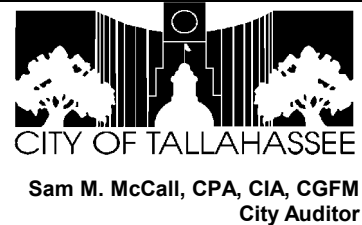


Audit Report



“Procurement of Materials and Services for Purdom Unit #8”

Report #0203

November 7, 2001

Summary

Based on our tests, Electric Operations complied with procurement policy and procedures when procuring materials and services for the Purdom Unit #8 Project. Expenditures we tested were appropriate and in compliance with the contracts.

The City advanced \$1.6 million to Florida Gas Transmission, Inc., for gas main connection improvements. Future City contracts should include a provision for the vendors to return interest earnings to the City when funds are advanced to the vendor. Also, City agreements for services should include a requirement that vendors comply with the City's Travel Policy and Procedures for claiming reimbursement for travel expenses.

Electric Operations maintained a thorough record of monitoring activities of the Purdom Unit #8 Project. The plant cost was within budget and has been providing the economical electrical power that was expected in the original plan.

Electric Operations recently reported that this project has not been officially closed out in order to address several issues in the scope of services provided by Raytheon, now Washington Group International.

Scope, Objectives, and Methodology

Our audit plan included a review of fourteen (14) purchase orders in the amount of \$5,926,326 between the City of Tallahassee and twelve (12) different vendors contracted to make improvements to the City's Sam O. Purdom power plant in St. Marks. The largest portion of the project was the Engineering, Procurement,

and Construction (EPC) contract to Raytheon Engineers and Constructors, now named Washington Group International. Raytheon was contracted to provide an engineering design proposal for permitting review, and then competed successfully for award of the procurement of the power plant equipment and subsequent construction of the facility. Approximately 96% of the Purdom Unit #8 Project cost, or \$99 million, was for the Raytheon contract. Florida Gas Transmission (FGT) provided the gas main connection improvements to provide increased volume at sufficient pressure to supply the natural gas to the new turbine engine. Improvements made by FGT cost \$1.4 million and were completed according to the agreement with the City and Federal Energy Regulatory Commission (FERC) tariff. The Purdom Unit #8 Project required a substantial amount of legal support in the permitting process. The City's professional services agreements with the two firms of Hopping, Green, Sams, and Smith (HGSS) and Van Ness Feldman were essential to the success of the project and cost \$890,000. The other eight (8) vendors included in our audit are listed in Table 1.

Our primary objectives were to answer the following questions:

1. Did Electric Operations comply with the City's procurement policy and procedures?
2. Were expenditures appropriate and in compliance with contracts?

Our audit period was from October 1996 to January 2001.

We reviewed the contracts and agreements with all twelve (12) vendors to obtain an understanding of their provisions. We also reviewed the Request for Bids (RFB) and Request for Quotes (RFQ), City Commission agenda items, contracts and agreements, purchase orders, invoices, project records

maintained by Electric Operations, and prior audits to determine the status of applicable outstanding issues and for possible reliance on

for this expenditure.

To address our questions, we examined fourteen (14) purchase orders, related invoices, and supporting documentation. We selected purchase orders from each of the twelve (12) vendors based on high dollar value expenditures represented in the audit period.

Periodic progress meetings were held with staff in Electric Operations. These meetings served to inform the program administrators of the audit progress and as a discussion forum to enhance the effectiveness of the audit.

This audit was conducted in accordance with generally accepted government auditing standards, the standards for the professional practice of internal auditing, and accordingly included such tests of the records and other auditing procedures, as we considered necessary

under the circumstances.

