

# City of Palo Alto

## Office of the City Auditor

March 15, 2005

Honorable City Council  
ATTN: Finance Committee  
Palo Alto, California

### **Audit of Contract Contingencies**

The City of Palo Alto enters into a broad range of contracts for construction, professional services, and general services. Many of those contracts include a contract contingency or additional services amount of 10% for "unforeseen project tasks." In general, we found that contingency dollars are being spent appropriately. We identified several ways to improve controls to ensure effective use of contractors and best pricing, and to improve monitoring and accountability for contingency spending.

*Contingency levels and usage.* Palo Alto's contingency and additional services levels are generally consistent with those of area jurisdictions and industry standards. We reviewed approximately \$3.6 million of contingency spending on 31 contracts totaling approximately \$60 million (out of approximately \$90 million in contracts in varying stages of completion). Reasons for contingency spending included unforeseen items, planning issues, design issues, upgrades, and expanded scopes of work. The average amount of contingency spent against the 21 completed construction projects in our sample was only 54 percent. Given that Palo Alto's standard 10 percent contingency levels are consistent with other jurisdictions, this appears reasonable.

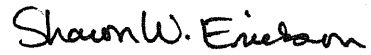
*Policies and procedures.* We recommend clarifying several key terms, revising the City's contract change order form to require cumulative contingency spent to date, and updating and standardizing departmental approval procedures. Based on a survey of departmental contract managers, we recommend Purchasing provide training to project managers on key issues related to contingencies and additional services. We also recommend updating the records retention schedule to ensure that contract documents are properly maintained and clarify contract document retention roles and responsibilities.

*Contract streamlining.* Processing times for initial award of infrastructure contracts currently average 149 days. We recommend expediting change order submittals and considering a pilot program to decentralize change order processing. However, without addressing overall contract processing times, improvements in change order processing alone will not have a dramatic effect. Therefore, we recommend establishing general guidelines for contract processing times.

Our report includes a total of 15 recommendations to improve contingency and additional services processing. I will present this report to the Finance Committee on March 15. Staff has reviewed the information in this report and generally concurs with our recommendations. The City Manager's response is attached. A response from the City Clerk is also attached.

We thank the staff in the Administrative Services, Public Works, and Community Services Departments, the City Manager's and City Attorney's Offices, and other participating departments for their cooperation and assistance during our review.

Respectfully submitted,



Sharon W. Erickson  
City Auditor

Audit staff: Renata Falk, Senior Auditor  
Katherine Murdock, Intern

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## Introduction

In accordance with the 2004-05 Annual Audit Plan, the City Auditor's Office has completed an audit of contract contingencies. The purpose of our audit was to evaluate (1) the appropriateness of contingency levels (2) the approval process for using contingencies and (3) actual contingency usage.

Our audit was conducted between May and November 2004 in accordance with generally accepted governmental auditing standards.<sup>1</sup> The City Auditor's Office would like to thank the staff of the Purchasing Division in the Administrative Services Department, the Public Works Department, the Utilities Department, Community Services Department, the Administrative Services Department, the City Manager's Office, and the City Attorney's Office.

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## Background

The City of Palo Alto enters into a broad range of contracts for construction, professional services and general services. Construction and general services contracts typically include a contract contingency. The contingency amount is commonly 10 percent of the contract amount, but may be more or less depending on the contract. The contingency is intended to pay for "unforeseen project tasks." The amount of the contingency is not specified in the contract although it is listed in the related City Manager's Report (CMR). Professional services contracts (such as architectural or engineering) may include a clause for "additional services." While similar to a contingency, it is for services in addition to the "basic services" specified in the contract. In contrast to a contingency, the amount available for "additional services" is generally written into the contract.

As of July 2004, the City had open contracts<sup>2</sup> in varying stages of completion totaling approximately \$90 million. The 10 largest City contracts totaled approximately \$32 million while the 20 largest totaled approximately \$43 million, or approximately 48% of the total for all contracts. Of the 20 largest, 43% (\$18.5 million) were Public Works contracts and 49% (\$21.5 million) were Utilities contracts.

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<sup>1</sup> Government Auditing Standards require a peer review every 3 years. Palo Alto's Office of the City Auditor is scheduled for a peer review in Fall 2005.

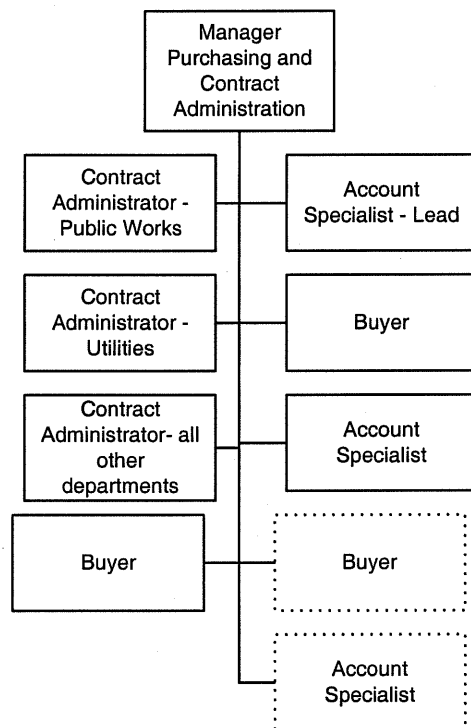
<sup>2</sup> This includes construction, professional services, and general services contracts. It does not include Utilities commodities contracts, blanket contracts or purchase orders.

## Roles and responsibilities

### *Purchasing Division, Purchasing Manual and Departmental procedures*

The Purchasing Division (within the Administrative Services Department) is responsible for overseeing contract awards and processing change orders, including requests to spend contingency amounts. Contract administrators in the Purchasing Division oversee specific contracts and the requests related to contingency spending for those contracts. They respond to requests from departmental project managers and process requests for contingency spending. The Purchasing Division includes 1.0 FTE Purchasing Manager and 3.0 FTE contract administrators as shown in Exhibit 1.

Exhibit 1: Purchasing Division Organization Chart



The City's Purchasing Manual is the administrative manual with general City procedures related to contracting and contingencies. During our audit, the Purchasing Division was in the process of revising the Purchasing Manual.

Departments with significant construction contracts, such as Public Works and Utilities, also have their own written procedures related to change orders and contingencies that include more detailed steps specific to the department. Other departments use the Purchasing Manual as the governing procedures.

### *Purchasing Ordinance*

The Palo Alto Municipal Code grants contracting authority to the Purchasing Manager or the City Manager of up to \$85,000 for most types of contracts except that for public works contracts<sup>3</sup> the contracting authority is \$250,000. Contracts that exceed these thresholds require City Council approval. These thresholds took effect in July 2004 through a revision to the Municipal Code.<sup>4</sup>

### *City Attorney's Office*

The Municipal Code specifies that the City Attorney's Office approves contracts as to form, either on a generalized basis through a standardized form or on an individual basis. In general, the City Attorney's Office will review contracts prior to their award if they exceed \$25,000 or include any unusual risks, or if the standardized terms of the contract are being changed.

### *Contracts, projects and project managers*

Projects often consist of multiple contracts. For example, the downtown parking garages (a project) consisted of three contracts-- one for design, one for construction management and one for construction.

Departmental project managers are responsible for managing the contracts and contingencies associated with a project. They work directly with contractors to oversee the work and negotiate changes to the work.

### *Spending contingency dollars*

After a contract is awarded and work has begun, unanticipated changes in the work are paid for using the contingency. The project manager works with the contractor to determine the necessary work and negotiate a price. A change order (the mechanism for spending contingency) is completed and signed by appropriate managers in the department and also by the contractor.

The change order is then submitted to the Purchasing Division. In accordance with City procedures, field orders or extra work authorizations are sometimes used to keep construction contract work going. Such

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<sup>3</sup> The City's Purchasing and Contracting Ordinance defines "public works contracts" as those for the construction, alteration, repair, improvement, reconstruction or demolition of any public building, street, sidewalk, utility, park or open space improvement, or other public improvement. In this report, "public works" refers to those types of contracts, regardless of the contracting department. "Public Works" refers to the **Department** of Public Works.

<sup>4</sup> The prior threshold of \$65,000 was applicable to the contracts selected as part of our audit sample.

additional changes are compiled in a change order that is submitted to Purchasing.

At the time the contract is awarded, Purchasing encumbers<sup>5</sup> (in the SAP<sup>6</sup> system) an amount for the base contract and a separate amount for the contingency. Upon receipt of a change order, Purchasing moves the requested amount from the contingency encumbrance to the base contract encumbrance. The contingency is then available to the Department to spend.

#### *Contract and project completion*

Once the contract work is complete and all invoices are paid, Purchasing disencumbers the remaining contract and contingency dollars in the SAP system. At that point, the disencumbered dollars are available for other work within the project. Once the project is completed and closed, unspent contract or contingency dollars are returned to the originating source. See flowcharts in Appendices C, D, and E.

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## **Audit Scope and Methodology**

To address the audit objectives, we reviewed the Municipal Code and City policies and procedures. We interviewed project managers and staff in departments across the City regarding practices related to contingencies. We flowcharted the process for spending contingency dollars. We surveyed project managers regarding contingencies. We queried SAP for data on contingency usage and asked staff about available data reports on contingencies.

We used SAP and interviews with project managers to identify significant contracts for which the contract work was complete or substantially complete. We reviewed a 1997 audit of change orders as well as audits and studies of change orders or contingencies in other jurisdictions.

We selected a sample of 31 significant contracts related to major projects in the last several years. The sample consisted of 23 construction contracts, five professional services contracts, and three general services contracts. The work on 26 of the contracts was completed or was substantially complete, while five still had work in progress. These included contingency or additional services amounts of about \$6 million for the construction contracts and about \$1 million for the professional and general services contracts. These included but were not limited to contracts for annual sidewalk and street work, annual utilities work (gas and water main replacements, sewer rehabilitation), and design and

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<sup>5</sup> An encumbrance indicates the intention to spend a specified budgeted amount for that contract; as a result, the Department cannot spend it on something else.

<sup>6</sup> SAP is the City's financial accounting system.

construction of the downtown parking garages. Appendices F and G show the list of contracts in the sample and relevant data about them.

For each of the contracts in the sample, we reviewed data on contingency usage. We selected a sample of contingency spending and asked project managers specific questions about the spending as well as the underlying reason for why the spending was needed.

In addition to our sample, we reviewed City Manager Reports (CMRs) and other selected contracts to identify trends in contingency levels. We interviewed and corresponded with staff in surrounding jurisdictions and at professional trade associations to gather data on their contingency practices.

To determine the contract processing times shown in Appendix B, we identified infrastructure contracts over \$25,000 awarded after January 1, 2004 (which had been entered into SAP as of July 2004) and re-performed an audit test that was part of our 2002 audit, "A Study of Infrastructure Contract Processing Times."

