



OFFICE OF THE AUDITOR

**DEPARTMENT OF AVIATION
CAMP DRESSER & MCKEE, INC.
EXPENDITURE AND CONTRACT COMPLIANCE AUDIT
APRIL 2005**

*Dennis J. Gallagher
Auditor*



City and County of Denver

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Dennis J. Gallagher
Auditor

April 20, 2005

Ms. Vicki Braunagel, Co-Manager
Mr. Turner West, Co-Manager
Department of Aviation
City and County of Denver

Mr. Tom D. Furman, Jr., CEO
Camp Dresser & McKee, Inc
One Cambridge Place
50 Hampshire St.
Cambridge, Massachusetts 02139

Dear Ms. Braunagel, Mr. West, and Mr. Furman:

Attached is the Auditor's Office Internal Audit Division's report of their expenditure and contract compliance audit of the Camp Dresser & McKee, Inc. Professional Service Agreement dated May 11, 1999 for services at Denver International Airport. The audit was for the period May 11, 1999 to April 30, 2002. The purpose of the audit was to determine whether Camp Dresser & McKee, Inc. and the City and County of Denver complied with the terms of the contract and whether internal controls in place were adequate under the circumstances.

We found an instance of non-compliance with the contract which is described in the Internal Audit Division's report.

If you have any questions, please call Mike Clark, Director of Internal Audit at (720) 913-5029.

Sincerely,

Dennis J. Gallagher
Auditor

DJG/kh

cc: Honorable John W. Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Cole Finegan, City Attorney
Stan Koniz, Deputy Manager of Aviation for Business and Technologies
Amy Weston, Acting Co-Assistant Deputy Manager of Finance
Laura Trujillo, Acting Co-Assistant Deputy Manager of Finance
Sharon Shannon, Audit Supervisor

The prudent stewardship of Denver's finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer's interests and work collaboratively with all concerned to improve our city and its government

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INTERNAL AUDITOR'S REPORT

We have completed an expenditure and contract compliance audit of the Professional Services Agreement dated May 11, 1999, between Camp Dresser & McKee, Inc. and the City and County of Denver. The purpose of this audit was to determine whether Camp Dresser & McKee, Inc. properly reported services provided to the City and received compensation from the City in accordance with the Professional Services Agreement and the first, second, and third amendatory agreements for the period May 11, 1999 to April 30, 2002. We also determined whether Camp Dresser & McKee and the Department of Aviation complied with various other terms and conditions of the contract, City rules and regulations, and whether internal controls were adequate in the circumstances. This audit was included in the Auditor's Office Internal Audit Division 2002 Annual Audit Plan and authorized pursuant to the City and County of Denver Charter, Article V, Part 2, §5.2.1. and the Professional Services Agreement.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Amounts Due and Paid is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule.

Our conclusion from the audit was that Camp Dresser & McKee, Inc. did not comply with the requirement to include sub-consultants performing services under the contract on each required insurance policy, or furnish a separate certificate with the required coverage for the entire term of the period each was subcontracted under the Agreement. Despite the reported finding requiring corrective action, with no other reportable conditions identified, the Airport and Camp Dresser & McKee, Inc are meeting their objectives and carrying out their activities in a reasonably effective manner.

The accompanying Schedule of Amounts Due and Paid reflects a balance due to Camp Dresser & McKee Inc. at April 30, 2002 of \$49,243. This balance consisted of percentage retainages withheld pending the completion of the contract. As of the date of this report, all amounts due as retainages under the contract have been paid and settled.

Our audit of Camp Dresser & McKee, Inc began on October 31, 2001 and was substantially completed on March 31, 2003. Issuance of this report was delayed due to changes in the work priorities of audit staff.

Camp Dresser & McKee, Inc

We extend our appreciation to all personnel who assisted and cooperated with us during the course of our examination.

Internal Audit Division

A handwritten signature in black ink that reads "Michael Clark". The signature is written in a cursive, slightly slanted style.

