



Office of the City Auditor

**Report to the City Council
City of San Jose**

**A REVIEW OF THE
REDEVELOPMENT AGENCY'S
PAYMENT PROCESS**

**The Agency Can Improve The Timeliness Of
Its Payment Process Without Incurring
Additional Risks**

**Report 00-06
August 2000**



CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA
City Auditor

September 6, 2000

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is *A Review Of The Redevelopment Agency's Payment Process*. This report is in accordance with City Charter Section 805. I presented this report to the Finance Committee at its August 23, 2000 meeting.

An Executive Summary is presented on the blue pages in the front of this report, and the Redevelopment Agency has implemented all of the recommendations contained in this report.

The City Auditor staff member who participated in the preparation of this report is Bill Hewitt.

Respectfully submitted,

Gerald A. Silva
City Auditor

finaltr
GS:bh

cc: Susan Schick
Abe Andrade
David Baum

Del Borgsdorf
Kay Winer
Rick Doyle



Table of Contents

Executive Summary	i
Introduction.....	1
Background.....	1
Audit Scope, Objectives, And Methodology	1
Finding I	
The Agency Can Improve The Timeliness Of Its Payment Process Without Incurring Additional Risks	3
Contract Payments	4
Lump Sum Contracts	6
Consultant Services—Time And Material Compensation.....	7
Advantages Of Lump Sum Compensation To Consultants	10
Method Of Payment Contract Provision.....	12
Standardizing The Payment Process For All Divisions.....	13
Techniques To Measure The Timeliness Of The Requests For Payment.....	13
Approval Of Checks And Voucher Packages.....	14
Master Agreements	14
Project Services Memorandum.....	16
The Owner Participation Agreement And The Disposition Development Agreement Process.....	19
Change Orders	19
CONCLUSION.....	21
RECOMMENDATIONS.....	21
APPENDIX A	
Construction Contracts Executed/Amended For The Period Of January 1, 1999 Through December 31, 1999	A-1
APPENDIX B	
Consultant Contracts Greater Than \$50,000 Executed/Amended For The Period Of January 1, 1999 Through December 31, 1999	B-1
APPENDIX C	
Consultant Contracts Less Than \$50,000 Executed/Amended For The Period Of January 1, 1999 Through December 31, 1999	C-1
APPENDIX D	
Compensation – Exhibit D	D-1
APPENDIX E	
Payments To Consultants, Contractors And Vendors	E-1

APPENDIX F
Current Payment Request ProcessingF-1

APPENDIX G
Proposed Payment Request Processing G-1

APPENDIX H
Current Payment Request Processing For Public Works – Construction
Contracts..... H-1

APPENDIX I
Current Payment Request Processing For Public Works – ConsultantsI-1

Table Of Exhibits

Exhibit 1	
Summary Of Agency Contracts Executed In 1999 That Were Greater Than And Less Than \$50,000	5
Exhibit 2	
Summary Of Agency Contracts Executed In 1999 That Were Greater Than \$50,000.....	5
Exhibit 3	
Comparison Of The Agency And Public Works Change Order Process.....	20

Executive Summary

In accordance with the City Auditor's 1999-00 Audit Workplan, we reviewed the Redevelopment Agency's (Agency) payment process. We limited our work to those areas specified in the Scope and Methodology section of this report.

Finding I The Agency Can Improve The Timeliness Of Its Payment Process Without Incurring Additional Risks

In our opinion, the Agency can improve the timeliness of its payment process without incurring additional risks. Specifically, the Agency should

1. Use lump sum contracts for consultants whenever appropriate.
2. When using time and material contracts,
 - Specify in its written procedures who is responsible for verifying the following:
 - the hours billed for each labor classification;
 - that the rates billed agree with the contract;
 - that reimbursable amounts are properly supported; and
 - Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.
3. Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.
4. Use the procedures in the Project Management Division manual entitled "Payments to Consultants, Contractors, and Vendors" for initially standardizing the payment process for all Divisions.
5. Establish performance measures for timeliness of payments by:

- Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.
 - Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment unless there is a dispute with the contractor, consultant, or vendor.
 - Establishing a time standard performance measure for the Accounts Payable Division to process a check.
 - Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.
 - Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.
6. Require the Executive Director's or the Deputy Director's signature on vouchers and checks greater than \$100,000.
7. Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.
8. Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:
- Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects and/or time-sensitive items due to deadline commitments, and
 - Establishing a mutually agreed upon lump sum fee for services provided to the Agency.

RECOMMENDATIONS

We recommend that the Redevelopment Agency:

- Recommendation #1 Use lump sum contracts for consultants whenever appropriate.**

- Recommendation #2** **When using time and material contracts,**
- **Specify in its written procedures who is responsible for verifying the following:**
 - **the hours billed for each labor classification;**
 - **that the rates billed agree with the contract;**
 - **that reimbursable amounts are properly supported; and**
 - **Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.**
- Recommendation #3** **Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.**
- Recommendation #4** **Use the procedures in the Project Management Division manual entitled “Payments to Consultants, Contractors, and Vendors” for initially standardizing the payment process for all Divisions.**
- Recommendation #5** **Establish performance measures for timeliness of payments by:**
- **Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.**
 - **Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment unless there is a dispute with the contractor, consultant, or vendor.**
 - **Establishing a time standard performance measure for the Accounts Payable Division to process a check.**
 - **Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.**
 - **Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.**

- Recommendation #6** **Require the Executive Director's or the Deputy Director's signature on vouchers and checks greater than \$100,000.**
- Recommendation #7** **Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.**
- Recommendation #8** **Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:**
- **Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects and/or time-sensitive items due to deadline commitments, and**
 - **Establishing a mutually agreed upon lump sum fee for services provided to the Agency.**

Introduction

In accordance with the City Auditor's 1999-00 Audit Workplan, we reviewed the Redevelopment Agency's (Agency) payment process. We limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the Agency personnel for their time, information, insight, and cooperating during the review process.

Background

In 1999, the Agency executed 239 contracts, worth \$176,127,461. Of the 239 total contracts the Agency executed or amended, 170, or 71 percent, were consultant agreements. These 170 consultant agreements totaled about \$59.4 million.

From February 1999 through February 2000, the Accounts Payable Division of the Agency issued 4,448 checks totaling about \$100,044,000. According to the Accounts Payable Division's February 25, 2000 check run report of 27 checks, the number of days between the invoice date and the check issuance date ranged from a low of 12 days to a high of 57 days.

According to Agency staff, most of this time is spent on processing the payments for consultant agreements.

Audit Scope, Objectives, And Methodology

Our audit objective was to determine whether the Agency can improve the timeliness of its processing of payments to consultants, contractors, and vendors. Our methodology included reviewing available written procedures and flow charts, interviewing management and staff, evaluating some of the Agency's business processes, analyzing the compensation provisions for contracts, conducting surveys, and doing other audit tests we considered necessary in the circumstances. We also evaluated the Agency's change order process.

Finding I

The Agency Can Improve The Timeliness Of Its Payment Process Without Incurring Additional Risks

In our opinion, the Agency can improve the timeliness of its payment process without incurring additional risks. Specifically, the Agency should

1. Use lump sum contracts for consultants whenever appropriate.
2. When using time and material contracts,
 - Specify in its written procedures who is responsible for verifying the following:
 - the hours billed for each labor classification;
 - that the rates billed agree with the contract;
 - that reimbursable amounts are properly supported; and
 - Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.
3. Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.
4. Use the procedures in the Project Management Division manual entitled “Payments to Consultants, Contractors, and Vendors” for initially standardizing the payment process for all Divisions.
5. Establish performance measures for timeliness of payments by:
 - Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.
 - Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment unless

there is a dispute with the contractor, consultant, or vendor.

- Establishing a time standard performance measure for the Accounts Payable Division to process a check.
 - Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.
 - Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.
6. Require the Executive Director's or the Deputy Director's signature on vouchers and checks greater than \$100,000.
 7. Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.
 8. Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:
 - Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects and/or time-sensitive items due to deadline commitments, and
 - Establishing a mutually agreed upon lump sum fee for services provided to the Agency.

