



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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Project Number

1240084

This report can be made available in alternate format upon request.

**Public Works Department
Contract Audit - Tetra Tech BAS, Inc.**

June 24, 2024

Report Highlights

Background Screening and Key Access

The Department did not ensure that the contractor was conducting employee background screenings or tracking keys as required by City policies and the contracts.

Invoice Testing

We found some tested invoices had incorrect fees or lacked proper supporting documentation. The Department has implemented invoice processing procedures to improve payment accuracy.

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Executive Summary

Purpose

Our purpose was to determine that the Public Works Department (PW) was adequately monitoring its contracts with Tetra Tech Bryan A. Stirrat & Associates Inc. (Tt-BAS) for the routine and non-routine maintenance of the City of Phoenix's (City) active and inactive landfills.

Background

On April 3, 2017, PW entered into a contract (#144771) with Tt-BAS to provide Operations, Maintenance, and Monitoring (OM&M) services for State Route 85 (SR85), the City's only active landfill. The contract was valued at \$1,429,145 for an initial two-year term with four options to extend. On July 1, 2019, PW entered into a similar contract (#150297) worth \$8,860,194 for its closed landfills including Skunk Creek, 19th Avenue, 27th Avenue, Deer Valley, and Del Rio. This contract was also signed for an initial two-year term with four options to extend. Both the contracts have consistently been extended. As of May 1, 2024, the first contract had encumbered over \$4.2M and the second nearly \$5.9M.

Tt-BAS follows a weekly OM&M schedule for all landfills that includes inspections of flare stations, and gas extraction systems including parts for valves, pipes, system fittings, wells, and probes. Weekly visits may also include a review of soil covering, access to interior maintenance roads, and the integrity of site security fences. The contract further requires the vendor to produce monthly status reports for the City, along with any required semi-annual or annual municipal, state, and federal reports as mandated by the Environmental Protection Agency (EPA), Arizona Department of Environmental Quality (ADEQ), and Maricopa County Air Quality Department (MCAQD). Examples of reports include documentation for Title V permits, Greenhouse Gas (GHG) Emissions, and Condensate Recirculation (CR) findings.

We wanted to ensure that PW was monitoring these contracts to ensure adherence to stated terms and conditions. Therefore, we met with and interviewed both PW and Tt-BAS staff. We conducted three site visits for one active and two closed landfills. We also reviewed Administrative Regulations (AR) applicable to these contracts, studied security requirements outlined in the contracts, and tested the accuracy of paid invoices from FY21-FY24.

Results in Brief

The Department did not ensure that the contractor was conducting employee background screenings or tracking keys as required by City policies and the contracts.

AR 4.44 – Contract Worker Identification and Access Control Policy and *AR 4.45 – Contract Worker Background Checks* state that contract workers who require unescorted access to City facilities during normal and non-business hours have badges for identification and undergo background screenings based on the risk levels associated with their positions or tasks. Further, any keys provided to these workers should be tracked using a log and the City notified if keys are lost, stolen, or the employee resigns or quits. In addition, the two Tt-BAS's contracts with PW contain these requirements.

However, we found the contractor was not conducting background screenings on their employees who worked at the landfills. Field technicians were not provided City badges. Additionally, neither PW nor the contractor tracked which Tt-BAS employees received keys to landfills and flare stations. Because there was no historical document with a count of how many keys were originally provided to the contractor, there was no way to ascertain how many keys were outstanding or the number of Tt-BAS employees who still had access to the City's landfills.

We found some of the tested invoices had incorrect fees or lacked proper supporting documentation. The Department has implemented invoice processing procedures improve payment accuracy.

AR 3.10 – General Procurement Procedure states that departments should review receipts for goods and services to ensure accuracy before payments are processed. We selected a sample of invoices for landfill services valued at over \$392K and tested them for accuracy, completeness, and alignment to the contracts' scope of work. All the invoices had goods and services that adhered to the scope of work. Two invoices were mathematically incorrect due to line items that were subsequently deleted by the contractor. Some other invoices had monthly maintenance rates and hourly charges for positions that did not align with fee schedules.

