



Fairfax County Internal Audit Office

Fairfax County Park Authority
Capital Projects Audit
Final Report

March 2007

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Executive Summary

We performed a review of capital projects management within the Fairfax County Park Authority at the request of management. Our work focused on controls over project budgets, construction and design contracts, change orders, and status reporting. We found that the controls in these areas were not adequate and found several areas where best practices improvements could be made. Specific findings were noted in the following areas:

Project Tracking and Reporting

- There was a lack of clear, individual project based, status reporting for capital projects which hindered the ability to ensure accountability. By not breaking project tracking and accounting data out on a project by project basis, and including all pertinent historical budget and cost figures, the Park Authority Board (PAB) and management were not receiving sufficient information necessary to make informed decisions.
- Actual capital project expenditures were not being regularly tracked and monitored against Park Authority Board approved budgets. Additionally, approval requirements to fund project budgets were not documented in writing and were applied inconsistently.
- Planning and Development (P&D) staff responsible for the administration of capital projects also prepared project budgets and financial reporting which went to the Park Authority Board and management with no oversight from the FCPA Administration Financial Management Branch (FMB). The Financial Management Branch was responsible for issuing financial statements for FCPA operations including reporting on Fund 370 - Park Revenue Fund and Fund 371 – Park Capital Improvement Fund. Current operating procedures did not include independent verification of capital project budgets by FCPA Administration FMB. This created weak segregation of duty controls and lessened FCPA's ability to enforce compliance with financial policies and procedures.

Contract Management

- Park Authority management did not enforce the general condition clause of the contract agreement with contractors which calls for change order costs on proposals to be segregated and itemized, with supporting documentation to allow for proper analysis. We noted that 59% of the change order costs included in our sample were submitted as lump-sum and could not be properly analyzed by Planning and Development staff to ensure that only reasonable and allowable costs were included.
- There were control weaknesses in approving and processing payments to contractors. We noted instances where contractors' requests for payment were approved without proper documentation to verify percentage of work completed,

payments were made from an erroneous funding source, and payments on change order work were made without written approval.

- Contract negotiations with consultants were not properly documented, leaving the county vulnerable to allegation of unfair competition and/or bad publicity.
- Proposed labor and overhead rates were not separately identified but rather combined into one billing rate which was reviewed for reasonableness before it was paid. This made detailed cost analysis difficult if not impossible. Additionally, cost proposals did not allow for cost analysis and limitations on profit and overhead expenses, such as utilizing a set multiplier ceiling on billing rates. There are potentially significant cost savings to be realized provided the Park Authority has a similar success as DPWES had when it implemented a 3.0 multiplier ceiling.

Change Orders

- Change order costs appeared to be excessive for equipment rental fees. Blue Book equipment rental rates for construction (the industry accepted reference for establishing equipment rental rates) were not required on change orders, increasing the risk that the FCPA will be overcharged for equipment rentals.
- Independent architect and engineer (A&E) consultants hired by FCPA Planning and Development recommended change order cost proposals that included cost duplications and other unallowable cost elements. We found five instances in our sample where consultants' independent estimates were overstated by misapplied mark-ups for overhead and profit and duplicated indirect costs.

Contract Audit Provisions and Cost Certification

- Selected Park Authority professional service design contracts did not include a standard audit clause giving the county legal rights to audit apparent errors or other questionable items included in consultant contracts.
- The architect and engineer (A&E) consultants and construction contractors were allowed to submit cost proposals without a Certificate of Current Cost or Pricing Data. Requiring such data is an industry best practice in which the consultant/contractor certifies in writing that costs and pricing data included in its cost proposal are current, accurate and complete as of the date of negotiations. This increases the county's effectiveness in disputing costs and auditing the contract.

Scope and Objectives

This audit was performed at the request of the Park Authority management and was conducted in accordance with generally accepted government auditing standards.

The objectives of our audit were to determine the adequacy of internal controls over:

- Setting up and revising budgets/funding for capital construction projects.
- Capital construction contracts to ensure proper pricing, prevent fraud and comply with county and state regulations.