Michael Clark, CPA
Director of Internal Audit

Date: April 20, 2005

Staff: Dick Wibbens, CPA, Audit Manager
Stan Wilmer, CPA, Audit Supervisor
Andrew Martinez Jr., CPA, Lead Auditor

CAMP DRESSER & MCKEE, INC.
EXECUTIVE SUMMARY
FOR THE PERIOD MAY 11, 1999 THROUGH APRIL 30, 2002

This summary highlights the finding of this expenditure and contract compliance audit, as described in the finding, recommendation, and response section beginning on page 8. The finding, recommendation, and response section also includes the response of the Department of Aviation to our finding. Camp Dresser & McKee, Inc. chose not to respond.

1. Insurance

Camp Dresser & McKee, Inc. was not in compliance with Section 10 E of the contract which requires the consultant to include all sub-consultants performing services under the contract under each required policy or the furnishing of a separate certificate with authorization letter and receipts of payment for the entire term of the period each was subcontracted under the contract.

CAMP DRESSER & MCKEE, INC.
BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY
FOR THE PERIOD MAY 11, 1999 THROUGH APRIL 30, 2002

Background

Camp Dresser & McKee was originally awarded a contract with the City to provide professional consulting services including design for utility conduits into the existing deicing waste system, design of glycol containment pond, pavement design and other services related to glycol waste systems. The Professional Services Agreement term was from May 11, 1999 through November 27, 2002. First, second, and third amendatory agreements dated July 27, 2000, September 24, 2001, and March 22, 2002, respectively, amended the original contract. The contract included six tasks and additional services as follows:

Task 1 – West airfield diversion system pond task (Fixed fee)	\$333,579
Task 2 – Paving of grass islands adjacent for deicing pads (Fixed fee)	123,862
Task 3 – Correction of existing glycol collection system deficiencies (Time and materials)	116,868
Task 4 – All construction phase services associated with tasks 1 through 3 (Time and materials)	161,469
Task 5 – Five subtasks: third pond cell design; 48-inch pipeline design; 24-inch pipeline design; conveyance for pond 003A to the new ponds; and other design modifications (Fixed fee)	252,650
Task 6 – Four subtasks: Construction support services; replacement work; start-up and testing support (Time and materials); and as-built construction drawing preparation (Lump sum)	115,000
Additional services (Not to exceed)	119,487

The maximum contract liability was in the amount of \$1,222,915 and may only be increased by amendment to the contract.

Scope

Our audit of Camp Dresser McKee, Inc. (fund/org. 73440/6013000) was for the period May 11, 1999 through April 30, 2002. Procedures performed included determining compliance with the Professional Services Agreement and the first, second, and third amendatory agreements between the City and Camp Dresser McKee, Inc., as listed above.

Objectives

The objective of our audit was to determine whether Camp Dresser & McKee, Inc. properly reported services provided to the City and received compensation from the City in accordance with the contract. Additional objectives included determining whether Camp Dresser & McKee, Inc. and the Department of Aviation complied with other terms and conditions of the contract, as well as other City rules and regulations as we considered necessary in the circumstances.

Methodology

To meet the audit objective the following evidence gathering and analysis techniques were used including, but not limited to:

- Review of internal controls
- Verification of evidence of payments
- Confirmation of payments
- Recalculation of financial transactions
- Discussions with management and staff
- Verification of evidence of insurance
- Onsite project physical inspections

**CAMP DRESSER & MCKEE, INC.
FINDING, RECOMMENDATION, AND RESPONSE
FOR THE PERIOD MAY 11, 1999 THROUGH APRIL 30, 2002**

1. Insurance

Camp Dresser & McKee, Inc. was not in compliance with Section 10E of the contract which requires the consultant to include all sub-consultants performing services under the contract as insured under each required policy or the furnishing of a separate certificate with authorization letter and receipts of payment for the entire term of the period each was subcontracted under the Agreement.

Recommendation

We recommend that Camp Dresser & McKee, Inc. comply with Section 10E of the Professional Services Agreement and have all sub-consultants included as insured under each required insurance policy or obtain a separate certificate with authorization letter and receipt of payment of premium from each sub-consultant. The Department of Aviation should monitor this contract condition for compliance and withhold payment when it is not met.

Camp Dresser & McKee, Inc. Response

Camp Dresser & McKee, Inc. did not respond.

The Department of Aviation Response

“Section 10E of the contract states that all coverages for subconsultants shall be subject to all the requirements set forth in the form certificate and that the consultant shall insure that each subconsultant complies with all of the coverage requirements. This is the standard language throughout the contracts with the Department of Aviation. Since the contract is with the contractor and not with the subcontractors, the intent of this clause has always been that the contractor is responsible for monitoring the subcontractors, not the City.