## Contingency Levels and Usage

Our audit revealed that Palo Alto's contingency and additional services levels are generally consistent with other jurisdictions and professional standards. We reviewed contingency dollars spent on 31 contracts. Reasons for contingency spending included unforeseen items, project planning issues, design issues, upgrades, and expanded scopes of work. The average amount of contingency spent against the 21 completed construction projects in our sample was only 54 percent. Given that Palo Alto's standard 10 percent contingency levels are consistent with other jurisdictions, this appears reasonable. As part of our review we identified several ways to improve controls to ensure effective use of contractors and best pricing, and to improve monitoring of and accountability for contingency spending.

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**Palo Alto's contingency and additional services levels are generally consistent with those of area jurisdictions and industry standards.**

Palo Alto's Purchasing Manual states that the contingency percentage is generally 10 percent on contracts. The Purchasing Manual also includes a list of general criteria that influence the size of the contingency such as the type and nature of the project and the complexity of the project. If a project manager wants to request a larger contingency for a given project, he or she is required to provide an explanation of why a larger one is justified.

We found that Palo Alto's 10 percent contingency is within the general range used by area jurisdictions as shown in Exhibit 2.

Exhibit 2: Typical Contingency Levels in Other Cities

City	Applies a standard contingency percentage to contracts?	Typical contingency level applied?
Menlo Park	Yes	10% to 15%
Mountain View	No	Case by case
PALO ALTO	Yes	10% <sup>7</sup>
Redwood City	Yes	10%
San Jose	Yes	5% for street, sidewalk or park; 10% for Utilities and Building 15% for renovation and rehabilitation
San Mateo	Yes	5% to 10%
Santa Clara	Yes	10%

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<sup>7</sup> Palo Alto contingencies may exceed 10 percent if justified by project manager and approved by the City Council (when applicable).

We also found that Palo Alto's contingency level was consistent with industry standards for setting construction contingency levels as shown in Exhibit 3.

Exhibit 3: Industry Guidelines for Construction Contingency Levels

<b>Professional Association or Organization</b>	<b>New Construction</b>	<b>Renovation or Rehabilitation</b>
American Institute of Architects	10% to 12%	10% to 12%
National Contract Management Association	10%	10% to 15%
California Administrative Manual	5%	7%
Department of the U.S. Army	5% to 10%	10%

### **Additional services provisions on professional services contracts**

We reviewed 18 professional services contracts from 1998 through 2004.<sup>8</sup> Eleven of those contracts included an allowance for additional services including 5 contracts with 9-10 percent allowance for additional services, and 6 contracts with 14-32 percent allowance for additional services.

Palo Alto's practice of determining additional services amounts on a case-by-case basis is consistent with practices in other jurisdictions and the industry associations we surveyed as shown in Exhibits 4 and 5.

Exhibit 4: Typical Additional Services Amounts in Other Cities

<b>City</b>	<b>Include additional services provisions in professional services contracts?</b>	<b>Apply a standard additional services percentage?</b>	<b>Clause in contract requiring approval for additional funds?</b>
Menlo Park	No-use contingency	Yes-contingency-10% to 15%	N/A
Mountain View	Yes	No	Yes-City approval
PALO ALTO	Yes-usually <sup>9</sup>	No	Yes-City approval
Redwood City	Yes	No	Yes-Council approval
San Jose	Yes	No	Yes-City approval
San Mateo	Yes	No	Yes-Council approval
Santa Clara	Yes	No	Yes-City engineer

<sup>8</sup> Five of these contracts were from our sample of 31 contracts; the remaining 13 were other professional services contracts we reviewed.

<sup>9</sup> As noted above, 11 of the 18 contracts we reviewed, or 61%, included a provision for additional services.

**Exhibit 5: Industry Standards for Professional Services Contracts**

<b>Professional Association or Organization</b>	<b>Applies additional services or contingency on professional service contracts?</b>	<b>Standard Percentage Applied to Professional Services Contracts</b>
American Institute of Architects	Yes-additional services	10% to 12% but not formal
American Planning Association	Yes-additional services	No
Institute for Supply Management	Yes-additional services	No
National Contract Management Association	Yes-additional services	No

**How does Palo Alto spend contingency?**

We sampled and reviewed contingency spending totaling approximately \$3.6 million, on 31 contracts totaling approximately \$60 million with contingencies of about \$7.2 million. As shown in Appendix F, the average amount of contingency spent on the 21 completed construction projects in our sample, was 54 percent. Contingency spending ranged from 0 to 98 percent.

To identify underlying reasons for contingency spending, we reviewed the documentation for the spending and asked project managers to classify the underlying reason why the spending was needed<sup>10</sup> based on categories that the U.S. General Accountability Office (GAO) used in an audit of construction contracts. The five categories include:

- Unforeseen
- Project planning
- Design
- Upgrade
- Expanded scope of work

While we recognize that some examples of spending could fit into more than one category, we categorized them based on input from project managers and our judgment. Exhibits 6, 7, and 8 show the reasons for the contingency spending that we reviewed.<sup>11</sup>

<sup>10</sup> We sent project managers specific questions about selected uses of contingency dollars. We reviewed their responses and while we generally agreed with the Departments' categorization of spending, in some cases we made adjustments if, based on a Department's response, we believed spending fit more appropriately in another category. In cases in which the Department was non-responsive to the question, we categorized the spending ourselves. In cases in which a Department indicated multiple categories as a reason for the spending, we split the amount between the categories indicated. This data should be used as an approximation based on Department responses and our judgment. If we could not determine how a change should be categorized due to its highly technical nature, we accepted the Department's categorization.

<sup>11</sup> The three contracts for the design, construction and construction management of the downtown parking garages were disproportionately large compared to the other contracts in our sample. Combined, they totaled \$27.2 million in base contract amount and \$4.3 million in contingencies. The contingency spending we reviewed for these three contracts represented about 64 percent of the total in our review. See Appendix A for supporting details on data in pie charts.

Exhibit 6

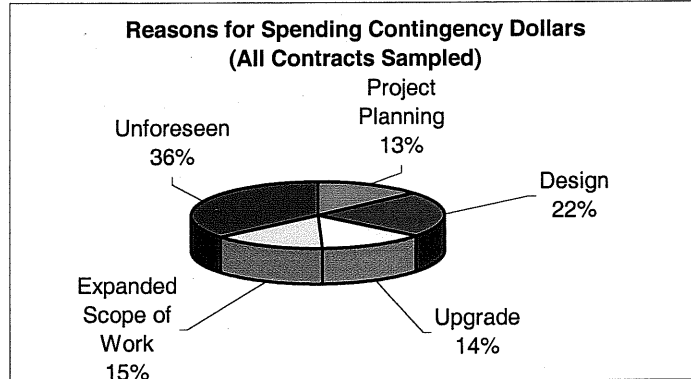


Exhibit 7

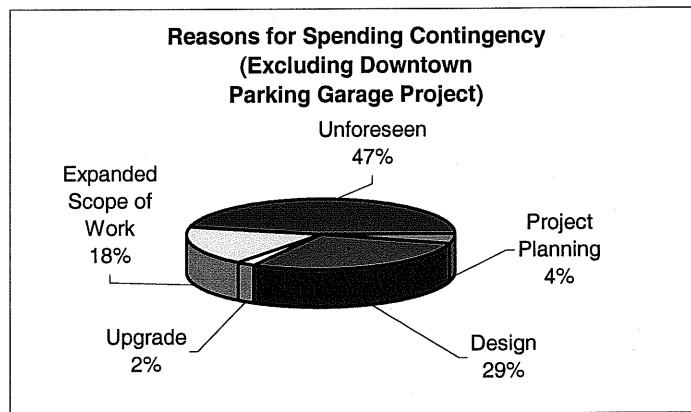
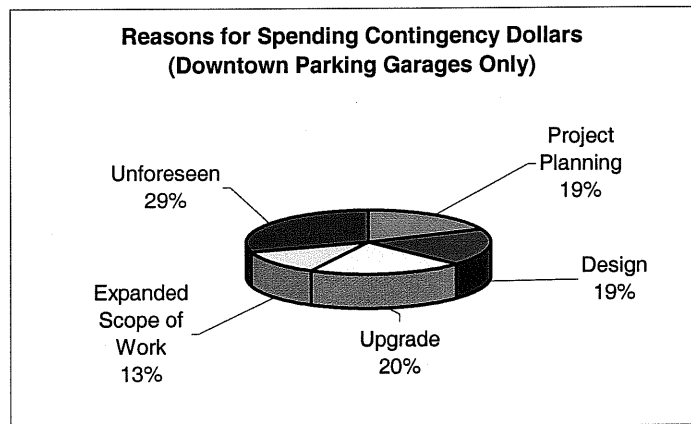


Exhibit 8



Examples of these spending categories are shown on the following pages.

**Example of "unforeseen" item**

Unforeseen items are those that resulted from an unforeseen site condition and are necessary in order to complete the project. These are

items that resulted from the need to address or correct a condition which reasonably could not or should not have been anticipated.

Unforeseen items accounted for 36 percent of contingency spending in our sample, or 47 percent of our sample excluding the parking garage project.

#### **Removal of underground structures**

During the construction of the downtown parking garage on Alma Street, the Public Works Department spent about \$50,000 of contingency to remove and dispose of abandoned underground structures, hazardous waste material, and contaminated soil related to an automobile repair shop that had occupied the site at one time. Before work began the Department suspected there might be underground items at the site, but it could not be determined until construction began.

#### **Example of "project planning" item**

Project planning is uses of contingency where the work reasonably could or should have been anticipated and included in the project's scope of work.

Planning items accounted for 13 percent of the contingency spending in our sample (4 percent excluding the parking garage project).

#### **Redesign of Baylands Parking Lot Improvements**

Community Services hired a contractor through the Request for Proposals (RFP) process to prepare plans and specifications for three Baylands parking lots and the widening of Harbor Road. After the construction documents were completed for all components of the project, the first phase of the work, the Harbor Point and Byxbee Park, was put out to bid. Subsequently, it was determined that the project needed to go through a full site and design review process. The Department rejected all bids and started over. The City spent \$8,250 of the contingency for work related to the redesign process.

#### **Examples of "design" items**

Design items are uses of contingency dollars that resulted from errors or omissions as indicated by Department officials. This may be an error on the part of a contractor or on the part of the City.

Design items accounted for 22 percent of the contingency spending in our sample. This category also includes errors or omissions.<sup>12</sup>

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<sup>12</sup> This is a broad category that includes specific errors and omissions related to design issues as well as general errors or omissions.

### **Incorrectly marked gas lines**

On Gas Main Replacement Project 12, the Utilities Department spent \$60,954 in contingency due to inaccurately marked gas lines. Plastic gas mains and services installed between 1950 and 1986 were installed without metallic locating wires. Plastic gas mains installed since 1986 have included metallic tracer wires to help staff accurately locate these newer facilities.