- Management oversight to ensure capital construction projects were completed timely and within budget.
- Financial reporting and status reports on capital construction projects to senior management and PAB for accuracy, timeliness and appropriateness of information.
- The accountability of donated/proffer funds for capital projects.

Methodology

Our audit approach included judgmentally selecting a sample of capital projects that appeared to be problematic due to feedback from management or ones that had significant variances from budgets or schedules. Since the sample selection was not statistically based, error percentages found in the sample can not be extrapolated to the entire population. We performed testwork that included interviewing appropriate staff, reviewing documentation for project funding/budgets, and reviewing construction contracts for general conditions and proper insurance and bonding. We also performed substantive testing of a sample change orders and payment applications to verify the propriety of the use of proffer/donated funds and to evaluate the processes for compliance with sound internal controls, government regulations, and departmental policies and procedures.

Our audit did not examine the system controls over financial applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data was erroneous.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits the county executive and the Board of Supervisors, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Project Status Reporting Weaknesses

The reports provided to the PAB and senior management (i.e. Quarterly Project Status Report and Fund 370 and 371 Updates) lacked original start dates, summary of financial information by capital project job, productivity statistics and clear exception reporting. No standard financial reports could be obtained for any of the projects we tested in our sample. In addition, changes to project schedules or budgets were not reported consistently in a manner that would alert the reader of potential problems. As a result, the following incidents were noted:

- The project schedule on the Project Status Report for Clemyjontri increased by 4 months. Additionally, the Laurel Hill Golf course schedule was increased by 5 months and the clubhouse and maintenance building were

past the revised estimated completion date by at least 7 months. Yet there was no mention of these changes in the memo to highlight projects with issues. In fact the memo stated that Clemyjontri was making good progress.

- The Project Status Report notes for the George Washington RECenter stated that the construction contract was increased by 75 days; however, no change in the estimated completion date was posted to the project schedule.

The reporting requirements for Planning and Development were extensive and the system in place for producing and updating reports was manual and very labor intensive. The county's financial reporting system (FAMIS) did not support proper capital project job status reporting. Financial information for individual projects was produced by Planning and Development financial staff on an as needed basis by piecing together information from various sources filed between the financial staff and the project managers.

Weak managerial reporting decreases project accountability and increases the risk of projects being completed over budget and past the scheduled completion date due to poor decision making from incomplete information.

Recommendation: Planning and Development should produce Quarterly Project Status Reports on the population of active projects that at a minimum summarizes the following information for each project:

- Original PAB approved funding, start date and estimated completion date
- Current PAB approved funding (inclusive of all adjustments)
- Amount spent to date
- % funding used to date
- % work completed to date
- Current estimated completion date
- Notes on significant project issues

The figures listed above should include expenses from all phases of the project (i.e. design and construction) and should be reconciled to FAMIS.

Quarterly Project Status reports should contain an exception reporting section listing all projects with significant delays or budget overages including schedule changes, funding increases and a brief explanation for the changes. Projects should be regularly updated and stay on the exception report until they are completed.

Managerial reports should be produced by a mechanism/system for capturing and maintaining financial and scheduling data on individual capital projects. We recommend that the system be automated as much as possible to ensure that users can easily view and report on project data. Automated tools such as DART and/or Crystal Reports may help facilitate this process.

Management Response: The Quarterly Project Report will be revised to include a formalized exception report using the current exception reporting process that lists all variances, both positive and negative. Additionally, this report will include the measures cited in the Recommendations portion of this finding. The anticipated

completion date is June 2007 with the first report to be presented at the September Committee Meeting.

FCPA will review current reporting systems, identify deficiencies, and take actions to correct them. The anticipated completion date is June 2007.

FCPA will analyze FAMIS, DART, EXCEL, ACCESS, and related system tools and options to automate reporting. We will meet with DOF, DMB, and other agencies as necessary during this process. We will then design, test and review formats/programming for management reports, with an anticipated completion date of January 2008.

