# Audit of Public Works Contract Administration

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**November 2014**

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November 5, 2014

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor Barrett and Council Members:

The attached report summarizes the results of our audit of Public Works (DPW) Contract Administration. The objectives of the audit were to determine whether DPW procurement activity, including monitoring and enforcement, is in compliance with the City of Milwaukee Charter and Ordinance (MCO) requirements; to assess the adequacy and effectiveness of internal operational and system controls within contract processing; and to evaluate the effectiveness of Bid Express, the electronic bidding system. Audit procedures included steps to satisfy the requirement in the MCO for an independent triennial audit with respect to the Residents Preference Program (RPP).

While DPW's compliance reviews are operating effectively, the audit revealed there are areas for significant improvement in efficiency and accuracy for collecting, recording, and retaining RPP data. These issues are largely attributed to the highly manual nature of the current processes in place to manage the information needed to successfully administer the program.

The DPW Contracts Office is a proficient three-person team dedicated to procuring and administering the City's construction contracts. Each year, over 150 contracts are executed timely and accurately. Results of the audit procedures performed indicate that contract procurement and administration is generally compliant with the public works contracting provisions and the Small Business Enterprise Program requirements outlined in the City's Charter and Code of Ordinances. This report includes nine recommendations to facilitate compliance, promote efficiency, and strengthen controls.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by management's response. We commend the department for taking immediate steps to address several of the issues identified during the audit.



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Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Public Works Contracts Office. If you have any questions, please contact me at 286-2347.

Sincerely,

Aycha Sirvanci, CPA
Audit Manager

AS/ssm

## I. Audit Scope and Objectives

The audit examined the procurement and contract administration functions performed by the DPW Contract Administration Division (the Contracts Office). Audit procedures included steps to satisfy the requirement in the Milwaukee Code of Ordinances for an independent triennial audit with respect to the Residents Preference Program. The audit also included an evaluation of internal system administration processes and security controls for Bid Express, the electronic bidding application.

The scope of the audit included the procurement and administration activities, including monitoring and enforcement, for construction contracts awarded by the Department of Public Works during the time period from May 1, 2013 through April 30, 2014. The audit excluded contracts for goods or services awarded outside the audit test period or procured by a department other than Public Works. The audit also excluded purchases made with procurement cards. Audit procedures were conducted from April through August of 2014.

Audit methodology included developing an understanding of processes and controls for contract procurement and compliance monitoring. The audit procedures developed to evaluate the processes and controls to meet the audit objectives included process walk-throughs, inspection of relevant control documentation, tests of controls, and detail testing. Procedures and tests performed included:

- Examining a sample of files to confirm contracts were awarded in accordance with city ordinances and internal policies and procedures, including the presence of complete and accurate documentation;
- Confirming contractors provided evidence of sufficient liability insurance prior to starting work under contract;
- Verifying the accuracy of RPP data recorded in the DPW Bid Notices Application;
- Reperforming compliance reviews for final payments; and
- Evaluating the Bid Express system administration controls for compliance with city information technology (IT) policies and procedures, and IT best practices.

Information obtained and reviewed included internal policies and procedures when available, certain chapters of the City Charter and Code of Ordinances, the contract ledger, bid packages,

complete signed contracts and subsequent compliance documentation retained in the contract files, certificates of liability insurance, bid advertising invoices, RPP database records, RPP Employee Affidavits, and contract payment vouchers.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the audit were to:

1. Determine whether DPW procurement activity, including monitoring and enforcement, is in compliance with the City of Milwaukee Charter and Code of Ordinances;
2. Assess the adequacy and effectiveness of internal controls around contract processing, including system controls; and
3. Evaluate the effectiveness of Bid Express, the electronic bidding system.

## II. Organization and Fiscal Impact

The mission of Administrative Services, a division of the Department of Public Works (DPW), is to provide business operations and administrative support for DPW. Its functions include budget preparation and control, accounting, payroll, human resources, employee safety, contract administration, purchasing and inventory, special event permitting, and administration and management of the parking fund. This audit focused on contract administration.

DPW contracts for all City infrastructure projects as authorized by Chapter 7 of the City Charter (Commissioner of Public Works). DPW also contracts for several major public service functions including solid waste recycling, public parking structure operation, vehicle towing, and parking meter revenue collection. Through its construction contracts, DPW leverages employment opportunities for city residents who fit specific unemployment or underemployment criteria. This initiative is known as the Residents Preference Program (RPP). Per City Ordinances, the Department requires that at least 40 percent of all hours worked on individual City construction contracts be allocated to unemployed or underemployed Milwaukee residents. RPP requirements for individual construction contracts can be reduced or waived at the discretion of the Administrative Services Director on a case-by-case basis (RPP requirements are generally not applicable to non-construction contracts). The City has an agreement with the Building Industry Group's Skilled Trades Employment Program (BIG STEP) to provide the City of Milwaukee RPP certification to any eligible candidate. At the time of the audit, there were almost 3,000 workers approved as eligible for utilization in the program.