Contract Payments

Payments to contractors, consultants, and vendors should be made on time. The International City Management Association says the following about timeliness of payments in its book entitled Management of Local Public Works: "*Failure to pay bills on time often causes vendors to lose interest in bidding on the jurisdiction's contracts and gives vendors who have contracts no incentive to perform above the minimum, required level.*" The Agency's non personal expenditures consist primarily of the following:

- Construction contracts;
- Consultant contracts;
- Owner Participation Agreements (OPA) and Disposition Development Agreements (DDA);

- Facade Improvement Grants; and
- Purchase order transactions (vendor payments).

The Agency gave us a schedule of contracts executed/amended for the period of January 1, 1999 through December 31, 1999. Exhibit 1 is a summary of this information.

Exhibit 1 Summary Of Agency Contracts Executed In 1999 That Were Greater Than And Less Than \$50,000

	Number of Contracts	Contract Amount
Contracts greater than \$50,000	123	\$172,301,843
Contracts less than \$50,000	116	\$3,825,618
Totals	239	\$176,127,461

The Agency’s contracts less than \$50,000 were predominantly consultant agreements and Facade Improvement Grants.

Exhibit 2 is a summary of the contracts greater than \$50,000.

Exhibit 2 Summary Of Agency Contracts Executed In 1999 That Were Greater Than \$50,000

Purpose Of Contract	Number Of Contracts	Percentage Of Contracts Greater Than \$50,000	Total Contract Amount	% Of Total Contract Amount
Construction Contracts	9	7.3%	\$72,621,533	42.1%
Consultant Agreements	96	78.0%	\$56,987,685	33.1%
OPA & DDA	12	9.8%	\$39,302,035	22.8%
Other	6	4.9%	\$3,390,590	2.0%
Totals	123	100.0%	\$172,301,843	100.0%

Of the 123 contracts, only nine or about 7.3 percent were construction contracts. However, the total contract amount for these construction projects was \$72,621,533 or about 42 per cent of the total of \$172,301,843. The Agency’s construction contracts are lump sum contracts. The nine construction contracts the Agency executed/amended for the period of January 1, 1999 through December 31, 1999 are shown in Appendix A.

According to Agency staff, the construction contracts, vendor payments, the OPAs, and the DDAs do not present significant problems on timeliness of payment processing. Agency staff told us most of their time is spent on processing the payments for consultant agreements. As Exhibit 2 shows, the Agency executed/amended 96 consultant agreements greater than \$50,000 for the period of January 1, 1999 through December 31, 1999. These agreements accounted for about 78 percent of the total agreements greater than \$50,000 that the Agency executed. Of the 239 total contracts the Agency executed/amended, about 170 or 71 percent were consultant agreements. The Agency almost always pays consultants on a time and material basis. The only exception we found in our review was the lump sum contract the Agency had with KPMG Peat Marwick LLP for the Agency's annual financial audit.

**Lump Sum
Contracts**

As the name implies, lump sum contracts are those contracts where the contractor bids a fixed dollar amount to complete the job. For lump sum contracts, the contractor takes full responsibility for any costs incurred in excess of those included in the bid, unless those costs are a part of an approved change order to the specifications. Lump sum contracts are used for those contracts where detailed engineering has been performed and a reasonable understanding exists regarding the scope of the work.

Under lump sum agreements, cost risk to the Agency can be minimal with adequate bidding and performance controls. The Agency can reduce or mitigate the cost risk associated with lump sum pricing if they have:

- Thorough bidder qualification procedures that subject potential contractors to strict financial, quality, and performance standards. This helps eliminate unstable contractors, wild bidders, and those without the financial resources to perform.
- Thorough definition of scope prior to bidding and award.
- Control of the scope changes and extra work.

Each application for payment of a construction payment is based on the Schedule of Values that the contractor submits in accordance with the contract documents.

Applications for payment indicate the percentage of completion of each portion of the work as of the end of the period covered by the application for payment. The Agency makes progress payments to the construction contractor based on the Project Manager's approval of the stage of completion of the itemized schedule of values. The time that the Division Analyst and the Accounts Payable staff spend on these progress payments is minimal.

**Consultant
Services—Time
And Material
Compensation**

Appendix B provides examples of the scope of services for consultant agreements greater than \$50,000 that the Agency executed/amended during 1999. Appendix C provides examples of the scope of services for consultant agreements less than \$50,000 that the Agency executed/amended during 1999. As previously mentioned, the KPMG Peat Marwick, LLP contract was the only agreement we identified that the Agency paid on the basis of a fixed fee (lump sum).

Appendix D provides an example of the standard wording in an agreement for compensation to a consultant on a **time and material** basis.

After the Agency has executed a contract with a consultant, the Agency establishes encumbrances in its financial system. Encumbrances are commitments related to unperformed contracts for goods or services. As payments are made against these contracts, the encumbrance amount decreases and the expenditure amount increases.

Based on the compensation provisions for each consultant agreement, the Agency establishes encumbrance amounts for the following:

- Basic Services.
- Reimbursables, which can include incidental costs requiring supporting documentation as well as costs for subconsultants. The reimbursable component may or may not include a handling charge, such as 10 percent for the consultant to provide the supporting documentation for the reimbursable expenses.
- Additional Services. Additional Services are those services not included in Basic Services. Such services require Agency's prior written authorization.

Thus, the Agency predominantly has time and materials contracts for consultants which include a “not-to-exceed” limitation on total cost. Consultants are paid for direct labor at a fixed hourly rate. The fixed rates used for labor vary according to labor classification and include a markup for the consultant’s profit. The hourly rates include wages, overhead, general and administrative expenses, and profit. The time and materials pricing method provides no incentive for controlling labor costs or material costs up to the not to exceed amount specified. In fact, the time and materials pricing method gives the consultant an incentive to increase direct labor hours used because as these increase, any embedded profit increases proportionately.

Some difficulties associated with monitoring time and material contracts are how to ensure that the payments to consultants are for costs actually incurred and relate to the Agency contract. Examples of these difficulties are as follows:

1. It is often difficult for Agency staff to verify the accuracy of the hours billed for each labor classification for the consultants and subconsultants. For many of the consultant agreements, the Agency staff can only do a reasonableness verification of the hours the consultant billed.
2. Agency staff would often be unable to verify that a Senior Architect actually worked the hours charged for Senior Architect services. For example, a Junior Architect may have done the work but the consultant billed the hours at the Senior Architect rate.
3. Consultant may have billed the Agency for hours not worked on the Agency contract.
4. Agency staff may spend an inordinate amount of time verifying the supporting documentation for the reimbursables, which often are incidental to the basic services. Often the consultants negotiate a handling charge such as 10 percent for providing the supporting documentation.
5. The handling charges may at times be quite significant. For example, in one contract the reimbursable expenses which included fees for subconsultant services were not to exceed \$300,700. For these reimbursables, the Agency paid the consultant at cost plus fifteen (15%) percent which equates to more than \$45,000 for handling charges.

6. Consultant could be billing at rates that are different than prescribed in the contract. According to the City's Contract Administration and Management Guidelines, rates must be established for the duration of the contract. If the rates are to increase during the term of the agreement, the contract must specifically provide for the specific rate increase or cap the increase by a certain percentage.
7. Contract payments based on actual costs plus a fixed percentage to cover profit and overhead, with a stated maximum is suitable for small scopes of work, such as repairs or emergency work. However, this pricing method is considered undesirable for other types of work because it forces the jurisdiction to increase its monitoring and the consultant has little incentive to control costs. Robert D. Gilbreath, in his book entitled Managing Construction Contracts, says the following:

“Contracts or change orders based on the time and material pricing method are simple to obtain and can be awarded rapidly. That’s why they are common for small scopes of work, such as repairs or emergencies. Greater effort is required to monitor material costs and labor hours. This method is quite common for construction work and for professional services. In general, it should be avoided for all work except that involving minor-cost, short duration efforts that cannot be planned in advance. In such instances, the author recommends always include a “not-to-exceed “ limitation in hours, material, or total cost.