Table 1 Payments to Vendors

<u>Vendor</u>	<u>Payments</u>	<u>Sample</u>
Raytheon Engineers and Constructors	\$ 99,420,443	\$2,472,226
Florida Gas Transmission Company	\$ 1,600,000	\$1,600,000
Hopping, Green, Sams, and Smith	\$ 817,655	\$ 817,655
Tri-State Utility Products, Inc.	\$ 410,185	\$ 400,219
FOCAS, Inc.	\$ 236,944	\$ 231,544
Morris Plumbing & Electric Co.	\$ 215,825	\$ 215,825
Watkins Engineers & Constructors	\$ 130,398	\$ 75,476
Van Ness Feldman	\$ 72,500	\$ 19,490
King Wire, Inc.	\$ 57,177	\$ 56,730
Capital City Pipes, Inc.	\$ 54,554	\$ 20,235
Flowserve Pump Corporation	\$ 46,145	\$ 14,526
Posey's	\$ 2,400	\$ 2,400
Total Payments as of 1/9/01	<u>\$103,064,226</u>	
Total Payments Sampled		<u>\$5,926,326</u>
Percent of Total Payments Sampled		<u>5.75%</u>

previously completed audit action items.

Audit Report #9803, an Audit of the City's Price Agreement for Contract Labor for Power Plants with Watkins Engineers and Constructors, Inc., (Watkins) was dated August 3, 1999. Issues in the two internal control areas of Planning and Monitoring were reported in the audit. A subsequent follow up to the audit found that Electric Operations had taken corrective action to improve these control areas.

Audit Report #0129, an Audit of Contracts with Ironwood Construction Co., Inc., (Ironwood) was issued June 19, 2001. The audit confirmed that Electric Operations implemented sufficient corrective action to address the internal control issues.

Audit Reports #9802, #9905, and #0117 were annual audits of the City's disbursements. The annual Disbursements Audit #9905 included a review of the Schedule of Values (SOV) that was used in part by Electric Operations to process progress payments to Raytheon. The audit included a detailed review of project payment #7 sent to Raytheon by wire transfer in the amount of \$2,472,226. There were no issues reported

Background

Based on the City's Electric Power Needs Assessment, the new Purdom Unit #8 power plant was designed to meet the forecasted electrical power needs of the community and the environmental and efficiency standards of the Florida Electrical Power Plant Siting Act. The improvements included the purchase and installation of a natural gas-fired combined cycle unit (gas turbine/steam turbine) for the purpose of providing 20% more efficient electrical power generation for the City of Tallahassee. The new Purdom Unit #8 was designed to provide the power needs of the growing community, replace two older less efficient units and replace the power provided by two purchased power contracts expiring in 2000 and 2002.

Questions to Be Answered

Our primary objectives were to answer the following questions:

1. Did Electric Operations comply with the

City's procurement policy and procedures?

2. Were expenditures appropriate and in compliance with contracts?

Did Electric Operations Comply with Procurement Policy and Procedures?

We reviewed the contracts, agreements, and the fourteen (14) purchase orders in our sample and found Electric Operations in compliance with City procurement policy and procedures.

We noted that a sample of purchase orders amounting to \$5,926,326 received proper City Commission review and approval, appropriate funding authority, and were approved in advance of the vendor performing the work.

Were Expenditures Appropriate and in Compliance with Contracts?

We noted that a sample of purchase orders amounting to \$5,926,326 received the proper review and approval by the Project Manager prior to issuing payment to the vendor. We found documented evidence on file that showed Electric Operations staff monitored the contractors' progress and ensured the project expenditures reflected the work actually completed and was within the scope of work described in the contract.

Other Issues

Interest earnings on advanced funds was foregone. The City advanced \$1.6 million to Florida Gas Transmission, Inc., (FGT) for improvements made to the gas main connection. The amount of the advanced funds was based on an estimate submitted by FGT and reviewed by Electric Operations. When we reviewed the FGT agreement, we noted that

- there was no set interest rate established for the City's advanced funds;
- there was no requirement for the vendor to track interest earned on advanced funds;
- there was no requirement for the vendor to pay the City any interest earned on advanced funds; and
- the City was required to pay the vendor for costs over and above the estimate plus interest.

We also noted that based on the agreement and City Attorney staff review comments, there was no fixed date set for the completion of the project. The agreement stated:

"For purposes of this Reimbursement Agreement, construction shall be deemed complete when all FGT reports are submitted and all FGT work orders are closed."

Based on our review of the FGT agreement and Electric Operations files, it took FGT more than a year to complete the construction according to the definition provided in the agreement. In addition, due to the cost of the project being less than the original estimate, FGT owed the City a refund of \$210,000 on the advanced funds.