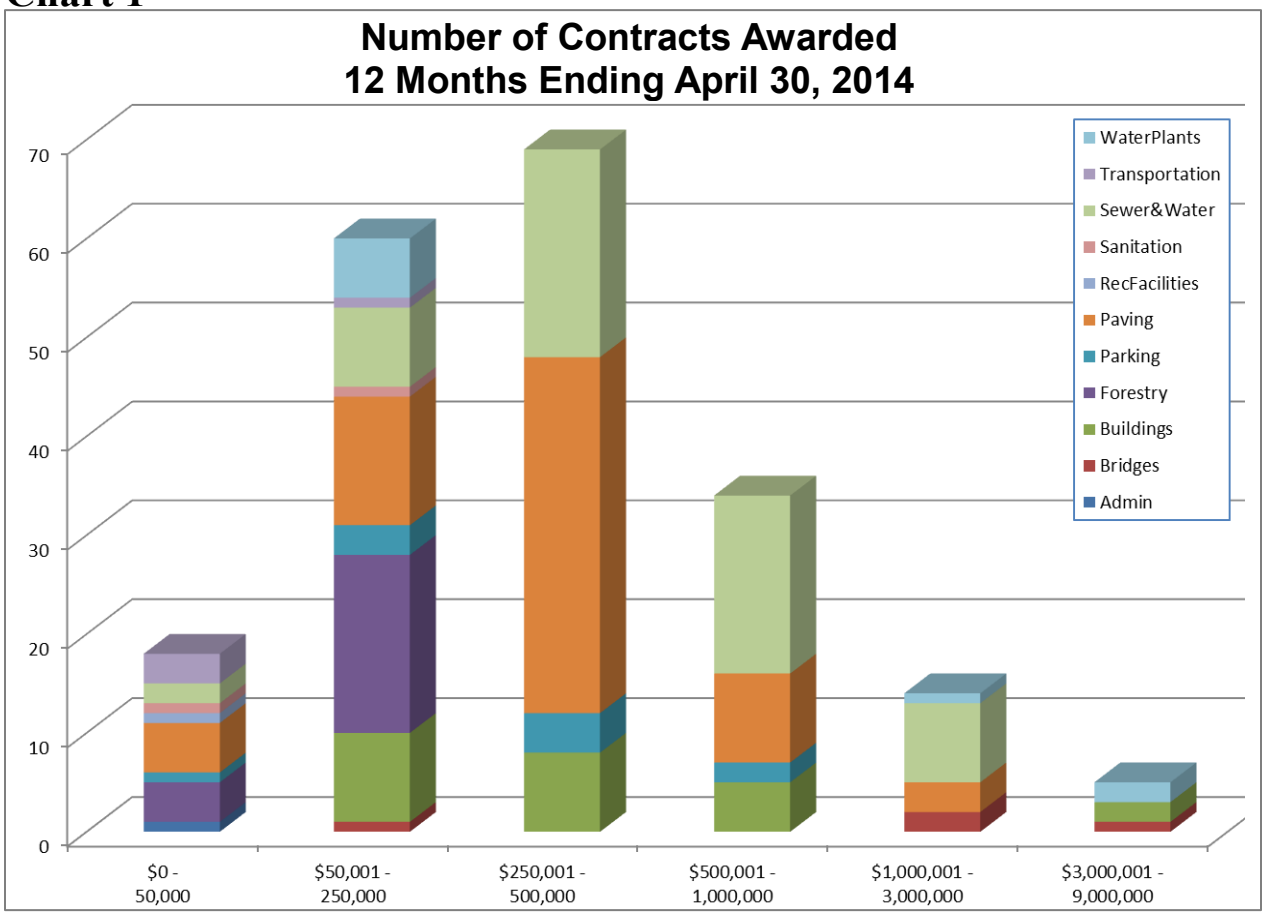
DPW implemented Bid Express, an online bidding service, in May 2013. Through an agreement with Info Tech, Inc., the City does not pay to use this service. Prospective bidders can view official notices and accompanying documents for free. Contractors pay a fee to Bid Express only when they choose to submit bids, or they can choose to subscribe monthly and pay one fee to submit unlimited bids. The City does not receive a commission or any part of the fee paid by contractors to Bid Express. Currently, 60 to 70 percent of bids are received online. The department is still accepting paper bids during the ongoing transition period.

Chapter 7 of the Milwaukee City Charter governs the duties when Common Council orders public work. It includes provisions for advertising and bids, approval of contracts and bonds,

review of contracts by the Comptroller, contracts for services, and payments on contract as work progresses. Provisions for apprenticeship requirements and participation of city residents in city construction contracts are found in Chapter 309 of the Code of Ordinances. Public works contracts are also subject to the provisions in Chapter 370 of the Code requiring contracting departments to meet certain percentage goals for small business enterprise (SBE) participation based on total dollars expended annually. DPW reports SBE utilization figures to the Office of Small Business Development quarterly and to the Common Council annually.

Generally, construction contracts are procured by the Contracts Office and professional services contracts are procured by the user division. Any goods must be procured through the Department of Administration's Procurement Services Section unless they are materials used in the construction or improvement of a public work. For the 12-month period ending April 30, 2014, DPW awarded 200 service contracts totaling more than $108 million. Chart 1 illustrates the majority of contracts (82 percent) are between $50,000 and $1 million. Paving has the highest volume with 66 contracts, followed by Sewer and Water with 57.

**Chart 1**



## III. Audit Conclusions and Recommendations

The first objective of the audit was to determine whether DPW contract procurement and administration processes are performed to uphold compliance with applicable local, state, and federal laws. While the audit did not find any instances of noncompliance with the provisions of the laws tested, there are areas for significant improvement to achieve optimal efficiency and accuracy in collecting, recording, and retaining RPP data.

The second objective of the audit was to assess the adequacy and effectiveness of internal controls within DPW contract procurement and administration. Reviews of current processes in place revealed gaps in the control design that could expose DPW to certain risks, such as complaints of unfair or unethical behavior, caused by an inconsistency in administration. This is largely attributed to the absence of a comprehensive policy and procedure manual that is centrally documented and easily updated, a recurrent theme throughout this report. The audit also found that DPW may be able to reduce expenses by decreasing the frequency that official notices are advertised in the official city paper.

Finally, the audit confirmed the efficiencies gained by implementing Bid Express, the online bidding system. Therefore, management is encouraged to set a target date for full conversion to online bidding to completely realize the benefits provided by the service.

Following are nine recommendations to facilitate compliance, promote efficiency, and strengthen controls:

1. Improve methods used to collect, record and maintain RPP certification data to increase efficiency and accuracy.
2. Tighten controls to ensure consistency within compliance monitoring and enforcement activity.
3. Explore the opportunity to decrease the duration of advertising official notices in the official city paper thereby reducing related expenses.
4. Establish a proactive approach to maintaining accurate Code references within contracting documents and forms.
5. Clarify liability insurance requirements within the DPW General Specifications.