Department Responses to Recommendations

<p>Rec. #1.1: Create a contract monitoring plan (CMP) for Tetra Tech-BAS that contains contract requirements, including background screening processes and instructions for providing and tracking keys.</p>	
<p>Response: The Public Works Solid Waste Division will create a contract monitoring plan to monitor the contract requirements using the template from the Public Works Procurement Team. The plan will include processes for background screening and providing and tracking keys. This information will be centralized with the Solid Waste Division with access to the procurement file.</p>	<p><u>Target Date:</u> 09/25/2024</p>
<p>Rec. #1.2: Obtain and approve from Tetra Tech-BAS a standard risk-level background screening for all technicians assigned to the City's landfills.</p>	
<p>Response: The background checks were completed by Tetra Tech BAS and submitted to Public Works Solid Waste on 5/15/24.</p>	<p><u>Target Date:</u> Completed</p>
<p>Rec. #1.3: Evaluate and determine if Tetra Tech-BAS needs City-issued badges for its technicians assigned to the City's landfills.</p>	
<p>Response: Public Works Solid Waste Division will complete an evaluation to determine if City badges need to be issued to Tetra Tech BAS employees assigned to the City's landfills.</p>	<p><u>Target Date:</u> 09/25/2024</p>
<p>Rec. #1.4: Re-key all vehicle entry gates at the City's landfills</p>	
<p>Response: Public Works Solid Waste will re-key all vehicle entry gates at the City's five closed landfill and one open landfill.</p>	<p><u>Target Date:</u> 12/27/2024</p>
<p>Explanation, Target Date > 90 Days:</p> <p>Public Works Solid Waste anticipates it will take up to six months to complete the re-keying of approximately 50 locks across the City's five closed landfills and one open landfill. Public Works anticipates potential long lead times to procure new lock sequences and matching keys and receive delivery of new commercial locks. Once the new keys and locks arrive, additional time will be required to assign them with the City's locksmith including new key agreements and collecting the old keys from city staff. Public Works Solid Waste will also need to coordinate with Tetra Tech to collect their old keys, distribute the new keys and update their key logs.</p>	

Rec. #1.5: Track and log all keys provided to Tetra Tech-BAS and its technicians.

Response: Public Works Solid Waste completed a log that tracks of all keys provided to Tetra Tech and its technicians on 5/22/2024.

Target Date:
Completed

Rec. #3.1: Work with Tetra Tech-BAS to review selected invoices and update any totals and/or supporting documentation in SAP, as needed.

Response: Public Works Solid Waste Division will review the selected invoices identified in the audit to confirm the necessary corrections and work with Tetra Tech- BAS to provide the corrected invoices. Once the corrected invoices are received, Public Works Solid Waste will work with Finance to update the records in SAP.

Target Date:
12/27/2024

Explanation, Target Date > 90 Days: Public Works Solid Waste anticipates it will take up to six months to complete the necessary corrections in SAP. Tt BAS has stated that corrections to invoices from previous fiscal years are required to go through their internal corporate auditing process. This process requires approximately eight weeks to complete.

Once Tetra Tech BAS submits corrected invoices, Public Works staff will need to review the new information and provide Finance with memorandums for each correction to SAP. The review from Finance is estimated to take an additional four to six weeks.

1 – Background Screening, Badges, and Keys

Background

One of the most important purposes of security is to protect people and property. Good security measures restrict access to infrastructure, buildings, and systems to those individuals who have a legitimate business need. Further, background checks limit the City's exposure to liability by making departments aware of the history of employees and contractors who conduct business on its behalf.

AR 4.44 – Contract Worker Identification and Access Control Policy and *AR 4.45 – Contract Worker Background Checks* outline the City's processes to ensure hired contractors do not represent a risk to the City, its personnel, or the community when they provide needed services or supplies. Background screenings have three levels of comprehensiveness, and the level required is generally based on the risks associated with a position or service. Contracts generally outline which level of screening is required for a vendor. Contractors who need access to City systems or buildings receive badges and/or keys and are responsible for tracking both the dissemination and return of all provided supplies.