“If the Department of Aviation determines that a contractor is not in compliance with the insurance requirements of the contract, then the Contract Compliance Unit will be instructed to withhold payment to the contractor until these requirements have been met.”

CAMP DRESSER & MCKEE, INC.
SCHEDULE OF AMOUNTS DUE AND PAID
FOR THE PERIOD MAY 11, 1999 THROUGH APRIL 30, 2002

Amounts Due

	Total Contract (Note 1)	Approved Additional Services (Note 2)	Approved Billings (Note 4)	Balance of Contract (Note 3)
Professional Services:				
Task 1	\$ 333,579		\$333,579	\$ -
Task 2	123,862		117,185	6,677
Task 3	116,868		71,432	45,436
Task 4	161,469		160,546	923
Task 5	252,650		252,650	-
Task 6	115,000		-	115,000
Additional Services:	119,487	(\$55,347)		64,140
ASA #1		34,200	34,198	2
ASA #2		21,147	15,277	5,870
Total	<u>\$1,222,915</u>	<u>\$ -</u>	<u>\$984,867</u>	<u>\$238,048</u>

Amounts Paid

	Approved Billings (Note 4)	Billings Approved For Payment (Note 5)	Due Camp Dresser & McKee, Inc. (5% Retention Withheld) (Note 6)
Professional Services:			
Task 1	\$333,579	\$316,900	\$16,679
Task 2	117,185	111,326	5,859
Task 3	71,432	67,861	3,571
Task 4	160,546	152,518	8,028
Task 5	252,650	240,018	12,632
Additional Services:			
ASA #1	34,198	32,488	1,710
ASA #2	15,277	14,513	764
Total	<u>\$984,867</u>	<u>\$935,624</u>	<u>\$49,243</u>

The accompanying notes are an integral part of this schedule.

Note 1. Maximum Contract Liability – Section 4 of the contract between the City and County of Denver and Camp Dresser & McKee, Inc., as amended by sections 3 of the second amendatory agreement dated September 24, 2001, and third amendatory agreement dated March 22, 2002, provide that in no event shall the City be liable for payment for services rendered and expenses incurred by the consultant under the terms of the contract for any amount in excess of the sum of \$1,222,915.

Note 2. Additional Services – Section 3 D of the contract, as amended by section 2 of the second amendatory agreement, provides that the consultant shall be compensated for services which relate to the subject matter of the contract, but which the Manager of Aviation (Manager) determines to be not described in the scope of work or in excess of the requirements of the scope of work. The services and the amount of fees and reimbursable expenses therefore must be authorized in advance and in writing by the Manager. Additional services shall not exceed \$119,487. As of April 30, 2001, the Manager had approved additional services in the amount of \$55,347.

Note 3. Balance of Contract – Section 3 E of the contract provides for carry over and carry back of fees. If the total fees for any of the tasks or phases are less than the amount budgeted for such task or phase, the amount by which the budget exceeds the fee may be used, with the written approval of the Manager, to pay fees for services rendered in any other task or phase if in the Manager's judgment such additional fees are reasonable and appropriate.

Note 4. Approved Billings – Invoices for work performed for tasks 1, 2, and 5 were prepared in accordance with section 3 F of the contract, based on the progress toward completing the project. The consultant measures monthly progress and prepares invoices on the basis of percentage of completion for each project, task or billing point using the selected progress payment measurement alternative, which were proposed for each phase and approved in writing. Invoices for work performed under tasks 3, 4, and additional services were prepared on the basis of time, according to billing rates as described in Exhibit D of the contract, and materials incurred.

Note 5. Billings Approved for Payment – The amounts paid were compiled from the Department of Aviation's cash disbursement records.

Note 6. Retention Withheld – In accordance with Exhibit B E.5 of the contract, five percent (5%) of the total amount of each invoice was withheld from each progress payment. The amount withheld is required to be paid to the consultant after completion and approval of all submittals required under the contract, and the consultant has provided all lien releases for that project. As of the date of this report, all amounts due Camp Dresser & McKee, Inc under the retention agreements have been paid and settled.