8. City guidelines caution not to authorize payment if performance is unsatisfactory. In our opinion, correlating the scope of services, the schedule of performance, and progress payments for time and material consultant agreements can be problematic.

In the book, Management of Local Public Works published by the International City Management Association (pages 187-188), the following is said about consultant contracts:

The key points in the consultant contract cover the scope of work, schedule, fees, payments, and responsibilities and relations of the parties. The first (and most difficult) negotiating step is defining the scope of work in terms of content and tasks to be performed.... Fees and schedules should be keyed to the tasks, and each task or phase should be contracted for separately in the overall agreement so that the

*agency may stop after any task without penalty (an individual notice would be required to proceed)...
Most agencies find fixed sum fees most satisfactory,
but the scope of work must be carefully defined and a
provision included to adjust payments for changed
conditions or extra work.*

In February 2000, the City Manager's Office released Contract Administration and Management Guidelines. These guidelines say that the compensation section of the contract sets out the compensation to be paid to the contractor, describes the payment terms and **should have a logical connection to the schedule of performance**. [Emphasis added.] In addition, the guidelines state that payment can be in the form of a lump sum, a percentage fee, or installment payments, or can be based on an hourly rate. Rates must be established for the duration of the contract. If the rates are to increase during the term of the agreement, the contract must specifically provide for the specific rate increase or cap the increase by a certain percentage. Thus, time and materials contracts can and should be used when:

- The amount of work, the time to perform, or both cannot easily and accurately be estimated, and
- The scope is not clearly identified.

Maintenance and repair services are common types of time and materials contracts.

Theoretically, the Agency's advantage for the time and material form of compensation is that the Agency would realize savings if the consultant's billings were less than the not to exceed amount. However, according to the Agency's Accounting Supervisor, consultants almost always bill the entire not to exceed amount. Thus, in our opinion, "verification" of time and material payments can often be "make work" or represent more form than substance with regard to truly verifying that billed work was actually performed or billed services were actually rendered.

**Advantages Of
Lump Sum
Compensation To
Consultants**

As previously mentioned, time and material contracts should be used for projects where the program and scope are not clearly identified. However, in our opinion, the Agency should use a lump sum contract for any project where the program, scope, and intent can be clearly defined.

The advantages of lump sum contracts are as follows:

- Relatively easy to understand.
- Requires a much lower degree of contract and payment administration.
- Consultant takes all the visible risk.
- Price is the most important factor.

If the Agency used lump sum or a total basic services contract whenever appropriate for consultant agreements, the reimbursables would be included with the basic services. A total services contract would include all consultant services and reimbursable costs that can reasonably be anticipated at the time the contract is being written. If the reimbursable costs become part of the basic fees, then the Agency would not be reviewing invoices and the related supporting documentation for reimbursables, thereby avoiding handling charges. In the compensation section of the contract, there would be no reference to hourly rates for basic services. The Agency may request the hourly rates in its RFP and may use these hourly rates when negotiating the amount for additional services. The Agency should require that the billings from the consultant reflect the percentage of the work completed. The respective Project Manager should ensure that the percentage of the total work completed aligns with contract intentions.

The recently approved Project Management Procedures Manual provides an example of a lump sum payment schedule.¹

We recommend that the Agency:

Recommendation #1

Error! Not a valid link.

¹ We suggest that the Attorney's Office review the wording of this provision in the manual because the intent may be to have a lump sum compensation provision, but the use of the phrase "not to exceed" may imply a time and material compensation provision.

Recommendation #2

- **Error! Not a valid link.**

**Method Of
Payment Contract
Provision**

The Standard Provision of Consultant Agreements for the Method of Payment says the following:

Payments to CONTRACTOR by AGENCY shall be made within thirty (30) days after receipt of CONTRACTOR'S itemized invoice. Request for payment shall be made to:

*Redevelopment Agency of the City of San Jose
Attention: Bob Staedler, Project Coordinator
50 West San Fernando Street, Suite 1100
San Jose, CA 95113*

And a copy of the request for payment to:

*Redevelopment Agency of the City of San Jose
Attention: Accounts Payable
50 West San Fernando Street, Suite 900
San Jose, CA 95113*

Two points are worth mentioning:

The Agency can use a specified number of days after receipt of the itemized invoice as a performance standard for measuring the timeliness of payment processing.

The provision requiring the consultant to send a copy of the request for payment to Accounts Payable is not consistent with City practices or common business practices. Conversations with Agency staff indicate this provision has been a “boiler plate” provision in the contracts for many years. The Agency’s Accounting Supervisor told us that the consultants have been inconsistent in their compliance with this provision. Additional conversations with Agency staff indicated this requirement does not add value to the process and need not be a provision in the contract.

We recommend that the Agency:

Recommendation #3

Error! Not a valid link.

Standardizing The Payment Process For All Divisions

The Project Management Division has a section in its recently approved manual entitled “Payments to Consultants, Contractors, and Vendors.” (See Appendix E for this section of the manual.) In our opinion, the Agency can use this section as a starting point for standardizing the payment process for all Divisions. These procedures specify the responsibilities of the following:

- Mail Clerk
- Project Manager or Construction Manager
- Division Director or Assistant Director
- Division Analyst
- Finance and Budget Division

In addition, these procedures adequately describe the payment process.

We recommend that the Agency:

<p>Recommendation #4</p>

<p>Error! Not a valid link.</p>
--

Techniques To Measure The Timeliness Of The Requests For Payment

The Method of Payment section in the consultant agreements states that payments to CONTRACTOR by AGENCY shall be made within thirty (30) days after receipt of CONTRACTOR’S itemized invoice. Presently, the Agency has no ongoing reporting process to monitor this contract provision.

The Project Management Division Manual directs the Agency’s mail clerk to receive all invoices or applications for payment whether by mail, messenger, or hand delivered and date stamp as received. This date stamping is to be done the same day as received and shall immediately be given to the appropriate Project Manager. The Manual further states that the “**Division will process the request for payment within one (1) calendar week of date received**”. [Emphasis added.]

We recommend that the Agency:

<p>Recommendation #5</p>

- | |
|---|
| <ul style="list-style-type: none"> • Error! Not a valid link. |
|---|

Approval Of Checks And Voucher Packages

Agency staff provided us with the following flow charts:

- Current Payment Request Processing—See Appendix F
- Proposed Payment Request Processing—See Appendix G

To assist us in evaluating the Agency's current and proposed payment request processing, we prepared flow charts showing the City's Department of Public Works payment request processing for the following:

- Construction contracts²—Appendix H
- Consultant contracts—Appendix I

The City's procedures for check processing are as follows:

- Checks less than \$100,000 require the automated signature of the Director of Finance.
- Checks greater than \$100,000 require two signatures—the automated signature of the Director of Finance and a manual signature of Accounting Management.

The Agency's recommended check processing shown in the proposed flow chart seems to correlate with the City's practices with the exception of checks greater than \$100,000. According to the Agency's Director of Finance and Administration, the Agency would also prefer the signature of the Executive Director or a Deputy Director for checks greater than \$100,000.

We recommend that the Agency:

<p>Recommendation #6</p> <p>Error! Not a valid link.</p>

Master Agreements

Master Agreements allow the Agency staff to engage the services of various consultants without entering into a separate agreement. A Master Agreement may be used where a particular contractor is expected to perform services on several distinct projects or separate assignments over an extended period of time. The Agency's use of a Master Agreement allows a single consultant or contractor selection process to be applied to multiple projects or tasks. A Master Agreement

² For information purposes, the City's Public Works Department does not require the Division Director to approve payments to consultants. For construction contracts, the Public Works Department requires the approvals of the Project Inspector, the Project Manager, and the Division Manager.

covers a broad scope of services that a consultant may be called upon to perform for a variety of projects. Rather than negotiating and writing an agreement for a small job with a limited scope of work, a Project Manager or Construction Manager may authorize the services by issuing a “notice to proceed” (NTP) under the Master Agreement. An NTP is a document that directs the consultant to proceed with services as outlined in the scope of services. The notice sets forth the compensation and time allotted for completing the services.