Tt-BAS employees may require unescorted access to City facilities during non-business hours. The contracts state that the contractor must complete a standard risk background screening on its staff and provide the results to PW for review. A standard risk background screening confirms an employee's legal name, status to work in the United States, and any misdemeanor or felony charges in the state of Arizona and any other state where they have resided in the past seven years. Employees should also receive a City-issued badge and sign a log that tracks when they receive or return keys.

We wanted to ensure PW staff were accurately following background screening, badge, and key protocols. We reviewed PW's internal policy and the Tt-BAS contracts. We requested documentation from both PW and the contractor to ensure they were adhering to contract requirements.

Results

PW did not ensure that Tt-BAS completed background screenings on its employees assigned to work at the City's landfills as required by City policies and the contracts.

We met with PW and Tt-BAS staff and requested documentation to confirm the level and results of the background screenings conducted on the five technicians currently assigned to the City's landfills. The contractor stated they perform e-Verify assessments that confirm the citizenship status, legal names, and photo matches for their technicians. However, they did not perform background screenings that include reporting of misdemeanor or felony offenses within a seven-year period.

PW staff confirmed they had never requested or received background screening documentation from Tt-BAS. There was an apparent lack of awareness regarding this portion of the contract by both PW and the contractor. On May 15, 2024, PW staff confirmed that Tt-BAS had completed background screenings on all its field technicians and PW was reviewing the provided documents.

Tt-BAS employees did not receive City-issued badges. Further, neither the contractor nor PW tracked keys used to access landfills and flare cabinets.

Tt-BAS contracts state that technicians may need unescorted access to City facilities during business and non-business hours depending on operational demands. Therefore, based on AR 4.45, all landfill technicians need a City-issue badge when they are onsite. Further, since they need keys to access site gates, flare stations and instrument cabinets, a log should track when they receive or return keys during their employment with the contractor.

During our audit, we found that PW was not tracking which technicians had key access to various landfills, the flare stations, or instrument cabinets. Further, in conversations with Tt-BAS staff, we discovered that they tracked keys only during the offboarding phase of employment, but not during onboarding. PW also had no document that showed how many keys were originally given to the contractor. Therefore, there was no way to fully ascertain if the number of keys that the contractor currently had was the same as the ones issued to them, or which employees still had access. While this was largely due to the perceived low risks associated with landfill operations, the clause that outlined key and badge management is included in both contracts. After our meeting, PW staff reached out to Tt-BAS and began working with the contractor to address these issues.

Recommendations

- 1.1 Create a contract monitoring plan (CMP) for Tetra Tech-BAS that contains contract requirements, including background screening processes and instructions for providing and tracking keys.
- 1.2 Obtain and approve from Tetra Tech-BAS a standard risk level background screening for all technicians assigned to the City's landfills.
- 1.3 Evaluate and determine if Tetra Tech-BAS needs City-issued badges for its technicians assigned to the City's landfills.
- 1.4 Re-key all vehicle entry gates at the City's landfills.
- 1.5 Track and log all keys provided to Tetra Tech-BAS and its technicians.

2 – Contract Oversight and Reporting

Background

AR 3.10 – General Procurement Procedures states that departments are responsible for monitoring their contracts. While the regulation does not provide specific processes to follow, departments need to maintain both programmatic and fiscal controls over their contracts. *Title V* of the Clean Air Act requires that all major sources of actual or potential emissions of any air pollutant obtain a permit for operations. *Federal Regulation Title 40, Chapter I, subchapter I* outlines the Environmental Protection Agency (EPA) guidelines on solid waste. *Part 258* establishes criteria for municipal solid waste landfills and addresses topics such as restrictions, operating and design criteria, financial assurance, and closure and post-closure care. The regulation's primary aim is to ensure the protection of human health and the environment, especially air and water quality, from chemicals and gases produced by landfills.