6. Review contractor insurance coverage for compliance with the requirements.
7. Validate surety companies for electronic bid bonds.
8. Document and retain evidence of the second reader at bid openings.
9. Develop and implement procedures for the system administration of Bid Express.

The report also includes an observation relating to system required password changes for Bid Express. An observation does not constitute a recommendation, but should be taken under advisement. Additional details regarding the recommendations for improvement are provided in the following sections of this report.

## A. Compliance

A primary function of the DPW Contracts Office is to enforce regulatory compliance. Monitoring includes a review for conformity with state and federal wage rate laws, and local ordinances governing the RPP, the SBE program, and the apprenticeship program. Parts of the compliance review are performed at two key points in the life of the contract: 1) before the start date, and 2) any time a payment on contract is requested by the user division. If a contractor does not demonstrate adequate compliance, payments can be withheld until the contractor is fully compliant or an exception is authorized by the Administrative Services Director.

Based on a re-performance of compliance reviews for a sample of contracts closed in 2013, the audit concludes that construction contract procurement and administration processes conform with the provisions of the local ordinances, state statutes, and federal laws tested (Appendix A). However, the audit revealed a need for significant improvement in efficiency and accuracy for collecting, recording, and retaining RPP data. Specifically, program data recorded in the RPP database is not consistently accurate and cannot be considered reliable. Audit staff was able to eventually locate and retrieve all of the records in the testing samples, but with varying degrees of difficulty. It required involving the DPW staff searching in various locations for records in different forms of media (physical documentation vs. document images). It was later determined that the RPP data, previously maintained in a spreadsheet, was not validated before or after it was uploaded to the current database in October of 2013. Instead, the data is validated as contracts are closed out and contractors submit their time reports and affidavits of compliance. This is a manually intensive effort that has resulted in numerous workers with inaccurate

information recorded in the database, rendering the database virtually unreliable and not as useful as it could be.

Physical documents used to verify the eligibility of thousands of workers are retained indefinitely in binders stored on shelves in the DPW Contracts Office, even though certifications are only good for five years after the first time a worker is employed on a contract. The documentation for all workers that have applied for certification, approved or not, includes names, social security numbers, addresses, phone numbers, and copies of driver licenses. DPW contracting staff has started scanning files into the database, attaching the imaged documents to the worker's record. However, the physical documents are still retained in the event there is a need to refer back to them.

There are also redundant certification procedures and certification procedures are not consistent across verifying agencies. At this time, eligible residents can apply for RPP certification at BIG STEP, or at the DPW Contracts Office. Residents applying at BIG STEP sign an affidavit confirming they meet the qualifications and provide proof of residency. Those applying at the Contracts Office must complete the same affidavit and provide the same proof of residency, but they are also certified through their local post office, a time-consuming process performed by the Contract Compliance Officer. If the post office cannot or does not confirm the applicant's mail is delivered to the address on file, a letter is sent directly to the applicant. The letter requests the addressee to sign and return the letter to confirm its receipt. Samples of the letters used in this process are at Exhibit A. This additional layer of verification is not performed for individuals applying at BIG STEP.

Testing a random sample of RPP workers with an approved status as of June 5, 2014 found instances of incorrect addresses, unsupported residency statements, outdated certification statuses, documents indexed incorrectly (i.e., attached to the wrong worker profile), incomplete records, and confusing notes. These issues are largely attributed to the highly manual nature of the processes to collect, verify, record, monitor, enforce, and report the information needed to successfully administer the program. Other factors include the absence of a comprehensive policy and procedure manual that is centrally documented and easily updated.

**Recommendation 1: Improve methods used to collect, record and maintain RPP certification data to increase efficiency and accuracy.**

Management should strengthen the methods used to collect, record and maintain RPP certification information to increase efficiency and accuracy and provide a more robust control environment by completing the following:

- Assess the procedures used to collect, record and maintain RPP certification information for improvement opportunities. Maintenance procedures are those performed to keep the records in the database current and accurate. The assessment should include an evaluation of the accuracy of the information currently recorded in the RPP database.
    - Once confident with the accuracy of the information in the database, a periodic quality control review should be performed on any changes to the data to ensure continued accuracy of existing and new records.
- Design, document, and apply policies and procedures for collecting, verifying, recording, monitoring, enforcing, and reporting of RPP information. The policy and procedure manual should be stored in a central location and easily updated.

  Procedures should also include:
    - Definitions of the different verification statuses (i.e., When is an applicant recorded as approved? Ineligible? Pending?),
    - Specific steps to investigate and track complaints of fraud,
    - The length of time a certified worker's hours count toward residency requirements following a change of address pending verification.
- Establish a retention schedule for RPP application documentation. Compare the age of any physical documentation retained in binders against the retention schedule and purge accordingly. As long as the documentation is retained, it is subject to public records requests. And regardless whether the original application was denied, any expired certifications should require the worker to reapply. Current documentation should then be imaged, uploaded to the database, and discarded after accuracy has been verified through a secondary review.
- Discontinue the process for USPS and personal verifications performed by the Contracts Office to eliminate redundancy and ensure certification procedures are consistent across all verifying agencies.

## B. Internal Controls

An objective of the audit was to assess the controls for DPW's contract procurement and administration processes and to evaluate the efficiency and effectiveness of DPW's contracting activities as performed by the DPW Contracts Office. Combined, the DPW Contracts Office staff has many years of experience, a great deal of contracting knowledge, and are dedicated to ensuring that DPW construction contract procurement and administration are carried out accurately and fairly. Through the audit, it was determined that controls over the contracting activities reviewed are not adequate to ensure that processes are performed as efficiently and effectively as possible. Gaps in the internal control structure expose DPW to risks resulting from inefficient and antiquated processes, the absence of comprehensive documented policies and procedures, and unfamiliarity with what comprises adequate and effective internal controls.