We used the daily average interest rate earned by the State Board of Administration (SBA) to estimate that \$13,137 in interest earnings was foregone on the advanced funds that were returned. This amount covered a period of 411 days from March 19, 1999, when the funds were first advanced to FGT by wire transfer, to May 31, 2000, when the City deposited the refund check in the bank. We expect that additional interest earnings would be due the City on the balance of the advanced funds. However, we did not have detailed vendor records of expenditures to determine the interest earned on the advanced funds and held by FGT until paid out for subcontractor invoices and FGT salaries and expenses.

Our discussions with Electric Operations about this issue revealed that, in their experience with the vendor, the costs of projects typically exceed the vendor's estimates and that refunds are rare. Additionally, there was no established procedure to ensure that a requirement for the payment of earned interest be included in agreements for advanced funding. We recommend that future agreements of this type include a requirement for the repayment of interest earned on the advanced funds and establish an agreed upon date for the completion of the project.

Vendor travel expenditures not subject to City Policy and Procedures. We reviewed the Professional Services Agreements (PSA) and associated Task Orders (TO) for legal services issued to two law firms Hopping, Green, Sams, and Smith (HGSS) and Van Ness Feldman and the TO for permitting services issued to Raytheon Engineers and Constructors, Inc. We noted that the PSA's and TO's did not include a requirement for vendors to follow the City's policy and procedures governing travel expenditures nor did they require the vendor to

provide minimum documentation for travel expenditures to allow for a thorough post audit.

Based on our review of the vendor invoices, we determined that the firms were reimbursed \$27,371.65 for travel costs they incurred while performing their duties for the City. The City's travel policy and procedures state that "individuals/entities that provide services to the City will be reimbursed for travel related expenses and shall be reimbursed in accordance with this (the City's) procedure unless other requirements have been specified in the relevant contract or PO." Travel costs submitted by the vendor for reimbursement were summarized on the vendor's monthly bill, and no supporting documentation was provided to permit an audit of the claimed costs to determine compliance with City policy.

Electric Operations and City Attorney staff both reviewed the invoices using their judgment and experience with the vendors to determine that the charges were reasonable and approved them for payment. The Project Manager, who was most familiar with the firm's scope of work and activities performed, based his invoice review on the firm's travel requirements to complete their tasks.

We noted that subsequent to the City reimbursing HGSS, the law firm submitted their policy for billing certain expenses, including travel. The policy included the following.

"Travel (including airfare, rental cars, taxicabs, hotel, meals, tips, etc.) is billed at actual cost. Where air travel is required, coach class is used wherever feasible. Out-of-town mileage is billed at the IRS approved reimbursement rate, currently 32.5 cents per mile."

The City incorporated the HGSS policy in the PSA's dated March 1, 2000, and March 28, 2000, by reference.

Including the HGSS policy in the two PSA's was a positive step for Electric Operations in providing for better control over travel expenditures. However, there was no

requirement for the vendor to provide documentation supporting their claims for travel expenses to permit a post audit by the City in order to determine whether the vendor complied with their own policy. In addition, requiring the vendor to comply with the City's travel policy and procedures is a better practice.

Based on our understanding of the City's Travel Policy and Procedures, although the vendors are not employees of the City, they are authorized travelers and should be subject to the City's travel policy and procedure while in the performance of their duties.

We recommend that management include the City's travel policy and procedures in future agreements so that this mechanism can be effectively used to control travel expenditures. We further recommend that vendors be required to provide sufficient documentation to support their invoices for reimbursement of travel costs.

Outstanding Issues

Electric Operations recently reported that this project has not been officially closed out in order to address several issues in the scope of services provided by Raytheon, now Washington Group International.

Appointed Official Response

City Manager Response:

I'm pleased that the audit report reflects that administrative and other controls were designed and working properly. I thank the Electric Production and Administrative staffs for their effectiveness in managing this important project, and I thank you and your staff for your assistance and professionalism in completing this audit.

Copies of this Audit Report #0203 (Project#0103) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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