The Agency’s current policies relevant to our audit governing Master Agreements are:

- The Division Director for the Division managing the Master Agreement approves NTPs up to \$5,000. The Executive Director approves NTPs exceeding \$5,000.
- The required signatures for an NTP greater than \$5,000 are as follows:
 - Project Manager
 - Division Analyst
 - Division Director
 - Finance
 - General Counsel
 - Executive Director

Staff in the Agency’s Project Management Division indicated:

- The required approvals for an NTP greater than \$5,000 seem excessive.
- The required approvals create significant delays in the business process.
- The amount that the Division Director can approve is too low considering the cost of services in today’s economic environment.

Staff in the Agency’s Project Management Division gave us the Master Agreement Activity Log for Rajappan & Meyer, Contract No. 4529, AC No. 1880. Rajappan & Meyer does civil engineering surveys for the Agency. This activity log showed the Agency authorized 48 NTPs of which 23, or 48 percent were between \$5,000 and \$25,000.

During our review, the Agency was revising some of its processes regarding Master Agreements. We were told that some of the changes being made to the Master Agreement process were as follows:

- The Agency's General Counsel committed to approving NTP documents within 48 hours of receipt.
- The Senior Contract Analyst committed to approving NTP documents within 24 hours of receipt.
- The Assistant Director of Finance was no longer required to approve NTPs.
- Each work authorization shall specify whether the fee for the project shall be paid as a lump sum or based on hours worked.

According to the Senior Contract Analyst, the trend in the Agency is to phase out the Master Agreements and convert to a standard contract with a work authorization clause. With a standard contract the Agency would encumber the amount upon the award of the contract. The Agency would use the contracted services on an as needed basis. According to the Senior Contract Analyst, the work authorization amounts and approval requirements will vary from agreement to agreement.

In our opinion, the Agency has addressed most of the impediments in the Master Agreement process that we identified during our fieldwork. However, the Master Agreement process can be further improved by increasing the NTP amount.

We recommend that the Agency:

Recommendation #7

Error! Not a valid link.

**Project Services
Memorandum**

A Project Services Memorandum (PSM) initiates the transfer of funds from the Agency to the City for a City Department to provide project services. We reviewed the PSM for the Repertory Theatre Modifications. This PSM authorized the Department of Public Works (DPW) to perform plan review and construction inspections for code compliance and consistency with City of San Jose standards for construction.

The compensation provision in this PSM is as follows:

Project Funding

The San Jose Redevelopment Agency will fund all services for the project. The **lump sum** funding required for DPW work outlined by this document is as follows: [Emphasis added]

Design Plan Review: (6 unique packages @ 24 hrs. each)	\$15,000
Construction Inspections: (6 packs @ 16 hrs./pack)	10,000
Project Management/Coordination (6 packs @ 10 hrs./pack)	5,000
Services provided due to project delay	5,000
Additional Services provided for base project	<u>5,000</u>
TOTAL	\$40,000

Thus, the Agency uses a **lump sum fee for services** methodology for compensation on a PSM. Conversely, the Agency predominantly uses a time and material methodology of compensation on consultant agreements. As the term implies, lump sum means that the City would realize the savings if services it provided to the Agency were done for less than the lump sum. However, the City is obligated to complete the service for the Agency even if its cost exceeds the lump sum, absent a change in the scope of the work.

The City and the Agency currently have a PSM for non project services, potential projects, and/or items needed quickly due to deadline commitments. This PSM is designated as PSM 211- Non Project Specific Services. This PSM is comparable to the Unfunded Projects appropriation in the General Fund.³

The Public Works Fiscal Section has prepared some guidelines for the Agency’s PSM 211-Non Project Specific Services. We understand that this amount is currently at \$11,000. Agency Project Management Division staff indicated a desire to significantly increase the amount in this PSM so services are not delayed due to funds not being appropriated.

³ Public Works Department told us that as of May 16, 2000, \$52,228 has been spent from the appropriation amount of \$135,360.

We recommend that the Agency:

Recommendation #8

- [Error! Not a valid link.](#)

The Owner Participation Agreement And The Disposition Development Agreement Process

Some Agency personnel in the Neighborhood and Industrial Development Division said that the process for setting up the business terms for the Owner Participation Agreements (OPA) and Disposition Development Agreements (DDA) could be more efficient.

This issue is outside the scope of our review. Accordingly, we suggest the Agency either:

- Internally address this issue or
- Request that the Finance Committee add an audit of this area to the City Auditor's 2000-01 Audit Workplan.

Change Orders

The Executive Director of the Redevelopment Agency requested that we evaluate the change order process. The Project Management Division Manual defines a change order as "a contract modification for the time and/or money to the base contract." The change can be issued for work which is deleted or added, and documents the change. To evaluate the Agency's change order process, we compared the Agency's change order process to the Public Works change order process. Exhibit 3 summarizes this comparison.

Exhibit 3 Comparison Of The Agency And Public Works Change Order Process

	RDA Executive Director	Public Works Director
Approval Authority	Review and approve all change orders up to \$75,000 and up to 60 days time extension.	Review and approve all change orders up to and including \$75,000 provided that the aggregate of all such change orders for a single contract shall not exceed \$7,500.
Requirements For All Change Orders	Finding of facts to explain reasons and the necessary justification for the change. Cost Estimate. Negotiation of Change Order with a related summary of the negotiations.	Contract Change Order Form Contract Change Order Log Letter of intent, if applicable Change Order Summary of Negotiations Change Order Technical Justification Change Order Estimate Summary
Approvals Required	Recommended for Acceptance 1. Construction Manager 2. Architect Acceptance 1. Contractor 2. Agency General Counsel 3. Director of Finance or designate 4. RDA Executive Director	1. Director of Finance or designate 2. Contractor 3. Division Director 4. Director of Public Works or Deputy Director

The Agency's written procedures require the preparation of a change order estimate for:

- Determination of reasonableness of quotations submitted by the contractor;
- Basis of negotiation with contractor to determine agreed prices for contemplated change;
- Establishing standards for cost breakdowns required when the Agency prepares change order estimates; and
- Establishing standards for cost breakdowns and require contractors and subcontractors to adhere to these standards when submitting proposed changes.

We asked the Director of the Project Management Division to evaluate the Agency's change order process. The Director said he was generally satisfied with the change order process. The Director said the impediments to the business processes in his Division are not in the change order process but are predominantly:

- Time and material rather than lump sum compensation in the consultant contracts;

- The Notice to Proceed process for Master Agreements; and
- Improving the process for the PSM 211-Non Project Specific Services.

CONCLUSION

The Agency can improve the timeliness of its processing of payments to consultants, contractors, and vendors by using lump sum contracts, specifying responsibility for verifying standard billings, discontinuing the payment of cost plus for reimbursable expenses, removing the contract provision requiring the consultant to invoice the Accounts Payable Division, standardizing the payment process for all Divisions, establishing performance measures for timeliness of payments, requiring the Executive Director's or the Deputy Director's signature on vouchers and checks greater than \$100,000, increasing the Division Director's Notice to Proceed approval amount for Master Agreements to \$25,000, increasing the amount in the Non-Project Specific Project Services memorandum, and establishing a mutually agreed upon lump sum fee for services provided to the Agency.

RECOMMENDATIONS

We recommend that the Redevelopment Agency:

- Recommendation #1** Use lump sum contracts for consultants whenever appropriate.
- Recommendation #2** When using time and material contracts,
- Specify in its written procedures who is responsible for verifying the following:
 - the hours billed for each labor classification;
 - that the rates billed agree with the contract;
 - that reimbursable amounts are properly supported; and
 - Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.
- Recommendation #3** Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.