New Quarterly Project Status Reports will be implemented to include all information from the Recommendations section of this finding. This will be done by incorporating FAMIS information through DART and/or Crystal Reports and information from an Access data base to simplify development and presentation of comprehensive and clear report information. The anticipated completion date is March 2008.

2. Budgetary Controls over Capital Projects

Project budgeted expense categories and total budget figures were not being regularly tracked and monitored against actual expenses. Additionally, approval procedures to fund project budgets were verbally communicated, applied inconsistently and sometimes misleading. These control weaknesses contributed to the following exceptions:

- The budget for the George Washington (GW) RECenter improvements project was increased by \$100,000 without the required PAB approval.
- Expenses for the Difficult Run Stream Valley improvement project were paid out of funding sources different from the PAB approved funding sources, potentially providing the ability to use \$283,832 worth of funds over the originally approved project scope.
- Approved project budgets were not always clearly defined. For example, total budget approved by the PAB the George Washington RECenter was, \$1,579,049 per PAB Board Item documentation and \$1,708,000 according to the March 2006 370 and 371 Update Report.

The current reporting systems in place did not support the use of budgetary controls without a significant amount of additional work for overloaded project managers. FAMIS did not have the capacity to properly track project budgets and project budget reports were produced manually on an as needed basis.

Lack of budgetary controls within the construction project management process increases the risk of poor fiscal management and diminishes accountability over public funds.

Recommendation: Written procedures should be developed to define how capital improvement budgets and funding are established including instructions as to the information that must be provided in order to request funding increase. Procedures

should define thresholds for the level of authorization required (i.e. PAB, FCPA Director and P & D Director). In addition, procedures should institute monitoring and reconciliation controls. At minimum, we recommend that actual capital project expenses be reconciled to the approved budgeted expenses on a monthly basis. The reconciliation process should be reviewed by the project manager supervisors. Discrepancies identified through this process should be resolved timely.

Management Response: We will develop written procedures regarding capital improvement budgets, funding level increases and authorization thresholds. The anticipated completion date is June 2007.

FCPA will analyze FAMIS, DART, EXCEL, ACCESS, and related system tools and options for automating budget reporting and will meet with DOF, DMB, and other agencies as necessary to facilitate this process. FCPA will then design formats, develop programming, test and review the budget reports. The anticipated completion date for these items is January 2008.

The implementation of the new budgetary reconciliation and reporting systems should be completed by March 2008.

3. Segregation of Duty Controls Over Financial Reporting

There was no independent oversight over the P&D division regarding the process of setting up and adjusting project budgets, preparing financial status reports or providing financial information for PAB board items for requesting funding. FCPA Administration Division's Financial Management Branch (FMB) was responsible for CAFR financial reporting for the 370 Park Bond Fund and the 371 Park Construction Fund. However, the procedures in place did not include verification by FMB of capital project budgets or budget adjustments submitted to DMB and financial information on PAB board items. This weakened the Park Authority's ability to enforce compliance with the county's financial policies and procedures and increased the opportunity for undetected errors or over inflated project budgets.

Recommendation: We recommend that FCPA capital project budget and expense transactions be tracked and posted by the Administration Division's Financial Management Branch instead of Planning and Development staff to maintain independent oversight of these activities and ensure compliance with the county's accounting policies and procedures. FCPA should evaluate the need for staffing changes to ensure that resources are properly allocated between P&D and FMB to accomplish these tasks. We recognize that it may require additional resources to implement the recommendations listed in this report.

Management Response: Staff from the Administration Division and Planning and Development Division will evaluate work tasks of the Planning and Development Financial staff to determine financial management functions versus general administrative support. Based on this review, FCPA will realign appropriate staff performing financial functions to the Administration Division Branch to assure proper

segregation of duties for financial management and reporting. The anticipated completion date is April 2007.

Once FCPA has developed appropriate report processes and formats to meet recommendations of the internal audit report, we will evaluate the staffing impacts required to perform these functions. From this analysis, we will develop recommendations for staffing levels and/or position classification adjustments. This item is anticipated to be completed by January 2008.