*Compliance Monitoring and Enforcement*

Uniformity in contract administration is essential in preserving public trust and preventing complaints of unethical or unfair behavior. However, a review of current processes found there are no controls in place to ensure that all payments processed for work on construction contracts are routed through the Contracts Office for compliance monitoring and enforcement. Therefore, payments could be made to contractors that are not in compliance with the monitored provisions of the city ordinances, state statutes, and federal laws (where applicable) without consequence, while payments to other noncompliant contractors may be withheld.

**Recommendation 2: Tighten controls to ensure consistency within compliance monitoring and enforcement activity.**

Management should develop, document, and implement a policy that requires all payments made on construction contracts to be routed through the Contracts Office for a compliance review. The policy should be communicated periodically on a consistent frequency. Additionally, management should evaluate the possibility of electronic routing of payments for all divisions of DPW to automatically require a compliance check before release. If that is not possible, management should develop and implement a process to detect payments made on contracts that were not first reviewed by the Contracts Office. A threshold amount could be applied to manage the volume and focus the control on larger payments that are inherently higher risk.

*Advertising for Proposals*

While the full conversion date is still to be determined, DPW plans to phase out paper bidding in favor of electronic bidding. The online bidding service is currently provided through Bid Express by Info Tech, Inc. Official notices for soliciting bids are posted on Bid Express and the DPW bidding Web page, and published in the Daily Reporter, a construction and real-estate newspaper and the City's official paper. Official notices are also emailed directly to anyone that has signed up for the alerts via the City's e-notify service.

The audit found that the Department of Public Works has not changed its policy for publishing bid solicitations in the official city paper in 40 years, meaning that the frequency and duration of publication has not been modified to account for changes in technology, news culture, and governing ordinances. City Charter requires that advertisements for proposals be published at least two days in an official city paper (ss. 7-14-1 and ss. 16-01-1); however, DPW currently publishes each official notice soliciting bids in the Daily Reporter for 6 days, 3 times more than the minimum required. In comparison, the Department of Administration Procurement Services Section, the City's centralized buying and supply management agency responsible for the procurement of approximately $65,000,000 in goods and services annually, publishes invitations to bid in the paper for 2 days.

As DPW pays the Daily Reporter per line, per day, per notice, reducing the duration of publication in the paper would directly reduce advertising expenses. A cursory analysis summarized in Table 1 estimates DPW could save up to half a million dollars ($500,000) in 10 years by reducing the duration each official notice is published in the Daily Reporter from 6 days to 2 days.

**Table 1** (Details in Appendix B)

| Comparison | Days Published | Total Paid to Daily Reporter | Monthly Ave | Annual Expenditure | 10 Year Projection |
|---|---|---|---|---|---|
| Current practice: | 6 | $ 118,490.84 | $ 6,404.91 | $ 76,858.92 | $ 768,589.23 |
| Minimum requirement: | 2 | 39,496.95 | 2,134.97 | 25,619.64 | 256,196.41 |
| Estimated savings: | 4 | $ 78,993.89 | $ 4,269.94 | $ 51,239.28 | $ 512,392.82 |

DPW could likely adjust the publication period without compromising the quality and quantity of bids received.

**Recommendation 3: Explore the opportunity to decrease the duration of advertising official notices in the official city paper thereby reducing related expenses.**

Management should perform a thoughtful, comprehensive cost-benefit analysis to support the reduction in the duration of publishing official notices or justify the value in continuing the current practices. The analysis should:

- Specify all possible courses of action (i.e., reduce publication in the official city paper by 1 day, 2 days, 3 days, 4 days, or no action);
- List all probable outcomes of each course of action, such as:
    - The benefits: decreasing expenses
    - The costs: fewer competitive bids

      A feared decrease in the number of competitive bids should be countered (or validated) by an assessment of the e-notify subscription roll looking at year-over-year trends to forecast growth, web traffic of DPW Bids home page, and electronic bidding statistics as well as consultation with the DOA Procurement Services Section.
- Determine which set of consequences is best.
- Implement the option with the best consequences.

The cost-benefit analysis should take into account the exposure provided by free advertising outlets such as the DPW bidding Web page, e-notify, and Bid Express. Management should also consider the potential of publishing a notification in the Daily Reporter to alert readers of any changes in advertising and direct them to the alternative information outlets.

*Contracting Documents and Compliance Forms*

There are certain documents that DPW makes a part of all construction contracts. They include the official notice, invitation to bid, general specifications, project specifications, and work plans. Additionally, the General Official Notice to Contractors is permanently posted on the DPW bidding Web page and published every business day in the Daily Reporter. Other related

documents available on the Web site include forms used in the bidding process and forms required of contractors to demonstrate compliance with particular municipal ordinances, state statutes, and federal laws. A review of the contracting documents and compliance forms indicated that these items had not been updated in several years. Specifically, the audit found:

- The General Specifications includes references to sections of the prevailing ordinances that are inaccurate, including a reference to one chapter that was repealed and recreated as far back as 2008;
- The General Official Notice to Contractors, countersigned by Mike Daun who retired in 2012, still communicates the requirement for an affidavit of no interest which was repealed in August of 2013; and
- The Contractors Time Report which DPW requires contractors to submit at specified intervals during work on a contract, has contractors certifying conformance with the requirements of MCO Section 309-21 through 309-37, relating to Minimum Wage Scale. These sections were repealed in January 2012.

**Recommendation 4: Establish a proactive approach to maintaining accurate Code references within contracting documents and forms.**

Management should establish the criteria and expectations for maintaining documents and forms used in the procurement and contract administration processes, such as:

1. Developing and implementing policies and procedures to provide guidance and direction for how and when documents and forms related to the bidding process should be updated to reflect changes in the applicable city ordinances and internal processes;
2. Assigning the maintenance responsibility to a team member and cross-training at least one back-up; and
3. Reviewing for accuracy all documents distributed as part of the contracting process and forms required from contractors, and revising as necessary to reflect the current municipal Code and department requirements.