### **Parking garage design items not included in contract documents**

Some design changes were not included in the final design plans that contractors bid on and, as a result, were purchased using contingency. Although the City would have purchased these items anyway if they were included in the contract documents, purchasing them with contingency funds is purchasing them on a sole source basis. Including them in the initial bid ensures the best pricing. Examples from the Alma Street garage included tile termination veneer for \$28,381, a light transformer for about \$3,500, a mesh screen connection for \$900 and a bent fire line for \$1,000. For the Bryant Street garage, \$14,877 was spent on metal columns that were necessary but had not been specified in the contract documents.

### **Example of "upgrade" item**

Upgrade items are uses of contingency dollars to add items beyond the requirements of the contract. For example, this might be an improvement over an item in the original specifications.

Upgrades accounted for 14 percent of contingency spending in our sample (2 percent excluding the parking garage project). Various requests for upgrades resulted in contingency spending on the downtown parking garages as described below.

### **Upgrades in the downtown parking garages**

The downtown parking garages included a significant number of upgrades for a variety of reasons. Some examples were: the addition of stone and paint to the facade of one of the downtown garages at a cost of \$155,168 (as suggested by the ARB-appointed architect to the project); Public Works Operations requested thermoplastic striping to reduce the need for repainting at a cost of \$45,362; the Transportation Division requested a revision to the bike locker doors to allow a new card system to be used at a cost of \$14,054.

### **Example of "expanded scope of work"**

Expanded scope of work is when the contingency is used to do more work than was originally planned.

Expanded scopes of work accounted for 15 percent of contingency spending in our sample.

### **Additional designs for downtown parking garages**

On the contract for the design of the downtown parking garages, the City spent contingency of \$112,500 for additional schematic design services to provide the City Council with more design options. The funds were spent on the original architect as well as to hire local architects. Another \$93,000 was spent for additional design development services.

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## **Improving controls to ensure effective use of contractors and best pricing**

### **Tracking contingency and additional services spending**

The current Purchasing Manual includes a change order form. Most City departments use this form, except for Public Works and Utilities, which have their own forms due to the large volume of contracting they do. The Purchasing Manual form does not, for example, include a line to indicate the dollar amount of the change order or the total contingency amount spent to date. Currently there are no guidelines or form in the Purchasing Manual for spending additional services funds.

Departments use experienced project managers and supervisory review to avoid design and planning issues where possible. Experienced personnel can help ensure that as many of the predictable variables as possible have been considered in project planning. However, the City does not currently have a systematic way of tracking data on the underlying reasons for contingency spending or using such data to identify ways to minimize the need for contingency spending. In our

opinion, summaries of contingency spending would encourage a best practices approach among department project managers.

**RECOMMENDATION 1:** The change order form included in the Purchasing Manual as well as the change order forms used by Public Works and Utilities should require departments to indicate the underlying reason for contingency spending based on categories for spending as determined by staff. Examples of possible categories are unforeseen, design-related, or upgrade. The Purchasing Manual form should be updated to include the dollar amount of the change and cumulative total spent to date. Guidelines and a form should be developed for documenting uses of "additional services" funds as well.

### **Standardized design elements**

In large, complex projects, multiple redesigns may increase the possibility that all changes are not incorporated into the contract documents as in the parking garage example cited previously under "design" changes.

In our opinion, the City should identify ways to support project managers who are handling very large projects, projects that span a very long time period, and/or projects that involve multiple stakeholders. The focus should be on assisting project managers in minimizing additional costs when faced with multiple redesigns and changes in key stakeholders.

For example, to streamline the design process for smaller, more routine projects, the Public Works Department requested that the Architectural Review Board (ARB) approve three standardized designs for neighborhood traffic circles. Having standardized designs in place eliminated the need for multiple returns to the ARB to request design approval. Rather, a neighborhood can choose from the three pre-approved designs.

Staff has suggested that such standardized designs may be helpful for other types of construction as well. Standardized designs could potentially help in two ways: (1) by reducing the amount of staff and public official time spent in meetings regarding design issues and (2) by reducing the likelihood that some items are not included in the contract documents and therefore need to be purchased using contingency. In our opinion, this is a good approach.

### **Tracking suspected contractor errors**

In some situations, a suspected contractor error may result in the need to spend contingency as shown below:

**Additional base rock purchased with contingency**

The Community Services Department contracted for construction of the Harbor Point and Byxbee Parking Lot Improvements. The Department spent about \$29,400 in contingency for additional base rock for one of the parking lots due to inaccurate data regarding the underlying soil conditions. While the City had concerns that the contractor may have been in part responsible, ultimately staff was unable to determine who was at fault.

Project managers use their discretion to assess these types of situations and determine a course of action. We recommend department staff keep track potential issues using SAP's comment fields and, in cases where errors can be documented, forward the information to Purchasing.

**RECOMMENDATION 2:** Purchasing should maintain records on valid complaints related to contractors for consideration in future contract awards.

**Approvals for expanded scopes of work**

The Purchasing Manual states that *"if the contract exceeds \$65,000 and the scope of work is changed... then a Contract Amendment must be prepared for Council approval."* However, our testing showed that this is not the practice and staff do not generally believe that all scope changes require an amendment. Minor additions to scope occur routinely and in some instances, larger additions also occur. The Purchasing Manual should clarify how Departments should address expanded scopes of work (e.g. through a change order, contract amendment, or soliciting for a new contract).

*Minor Additions*

In the sample of contracts that we reviewed, it was common for work outside the scope of a contract to occur without a contract amendment or Council approval as in the examples below:

**Repair of broken water valve**

In Water Main Replacement Project 15, Utilities spent \$11,677 in contingency dollars to repair a broken water valve at a location that was not within the original scope of work. The Department indicated that using the contingency to perform this task was more efficient than bidding a separate contract for the work.

**Expanded scope of landscape maintenance work**

The Community Services Department added additional landscaping sites to the original scope of its three-year landscaping contract. These included \$10,800 to add regular service to Hoover Park due to an increase in park use and \$1,424 to add regular service to the Mitchell sub-station. The Mitchell sub-station work was previously performed by the in-house crew maintaining Mitchell Park that could not properly cover this area due to higher demands in the park.

Strictly interpreted, the policy in the Purchasing Manual does not allow even these small changes in scope.

*Other Additions*

In another instance, we found that the contingency spent to perform work outside the scope of the contract represented 32 percent of the base contract amount.

**Removing barriers for traffic calming**

The Planning Department spent \$14,996 in contingency to remove traffic calming barriers from the Downtown North neighborhood after the City Council voted to remove them. The contingency used was from a contract to add traffic calming on Channing Avenue. The Department indicated that in order to remove the Downtown North traffic barriers in an expeditious manner following the City Council vote, the existing contract was used.

*Responding to service requests using contingency dollars*

We also found examples in which service requests resulted in contingency spending as in the following example:

**Additional sidewalk work**

In the 2003-04 Sidewalk Repair project, 10 Americans with Disabilities (ADA) ramps (beyond the number included in the contract bid) were constructed using contingency at a cost of \$25,845. These were constructed at the request of the Planning Department based on a resident request. In addition, \$14,998 in contingency was spent for pedestrian and bicycle routes and ramps at Oregon Expressway, a location that was not part of the original bid.

In Phase II of the 2002-03 Sidewalk Project, \$9,000 in contingency was spent to repair a sidewalk that was adjacent to, but not included in, the area of the work that was bid. The decision to do this work was based on complaints from residents.

Our concern regarding work based on requests is that it has the potential to subtly shift priorities. Does the City respond to any resident's reasonable request if contingency money is available? How are such requests prioritized? Should all requests from other Departments be honored? Are there criteria for responding to them?

In our opinion, if the capability to respond to service requests is a part of the project, then the contract (and the project to which it relates) should clearly identify that expectation (e.g. at "locations to be determined"). The goal is to include as much work in the original bid as possible, to obtain the best possible quantity pricing, as well as to ensure the contract is aligned with the project's priorities. If a potential contractor is aware that the City typically requests an additional quantity of a certain type of work (such as additional ADA ramps), the contractor may be inclined to submit a higher unit price for that type of work (e.g. a higher price per ADA ramp), while including lower unit prices, for other work with the goal of being the lowest overall bidder.

**RECOMMENDATION 3:** Departments that receive resident requests for service should establish criteria for responding to such requests and incorporate those criteria into a Departmental construction manual (if applicable) and provide them to Purchasing for inclusion in the Purchasing Manual. The Purchasing Manual should also provide guidance on when it is appropriate to issue a change order to expand the scope of a contract versus amending the contract or issuing a new contract. Departments approving contingency spending should ensure that the work is within the scope of the original contract.

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### **Improve monitoring of and accountability for contingency spending**

Contingencies are intended to be a tool to provide flexibility to project managers for unforeseen circumstances. They allow work on contracts to continue without requiring additional approvals by the City Council (and the time it requires to obtain such approvals) and help ensure projects are completed timely.

#### **Why do contingencies matter?**

During the course of the audit, several times we were asked the question, "why does it matter if the money spent is part of the base contract or the contingency if it's all been authorized and is allowed?" One answer is that spending contingency dollars is essentially a form of sole source purchasing.

We found that the total amount of contingency spent on a contract is often composed of numerous small changes. Our major concern is the cumulative impact of not including such changes in the original bid (or proposal) for work. Spending contingency is essentially sole source purchasing and the City does not know if the price paid for the work would

have been lower were it included in the original bid for all bidders to bid on.

### **Monitoring contingency spending**

Our first and most basic question was "how much in contingencies does the City spend overall?" However, SAP does not track contingency spending separately from contract spending.

This lack of available data both at a contract level and a global level hinders the ability of management to monitor contingency usage and trends in contingency spending. It also means that project managers end up creating separate spreadsheets to track spending. For example, the employee responsible for tracking spending on Public Works Engineering projects maintains her own sets of spreadsheets in order to know how much has been spent of both contingency and contract amounts. We found that this is not unusual.

**RECOMMENDATION 4:** Staff should determine if it is feasible to track and report on actual contingency and additional services spending using SAP.

### **Project completion reports**

The City Council approves contracts (including contingencies and additional services as appropriate) in excess of \$85,000 in the case of general services and professional services contracts and in excess of \$250,000 in the case of public works.<sup>13</sup> However, the City Council does not receive a report back on the actual spending related to those contracts.

Six of eight area jurisdictions we surveyed have project completion reports and five of those jurisdictions present such reports to the City Council. We believe such reporting enhances public accountability for the cost of major projects.

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<sup>13</sup> These are the thresholds adopted in the revised purchasing ordinance that became effective July 7, 2004. Prior to its adoption, contracts for public works, general services and professional services over \$65,000 required City Council approval. The contracts we reviewed for purposes of this audit were approved under those prior limits.