- Recommendation #4** Use the procedures in the Project Management Division manual entitled “Payments to Consultants, Contractors, and Vendors” for initially standardizing the payment process for all Divisions.
- Recommendation #5** Establish performance measures for timeliness of payments by:
- Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.
 - Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment unless there is a dispute with the contractor, consultant, or vendor.
 - Establishing a time standard performance measure for the Accounts Payable Division to process a check.
 - Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.
 - Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.
- Recommendation #6** Require the Executive Director’s or the Deputy Director’s signature on vouchers and checks greater than \$100,000.
- Recommendation #7** Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.
- Recommendation #8** Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:
- Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects and/or time-sensitive items due to deadline commitments, and
 - Establishing a mutually agreed upon lump sum fee for services provided to the Agency.

APPENDIX A

**Construction Contracts Executed/Amended
For The Period Of January 1, 1999 Through December 31, 1999**

CONTRACTOR	SCOPE OF SERVICES	CONTRACT	TERM	CURRENT CONTRACT AMOUNT
Alvarado Construction	Washington Area Youth Center and Biblico Latino-Americana	3/20/98	Open	\$7,249,208
Dennis J. Amoroso Construction-12184	SJ Rep Theater Construction Project	1/3/96	Open	18,462,697
Garden City Construction, Inc. – 12090	Retail Kiosk Construction Project	1/22/98	Open	1,510,405
H & R Builders dba HRB Construction	Twohy Building Basement Modifications	9/21/99	Open	324,322
Robert A. Bothman	GRP & G Confluence East Tennis Courts	12/3/98	Open	889,000
Robert A. Bothman	McEnery Park	2/18/99	Open	2,210,000
Robert A. Bothman	Veteran Memorial Seating Area/Sister City	9/8/99	Open	101,000
S.J. Amoroso Construction Co., Inc. – 12213	Tech Museum Construction Part B	3/28/97	Open	23,634,169
S.J. Amoroso Construction	Mexican Cultural Heritage Gardens & Plaza	11/27/97	Open	18,240,732
Total				\$72,621,533

APPENDIX B

Consultant Contracts Greater Than \$50,000 Executed/Amended For The Period Of January 1, 1999 Through December 31, 1999

CONTRACTOR	SCOPE OF SERVICES	CONTRACT	TERM	CURRENT CONTRACT AMOUNT
Anderson Brule Architects	Story Road Design Fences	3/4/98	4/30/00	\$141,870
Arlen Mills Company	Master Agreement—Appraisal Services	2/10/99	12.31/00	\$180,000
Banducci Associates Architects	Design Services for DT Storefront Program	8/5/98	3/31/00	\$145,000
Bellecci and Associates	Master Agreement—Civil Engineering	6/10/99	6/15/01	\$300,000
Berger Detmer	Architectural and Design Services for the San Jose Theater Project	5/13/98	12/13/01	\$659,457
Biggs Cardos Associates, Inc.	Master Agreement—Structural Engineering	10/4/96	9/30/00	\$400,000
Carrier Johnson	SJSU/City of SJ Joint Library—Architectural	9/16/98	5/30/03	\$11,575,000
Consolidated Engineering Laboratories	Master Agreement—Construction Management	6/10/99	6/15/01	\$300,000
Crossroads Right of Way	Master Agreement—Relocation Consultant	3/31/99	12/31/00	\$250,000
David J. Powers and Associates	Master Agreement—Environmental Planning	8/1/94	7/31/00	\$300,000
ELS Architects	Fox Theater—Design Services	7/22/99	2/28/01	\$2,000,000
Garcia Teague Architecture	Youth Center & Biblioteca Latinoamericana	5/1/97	9/1/00	\$2,047,600
Gilbane Building Company	SJSU Library Project-Construction Management	10/22/99	10.20/03	\$3,600,000
Hargreaves Associates	Architectural Design—Guadalupe River Park	2/2/90	12/31/02	\$3,575,088
Hexagon Transportation	Master Agreement—Transportation Planning & Engineering Services	9/29/99	12/31/01	\$115,000
HMH Inc.	Civil Engineering Plan for South Silver Creek	10/17/97	12/31/00	\$1,550,000
Jackson and Associates	Master Agreement — Relocation Services	5/28/98	12/31/00	\$249,000
Keyser Marston Associates	Master Agreement— Site Evaluation Services	8/18/97	4/30/00	\$550,000
KPMG Peat Marwick, LLP	Master Agreement—Fiscal Audit	6/1/96	6/30/00	\$306,118
Rajappan & Meyer	Master Agreement — Civil Engineering	10/17/97	10/31/00	\$550,000

APPENDIX C

**Consultant Contracts Less Than \$50,000 Executed/Amended
For The Period Of January 1, 1999 Through December 31, 1999**

CONTRACTOR	SCOPE OF SERVICES	DATE OF EXECUTION/ AMENDMENT	CONTRACT AMOUNT
Ken Rodriguez	Design Studies/Retail Strategy Area	1/27/99	\$40,000
Steinberg Group	Design Studies/Retail Strategy Area	1/27/99	\$40,000
Schaaf & Wheeler	Edenvale Hydrology Study	2/5/99	\$30,000
Anderson Brule Architects	Site Study Preparation Alum Rock	2/10/99	\$35,000
Office of Jerome King	Story/King Development Strategy	2/10/99	\$50,000
Mason and Mason	Master Agreement-Review Appraisal	2/10/99	\$40,000
Cushman Wakefield	Master Agreement Appraisals	2/17/99	\$40,000
David Boggini	Master Agreement-Real Estate Services	2/19/99	\$40,000
Group 4 Architecture	Alum Rock Library Feasibility Study	3/11/99	\$32,700
Steinberg Group	Woolworth Project Feasibility Study	3/15/99	\$50,000
Various	Master Agreement-Relocation	3/31/99	\$50,000 each
Century School of Languages and Excel Translation	Master Agreement-Translation	4/6/99	\$25,000 each
Hexagon Transportation	Parking Analysis—Alameda	4/28/99	\$25,000
Garcia Teague Architecture & Interiors	Design studies For Retail Strategy Area	5/4/99	\$49,600
Wilbur Smith Associates	SJ Downtown Parking Study	5/7/99	\$49,500
Glenn Frizell	Property Acquisition Services	6/2/99	\$40,000
Various	Façade Improvement Grants	Various	Various amounts
Ann Roulac & Company	Master Agreement for Real Estate Services	9/30/99	\$50,000
Rudolph & Sletten	Fox Theater—Preconstruction Management Services	12/22/99	\$49,950

APPENDIX D

EXHIBIT D

COMPENSATION

- A. The maximum amount of compensation to be paid to CONSULTANT under this AGREEMENT, including payment for professional services, reimbursable expenses and supplies, materials, and equipment provided by CONSULTANT, shall not exceed FIVE THOUSAND AND NO/100 DOLLARS (\$5,000.00).
- B. The maximum amount of compensation to be paid to CONSULTANT for all services required under EXHIBIT B shall not exceed FOUR THOUSAND AND NO/100 DOLLARS (\$4,000.00). Any hours worked for which payment would result in a total exceeding the maximum amount of compensation set forth herein shall be performed at no cost to AGENCY. AGENCY agrees to compensate CONSULTANT at the hourly rates set forth below for professional services performed in accordance with the terms and conditions of this AGREEMENT.

Schedule of Rates:

Senior Principal	\$134.00 per hour
Principal	\$108.00 per hour
Associate	\$ 91.00 per hour
Landscape Architect 1	\$ 81.00 per hour
Landscape Architect 2	\$ 72.00 per hour
Landscape Architect 3	\$ 66.00 per hour
Assistant 1	\$ 57.00 per hour
Assistant 2	\$ 52.00 per hour
Assistant 3	\$ 48.00 per hour
Technician	\$ 38.00 per hour
Word Processor	\$ 55.00 per hour
CADD Equipment Time *	\$ 16.00 per hour
*operator not included	

- C. Reimbursable expenses under this AGREEMENT shall not exceed ONE THOUSAND AND NO/100 DOLLARS (\$1,000.00). Ordinary and reasonable expenses, as determined by AGENCY, which are incurred by CONSULTANT in performance of this AGREEMENT shall be reimbursed at cost plus 15% (up to the maximum stated above) upon request of CONSULTANT and presentation of adequate documentation. Ordinary and reasonable reimbursable expenses include expenses related to long distance telephone and expenses relating to printing, reproduction and handling of documents. CONSULTANT shall, in the case of unusual or extraordinary expenses, obtain AGENCY approval in writing prior to the expenditure in order to obtain reimbursement.