4. Controls over Contractor Payments

There was no specific supporting documentation to connect payments to contractors to the percentage of work completed. Although we noted general evidence of regular reviews, inspections, progress meetings and payment application negotiations for the projects, these activities fell short of establishing adequate controls. Additionally, the approval for payment was not consistently documented. For 20% (9 of 46) of the payment applications tested, the signature of the project manager supervisor was missing. Finally, 25% (3 of 12) of the payment applications and schedule of values that were recalculated contained errors in the figures posted. These weaknesses increase the risk that payment may be rendered for services not provided either through error or misrepresentation.

Recommendation: Written procedures should be developed for processing contractor payments which include the following controls:

- All payment applications should require sign off by both the project manager and the project manager supervisor before payment.
- The marked up payment application draft should be required as supporting documentation for invoice payment. It should include the dates that the project was physically inspected for percentage completion confirmation, the individual who performed the inspection and notes on any negotiations with the contractor. These documents should be reviewed by the project manager's supervisor before payments are approved.
- Contract payment applications and supporting schedule of values should be independently checked for accuracy.

Management Response: The draft Construction Administration standard operating procedures (SOPs) currently under review include written procedures for progress payments. These include a requirement for supervisor level review and signature, and a check for mathematical accuracy. The final edition of the Construction Administration SOPs will be revised to include the requirement that the program manager (PM) retain in files a "pencil mark-up payment application draft." Procedures for review of contractor payments for projects managed by non-Planning and Development staff will be developed and included in the procedures and staff will be trained on the requirements and process. The anticipated completion date is August 2007.

5. Use of Open Ended Construction Contracts

Planning and Development's controls over the use of open ended construction contracts, not subject to the same general conditions as standard competitive bid construction contracts, were weak. There were no written policies and procedures to govern the use of open contracts and ensure proper cost controls. In addition to bypassing competitive bidding, the process also lacked other important capital project controls such as PAB approval for funding over \$100,000 and setting up a contingency amount to reserve and control change order costs. For the open ended contract purchase orders that we reviewed for Difficult Run, we noted that the contractor's original quoted price for the purchase order was significantly above Planning and Development's internal cost estimate and had to be further negotiated and on one of the purchase orders change order costs were 29% of total costs.

Open ended contracts are negotiated by Department of Purchasing and Supply Management (DPSM). Sole reliance on the unit cost controls built into the contracts as compensating controls did not appear to adequately address the risk of overpayment. The contractor had the ability to inflate costs by adding extraneous tasks to a project proposal at the discounted rates. Weak cost controls over the use of open ended contracts for construction work increases the risk of escalating costs for capital projects.

Recommendation: P&D should develop written procedures over the use of open ended contracts. These procedures should provide for adequate compensating cost controls including monitoring their use, procedures for cost controls such as documentation of price comparisons and justification for the use of a particular vendor.

Management Response: Project Management staff will review the written policies and procedures the Department of Public Works and Environmental Services follows for the use and control of open-ended construction contracts and develop appropriate written procedures for the use of open-ended construction contracts that address appropriate types of projects, required approvals, cost controls and reporting. The draft Construction Administration SOPs will be revised to include the written procedures. The anticipated completion date for this item is August 2007.

6. Change Order Payments

Payment was made for change order work prior to obtaining approval signatures on the change orders with out documentation justifying the need to bypass this control for 2 of the 12 payments (16%) tested valued at \$163,049. Failure to obtain the necessary approval signatures before beginning work on a change order without proper justification increases the risk of project mismanagement.

Recommendation: Change order work done before obtaining the necessary signatures should be justified in writing and verbal approvals should be followed up by an e-mail message. These situations should be closely monitored to prevent abuse. No payments should be made for unsigned change orders without valid written explanations as to why this has occurred.