Exhibit 9: Project Completion Reports

City	Project closing report?	Report presented to Council?	Includes data on contingency or number of change orders?
Los Altos	Yes	Yes	N/A
Los Gatos	Yes	Yes	Yes
Menlo Park	Yes	Yes	Usually
Mountain View	Yes	Yes	Yes
<b>Palo Alto</b>	<b>No</b>	<b>N/A</b>	<b>N/A</b>
Redwood City	Yes	Yes	Yes
San Jose	No	N/A	N/A
San Mateo	Yes	No-to PW Director	Yes
Santa Clara	No	N/A	N/A

Although Palo Alto does not have a formal project completion report, Public Works provides quarterly summary reports to the City Council regarding ongoing projects and the Administrative Services Department provides semi-annual reports to the City Council summarizing the status of capital improvement projects.<sup>14</sup> For completed projects,<sup>15</sup> data on the remaining project balance is included, but it does not include total project expenditures to date, nor does it identify contingency versus contract amounts. At some point in the future, Palo Alto may want to consider a more formal project completion report.

**RECOMMENDATION 5:** The Administrative Services Department should include total project expenditures to date (including contingency) in the Year-end Capital Improvement Program Projects Status Report. If staff determines that Recommendation 4 is feasible, then actual contingency spending should also be included in the year-end report. In addition, Management should assess the feasibility of requiring responsible Departments to present project completion reports to the City Council upon termination of major projects.

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**Additional services provisions in professional services contracts and City Manager Reports (CMRs) should be more consistent**

We found that the "additional services" provisions included in contracts were not standardized. For example, some contracts specified additional services not to exceed a specified amount. Another included an amount for additional services but not the "not to exceed" language. Other contracts did not specify an amount for additional services but indicated that additional work could be negotiated. During our audit, the standard form for professional services contracts was in the process of being revised to standardize the language used regarding "additional services" and other provisions.

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<sup>14</sup> One of the Administrative Services' reports is for the purpose of closing projects at the end of the year.

<sup>15</sup> Major capital projects consist of multiple contracts.

Similarly, City Manager Reports (CMRs) were not consistent in how they presented data on contracts with additional services provisions. The CMR is the document attached to a contract when City Council approval of the contract is requested. It provides an overview to the Council and to the public of the reason for and the main provisions of the contract.

Some CMRs that we reviewed did not refer at all to the additional services provisions in the contract. Others referred to the amount as being for change orders whereas others appropriately referred to it as additional services.

**RECOMMENDATION 6:** The standard professional services agreement should include optional standardized "additional services" provisions. The Purchasing Manual should include criteria for including "additional services" and setting "additional services" percentages (e.g. nature of project, complexity of project), and City Manager Reports should specify "additional services" where applicable.

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### **Standardize contract provisions to govern the pricing of changes to contract work**

When changes to contract work occur, they are commonly paid for with contingency or "additional services" dollars. In the construction, professional services and general services contracts we reviewed, the City did not use consistent language within each category of contract regarding how changes to the original contract work may occur. In addition, some construction contracts we reviewed did not clearly specify which costs were allowed when cost-plus pricing was used for change orders.<sup>16</sup>

Among the 23 construction contracts we reviewed, there were at least three different provisions governing changes to the work. In addition, two contracts had no language regarding changes to the work. The five professional services contracts we reviewed had four different provisions governing changes to the work. Similarly, of the three general service contracts in our sample, two had the same language governing changes and the third had other language.

In our opinion, pre-approved standardized provisions regarding changes to contract work would be consistent with the City's increased use of standardized templates to streamline processing and ensure consistent practices.

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<sup>16</sup> Of the 23 construction contracts we reviewed, 14 included three options for pricing change orders (1) lump sum proposal from the Contractor (2) applicable prices in contractor's bid (e.g. unit prices); or (3) cost plus 15 percent. These contracts did not include definitions of allowable costs if the cost-plus option was used. Five of the construction contracts included different language that also provided for the unit price, lump sum and cost-plus methods but included language on allowable costs related to the cost plus method. The remaining five contracts included either differing language or no language regarding changes.

*Allowable costs*

In addition, standard policies regarding allowable costs should be detailed in an administrative manual and included in each contract or incorporated by reference in each contract. The City's contracts include a "right-to-audit" clause, and clear policies on allowable costs would make it easier to audit and, if necessary, dispute a contractor's costs.

**RECOMMENDATION 7:** Purchasing and the City Attorney's Office should develop standard language regarding pricing for changes to contract work for construction contracts, professional services contracts and general service contracts. Departments should ensure that all contracts include the appropriate language. Guidelines on allowable costs should be incorporated into the Purchasing Manual, and cited or included in contracts.

## Policies and Procedures

The City's Purchasing Manual, including policies and procedures related to contingency and additional services spending, needs to be clarified and updated.<sup>17</sup> In our opinion, Purchasing should provide training, and contract document retention policies should be clarified and updated.

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### **Policies and procedures related to contingencies need to be updated.**

The Purchasing Manual is the internal administrative document that implements the City's purchasing ordinance and provides the internal processes for spending contingency dollars. Purchasing is currently updating the manual to reflect the City's switch to the SAP accounting system that occurred in July 2003, and the new thresholds adopted in the revised Purchasing ordinance that took effect in July 2004.

#### **Definitions of key terms**

When staff spoke to us about types of contracts, they generally classified them as construction, professional services, or general services. However, the Purchasing Manual does not classify contracts in these categories.

In addition to not being up to date regarding SAP, new Purchasing thresholds and categories of contracts, the Purchasing Manual also does not provide sufficiently clear definitions of key terms related to contract contingencies including: (1) contingency (2) additional services (3) contract amendment and (4) change order. In our opinion, this ambiguity causes confusion.

For example, with regard to contract contingencies, the Purchasing Manual definition is funds *"available to the project manager to use for unforeseen project tasks. Contingencies are never used to extend the project, to cover extra tasks, or to supplement an excessively low bid."* The manual does not provide examples or guidance. Are "extra tasks" any work not included in original scope? Is "extending the project" doing more of the same type of work, even if it's a small amount? Is "unforeseen" broad enough to include any request from a resident?

As discussed in the examples from specific contracts, it is not unusual for work beyond the original scope to be performed using the contingency. Is such work always inconsistent with the Purchasing Manual guidelines and therefore not allowed?

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<sup>17</sup> Such an update was underway during the course of our audit.

## **Documenting contingency amounts**

With regard to contingencies, the amount of a contingency is not written into the contract but is specified in the CMR that goes to the City Council. If a contract is less than the threshold required for City Council approval (and therefore, not shown in a CMR), it is not clear where the contingency amount is documented other than in the SAP system.

The Purchasing Manual defines a change order as the following: *"Changes affecting purchase orders, blanket purchase orders, or contracts regarding specifications or requirements, regardless of value, are known as change orders. When changes occur in the scope of the work or in the amount or manner of the funding, change orders are always required."* In practice, change orders are the mechanism through which contingency spending is documented.

### *Additional services*

"Additional services" is not defined or addressed in the Purchasing Manual. As a result, there are no clear guidelines or procedures for documenting the spending of such funds.

For example, Public Works documents additional services spending on a change order form just like they would document contingency spending. But it is not clear that other Departments do this. It is also not clear whether "additional services" amounts are supposed to be separately encumbered in the SAP system in the same way that contingencies are. We believe that since they are similar to contingencies in nature, it is appropriate to handle them the same, but this policy should be defined.

### *Contract amendments*

The Purchasing Manual states *"if the contract exceeds \$65,000 and the scope of work is changed, or if the necessary changes exceed the amount of the contingency, then a Contract Amendment must be prepared for Council approval."* Does this mean any change to the scope of work, no matter how minor, requires a contract amendment?

Again, as noted above, it is common for work not strictly within the scope of the contract to occur without an amendment – often for minor items. While the "change order" definition indicates that a change in the scope of work always requires a change order, the definition of "amendment" states that if the scope of work is changed and the contract exceeds \$65,000, then an amendment is necessary. Rules for contracts under \$65,000 are not addressed.

**RECOMMENDATION 8:** The Purchasing Manual update should include:

- Policy statement that contingency spending should be to complete original scope of work and that, to the extent possible, work should be included in original bid to obtain most favorable price.
- Definitions of key terms including contract contingency, change order, contract amendment, and additional services.
- Information on how these terms are relevant for each category of contract (construction, professional services, general services).
- Steps for documenting uses of contingency or additional services funds under each category of contract.
- Instructions for encumbering additional services, and guidelines and forms for documenting uses of additional services.
- Explanation of differences in rules (if Purchasing determines there are any) for documenting contingency or additional services for contracts below the threshold for City Council approval versus for contracts above the threshold for such approval.

### **Departmental procedures**

The City's largest volume of contracts is in Public Works and Utilities Engineering. Public Works has its own written procedures for documenting the use of contingency via change orders. Utilities Engineering has its own written procedures, but an updated version was not readily available upon request.

Other Departments rely on the Purchasing Manual to provide procedures for spending contingency dollars. While the Purchasing Manual states to the steps involved in submitting a request to spend contingency to Purchasing, it does not address internal departmental approval and documentation procedures.

The Public Works Construction Contract Administration Manual is widely viewed by staff as a good template to follow and we noted that a member of the contract streamlining committee has already worked on some proposed changes that could make it applicable citywide. The City could build on this work.

**RECOMMENDATION 9:** Departments should use the Public Works Construction Contract Administration Manual as a template for additional procedures regarding extra work authorizations, field orders, change orders, and authorization signatures, as needed. Departments should ensure that their procedures for contingency spending are consistent with the Purchasing Manual with regard to additional services spending. Departments should review their procedures with Purchasing to ensure conformance to citywide standards.

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## **Purchasing should provide training to project managers on key issues related to contingencies and additional services**

Currently, no formalized training on change orders, contingencies or additional services is offered by Purchasing. As part of our review, we asked project managers about their training.<sup>18</sup> According to respondents,

- 42% received training from Purchasing on change order and contract amendment processing
- 38% received training from their department on change order and contract amendment processing
- 43% received training from other sources on contract management and negotiation, including undergraduate and graduate school, previous jobs, being briefed by the prior employee in the position, on-the-job training, professional development classes, and through Purchasing.

When asked if there were any topics that would help them better manage contracts, responses included:

- Training in negotiation
- Peer training and discussions
- Learning how to identify the critical points of a contract and maintain focus on them
- Participation in American Society of Civil Engineers (ASCE) courses
- Professional service contract management
- Training that gives specific examples of issues that occur in construction, design and professional service contract management
- An overview tailored to Planning's specific needs
- Change order and amendment processes

A new series of courses titled "Contracting Procedures Program" (expected to be offered sometime in 2005) has been developed based on the work of the Contract Streamlining Committee. Taught by staff from the Purchasing Division and the City Attorney's Office, it is intended to address *"all aspects of the contract process and participants in the construction and professional services procurement process."*

In our opinion, Purchasing should also explore creative ways to provide project managers with resources immediately useful to them such as a project manager's listserv on which employees could ask questions of each other and to Purchasing.