Methane, a gas produced as waste breaks down in landfills, can accumulate in confined spaces and act as an asphyxiant or become extremely flammable if inadequately vented or placed near ignition sources. *Arizona Revised Statutes, Title 49 Chapter 4* deals with solid waste management including planning and assistance, solid waste services, regulation of solid waste, enforcement, and violations and penalties. Arizona Department of Environmental Quality (ADEQ) and Maricopa County Air Quality Department (MCDAQ) are the state and county organizations tasked with protecting and enhancing public health and addressing environmental concerns.

The City's reporting requirements for its active and non-active landfills are significant. Therefore, to transfer out some of its reporting obligations, the contract with Tt-BAS tasks the contractor with the responsibility of producing and submitting multiple reports. This includes monthly status reports on all landfills and semi-annual and annual reports required from the state, municipal, and federal level.

To ensure the contractor was meeting these mandates, we interviewed PW and Tt-BAS staff. We read the contract, created a list of all required reports, and tested a sample to ensure compliance. We also reviewed documents to ensure PW followed City policy when procuring the contracts and was adequately monitoring their performance.

Results

Overall, PW adequately monitored the programmatic components of the contracts, and accurately followed the City's procurement procedures.

In a previous audit conducted in 2023, we found that PW did not have a general contract monitoring policy for the Department. Instead, most divisions created their own procedures and processes to track and monitor contract performance. In meetings with staff, we found that overall, the division was adequately monitoring the programmatic components of these two contracts with Tt-BAS. There was documentation on how to encumber funds and process invoices. Staff used a shared drive to track documents,

work orders, and ongoing issues for the landfills. Further, PW shared a system with the contractor where they could review drafts of reports, monitor equipment, and facilitate communication. PW staff reported that they spoke to Tt-BAS technicians on a daily or weekly basis. As previously reported, PW did not monitor the background screening requirements as outlined in the contracts or security guidelines in ARs 4.44 and 4.45.

PW procured the Tt-BAS contracts using a qualification based selection process. AR 3.10 states that this selection method is used when the City wants to award contracts for good or services based on evaluation criteria other than price. Interested vendors submit statements of qualifications and the Procurement Officer and an evaluation team ranks candidates based on the criteria set forth in the request for qualifications. The vendor most qualified is awarded the contract, and the list may be used for multiple contracts over a specified timeframe.

We reviewed all the procurement documents for these contracts and confirmed that Tt-BAS consistently scored above other vendors during the selection process; therefore, the City accurately followed its procurement process.

The contractor satisfied the reporting requirements outlined in the contract.

The Tt-BAS contracts require the vendor to provide PW staff with monthly status reports on all the City's landfills. We obtained a sample of five months of monthly reports for four landfills: SR85, 19th Avenue, 27th Avenue, and Skunk Creek. We confirmed all the reports were comprehensive and included items such as: flare station monitoring data, landfill gas well monitoring data, condensate sump monitoring, and monthly maintenance logs. We also requested and reviewed three years of Greenhouse Gas and Title V permit reports as required by municipal, state, and federal mandates for the three sites. None of the landfills had any major or persistent issues. Overall, the City's landfills were being maintained by Tt-BAS and the reported gas emissions were at or below acceptable levels.

Recommendations

None

3 – Payment Testing

Background

AR 3.10 – General Procurement Procedures states that departments should follow invoicing procedures provided by the Finance Department, and ensure receipts are inspected before payment is rendered. PW's Procurement Services Division provides an invoice review document as guidance for the other PW divisions. It states that purchase orders (PO) and invoices should be reviewed when conducting internal quality checks. Invoices are considered sufficient if they have the following information: date, invoice number, quantities, and unit prices (extended and totaled). A contract number or PO must be on the invoice, and it should have correct payment terms and discounts for items such as early or late payments and freight. Further, charges on the contract should match fee schedules, and include only contracted goods or services.