APPENDIX E

PAYMENTS TO CONSULTANTS, CONTRACTORS AND VENDORS TAB VIII.2.A

1. INTRODUCTION

- A. It shall be the policy of the Project Management Division to process consultant, contractor and vendor invoices or applications for payment in a prompt and orderly manner. Following are specific requirements to accomplish this process in accord with that policy:
1. For services or materials greater than \$3,000, a notice to proceed (NTP), purchase order (PO), or contract signed by both parties must be in place which defines cost and payment terms. Services or materials under \$3,000 may be ordered without written authorization.
 2. To request payment of any amount, an invoice or application for payment must be presented in accord with the contract, NTP or PO (if applicable) and in a form and containing all information and substance as prescribed by the RDA. The invoice must have attached as a front sheet the RDA standard payment application Front Sheet completed by the consultant, contractor or vendor (see attached).
 3. The work as noted in the contract or specific portions or percentages for which payment is requested must be completed to the standards and satisfaction of the RDA and its consultants.
 4. The request for payment will be processed by the Project Management Division in the following manner within one (1) calendar week of date received by the Division (See the Compensation section, Exhibit D, of a specific contract for any special requirements).
 - a) If all form and substance are correct and the work satisfactorily completed, the request for payment will be forwarded, with all approvals, to the Finance Division for payment.
 - b) If form and/or substance or the work performed is incorrect or incomplete, the consultant, contractor or vendor will be notified of the deficiencies in writing.
 - c) Upon approval of the Division Director or Asst Director, a Project Manager may request payment for less than the full amount of an invoice when there are discrepancies between the invoice and the terms of the contract. Additionally, the Project Manager may withhold partial payment pending further documentation that the full amount of work invoiced is complete.
 - c)(1) If a substantial portion of the invoice is in question, the Project Manager will notify the consultant or contractor in writing.
 - d) Lien releases must be submitted by the general contractor for its application and any sub-contractor applications contained therein. Conditional lien releases for the current application amounts and unconditional lien releases for amounts in the Application for Payment 60 days prior to the current date.
 - e) Final payment to be made in accord with project specifications and contract.

- f) Release of retention will be made only upon fulfilling the terms of the contract and the the RDA's requirements as stated on the RDA Release of Retention Checklist (see attached).

2. DEFINITIONS/GLOSSARY

- A. Invoice -- An invoice from vendor in a form and containing the information as required by its contract with the Agency.
- B. Application for Payment - Contractors-- Contractors must submit Applications for Payment for progress of the work on fully completed AIA Form G702 "Application for and Certificate for Payment" and attach the RDA cover sheet for construction contracts (see attached).
- C. Application for Payment - Consultants-- All consultants must submit the RDA front sheet for consultant payments (see attached) along with their invoice.

3. DOCUMENTS USED

- A. Consultants or Vendors Invoices:
 - 1. As prescribed by their contract with the Agency, or
 - 2. Their own usual format,
 - 3. Division Standard Payment Application Front Sheet.
- B. Contractors:
 - 1. A IA Form G702, Application and Certificate for Payment, and
 - 2. RDA Cover Sheet
- C. Contract Liquidation Worksheet (see attached)

4. RESPONSIBILITIES

- A. Mail Clerk -- to receive and date stamp all invoices and applications for payment on all primary pages (exclude reimbursable receipt backup). Forward to appropriate Project Manager on day of receipt.
- B. Project Manager or Construction Manager -- to review and either approve or reject invoice or payment request and process as noted in Section 5 below. At this point

the "Front Sheet" submitted by the consultant or vendor will be verified for accuracy and rejected if deficient.

- C. Division Director or Asst Director -- to approve all invoices or applications for payment.
- D. Division Analyst -- to record all invoices and maintain an up-to-date contract summary log of all contract amounts, adds, deducts and payments on the Contract Liquidation Worksheet. The Division Analyst will serve as the initial contact with the Finance & Budget Division. Questions that cannot be resolved by the Division Analyst will be referred to the Project Manager.
- E. Finance & Budget Division - Shall notify the Division Analyst as soon as possible of any issues with a request for payment that may cause a delay in payment.

5. **PROCESS**

- A. Receipt -- mail clerk to receive all invoices or applications for payment whether by mail, messenger, or hand delivered and date stamp as received. This shall be done the same day as received and shall immediately be given to the appropriate Project Manager.
- B. Analysis -- the Project Manager, with support from the Construction Manager or staff Architect when appropriate, shall review and analyze the invoice or request for payment. It shall be reviewed for the following:
 - 1. Form
 - 2. Substance
 - 3. Accuracy - ensure that invoiced work is completed and to RDA standards; are compare billing rates and allowable subconsultants and reimbursable expenses to those specified in the contract
 - 4. If all is appropriate, initial and forward to Division Analyst. If the Project Manager is unsure about available funds in a contract or budget line, work with the Division Analyst to reconcile or verify funding availability.
 - 5. If all is not appropriate, inform consultant, vendor or contractor of problem and request resubmittal or discuss with Division Director or Asst Director the terms and conditions of approving a partial payment.
 - 6. Transmit to Division Analyst.
- C. Recording -- the Division Analyst will record payment requests against basic services, additional services and reimbursables expenses on the Contract Liquidation Worksheet (see attached). The Analyst will print out the form and

submit with the payment request for the Division Director's or Asst Director's signature.

1. Invoice or application for payment with all back up.
2. Contract Liquidation Worksheet up to date including subject invoice.

- D. Approval -- the Division Director or Asst Director will review all the above documents and sign the RDA front sheet signifying approval for payment or, if not approved, consult with Project Manager. The complete package will be returned to the Division Analyst.
- E. Transmittal -- the Division Analyst will transmit the invoice or application for payment to the Finance Division for payment. Transmittal shall include invoice or application for payment with all back up, the RDA front sheet, and the Contract Liquidation Worksheet.
- F. Verification -- the Division Analyst will review the weekly Check Register (as provided by Fiscal staff) to determine when payment is made and the exact amount. An appropriate entry shall be made in the computer database on the Contract Liquidation Worksheet and the division master payment request log (sample attached) noting the date of payment and any discrepancy from the requested amount. The Division Analyst will typically update the log every Monday.
- G. Rejection by Finance Division -- if any approved invoice or application for payment is rejected by the Finance Division, the person who submitted the application for payment shall be notified in writing at once. The issue will be addressed at the Division Management level.