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<sup>18</sup> We sent project managers a voluntary survey regarding contract contingencies and additional services. We sent out 91 surveys and received 26 responses, a response rate of 29%.

**RECOMMENDATION 10:** Either as part of the proposed training on contracting or separately, Purchasing should ensure that

- Key topics related to contingencies and additional services are sufficiently covered. These include an overview of updated key terms, policies and procedures (i.e., Purchasing Manual revision), procedures and documentation required for spending contingency or additional services funds, and pricing of changes in the contract work.
- Case studies based on the actual experiences of Palo Alto project managers are included in the course.

Such training should be mandatory for project managers and Purchasing should maintain attendance records. Department heads should ensure that project managers meet mandatory training requirements.

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**Ensure that contract documents are properly maintained and clarify contract document retention roles and responsibilities**

The City has a records retention schedule that requires Purchasing to retain awarded proposals, bids, contracts and agreements for one year beyond their termination date. During the audit, we requested copies of scopes of work for contracts in our sample, and copies of the bid or proposal submitted by the firm that was awarded the contract. For nine contracts in our sample (all of which were still open at the time of our request), Purchasing could not readily provide us with one or both of those items. While Purchasing was ultimately able to provide us with four of the nine, the documents were not easily accessible or available upon request.

**RECOMMENDATION 11:** Departments should ensure that copies of documents related to ongoing contracts are forwarded to Purchasing. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.

*Retention schedules*

The City's records retention schedule was last updated in 1996. It provides a retention schedule for each Department that specifies how long certain records should be maintained. It is an important document that serves a critical role. However, the current format is hard to understand and vests multiple departments with responsibility for retaining certain contract documentation.

The retention schedule states that Public Works Department project files, work orders, schedules, bidders list, change orders and correspondence related to capital improvements are to be retained for eight years onsite. Specifications, reports, calculations, plans and subdivisions are to be retained for the life of the structure to which they apply. Contracts are to be retained offsite for two years after their termination. Those contracts

are also to be retained offsite for one year by Purchasing (as stated below) and for ten years (nine onsite and one year offsite) by the City Clerk's Office.

In another confusing example, the retention schedule states that Purchasing should retain awarded proposals and bids, contracts and agreements for one-year offsite after the termination of the contract. But for change orders it indicates that they should maintain them for three years onsite and then two years offsite. If the contract and bid documents are retained for only one year, why are the change orders retained for five years?

In still another example, the change orders related to one contract we reviewed should have been in the Purchasing file but were not and so we obtained them from the Department that manages the contract. The Department staff were not certain what supporting documentation they were responsible for maintaining versus what Purchasing was responsible for maintaining. The retention schedule for that Department (Community Services) does not address change orders specifically but simply indicates that contracts made<sup>19</sup> during the current calendar are maintained offsite. It is unclear why current contracts would be maintained offsite.

**RECOMMENDATION 12:** The City Clerk's Office, in consultation with the City Attorney's Office and the Administrative Services Department, should review the records retention schedule and update it to ensure that critical contract records (including scopes of work and bid submittals) are retained for appropriate lengths of time, accountability is clear, the schedule is easy to understand, and that duplication is minimized. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.

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<sup>19</sup> It is unclear if "made" means entered into during the current calendar year.

## Contract Streamlining

Processing times for initial approval of infrastructure contracts have not improved over the last two years and currently average 149 days. We found that there may be opportunities to increase efficiency in change order processing and that change orders could be submitted to Purchasing on a more timely basis. However, without addressing overall contract processing times, improvements in change order processing alone will not have a dramatic effect.

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### Processing times for infrastructure contracts are still too long

In April 2002, the City Auditor published "A Study of Infrastructure Contract Processing Times" which calculated the average and median processing times for infrastructure contracts over \$25,000. As part of our review, we replicated that audit test using data on 34 contracts awarded since January 1, 2004. As shown in Exhibit 10, the average and median processing times for these contracts were longer than for the contracts we sampled in 2002. The average and median contract processing times had increased by 4 days and 21 days, respectively. The list of the 34 contracts reviewed is included in Appendix B.

Exhibit 10: Infrastructure Contract Processing Times

<b>Audit review</b>	<b>Number of contracts</b>	<b>Median processing time (in days)</b>	<b>Average processing time (in days)</b>
2002	66	137	145
2004	34	158	149

Staff indicates that SAP implementation may have resulted in some employees pre-encumbering amounts in the system sooner than they otherwise would have in the past. This may have contributed to the increased times.

The City Manager's April 2002 response to the "Study of Infrastructure Contract Processing Times" stated that the Contract Process Streamlining Committee would bring forward recommendations regarding various aspects of the contracting process including "guidelines for processing times for different kinds of contracts, including accountability and expectations."

<b>RECOMMENDATION 13:</b> The Contract Process Streamlining Committee should establish general guidelines for processing times for different kinds of contracts, including accountability and expectations.
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## Opportunities exist to increase the efficiency of change order processing and expedite change order submittals

Our sample of 31 contracts included a total of 189 change orders representing approximately \$5 million. We reviewed 139 of those change orders, totaling about \$3.6 million and representing approximately 72% of the \$5 million total.

We found that there are opportunities to increase the efficiency of change order processing. For example, we identified a \$2.7 million Utilities contract that had 37 change orders for amounts as small as \$243. In contrast, the approximately \$23 million construction contract for the downtown parking garages had 15 change orders. To the extent possible, small changes should be compiled and then subsequently submitted as a change order. This reduces the workload for both a department and for Purchasing.

RECOMMENDATION 14: The Purchasing Manual should specify that Departments should maximize efficiency and reduce the workload for both Purchasing and Departments by combining field changes into individual change orders.
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### *Expediting change order submittals and exploring the possibility of decentralizing change order processing*

We found that it was not uncommon that by the time a change order got to Purchasing Division, the change order work had already occurred. This leads us to question how meaningful Purchasing's review can really be. In an interview with two members of the Public Works Engineering staff, they indicated that sending a change order to Purchasing is the last thing they do.

The nature of contract work, particularly in construction (Public Works and Utilities), requires that the work be continuous so as not to result in delay claims from contractors. Furthermore, changes to contract are often compiled as a number of small changes via field orders or extra work authorizations and later compiled into a change order for Purchasing's review (as recommended above). Nonetheless, in our opinion, whenever possible, change orders should be submitted to Purchasing before the work is completed.

Mountain View and Redwood City have decentralized the processing of Public Works Department change orders. While Palo Alto staff has advised that they believe a decentralized process may not be possible due to SAP user-authorization issues, in our opinion, it is worth considering.

For departments that have consistently documented contingency spending and followed the Citywide or departmental procedures, a

decentralization of change order processing may be an appropriate streamlining measure if compensating controls are put in place, such as random reviews by Purchasing of documentation of contingency spending and better documentation and reporting. However, this type of decentralization should only be considered after the Purchasing Manual has been updated and training has taken place.

**RECOMMENDATION 15:** Departments should ensure that all change orders are submitted to Purchasing as soon as is reasonably practical. After the Purchasing Manual has been updated and training has occurred, Purchasing should explore the feasibility of a pilot program to decentralize change order processing for departments that have demonstrated adherence to procedures and submission of documentation.

## Conclusion

The City's contingency and additional services levels are generally consistent with those of area jurisdictions and industry standards. We reviewed a sample of contingency and additional services spending. Spending appears to be generally appropriate. Our review identified a number of ways to improve controls, training, and documentation.

### RECOMMENDATIONS

RECOMMENDATION 1: The change order form included in the Purchasing Manual as well as the change order forms used by Public Works and Utilities should require departments to indicate the underlying reason for contingency spending based on categories for spending as determined by staff. Examples of possible categories are unforeseen, design-related, or upgrade. The Purchasing Manual form should be updated to include the dollar amount of the change and cumulative total spent to date. Guidelines and a form should be developed for documenting uses of "additional services" funds as well.

RECOMMENDATION 2: Purchasing should maintain records on valid complaints related to contractors for consideration in future contract awards.

RECOMMENDATION 3: Departments that receive resident requests for service should establish criteria for responding to such requests and incorporate those criteria into a Departmental construction manual (if applicable) and provide them to Purchasing for inclusion in the Purchasing Manual. The Purchasing Manual should also provide guidance on when it is appropriate to issue a change order to expand the scope of a contract versus amending the contract or issuing a new contract. Departments approving contingency spending should ensure that the work is within the scope of the original contract.

RECOMMENDATION 4: Staff should determine if it is feasible to track and report on actual contingency and additional services spending using SAP.

RECOMMENDATION 5: The Administrative Services Department should include total project expenditures to date (including contingency) on the Year-end Capital Improvement Program Projects Status Report. If staff determines that Recommendation 4 is feasible, then actual contingency spending should also be included on the year end report. In addition, Management should assess the feasibility of requiring responsible Departments to present project completion reports to the City Council upon termination of major projects.

RECOMMENDATION 6: The standard professional services agreement should include optional standardized "additional services" provisions. The

Purchasing Manual should include criteria for including "additional services" and setting "additional services" percentages (e.g. nature of project, complexity of project), and City Manager Reports should specify "additional services" where applicable.

RECOMMENDATION 7: Purchasing and the City Attorney's Office should develop standard language regarding pricing for changes to contract work for construction contracts, professional services contracts and general service contracts. Departments should ensure that all contracts include the appropriate language. Guidelines on allowable costs should be incorporated into the Purchasing Manual, and cited or included in contracts.

RECOMMENDATION 8: The Purchasing Manual update should include:

- Policy statement that contingency spending should be to complete original scope of work and that, to the extent possible, work should be included in original bid to obtain most favorable price.
- Definitions of key terms including contract contingency, change order, contract amendment, and additional services.
- Information on how these terms are relevant for each category of contract (construction, professional services, general services).
- Steps for documenting uses of contingency or additional services funds under each category of contract.
- Instructions for encumbering additional services, and guidelines and forms for documenting uses of additional services.
- Explanation of differences in rules (if Purchasing determines there are any) for documenting contingency or additional services for contracts below the threshold for City Council approval versus for contracts above the threshold for such approval.

RECOMMENDATION 9: Departments should use the Public Works Construction Contract Administration Manual as a template for additional procedures regarding extra work authorizations, field orders, change orders, and authorization signatures, as needed. Departments should ensure that their procedures for contingency spending are consistent with the Purchasing Manual with regard to additional services spending. Departments should review their procedures with Purchasing to ensure conformance to citywide standards.

RECOMMENDATION 10: Either as part of the proposed training on contracting or separately, Purchasing should ensure that

- Key topics related to contingencies and additional services are sufficiently covered. These include an overview of updated key terms and policies and procedures (i.e., Purchasing Manual revision), procedures for and documentation required for spending contingency or additional services funds, pricing of changes in contract work.
- Case studies based on actual experiences of Palo Alto project managers are included in the course.