We tested to ensure PW staff were reviewing and only paying accurate invoices from Tt-BAS. We selected a sample of 18 invoices valued at over \$392K for testing; 7 were for SR85, and 11 for closed landfills. We reviewed all the invoices for mathematical accuracy, completeness, and expenditures that fit contract scopes. We also reviewed attached work orders to confirm rates for subcontractors' add-ons and taxes matched fee schedules.

Results

Overall, most of the invoices were mathematically accurate and had goods and services that aligned with the contract's scope of work. However, there were invoices with hourly and monthly rates that did not correlate to the fee schedules. Other invoices had incomplete or inaccurate works orders for support.

Tt-BAS provides PW with invoices that contain corresponding work orders that detail estimates on non-routine services for specific landfills, as needed. These work orders are denoted by task numbers and may contain hourly rates for positions, subcontractor subtotals, taxes, and additional services such as delivery or freight costs. Generally, the invoices should mirror what is listed on the work order, but differences may occur if rates change, a line item gets deleted, or the department receives partial delivery of goods or services.

In our testing, we selected a sample of 18 invoices from the City's accounting system and tested that each included, 1) date, 2) invoice number, 3) quantities, 4) unit prices, 5) POs or contract numbers, and 6) supporting signatures from PW staff, as required. We found no exceptions.

We also reviewed attached work orders for various tasks and identified the following issues:

- Totals on two invoices did not match the attached work orders because some line items were deleted by the contractor (the department paid the correct total).
- Hourly pay rates for positions did not correlate to contract fee schedules or amendments. This resulted in undercharges to the City.
- Monthly rate did not match the new fee schedule after a contract amendment. This resulted in undercharges to the City.
- The task number listed on one invoice did not match attached work orders.
- Sales tax was inconsistently calculated among the tested invoices. Some included tax on subcontractor makeups and freight charges while others did not.

Specifically, for the SR85 contract, our tests found that 3 of the 7 invoices had issues; for the closed landfills, 6 out of 11 invoices tested showed inconsistencies. PW staff reported that sometimes the work orders included with invoices were not updated with the actual costs and corrections were not noted on the payment documents. These variances were provided to PW for review and correction or clarification.

In discussions with PW staff, it was also mentioned that prior to 2022, the Division did not have an Administrative Assistant to review invoices before payment; therefore, it was possible some paid invoices were incorrect. However, that position was added later in the same year, and a procedure on how to correctly encumber funds and process invoices was created to standardize processes and increase accuracy. This was largely supported by the results noted in our testing.

Recommendation

- 3.1 Work with Tetra Tech-BAS to review selected invoices and update any totals and/or supporting documentation in SAP, as needed.

Scope, Methods, and Standards

Scope

We assessed the two Tetra Tech contracts for routine and non-routine maintenance of the City's open and closed landfills. We reviewed for compliance with contract terms and tested invoices from FY21-F24 for accuracy and completeness.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Environment
 - Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve the entity's objectives.
- Control Activities
 - Management should implement control activities through policies.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- Reviewed contract #144771 (SR85 Landfill) and contract #150297 (Closed landfills: Skunk Creek, 27th Ave, 19th Ave, Deer Valley, and Del Rio).
- Interviewed PW and Tt-BAS staff and management to get a better understanding of landfill processes and contract monitoring procedures.
- Visited the 19th Ave, 27th Ave, and SR85 landfills.
- Attended a monthly review meeting with PW and contractor staff.
- Ran SAP reports on paid invoices and tested documents for accuracy.
- Reviewed monthly, semi-annual, and annual reports required by the contract to ensure landfills are meeting EPA and ADEQ regulations.
- Reviewed procurement documents for accuracy and completeness.
- Reviewed AR 3.10, 4.44, and 4.45 for internal processes and procedures on procurement, background screening, badge, and key access for contractors.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of SAP Vendor Invoice Management (VIM) data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this audit.

The SAP Accounts Payable (FBL1N) data was previously determined to be reliable through an independent audit review.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.