*Liability Insurance*

In accordance with Section 7-14-2a of the City Charter, the Department of Public Works General Specifications created January 31, 1992 requires each prime contractor, prior to the start of work, to furnish certificates which confirm the prime contractor has the types and amounts of insurance

to adequately protect the City. A review of a sample of contracts for compliance with these requirements indicated that certificates of liability insurance (COLI) are not consistently obtained and reviewed for sufficient coverage prior to the start of work. Twenty-five percent of the contracts tested were either missing the COLI, did not provide enough coverage to meet the minimums required by the General Specifications, or did not list the City of Milwaukee as additional insured.

While the General Specifications take over two pages to enumerate the specific types and amounts of insurance required (Exhibit B), Contracts Office staff will accept any combination of commercial, automobile, and umbrella or excess liability insurance as long as the total coverage is $4 million. And though it is understood that $4 million in coverage is generally accepted as sufficient by the City Attorney's Office, there is nothing in writing to support this. Furthermore, the General Specifications specifically require an umbrella liability policy, even though either an umbrella or excess liability policy is acceptable. As the General Specifications are made a part of every contract, they should accurately reflect the City's expectations regarding liability insurance coverage to ensure all contractors are held to the same terms.

**Recommendation 5: Clarify liability insurance requirements within the DPW General Specifications.**

Management should revise Section 2.9.7 of the Department of Public Works General Specifications to accurately reflect the types and amounts of insurance actually accepted from prime contractors for construction contracts. Management should confirm the level of acceptable coverage with the City Attorney before making the revisions and then periodically going forward.

**Recommendation 6: Review contractor insurance coverage for compliance with the requirements prior to the start of work.**

Once the types and amounts of required liability insurance are established, management should continue to take a more proactive approach in monitoring the receipt of certificates of liability and implement a process to review the insurance for adequate coverage prior to the start of work. This should include a review of insurance for all active contracts and then for contracts as awarded.

*Electronic Bid Bonds*

Milwaukee City Charter requires that each sealed, competitive bid is accompanied with a bid bond of a surety company licensed to do business in the state of Wisconsin. The bid bond provides a guarantee that the bidder will take the job if selected or forfeit the bid security amount to the City. Following standard operating procedure, Contracts Office staff routinely validate the surety companies that issue the bid bonds submitted with proposals. This control is performed for all bid bonds except electronic bid bonds as Bid Express does not disclose the name of the issuing surety company. The Contracts Office accepts the electronic bid bonds without any validation. While audit testing did not identify any exceptions to the ordinance requirement, there is a risk of delays or the need to restart the procurement process if the lowest responsible bidder is unwilling to accept the contract and the bid security is invalid or unenforceable.

**Recommendation 7: Validate surety companies for electronic bid bonds.**

Management should establish and implement a formal documented policy and procedure for validating electronic bid bonds. The procedures should be performed every time an electronic bid bond is received as the certification status of surety companies may change over time. If DPW ultimately chooses to rely on the vendor to perform the validation, management should consult with the City Attorney to document the terms in an agreement with the service provider.

*Public Bid Openings*

Sealed, competitive bids for each official notice are opened in public as advertised. The total bid amounts for each proposal received are read aloud by the Contract Compliance Officer, verified by a second reader, and recorded by the Office Assistant. The second reader is present to verify the bids read aloud, however, the second reader does not document the verification (i.e., initial and date) to evidence the control. In the event of a dispute or claim of unfair or unethical behavior, the documentation would provide confirmation of the presence of the second reader and the verification performed.

**Recommendation 8: Document and retain evidence of the second reader at bid openings.**

Management should develop and implement a procedure to document evidence of the verification provided by the second reader at bid opening (i.e., signature or initials, and date on

submitted bids). Documentation should be retained and discarded per department retention schedules.

## C. Bid Express

Audit procedures confirmed the efficiencies gained by implementing Bid Express, the online bidding system. As a new application used by DPW, the audit assessed access privileges as well as the current configuration for compliance with City policy and best practices. It was noted that a periodic review of users with access to Bid Express has never been performed. Consequently, audit testing identified two active users that had left DPW employment or transferred out of DPW and no longer required access to the application. Further review found that there are no policies or procedures in place for any system security administration activities for Bid Express.

**Recommendation 9: Develop and implement procedures for the system administration of Bid Express.**

Create and maintain policies and procedures for the system security administration of Bid Express. Topics to be addressed and defined in the policies and procedures include:

- Adding, maintaining and deleting user access, including the appropriate approvals and documentation.
- A focus on system access founded on the least-privilege criteria and based on job responsibilities.
- Periodic user access reviews performed by one individual and approved by a second individual, with evidence of the review and approval, such as the signature and date of the resource owner on the user-access list.
- System administrator should be informed of personnel changes on a timely basis and revise users' access accordingly.
- Required documentation and retention periods.

**Observation 1: Bid Express does not require periodic password changes.**

The Bid Express system does not require a password to be changed regardless of how much time has elapsed since the original password was created. The City Password Policy recommends a system prompted change every 90 days. At this time, the Bid Express system does not have the functionality to initiate a system required password change. In the event the capability becomes

available, management is advised to implement the additional safeguard. For now, the system does utilize a digital ID as part of the login process and thus there is an additional measure of system security in place to mitigate the risk of unauthorized access.

## Exhibit A

### Sample of Post Office Verification Letter (1 of 3)

This is a sample of the first address verification letter for individuals applying for the Residents Preference Program (RPP) certification at the DPW Contracts Office. It is sent to the Postmaster for the applicant's zip code. This additional layer of verification is not performed for individuals applying at external certifying agencies (i.e., BIG STEP).