Such training should be mandatory for project managers and Purchasing should maintain attendance records. Department heads should ensure that project managers meet mandatory training requirements.

RECOMMENDATION 11: Departments should ensure that copies of documents related to ongoing contracts are forwarded to Purchasing. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.

RECOMMENDATION 12: The City Clerk's Office, in consultation with the City Attorney's Office and the Administrative Services Department, should review the records retention schedule and update it to ensure that critical contract records (including scopes of work and bid submittals) are retained for appropriate lengths of time, accountability is clear, the schedule is easy to understand, and that duplication is minimized. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.

RECOMMENDATION 13: The Contract Process Streamlining Committee should establish general guidelines for processing times for different kinds of contracts, including accountability and expectations.

RECOMMENDATION 14: The Purchasing Manual should specify that Departments should maximize efficiency and reduce the workload for both Purchasing and Departments by combining field changes into individual change orders.

RECOMMENDATION 15: Departments should ensure that all change orders are submitted to Purchasing as soon as is reasonably practical. After the Purchasing Manual has been updated and training has occurred, Purchasing should explore the feasibility of a pilot program to decentralize change order processing for departments that have demonstrated adherence to procedures and submission of documentation.

## Memorandum

Administrative Services

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**Date:** March 15, 2005  
**From:** Frank Benest, City Manager  
**By:** Carl Yeats, Director of Administrative Services  
**Subject:** Response to the Audit of Contract Contingency

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The City Auditor has conducted a review of contract contingencies for construction, general and professional services. After review of the audit recommendations, staff will implement where possible. Some recommendations require longer-term solutions due to additional research needed or impacts that must be further evaluated. Staff will continue to work on these efforts to improve the contracting process and to meet organizational goals and objectives.

The audit contains several key points:

- The current use of contract contingencies is appropriate
- Contingency levels and additional services used are generally consistent with those of area jurisdictions and industry standards
- Specific recommendations that will clarify or enhance policies and procedures
- Revisions to documentation that will enhance monitoring and accountability
- Recommended mandatory training for staff involved in the contract process

### Contracting Process and Activity

The City of Palo Alto is a very diverse organization when compared to other local governments. The Auditor's Service Level and Accomplishments (SEA) report clearly establishes that not only is Palo Alto unique in terms of the types of services provided by City departments, but the service levels in Palo Alto are also uniquely high. These factors are key to what makes Palo Alto, well "Palo Alto". We are a truly full service city, providing an extremely diverse array of functions. This diversity of functions, coupled with changing priorities will have an impact on our procurement activity through out a fiscal year.

The City's combined budgets for 2003-04 were in excess of \$330 million, which generated over 5,200 purchasing documents valued at over \$70 million. Over 17,000 checks were issued to pay vendor invoices for contract and other services or supplies. As the Auditor points out in the report approximately \$3.8 million in contingency spending was reviewed and found that generally the City spends contingency dollars appropriately. This finding supports the many changes, controls, procedures that have been implemented over time to ensure proper accountability and controls. The additional information recommended to be part of the process

will enhance the latter and provide decision makers with additional data that may be helpful in future planning or contract structure/negotiations.

Some of the recommendations involve enhancements to the SAP system or changes that could impact the processing time of change orders or vendor invoices. Staff will review the recommendations and adjust the system as possible. If it is determined that the system enhancements are not beneficial or impractical due to cost or low benefit, staff will provide the Auditor with specific documented information or alternatives to consider.

### **Conclusions**

Staff welcomes the recommendations since for the most part they can be or are in the midst of implementation, as a result of ongoing contract streamlining efforts. The Purchasing Ordinance changes that went into affect in July 2005 are starting to show positive results. An example is the contract authority limit increases, which have yielded faster processing times. The Contract Streamlining Committee will continue developing specific contract processing goals by type and on streamlining where possible.

An overall concern that we all must keep in mind as we add steps to review, validate or account for our processes is the cumulative impacts of all steps and the need to balance the risk/benefit factors involved. In developing and evaluating the City's accounting system, primary consideration is given to the adequacy of the internal control structure. This structure is designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of the financial statements in accordance with generally accepted accounting principals. The internal control structure is designed to be reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management. This also is a task assigned to the Contract Streamlining Committee in order to make our streamlining efforts prudent and successful.

Staff is completely supportive of the Auditor's findings and appreciates the work she and her staff have completed.

Attachment A: Summary of Recommendations

Attachment A  
Summary of Recommendations and Management Response

*RECOMMENDATION 1: The change order form included in the Purchasing Manual as well as the change order forms used by Public Works and Utilities should require departments to indicate the underlying reason for contingency spending based on categories for spending as determined by staff. Examples of possible categories are unforeseen, design-related, or upgrade. The Purchasing Manual form should be updated to include the dollar amount of the change and cumulative total spent to date. Guidelines and a form should be developed for documenting uses of "additional services" funds as well.*

**Staff agrees with the recommendation and revised the form to include the suggested categories and additional information requirements. The recently updated guidelines reflect the changes and are part of the revised Purchasing Manual. The Public Works and Utilities forms will be updated as well.**

**Target Completion Date: Purchasing Manual form is completed. Target date for updating Public Works and Utilities forms is Fall 2005.**

*RECOMMENDATION 2: Purchasing should maintain records on valid complaints related to contractors for consideration in future contract awards.*

**Staff will incorporate a process to maintain such information in SAP under the vendor's master file. If there are system limitations, staff will then keep a separate electronic file of valid complaints to review prior to awarding contracts. Purchasing and Department Project Management staff will communicate on ongoing basis to keep complaints current.**

**Target Completion Date: Fall 2005**

*RECOMMENDATION 3: Departments that receive resident requests for service should establish criteria for responding to such requests and incorporate those criteria into a Departmental construction manual (if applicable) and provide them to Purchasing for inclusion in the Purchasing Manual. The Purchasing Manual should also provide guidance on when it is appropriate to issue a change order to expand the scope of a contract versus amending the contract or issuing a new contract. Departments approving contingency spending should ensure that the work is within the scope of the original contract.*

**Staff will collaborate to incorporate in the Construction and Purchasing Manuals criteria on processing requests for services based on the scope of the capital project and the contract. The manuals will include examples on when to do a change order or a contract amendment. Department heads or designees will approve contingency spending based on the established criteria.**

**Target Completion Date: Fall 2005**

*RECOMMENDATION 4: Staff should determine if it is feasible to track and report on actual contingency and additional services spending using SAP.*

The contract contingency amounts are budgeted separately from the main contract amount. A change order moves and combines the contingency to the main contract line item. Staff is not separating the expense for the amount moved as a result of the change order in the SAP system since it would require separate accounting of such activities. It would require the vendor and City staff to separate all invoices and/or line items and pay from either the main contract or a new contingency account, the benefit of such information is minor compared to the amount of work required to keep and reconcile separate accounts. Staff will review the SAP system for other possible steps to track such information without making it labor intensive. Most project managers keep a separate electronic or hard copy file on the actual use of their contingency.

**Target Completion Date: Fall 2005**

*RECOMMENDATION 5: The Administrative Services Department should include total project expenditures to date (including contingency) on the Year-end Capital Improvement Program (CIP) Projects Status Report. If staff determines that Recommendation 4 is feasible, then actual contingency spending should also be included on the year-end report. In addition, Management should assess the feasibility of requiring responsible Departments to present project completion reports to the City Council upon termination of major projects.*

The current CIP report contains the components of the total project to date, but they are not summarized in a single column. Staff agrees with the recommendation and will add a summary column. In terms of the actual contingency spending, see response to 4. If an option is found and beneficial, staff will implement it in SAP. Staff will also assess the feasibility of project completion reports.

**Target Completion Date: December 2005**

*RECOMMENDATION 6: The standard professional services agreement should include optional standardized "additional services" provisions. The Purchasing Manual should include criteria for including "additional services" and setting "additional services" percentages (e.g. nature of project, complexity of project), and City Manager Reports should specify "additional services" where applicable.*

Staff concurs with the recommendation and is in the process of implementing the changes. A new contract template with such provisions has been created and the purchasing manual has been updated with a set of criteria defined for including additional services. The CMR format will be amended to separate or identify the additional services being recommended for approval.

**Target Completion Date: Completed**

*RECOMMENDATION 7: Purchasing and the City Attorney's Office should develop standard language regarding pricing for changes to contract work for construction contracts, professional services contracts and general service contracts. Departments should ensure that all contracts include the appropriate language. Guidelines on allowable costs should be incorporated into the Purchasing Manual, and cited or included in contracts.*

The Attorney's office has drafted a new contract template for professional services that includes language regarding pricing for changes to contract work. Pricing for changes or additions shall be based upon defined hourly or other rates that have been established upon determination of the total compensation for the agreement. Standard language for general services work is currently being drafted and reviewed by the Attorney's office. A review of all construction procurement and contract documents is scheduled for later this year. This review will result in revision of all construction procurement and contract documents that will address these and other issues. Departmental staff will ensure that all contracts include the appropriate language.

**Target Completion Date:** Professional services and guidelines on allowable cost have been completed. Remaining items: Fall 2005

*RECOMMENDATION 8: The Purchasing Manual update should include:*

- *Policy statement that contingency spending should be to complete original scope of work and that, to the extent possible, work should be included in original bid to obtain most favorable price.*
- *Definitions of key terms including contract contingency, change order, contract amendment, and additional services.*
- *Information on how these terms are relevant for each category of contract (construction, professional services, general services). Steps for documenting uses of contingency or additional services funds under each category of contract.*
- *Instructions for encumbering additional services, and guidelines and forms for documenting uses of additional services.*
- *Explanation of differences in rules (if Purchasing determines there are any) for documenting contingency or additional services for contracts below the threshold for City Council approval versus for contracts above the threshold for such approval.*

**Staff agrees with the recommendations, some of which have been incorporated into the revised Purchasing Manual. The remaining recommendations will be included in the next revision in conjunction with the ongoing contract streamlining efforts. Change orders for construction are mostly for unforeseen items, but staff will continue look for opportunities to include all aspects in the original scope to the extent possible.**

**Target Completion Date: Completed**

*RECOMMENDATION 9: Departments should use the Public Works Construction Contract Administration Manual as a template for additional procedures regarding extra work authorizations, field orders, change orders, and authorization signatures, as needed. Departments should ensure that their procedures for contingency spending are consistent with the Purchasing Manual with regard to additional services spending. Departments should review their procedures with Purchasing to ensure conformance to citywide standards.*

**Public Works will update the Construction Contract Administration Manual in collaboration with the Utilities Department and Purchasing Division Staff to ensure consistency with the Purchasing Manual and citywide standards.**

