,249 | | | | | | 1,043,605 | | 3,665,854 |
| 35 | Kimberely Fox Trust | | 173,417 | | 3,361,855 | | | | | | | | | | | 3,535,272 |
| 36 | Allied Barton | | 695,474 | | 2,595,086 | | | 143 | | | | | | | | 3,290,702 |
| 37 | Arts & Science | | | | | | | | | | 3,273,748 | | | | | 3,273,748 |
| 38 | BRS Incorporated | | | 3,161,799 | | | | | | | | | | 26,800 | | 3,188,599 |
| 39 | Mosaic Village | | | | | | | 3,182,994 | | | | | | | | 3,182,994 |
| 40 | United Construction | | 2,902,242 | | | | | | | | | 74,481 | | 155,027 | | 3,131,751 |
| 41 | Sealand Contractors | | 3,092,727 | | | | | | | | | | | 20,567 | | 3,113,294 |
| 42 | Rea Contracting | | 360,963 | 380,930 | | | | | | | | 2,335,691 | | 20,653 | | 3,098,237 |
| 43 | Archer Western Construct | 3,019,086 | | | | | | | | | | | | | | 3,019,086 |
| 44 | Balfour Beatty Rail | | 1,970,593 | 1,002,366 | | | | | | | | | | | | 2,972,959 |
| 45 | Brooks Berry | 2,906,279 | | | | | | | | | | | | | | 2,906,279 |
| 46 | Siemens Industry | | | | 2,899,696 | | | | | | | | | | | 2,899,696 |
| 47 | Synagro WWT | | | 2,559,628 | | | | | | | | | | | | 2,559,628 |
| 48 | Inland Service Corp | | | | | | | | 2,406,393 | | | | | | | 2,406,393 |
| 49 | M.B. Khan Constn | | | 2,178,741 | | | | | | | | | | | | 2,178,741 |
| 50 | Tyler | | | | | | | | | | | | | | 2,117,166 | 2,117,166 |
| 51 | Hazen & Sawyer | | | 1,886,684 | | | | | | | | | | | | 1,886,684 |
| 52 | RH Price | | | 1,315,749 | | | | | | | | | | 534,802 | | 1,850,552 |
| 53 | Propst Construction | | | 1,756,475 | | | | | | | | | | | | 1,756,475 |
| 54 | Nebco | | | | | | | | | 1,744,554 | | | | | | 1,744,554 |
| 55 | Premier Magnesia | | | 1,488,153 | | | | | | | | | | | | 1,488,153 |
| 56 | Water & Sewer Auth | | | 1,402,827 | | | | | | | | | | | | 1,402,827 |

Attachment B