Date

POSTMASTER
US POSTAL SERVICE
ADDRESS IN CORRESPONDING ZIPCODE
MILWAUKEE, WI 532__

Sent to Postmaster for Zipcode Individual resides in

**ADDRESS INFORMATION REQUEST**

Please furnish this agency with the new address, if available, for the following individual, or verify whether or not the address given below is the one to which mail for this individual is currently being delivered:

Name: **NAME**

Last Known Address: **ADDRESS**
**MILWAUKEE, WI 532__**

I certify that the address information for this individual is required for the performance of this agency's official duties.

Barbara Trible
Contract Compliance Officer
Department of Public Works

**FOR POST OFFICE USE ONLY**

( ) MAIL IS DELIVERED TO ADDRESS GIVEN
( ) NOT KNOWN AT ADDRESS GIVEN
( ) MOVED, LEFT NO FORWARDING ADDRESS
( ) NO SUCH ADDRESS
( ) OTHER (SPECIFY)

NEW ADDRESS

_____
_____

**Agency Return Address**
Barbara Trible
Contract Compliance Officer
Department of Public Works
841 N. Broadway, Room 506
Milwaukee, WI 53202

_____
Postmark/Date Stamp

**Sample of Second Request to Post Office for Address Verification (2 of 3)**

If the applicant's local post office cannot or does not reply to the first verification letter within one month, a second request is faxed to the USPS Business Service department - Milwaukee.

Date

FAX TO: Loretta Hays-Powell
USPS/Business Service
Fax 287-2518

FROM: Barbara Trible
City of Milwaukee
DPW Contracts
Ph 286-3309
Fax 286-8110

RE: Unanswered Address Verification Request(s)

The following request(s) for verification of address was/were sent to the various postal stations approximately a month ago and we have had no response to date. We would appreciate your help in getting responses to these requests.

Thank you very much for your help and for the help of each postal station for taking the time to verify these addresses for us. If there are any questions, feel free to call.

**NAME(S)** **ADDRESS(ES)**

*THANK YOU!!*

**Sample of Personal Verification Letter – Direct to Applicant (3 of 3)**

If the post office cannot or does not provide address verification, this letter is sent directly to the applicant. If returned, the applicant is RPP certified, however, further verification may be required if a complaint is received regarding the applicant's certification status. Again, this additional layer of verification is not performed for individuals applying at external certifying agencies (i.e., BIG STEP).

Date

Name
Address
Milwaukee, WI 532__

Dear M_____:

Through your employer, NAME OF EMPLOYER, you have been listed as participating in the City of Milwaukee's Residence Preference Program and listed as currently residing at INSERT ADDRESS, Milwaukee, WI 532__. However, the Post Office has not been able to verify this as your residence address. .

In order for you to participate in the Residence Preference Program, the City of Milwaukee is required to verify your correct address. Since we thus far are not able to do so through the Post Office, I am asking that you ***sign, date and return the bottom portion of this letter*** **as soon as possible, using the enclosed self-addressed, stamped envelope**. This will serve as adequate proof that you currently reside at the address on your Employee Affidavit, and we can count your work hours in the Residence Preference Program.

Thank you for your assistance in verifying your current address.

Very truly yours,

Barbara Trible
Contract Compliance Officer

---

**ADDRESS VERIFICATION**

I certify that I have received this letter at and reside at the address listed below:

**NAME**
**ADDRESS**
**MILWAUKEE, WI 532__**

_____ _____
Signature Date

**Exhibit B**

**Types and Amounts of Insurance Referenced in Sections 2.97 (a) through (d) of the DPW General Specifications as of June 4, 2014**

2.9.7 Liability and Insurance

The Contractor shall be responsible for and shall save the City harmless from, and defend the City against all liability for damages occasioned by the digging up, use or occupancy of the street, alley, highway, public grounds, and private grounds, or which may result therefrom or which may result in any way from the negligence or carelessness of the Contractor, the Contractor's agents, employees, workers, by reason of the elements, unforeseen or unusual difficulties, obstructions, or obstacles encountered in the prosecution of the work, and they shall indemnify the City for and save it harmless from all claims and liabilities, actions, causes of action, and liens for materials furnished or labor performed in the construction or execution of the work and from all costs, charges, and expenses incurred in defending such suits or actions and from and against all claims and liabilities for injury or damage to persons or property emanating from defective or careless work methods, or from and against all claims or liabilities for royalties, license fees, actions, suits, charges, and expenses or damage from infringement for reason of the use of any invention or improvement in tools, equipment or plant or any process, device or combination of devices used in the construction of the work.

Each Prime Contractor must furnish to the City of Milwaukee, prior to the start of work, certificates of insurance which confirm that the Prime Contractor has the types and amounts of insurance referenced in Sections (a) through (d). The Prime Contractor shall require all of its subcontractors to carry the same types and amounts of coverage as required of the Prime or may instead provide the coverage for any or all subcontractors. The Prime Contractor is fully responsible for assuring subcontractor compliance with all the insurance requirements specified herein.

a) WORKER'S COMPENSATION AND EMPLOYEES LIABILITY

<u>Coverage Amounts</u>

| | | |
|---|---|---|
| Worker's Compensation | | Statutory |
| Employer's Liability | | |
| Bodily Injury by Accident | each accident | $100,000 |
| Bodily Injury by Disease | each employee | $100,000 |
| Bodily Injury by Disease | policy limit | $500,000 |

To Include

Other state's coverage
United States Longshoremen and Harbor
Worker's Endorsement (Required only when the contract Involves work on navigable bodies of water)

b) COMMERCIAL GENERAL LIABILITY

Limits of Liability

| | | |
|---|---|---|
| Bodily Injury/Property Damage | each occurrence | $1,000,000 |
| | general aggregate | $1,000,000 |
| | products/completed Operations aggregate | $1,000,000 |
| Personal Injury | aggregate | $1,000,000 |

To Include

Occurrence form
Premises/operations coverage
Products/completed operations coverage including extension of coverage for two (2) years after acceptance of work by the City of Milwaukee
Independent contractors (Owners/Contractors Protective) coverage
Contractual liability for risks assumed in this agreement
No exclusion for explosion, collapse, or underground occurrences

c) AUTOMOBILE LIABILITY

Limits of Liability

| | | |
|---|---|---|
| Bodily Injury/Property Damage | each accident | $1,000,000 |

To Include

Coverage on all owned, non-owned, and hired vehicles

d) UMBRELLA LIABILITY

Limits of Liability

| | | |
|---|---|---|
| Personal Injury/Property Damage | each occurrence | $2,000,000 |
| | aggregate | $2,000,000 |

To Include

Occurrence form
First dollar defense coverage
Insuring agreement which will provide excess protection to the primary coverages

For coverages referred to in section 2.9.7.(b), (c), and (d), the City of Milwaukee shall be named as an additional insured.