PROCESSING PAYMENT REQUESTS FOR INVOICES
ON AGENCY CONTRACTS

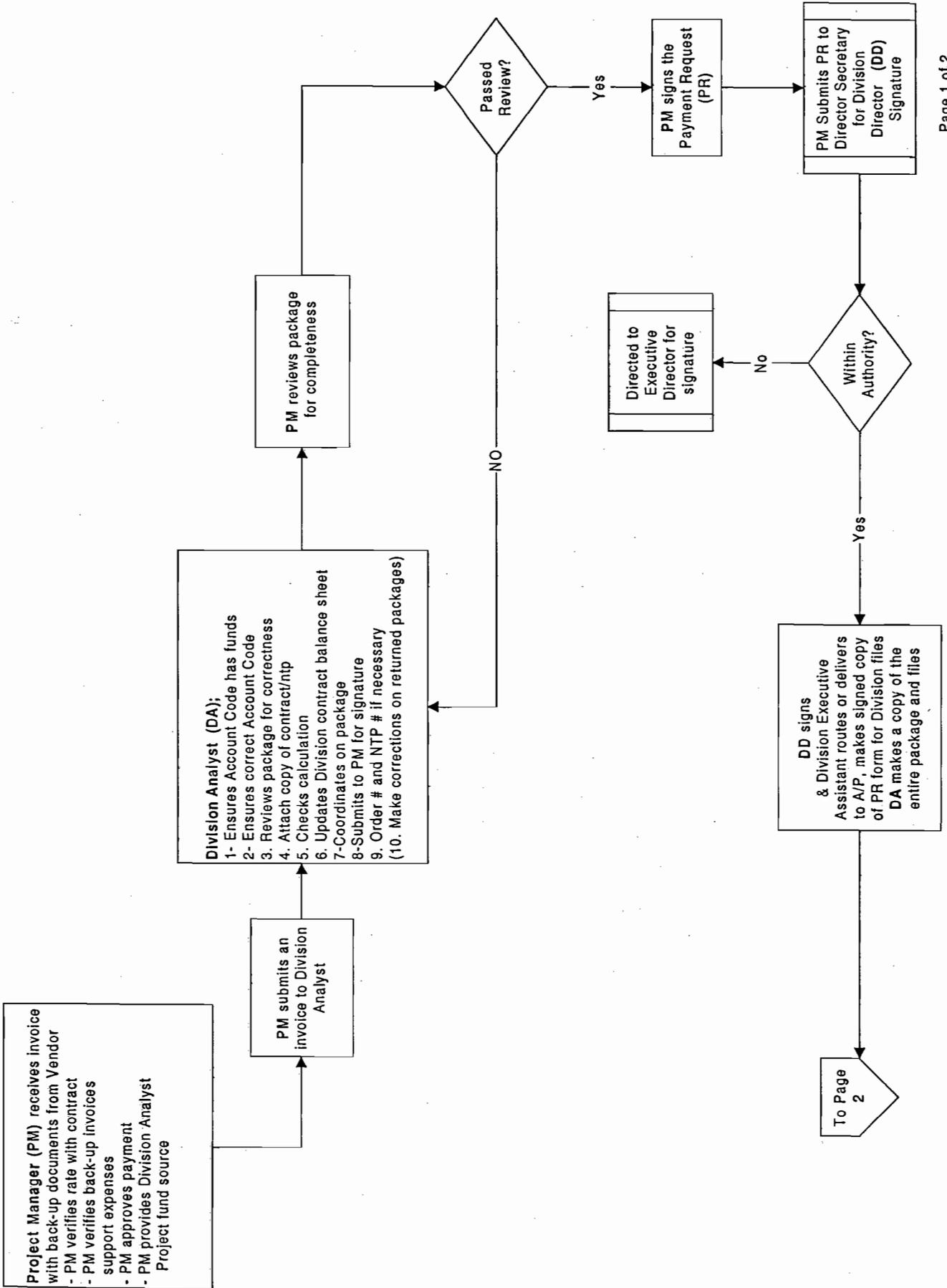
Accounts Payable expects that all invoices be reviewed by the Project Manager as follows before submitting for processing:

1. Contracts are pulled and reviewed that hourly rates requested agree with contract. If applicable, do hourly rates agree with specific phase portion of contract being performed?
2. Are we being billed in accordance with the language in the contract? For example, contracts are written using position titles yet invoices are received specifying individual's names. Position titles are preferable because in the course of a contract consultant's staff may change. If they want to invoice by name then we should ask that they invoice with name/title.
3. Invoices asking for reimbursement for sub-consultants should be verified that the sub-consultants are authorized in the contract. If not, has the Project Manager been given the authority to approve additional subs in writing. If so, a copy of the letter so authorizing a change should accompany payment request.
4. Is all back-up documentation for reimbursables included with the invoice and authorized? Does the invoice reflect correct percentage for mark-up?
5. Are the services performed within the term of the contract?
6. Are there sufficient funds remaining in each of the different categories, i.e. basic, additional and reimbursables?
7. Does the payment request indicate any special handling of check required?

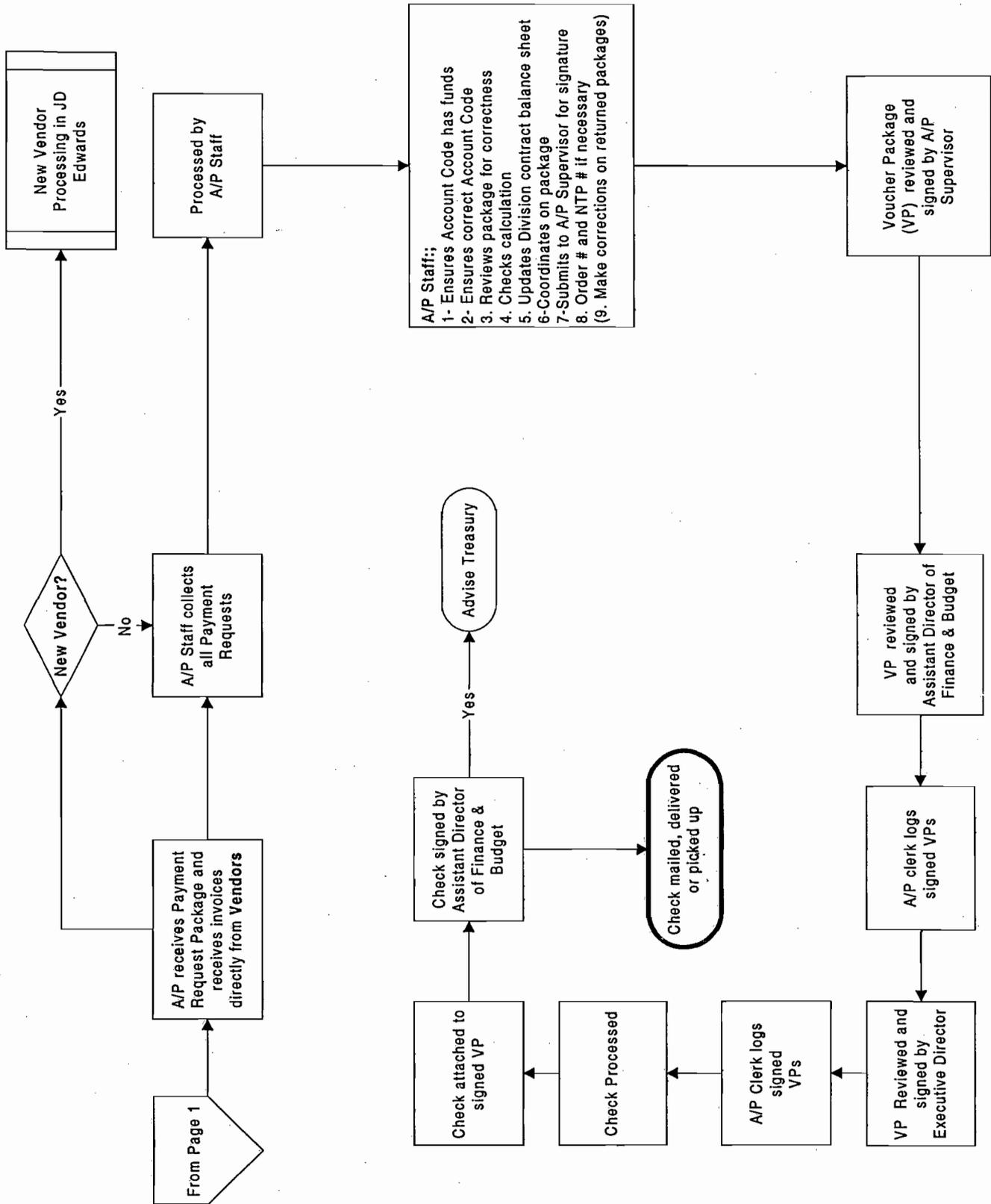
When payment requests have to be adjusted because the above reviews were not performed by the project manager, it delays processing and may delay payment to consultant.