**Target Completion Date: Fall 2005**

*RECOMMENDATION 10: Either as part of the proposed training on contracting or separately, Purchasing should ensure that*

- *key topics related to contingencies and additional services are sufficiently covered. These include an overview of updated key terms and policies and procedures (i.e., Purchasing Manual revision), procedures for and documentation required for spending contingency or additional services funds, pricing of changes in contract work.*
- *case studies based on actual experiences of Palo Alto project managers are included in the course.*

*Such training should be mandatory for project managers and Purchasing should maintain attendance records. Department heads should ensure that project managers meet mandatory training requirements.*

**Purchasing staff will include the materials necessary to incorporate the above recommendations in the contract management classes that will be mandatory. Public Works and Utilities Department staff will assist in the training and provide valuable case studies and learning opportunities. In addition, department heads or designees will ensure attendance by staff involved in the process.**

**Target Completion Date: Spring 2005**

*RECOMMENDATION 11: Departments should ensure that copies of documents related to ongoing contracts are forwarded to Purchasing. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.*

**Staff agrees with the recommendation and will provide instructions to implement steps.**

**Target Completion Date: Spring 2005**

*RECOMMENDATION 12: The City Clerk's Office, in consultation with the City Attorney's Office and the Administrative Services Department, should review the records retention schedule and update it to ensure that critical contract records (including scopes of work and bid submittals) are retained for appropriate lengths of time, accountability is clear, the schedule is easy to understand, and that duplication is minimized. In our opinion, both Purchasing and the originating department should have a complete set of contract documents readily available while a contract is open.*

**Staff from the Office of the City Attorney, Clerk and Administrative Services will work together to update the records retention schedule. The current practice in Purchasing is**

to maintain a complete set of contract documentation while they are open. The Purchasing Manual and/or guidelines will be updated to include language that departments are responsible for keeping a complete set as well.

**Target Completion Date: Fall 2005**

*RECOMMENDATION 13: The Contract Process Streamlining Committee should establish general guidelines for processing times for different kinds of contracts, including accountability and expectations.*

The Committee established general guidelines for contract processing times and will review the various contract types to establish more specific times now that the new purchasing ordinance is in place. Staff needs to experience the new processes since the major changes just went into affect in July 2004, before making specific recommendation for some of the contracts. In addition, some need contract templates developed and put into place so a processing time can be set. The Committee will review processing times next year to allow for the new process to settle and to gather historical information. After the results are reviewed, the Committee will adjust accordingly to ensure better accountability and clear expectations.

**Target Completion Date: Spring 2005**

*RECOMMENDATION 14: The Purchasing Manual should specify that Departments should maximize efficiency and reduce the workload for both Purchasing and Departments by combining field changes into individual change orders.*

Purchasing staff will include recommendations in the Purchasing Manual and work with the City Attorney's Office to revise construction process documentation to facilitate the combination of field change orders whenever possible.


**Target Completion Date: Spring 2005**

*RECOMMENDATION 15: Departments should ensure that all change orders are submitted to Purchasing as soon as is reasonably practical. After the Purchasing Manual has been updated and training has occurred, Purchasing should explore the feasibility of a pilot program to decentralize change order processing for departments that have demonstrated adherence to procedures and submission of documentation.*

Department heads or designees will review internal processes and timeliness of change orders to ensure reasonable processing times. Staff will collaborate to explore possible areas to decentralize the change order process, where feasible and prudent.

**Target Completion Dates: Spring 2005; decentralization review Winter 2005**

**Office of the City Clerk  
M E M O R A N D U M**

DATE: February 7, 2005  
TO: Sharon Erickson  
Gary Baum  
FROM: Donna Rogers   
SUBJECT: Audit of Contract Contingencies

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In response to Recommendation 21 in the above-mentioned audit, the City Clerk's Office is fully aware of the need to review the records retention schedules and update them to ensure that critical contract records are retained for appropriate lengths of time.

The City adopted its Records and Information Management Program in November 1994 and updated the Retention Schedules for all departments in April 1996. Since there have been many changes in laws and regulations since that time, it is critical that retention schedules be reviewed by the City Attorney's Department in conjunction with the City Clerk's Department.

We would like to request that the City Attorney assign someone knowledgeable with records rules and regulations, to work with the City Clerk's Department, to lead a committee comprised of staff from each department to discuss and review the retention schedules.

## Appendix A: Data on Reasons for Contingency Spending

<b>Reason for Spending Contingency Dollars (All Contracts Sampled)</b>		
	<u>Dollars</u>	<u>Percent of Total</u>
Project Planning	\$ 485,204	13%
Design	\$ 801,311	22%
Upgrade	\$ 490,268	14%
Expanded Scope of Work	\$ 522,000	15%
Unforeseen	\$1,300,732	36%
<b>TOTAL</b>	<b>\$3,599,515</b>	<b>100%</b>

<b>Reason for Spending Contingency Dollars (Excluding Downtown Parking Garage Projects)</b>		
	<u>Dollars</u>	<u>Percent of Total</u>
Project Planning	\$ 57,581	4%
Design	\$370,745	29%
Upgrade	\$ 30,481	2%
Expanded Scope of Work	\$231,545	18%
Unforeseen	\$598,167	46%
<b>TOTAL</b>	<b>\$1,288,519</b>	<b>100<sup>20</sup>%</b>

<b>Reason for Spending Contingency Dollars (Downtown Parking Garages Project Only)</b>		
	<u>Dollars</u>	<u>Percent of Total</u>
Project Planning	\$427,623	19%
Design	\$430,566	19%
Upgrade	\$478,109	21%
Expanded Scope of Work	\$290,455	13%
Unforeseen	\$684,243	30%
<b>TOTAL</b>	<b>\$2,310,996</b>	<b>102%<sup>21</sup></b>

<sup>20</sup> Total does not add to 100% due to rounding.

<sup>21</sup> Total does not add to 100% due to rounding.

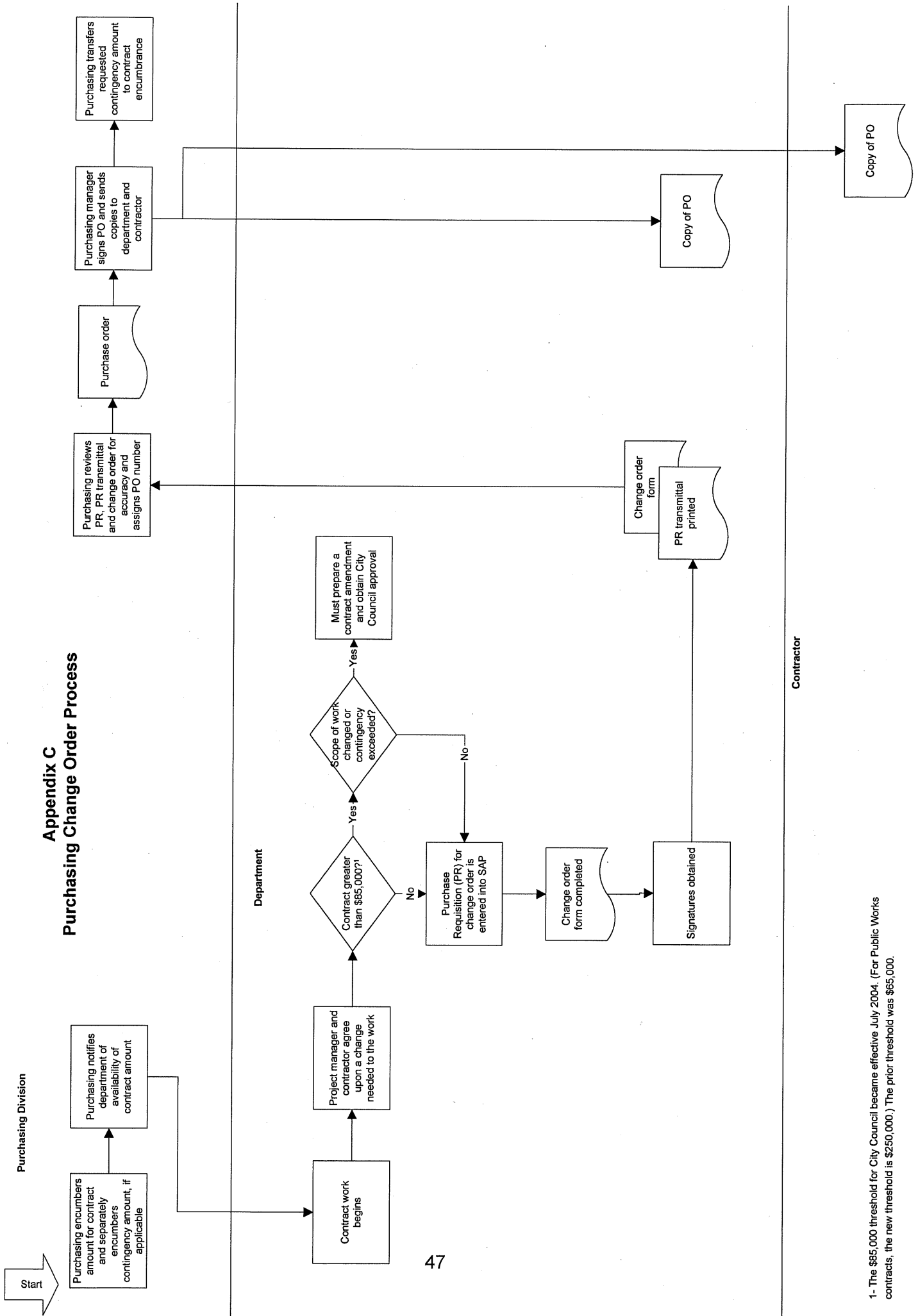
## Appendix B: Processing Times for Infrastructure Contracts Over \$25,000