Management Response: Written procedures will be developed and incorporated into the draft Construction Administration SOPs to provide guidance to the project

manager for exceptions to written approval. Furthermore, all change order work will be approved by the director or his designee prior to direction by the PM to commence the work. In the majority of cases this shall be accomplished by execution of the Change Order form prior to work initiation. This requirement will be included in the draft Construction Administration SOPs. The anticipated completion date is August 2007.

7. Controls over Posting Expenses to FAMIS

Payments totaling \$83,592 for deep water pool steps for the GW RECenter Improvements project (CO #1) was not made from their originally approved funding source (Fund 371, Project #004778, and Detail #673). This funding source was subsequently used to pay for other GW RECenter Improvement project costs. Poor budgetary tracking and monitoring may have contributed to this error. The use of funds for services outside their original designed purpose decreases accountability for those funds and weakens budgetary controls.

Recommendation: Funding sources for capital project jobs should be used solely for the purposes identified when the funding was approved by the PAB. FCPA management should implement monitoring controls to detect changes in use of the funds.

Management Response: This item relates directly to issues and development steps in Action Item 2, Budgetary Controls over Capital Projects; corrective actions will be developed concurrently. Projects will be reconciled monthly using automated tools. As part of that reconciliation process funding will be monitored and tracked. This will allow for the detection and correction of miscoding of funding sources. We anticipate completion of these steps by March 2008.

8. Change Order Controls – Segregation and Itemization of Costs

The Park Authority was not adhering to contract general conditions and its own internal contract administration policies and procedure which require change order costs to be segregated and itemized with supporting documentation. We noted that of the 18 change orders valued at \$1,242,520 included in our sample, 11 had \$735,596 worth of costs that were submitted as lump-sum and could not be properly analyzed.

Per contract general conditions article 12.4.3, change order costs should be segregated by cost and itemized. The Park's policy requires that change order costs "be itemized with supporting documentation" and proposals comply with the requirements contained in the general conditions, article 12, and section 12.5 on change orders. Without the required cost break downs, the contractor proposed costs cannot be properly reviewed and analyzed which may increase the risk of excess contractor costs being proposed, accepted and paid.

Recommendation: The PA management should enforce the requirements within the contract general conditions, especially article 12. Contractor change order cost proposals should be segregated by labor, material and equipment. Furthermore, costs should be itemized to show quantity and unit prices. It is recommended that

contractors be required to complete a standardized cost proposal that would be reviewed for accuracy and contract compliance.

Management Response: The draft Construction Administration SOPs includes written procedures which address the requirements of General Conditions Article 12 including segregation of work by labor, materials and equipment in unit measure. To ensure contractors' compliance with Article 12, a standardized cost proposal form will be developed and included in the final edition of the SOPs to assist the contractors in the proper submission of their proposals. This item should be completed by August 2007.

9. Change Order Controls – Application of Mark up for Overhead and Profit

On several change orders and engineer's independent estimates the mark-up for overhead and profit was not applied properly to change order base costs of labor, material and equipment as required by the general conditions article 12.4.5, resulting in overpayments to contractors. Of the 5 contracts in our sample we identified nearly \$27,000 in excess profits paid to contractors through misapplied mark-ups and/or other indirect costs proposed and paid as direct costs.

Recommendation: Park Authority supervisors and project managers should comply with the contract general conditions and properly apply mark-ups to control costs on contractor change orders. Proposed costs which are indirect in nature and compensated for in the mark-up for overhead and profit should be disallowed.

Management Response: The draft Construction Administration SOPs will include a Change Order Analysis Worksheet form to ensure compliance with Article 12.4.5. Completion for this item is anticipated by August 2007.

10. Blue Book Equipment Rental Rates

The Park Authority was not requiring Blue Book equipment rental rates for equipment used on change orders. The Blue Book is an industry accepted reference for establishing equipment rental rates in construction. It is updated periodically and includes rates on all types of construction equipment. General condition's article 12.4.3.3 requires hourly equipment rates proposed in change orders to use the monthly rate allowed by Blue Book divided by 176 hours. Furthermore, it requires the contractor to price contractor owned equipment at 65% of the blue book rate. The Park Authority project manager's were not required to use the contract general conditions. We noted that several equipment rates proposed appear to be overstated.

