



CITY AUDITOR'S OFFICE

TO: Mayor and Council Members

FROM: Andrea R. Butola, City Auditor *ARB*

THRU: Timothy DiSano, Senior Auditor *TD*

DATE: August 2, 2017

SUBJECT: North 2 Utilities Expansion Program Labor Rates Review

The City is in negotiations to finalize the Professional Engineering Services Agreements (Agreement) with Greeley and Hansen and CDM Smith (Companies) for the North 2 Utilities Expansion project. At the request of the City's Public Works Department (Department), the City Auditor's Office performed a limited scope review of the labor rates shown in the proposed Agreements to ensure the rates included in the Agreements were accurate. This review was completed prior to the contract award.

The objectives of the review included:

- a) Review labor rates for a sample of individuals listed on the Schedule E provided by the Companies in comparison to payroll records to verify the accuracy of the employee hourly wages to be reimbursed per the contract.
- b) Verify the appropriate field and office indirect cost rates were used as the multiplier in the calculation to determine the billable rate.

An analysis was performed to determine which employees' billing rate increased from prior data over a predetermined threshold amount. For Greeley and Hansen, the threshold was five-dollars or more. This analysis resulted in a sample of 23 out of 38 employees for Greeley and Hansen. For CDM Smith the threshold was also set at an increase of five-dollars or more. In addition to those employees who exceeded the threshold, a sample of 10 employees that were not included in prior agreements was also selected. This resulted in a sample of 20 out of 102 employees for CDM Smith. None of the individuals selected for this review had been tested in prior reviews.

The billable rates per the Agreements included a multiplier which incorporated the Companies' annual Indirect Cost Rates. The Finance department reviewed the Companies' Independent Auditors' Report, Statement of Direct Labor, Fringe Benefits, and General Overhead which were presented the indirect cost rates used in the billable rate calculation. We did not audit or review these reports.

For each individual sampled, we verified the hourly rates included in the Agreement on Schedule E to the payroll register for the pay period ended June 30, 2017. We also recalculated the billable rate using the appropriate indirect cost rates applied to the hourly rates. All rates agreed to supporting payroll information and billing rates recalculated correctly with the exception of:

- The current rate for one individual is seventeen-cents lower than the rate provided to the City. The Schedule E should be revised to reflect the correct hourly and billable rate.
- The current rate for one individual was one-dollar and twenty-five cents higher than the rate that was provided to the City. The Schedule E should be revised to reflect the correct hourly and billable rate.
- One employee left one of the Companies in May of 2017 and should be removed from the Schedule E as they are no longer eligible to participate in the agreement.

These discrepancies were discussed with the Department and they will ensure the labor rates noted as exceptions will be corrected prior to City execution of the agreements. Further, once the project is underway, the Department reviews invoices submitted for payment to ensure the Companies are billing the labor rates according to the terms of the Agreement. Finally, it is important to note the Agreements contain a “right to audit” clause and it is the Department’s intent to have the City Auditor’s Office conduct periodic audits throughout the duration of the project to ensure the Companies adhere to the terms of the Agreements.

Based on our pre-award review, we believe the employee hourly and billable rates, in the proposed Professional Engineering Services Agreement as reflected in Resolution 131-17 North 2 UEP Construction, Engineering and Inspection Contract are accurate except for the three individuals noted above. The Department has a process in place to ensure accuracy of the billed rates invoiced for the project going forward.

C: John Szerlag, City Manager
Michael Ilczyszyn, Assistant City Manager
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Paul Clinghan, Public Works Director
Kevin Higginson, Utilities Extension Manager
Elizabeth Ellis, Project Manager
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