Current Payment Request Processing

APPENDIX F

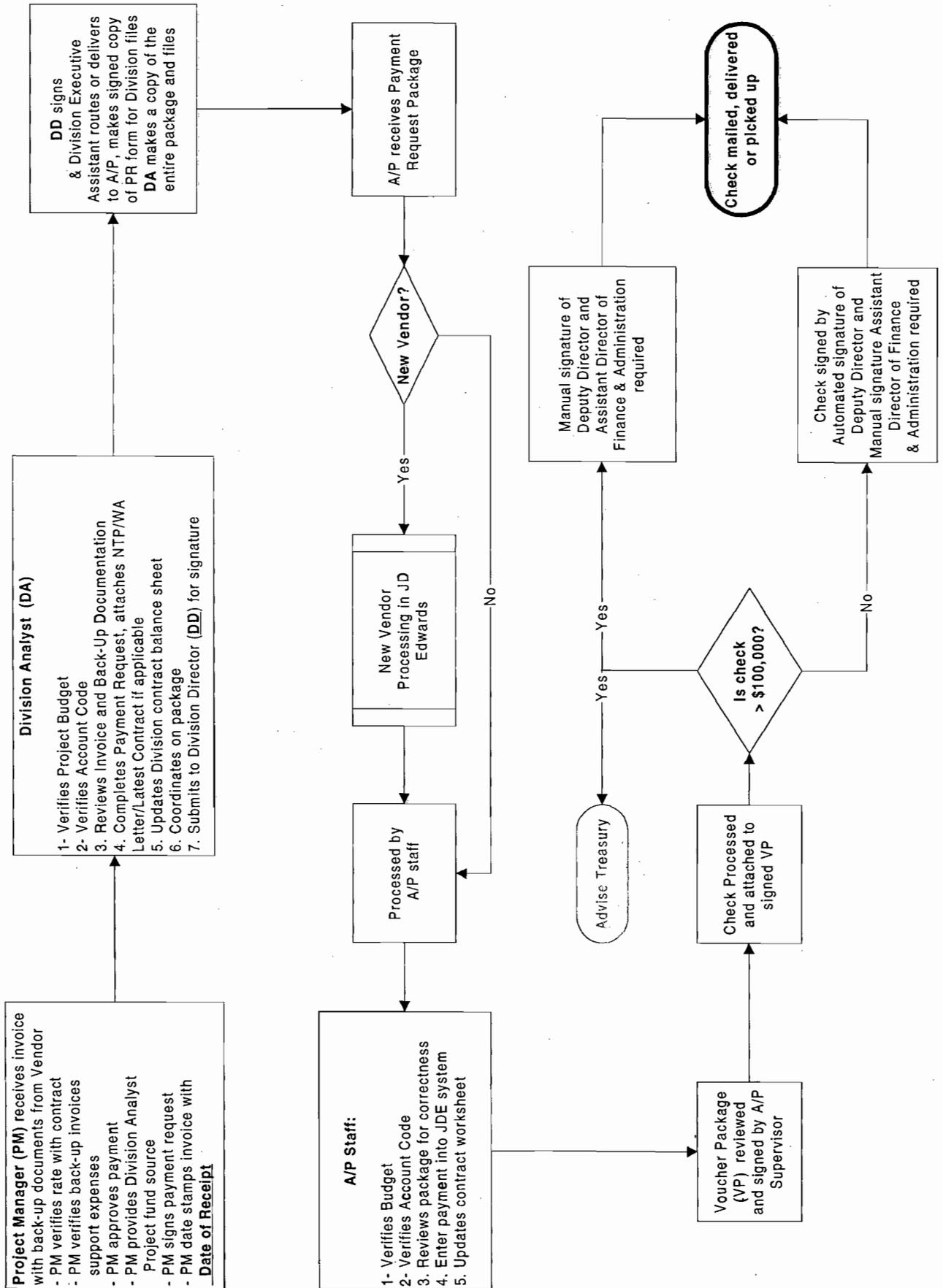


Current Payment Processing (Continued)



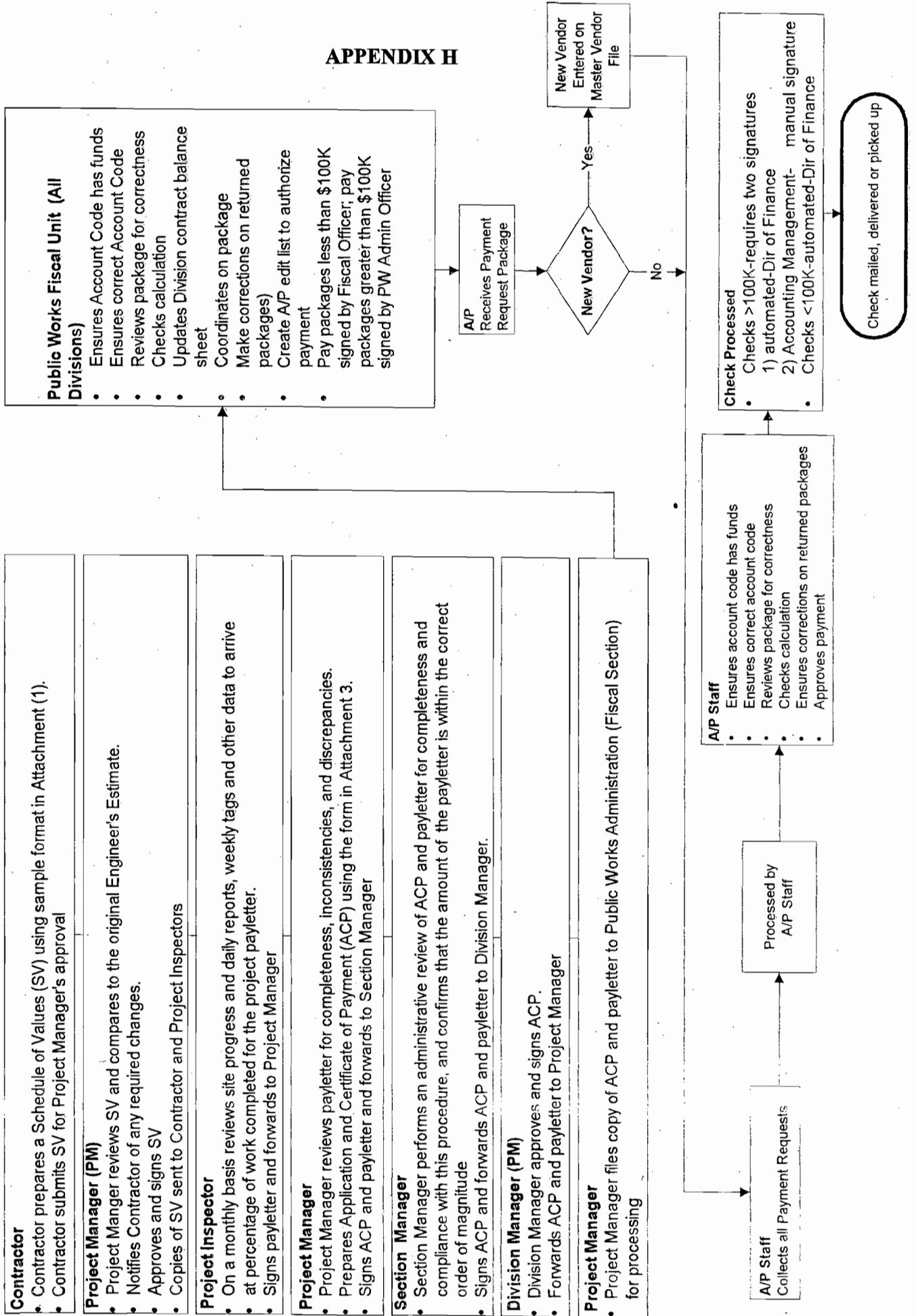
APPENDIX G

Proposed Payment Request Processing



Current Payment Request Processing for Public Works - Construction Contracts

APPENDIX H



Current Payment Request Processing for Public Works - Consultants