The worker's compensation and employers liability certificate should confirm that thirty (30) days notice of cancellation must be provided. For all other insurance coverages referenced above, sixty (60) days notice of cancellation must be provided.

A separate certificate need not be filed if the Prime Contractor has a current certificate on file with the City of Milwaukee. It is the responsibility of the Prime Contractor to make this determination and to provide evidence of coverage if a previous certification has been filed. No Prime Contractor or Subcontractor shall perform any work under the contract after a certificate has expired or been canceled unless a new or renewal certificate is provided prior to the expiration or cancellation date of the previous certificate. The Prime Contractor shall have the responsibility of ensuring that valid certificates are on file for itself and all Subcontractors it plans to use.

## Appendix A

## Audit Criteria for Compliance Testing

1. Milwaukee City Charter
    a. Section 7-14-1a.
        i. The advertisement for proposals for any public work or improvement must be published at least two days in the official city papers.
        ii. Advertisements state work to be done and time frame for completion
    b. Section 7-14-1c. Each sealed, competitive bid shall be accompanied with a bid bond of a surety company licensed to do business in the state of Wisconsin, to the City of Milwaukee in such penal sum, not less than 10 percent of the amount of the bid.
    c. Section 7-14-2a. The contractor must furnish evidence of such insurance as the Commissioner of Public Works in conjunction with the City Comptroller shall determine to protect the interest of the City.
    d. Section 7-14-2b. The contract award must be published in the official city newspaper.
    e. Section 7-14-3. Performance and payment bonds are required with contracts.
    f. Section 7-17. Contracts must include language regarding berries if the work or improvement involves digging on public streets.
    g. Section 7-18. Contracts must include indemnification requirements.
    h. Sections 7-19 and 7-21. All contracts must be signed by the Commissioner and countersigned by the Comptroller.
    i. Section 7-22-3. All work must be let by contract to the lowest responsible bidder.

2. Milwaukee Code of Ordinances
    a. Section 309-38.2. Construction contracts over $100,000 must require contractors to employ apprentices and periodically submit reports showing compliance.

b. Section 309.41
    i. All construction contracts shall contain a requirement that 40 percent of the worker hours shall be performed by unemployed or underemployed residents.
    ii. The department shall monitor compliance with the provisions of this section.
    iii. The department shall require all contractors, prior to commencement of the work, to submit affidavits from employees utilized to meet the requirements of this section stating that the employee is both unemployed or underemployed and is a resident.
    iv. The department shall prepare annually a residency preference program report on the City's success in achieving the goals of the program.
    v. If a contractor fails to comply with this section the department may withhold payments.
c. Chapter 370
    i. Small Business Enterprise (SBE) participation is required in all contracting activities.
    ii. Certifying SBEs must be used for 25 percent of the total dollars annually expended for construction and the purchase of goods and services.
    iii. For the purchase of professional services the requirement is 18 percent.

3. Wisconsin State Statutes
    a. SS 66.0903. Municipal prevailing wage and hour scales
    b. & 103.49. Wage rate on state work

4. Federal Davis-Bacon Act: Requires all laborers and mechanics employed by contractors or subcontractors performing on contracts in excess of $2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits, as determined by the Secretary of Labor.

## Appendix B

### Cost Savings Analysis for
### Publishing Construction Contract Official Notices in the Official City Paper

| Comparison | Days Published | Total Paid to Daily Reporter* | Monthly Ave* | Annual Expenditure* | 10 Year Projection |
|---|---|---|---|---|---|
| Current practice: | 6 | $ 118,490.84 | $ 6,404.91 | $ 76,858.92 | $ 768,589.23 |
| Minimum requirement[1]: | 2 | 39,496.95 | 2,134.97 | 25,619.64 | 256,196.41 |
| Estimated savings: | 4 | $ 78,993.89 | $ 4,269.94 | $ 51,239.28 | $ 512,392.82 |

Analysis Procedures

1. Generated a report from the financial management information system (FMIS) to obtain a list of all vouchers processed for the Daily Reporter (vendor ID 1004014) for all DPW departments (like 5% and 6%) between 1/1/2013 and 7/15/2014.

2. Identified and removed any payments made to the Daily Reporter for items other than the publication of an official notice (i.e., publication of public hearing notices, general official notice to contractors, award notices, subscription dues, etc.). Due to the limited information available to Internal Audit, the totals above may include some items paid for purposes other than publishing official notices, or vice versa.

3. Totaled the merchandise amount for the official notice publication vouchers ($118,490.84) and divided by the number of months (18.5) to get the monthly average ($4,270).

4. Multiplied the monthly average by 12 months to get the estimated annual expenditure and estimated annual savings ($51,240).

5. Multiplied the annual results to get the 10 year projection, an estimated savings over $500,000.

**This analysis is for informational purposes only. A more thorough analysis should be performed for the basis of decision making.**

Footnotes

1. Per City Charter Section 7-14-1a and Code of Ordinances Section 16-01-1.

* Based on January 1, 2013 - July 15, 2014 (18.5 months) invoices as analyzed by Internal Audit

City of Milwaukee

Department of Public Works
Administration

Ghassan Korban
Commissioner of Public Works

Preston D. Cole
Director of Operations

November 4, 2014

Aycha Sirvanci, CPA
Audit Manager
City of Milwaukee Comptroller's Office
City Hall, Room 404

Dear Ms. Sirvanci,

Thank you for the opportunity to respond to your audit of the DPW Contract Administration Office. The Contracts Office appreciates that the findings of your audit revealed areas in which we can improve our current systems, and we have taken steps to implement many of your recommendations as a result.