Recommendation: Blue Book equipment rental rates for construction equipment should be used on change orders as required per the contract general conditions to ensure proper pricing.

Management Response: The draft Construction Administration SOPs include requirements outlined in General Conditions, Article 12, including requirements for the use of Rental Rate Blue Book for construction equipment. This requirement is

also stated in the Change Order Analysis Worksheet form as noted above. The anticipated completion date is August 2007.

11. Change Order Controls – Excessive Bond Expense Rates

Bond expense rates included in contractor change order pricing could not be verified to the contractor's bond rate schedule prepared by their bonding company. Failure to verify these fees increases the risk of overpayment.

Recommendation: On future change order work, the project manager should only allow the actual bond expense. The project manager should request a copy of the contractor's bond rate schedule to verify the actual rate paid.

Management Response: The draft Construction Administration SOPs currently under review will be revised to include written procedures that require that the project manager obtain a copy of the contractor's bond rate schedule to verify the actual rate paid. The Change Order Analysis Worksheet form will be revised to include the requirement of bond rate validation. The anticipated completion date is August 2007.

12. Change Order Controls – Architect & Engineer Consultants

A&E consultants hired by FCPA to review capital projects were recommending change order cost proposals that included cost duplications and other unallowable cost elements. Selected consultant's independent estimates were overstated by misapplied mark-ups for overhead and profit and selected duplicated indirect costs. FCPA's consultants are contractually required to provide Park Authority personnel with advice and recommendations consistent with the contract terms including the contract general conditions.

In one example, a consultant estimate for change order # 001 on GW RECenter Improvements overstated the estimate by \$7,000. The accepted contractor change order cost proposal for \$83,000 was \$6,000 in excess of the \$77,000 estimate potentially overcharging FCPA \$13,000. On another occasion, the contractor's change order cost proposal was accepted, recommended and paid; however it included over \$5,500 in cost duplications.

Recommendation: We recommend the work of the PA consultants be periodically reviewed for accuracy and due diligence to ensure accountability. When possible, attempts should be made to recover excess costs resulting from their negligence.

Management Response: The draft Construction Administration SOPs include written procedures to ensure that the value of change orders are computed in accordance with the requirements of General Conditions, Article 12, that specifies segregation of cost by labor, materials and equipment in unit measure. To ensure that professional consultants providing construction administration services prepare cost estimates for change orders as specified in the contract's General Conditions, a copy of Article 12 and the standardized cost proposal form contained in the SOPs will be provided to the consultant as the standard. The anticipated completion date is August 2007.

13. Use of Certificate of Costs or Current Pricing Data

We determined that A&E professional service design contracts and construction contract change orders awarded by the Park Authority did not include a Certificate of Current Cost or Pricing Data whereby the consultant/contractor certifies in writing that costs and pricing data included in its cost proposal are current, accurate and complete as of the date of negotiations. Fairfax County Department of Public Works and Environmental Services and the federal government all require a Certificate of Current Costs or Pricing Data on all of its professional service design contracts and change orders. The Certificate of Current Costs acts as a cost control by deterring contractors from inflating costs on contracts.

Recommendation: Cost proposals for A&E professional service design contracts and construction contract change orders should require a Certificate of Current Cost or Pricing Data. Thresholds may be utilized as criteria to determine when to require the Certificate of Current Cost.

Management Response: Project Management staff will review the written policies and procedures adopted by the Department of Public Works and Environmental Services concerning the requirement to submit a certificate of current cost used by DPWES, and will develop and implement appropriate procedures for requiring a certificate of current cost and amending the contract as required. The anticipated completion date is October 2007.

Staff will evaluate the procedures and impacts, and incorporate them with any modifications required into the Project Scoping and Design SOPs which are scheduled to be developed by June 2008.

14. Use of Standard Audit Clause in Design Contracts

Selected Park Authority professional service design contracts did not include a standard audit clause that allows audits of a consultant's books and records. An audit clause serves as a deterrent from contractors proposing excessive costs and provides the county with a legal basis for performing audits to ensure propriety and accuracy of proposed costs. Without an audit clause, the county may be denied access to audit apparent errors or other questionable items included in consultant contracts.

Recommendation: The Park Authority design contracts should include an audit clause which permits the county to perform audits for up to three years after contract completion.

Management Response: Project Management staff will review the written policies and procedures adopted by the Department of Public Works and Environmental Services for the use of a standard audit clause, develop and implement appropriate procedures for invoking the standard audit clause, and amend design contracts to include the modified clause. The anticipated completion date is October 2007.

Staff will evaluate the procedures and impacts and incorporate them with any modifications required into the Project Scoping and Design SOPs. The anticipated completion date is June 2008.

15. Summary Record of Negotiations

Contract negotiations with consultants were not properly documented and did not include allowed wage and overhead rates. Best practices, including the federal government and DPWES, require negotiations to be adequately documented to include the consultant's original cost proposal, the independent estimate, the final contract amounts and rationales for differences. Failure to require adequate documentation decreases the county's accountability for performing proper negotiations by failing to provide a proper audit trail. This could result in excess contractor profits and allegations of unfair competition or influence.

Recommendation: The Park Authority should prepare a summary record of negotiations on all contracts detailing how negotiated amounts were determined. Consideration should be given to adopting DPWES' design contract compensation procedures when developing written procedures for documenting negotiations. At a minimum, the wage rates as well as overhead rates allowed should be documented in the summary record of negotiations.

Management Response: Project Management staff will review the written policies and procedures followed by the Department of Public Works and Environmental Services for evaluating and negotiating design contract compensation and develop and implement appropriate procedures. The anticipated completion date is October 2007.

Staff will evaluate the procedures and impacts and incorporate them with any modifications required into the Project Scoping and Design SOPs. The anticipated completion date is June 2008.

16. Consultants' Cost Proposals

Proposed labor and overhead rates were not being separately identified but rather were combined in one billing rate which was being reviewed for reasonableness before it was paid. This made detailed cost analysis difficult if not impossible. Additionally, cost proposals did not allow for cost analysis and limitations on profit and overhead expenses, such as utilizing a set multiplier ceiling on billing rates. Best practices used by the federal government and DPWES require costs to be segregated and preferably based on audited financial statements. For example, DPWES consultants are required to submit cost proposals on a standard form that requires labor, overhead and profit rates to be segregated and itemized. There are potentially significant cost savings to be realized provided the Park Authority has a similar success as DPWES had when it instituted these requirements which included a 3.0 multiplier ceiling.

Recommendation: The Park Authority should require all consultants to submit itemized cost proposals which delineate proposed labor hours and rates as well as

identifying the proposed overhead and profit rates. The overhead rate should be supported by an audited schedule of the company's overhead rate for the latest 12 month period. Additionally, the Park Authority should revise its procedures over awarding design contracts to include a provision limiting consultants to a set multiplier on its billing rates. DPWES' design contract compensation procedures should be reviewed and adopted as applicable when developing procedures in this area. Project Management staff should be provided with regular training to insure up-to-date and consistent application of A&E contract administration policy and procedures.

Management Response: Project Management staff will review the written policies and procedures adopted by the Department of Public Works and Environmental Services concerning format of consultant cost proposals and acceptable billing rate multipliers and develop and implement a standard format for all consultant cost proposals that itemizes proposed labor hours, identifies the overhead and profit rates, and establishes a threshold billing rate multiplier. In addition, project management will implement staff training on all new procedures and processes concurrent with their implementation dates. All new hires will be trained in all procedures in conjunction with their orientation. The anticipated completion date is October 2007.

Staff will evaluate the procedures and impacts and incorporate them with any modifications required into the Project Scoping and Design SOPs. The anticipated completion date is June 2008.