Please see below for a summary response to your recommendations.

**Recommendation 1: Improve methods used to collect record and maintain RPP certification data to increase efficiency and accuracy.**

The Contracts Office is transitioning from a paper-only filing system to an electronic filing system for all RPP certification data. Newly certified RPP data is entered into the Bid Notices App (database) and all supporting documentation is scanned within a week of receipt. Hard copies of documents are filed and retained in the Contracts Offices. The procedures for collecting, recording and maintaining RPP certification data were written and implemented by Contracts Office staff in June 2014. The RPP Procedures document defines verification statuses and includes instructions for verifying residency within the City limits.

The procedure manual will include direction as to how complaints of fraud will be investigated. The steps to be taken will include site visits to "address of record." In addition, staff will also biannually sample the data base and conduct "desk audits" to confirm RPP eligibility. These desk audits can include site visits and mailings that will ensure that RPP participants are eligible.

The Contracts Office is currently updating the database to include all certified residents. This process requires entering, scanning, and saving historical RPP documents in the database beginning in January 2015. This process will be followed by a biannual review of records. Ordinance 309-41f states that residents are certified for a period of five years "from the date he or she first participated in a construction contract." The Contracts Office is currently responsible for more than 50 blanket contracts (contracts that can be renewed for multiple years—some executed in 2014 can be extended until 2024). Additionally, even standard DPW contracts may stretch for multiple years. This will require RPP data for residents for longer that the initial five year certification period.

The Contracts Office agrees that verification procedures must be consistent across all verifying

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agencies. The Contracts Office will no longer require the additional step of USPS verification for RPP certifications submitted to the Contracts Office staff.

*Implementation date: January 2015*

**Recommendation 2: Tighten controls to ensure consistency within compliance monitoring and enforcement activity.**
The DPW Contract Office will require, as has been the practice, that all payments made on "C" numbered contracts pass thru the Contract Office. This will involve the use of a current system of electronic tracking of sewer and paving contracts and expansion of this system to include all contracts. Until this system is expanding there will be a "report" created to track payments submitted for payment. Prior to any payment being processed Contract Office staff will review these payments for compliance.

*Implementation date: January 2015*

**Recommendation 3: Explore the opportunity to decrease the duration of advertising official notices in the official city paper thereby reducing related expenses.**
Official Notice advertisement will be limited to two days effective on November 3, 2014. This change will be evaluated at three and six months. If during this period there is no significant impact on the number of bidders or price of the bids the change will become permanent. There may also be some number of days between 2 and 6 that will be selected depending upon impact.

*Implementation date: Effective November 3, 2014*

**Recommendation 4: Establish a proactive approach to maintain accurate Code references within contracting documents and forms.**
The General Specs – have been updated. Contracts Office staff will monitor ordinance changes on a continuous basis. Biannually, all contract related documents will be reviewed and updated as needed. There will be a Lead and a Back Up assigned to this process.

The General Official Notice – The Daily Reporter was notified and has been publishing the correct Comptroller signature since 5/2012-time which the office changed over. There was a document on the website that has been updated. The outdated signature, however, does not alter the content or meaning of the General Official Notice. The General Notice statement refers to the BIDDER and there is still an affidavit that the BIDDER submits, titled the Non-Collusion affidavit. The affidavit that was repealed was an affidavit that was in conjunction with the Bid Bond, which pertained to the SURETY having no interest. However, we will revise the wording so that this requirement is clear.

We have corrected the DPW-6 time report form. It is important to note we have been and

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continue to monitor is that the contractor is paying the correct wage rate.

*Implementation date: November 3, 2014*

**Recommendation 5: Clarify liability insurance requirements within the DPW General Specifications.**
The Contracts Office, in consultation with the City Attorney's Office, will clarify the liability insurance requirements. The clarified requirements will be included in the General Specs.

*Implementation date: January 2015*

**Recommendation 6: Review contractor insurance coverage for compliance with the requirements prior to the start of work.**
The Contracts Office agrees that certificates of liability insurance (COLI) must be obtained and reviewed for sufficient coverage prior to the start of work. A policy to obtain and save all COLI info in the database was implemented in May 2014. Contracts are not transmitted to contractors unless a current and complete COLI is on file with the Contracts Office. Additionally, beginning in May 2014, the database sends out an email notification to Contracts Office staff when COLI coverages have expired. Contract Office staff follows up with the contractor to obtain updated COLI documentation prior to expiration.

*Implementation date: May 2014*

**Recommendation 7: Validate surety companies for electronic bid bonds.**
The Contracts Office will perform a desk audit of all electronic bid bonds to ensure bonds are issued by companies licensed to conduct business in the State of Wisconsin.

*Implementation date: January 2015*

**Recommendation 8: Document and retain evidence of the second reader at bid openings.**
The Contract Office has implemented documentation of second readers at bid openings for all paper bids. Beginning in August 2014, second readers began initialing each paper bid. These documents are retained and discarded per the department's retention schedule.

*Implementation date: August 2014*

**Recommendation 9: Develop and implement procedures for the system administration of Bid Express.**
The Contracts Office agrees with the recommendations made regarding the administration of Bid Express. As a result, the Contracts Office drafted and implemented a Bid Express

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Administration policy in September 2014. The first Bid Express user review was conducted in September 2014. Bid Express user reviews will be conducted in March and September of each

*Implementation date: September 2014*

Sincerely,

Dan Thomas M.P.A., J.D.
DPW Administrative Services Director

C: File

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