### Elapsed Times for Infrastructure Contracts Over \$25,000

Contracts with a PO Print Date of 1/1/04 or later

Purchase Order No.	Purchase Requisition Entry Date	Purchase Order Print Date	Vendor	Elapsed Time in Days
S04103782	11/10/2003	9/17/2004	KELLER CANYON LANDFILL	312
C04100794	7/16/2003	4/1/2004	CLEAN HARBORS ENVIRONMENTAL	260
C04101010	7/30/2003	3/18/2004	COLUMBIA ELECTRICAL, INC	232
C04105456	2/17/2004	9/28/2004	ERS INDUSTRIAL SERVICES INC	224
C04103369	10/17/2003	5/25/2004	MONTEREY MECHANICAL	221
C04101612	8/21/2003	3/11/2004	MOCK WALLACE ARCHITECTS	203
C04105783	3/5/2004	9/23/2004	RAY L. HELLWIG PLUMBING &	202
C04105779	3/5/2004	9/22/2004	MARCOR REMEDIATION INC	201
C04105325	2/11/2004	8/26/2004	NOVO CONSTRUCTION INC	197
C04100292	7/11/2003	1/20/2004	KUEHNE CONSTRUCTION	193
C04100286	7/11/2003	1/20/2004	KENNEDY JENKS CONSULTANTS	193
C04100121	7/1/2003	1/7/2004	COLUMBIA ELECTRICAL, INC	190
C04103453	10/22/2003	4/22/2004	KUEHNE CONSTRUCTION	183
S04104065	11/24/2003	5/24/2004	JF PACIFIC LINERS INC	182
C04101903	9/2/2003	2/26/2004	LEWIS & TIBBITTS INC	177
C04103342	10/15/2003	4/7/2004	SPOSETO ENGINEERING INC	175
C04103639	11/4/2003	4/14/2004	KINGDOM PIPELINES, INC	162
C04105787	3/25/2004	8/26/2004	MONTEREY MECHANICAL	154
C04104913	1/14/2004	6/16/2004	JW RILEY & SON INC	154
C04105055	1/26/2004	6/10/2004	WALSCHON FIRE PROTECTION, INC.	136
C04107706	6/8/2004	10/21/2004	ACME SECURITY SYSTEMS	135
S04103349	10/16/2003	2/17/2004	JJ ALBANESE INC	124
C04103366	10/17/2003	2/18/2004	METROPLEX LIGHTING & ELECTRIC	124
C04105033	1/22/2004	5/10/2004	MANUEL BROS, INC.	109
C04152071	12/1/2003	3/16/2004	G&G BUILDERS INC	106
S0106645	4/30/2004	8/9/2004	JJ ALBANESE INC	101
S04105589	2/23/2004	5/27/2004	ACME FENCE AND LUMBER COMPANY	94
S04105731	3/3/2004	5/26/2004	AVO INTERNATIONAL	84
C04106488	4/22/2004	6/26/2004	KENNEDY JENKS CONSULTANTS	65
S04151848	12/15/2003	2/6/2004	BAY AREA GEOTECHNICAL GROUP	53
C04150735	2/26/2004	4/7/2004	A&A CONSTRUCTION	41
C04105673	2/26/2004	3/23/2004	PHILIP HENRY ARCHITECTURE	26
C3149377	3/25/2004	4/20/2004	INDUS UTILITY SYSTEMS INC	26
C04105803	3/9/2004	3/19/2004	CALTRANS	10
<b>AVERAGE ELAPSED TIME</b>				<b>149</b>
<b>MEDIAN ELAPSED TIME</b>				<b>158</b>

# Appendix C Purchasing Change Order Process

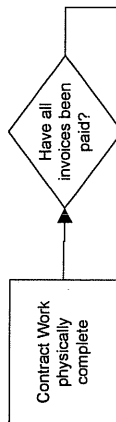


1- The \$65,000 threshold for City Council became effective July 2004. (For Public Works contracts, the new threshold is \$250,000.) The prior threshold was \$65,000.

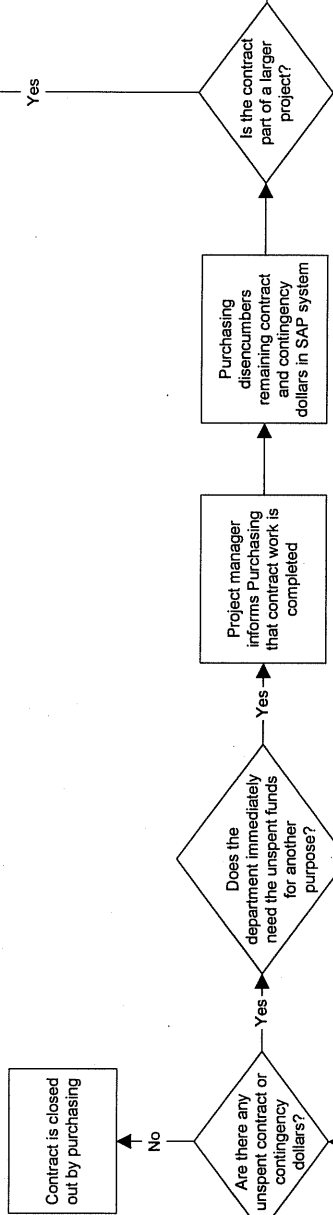
**Contracting Department**

**Appendix D  
Contract Closing Procedures**

Disencumbered dollars from contract now available for other contracts within the Project



**Purchasing**



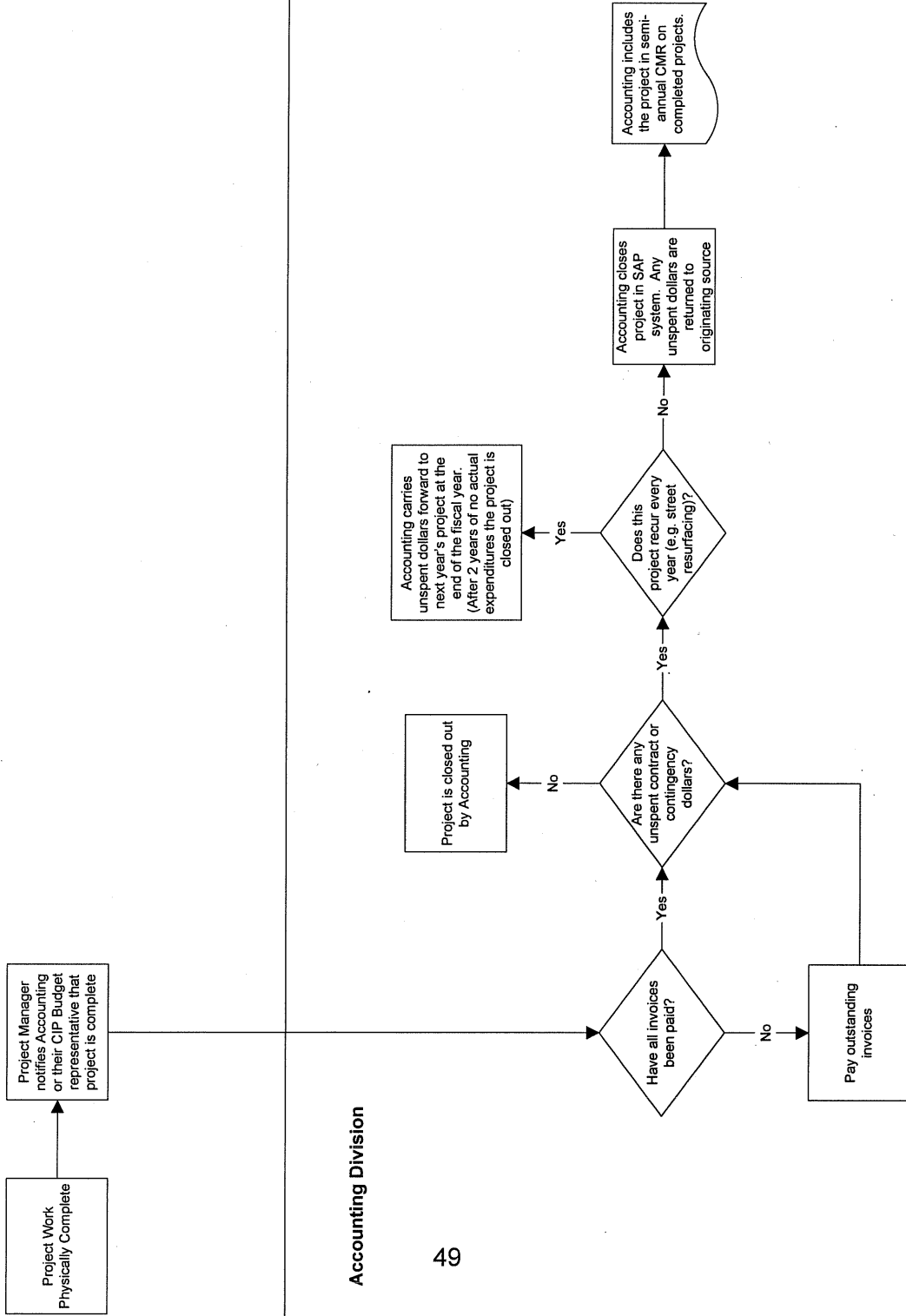
**Accounting**

Pay outstanding invoices

1- A new SAP budget control feature will be implemented in January 2005 and is expected to result in fewer encumbered amounts remaining at the end of the fiscal year.

Contracting Department

Appendix E  
CIP Project Closing Procedures



**Appendix F  
Construction Contracts**

**Completed or Substantially Completed Contracts**

Dept./ Division	Project Description	Contractor	Contract Number	Contract Amount	Contingency Amount	Contingency Spent	Contingency as a Percent of Contract	Percent of Contingency Spent
PWD/Eng.	Downtown Parking Garages	McCarthy Building Companies, Inc	C2142157	\$22,535,000	\$3,380,250	\$2,354,579	15%	70%
WQC Plant	Incinerator Rehabilitation Project	Monterey Mechanical Co.	C9114555	\$5,635,000	\$485,000	\$472,632	9%	97%
UTL/Gas	Gas Main Replacement-Project 12	Golden State Utility, Co.	C3149144	\$2,794,937	\$138,063	\$114,132	5%	83%
PWD/Eng.	Street Maintenance-2002	DeSilva Gates Construction	C2142831	\$2,544,081	\$254,409	\$242,925	10%	95%
UTL/Gas	Gas Main Replacement-Project 11	West Valley Construction Co., Inc.	C2136037	\$2,344,376	\$234,438	\$230,601	10%	98%
UTL/Water	Water Main Replacement-Project 16	West Valley Construction Co., Inc.	C3149250	\$1,983,008	\$348,300	\$217,552	18% <sup>2</sup>	62%
PWD/Eng.	Street Maintenance 2003 Phase I	O'Grady Paving, Inc.	C3150738	\$1,792,445	\$179,245	\$115,688	10%	65%
UTL/WW	Sewer Rehabilitation-Project 14	Ranger Pipelines, Inc.	C3146615	\$1,666,239	\$166,624	\$67,922	10%	41%
UTL/Water	Water Main Replacement-Project 15	P&J Utility Co.	C2139066	\$1,372,394	\$137,239	\$33,767	10%	25%
PWD/Eng.	Embarcadero Bike Path	Valentine Corporation	C319310A	\$1,021,209	\$102,120	\$89,293	10%	87%
PWD/Eng.	Roth Building	SummerHill Construction Co.	C04101691	\$961,966	\$50,250 <sup>3</sup>	\$8,166	5%	16%
PWD/Ops.	Sidewalk Replacement Ph. I 02-03	JJR Construction, Inc.	C2143221	\$895,000	\$89,500	\$22,234	10%	25%
PWD/Ops.	Sidewalk Replacement Ph. II 02-03	JW Riley & Son, Inc.	C3148127	\$752,905	\$75,300	\$12,060	10%	16%
PWD/Ops.	Sidewalk Replacement Ph. I 03-04	JJR Construction, Inc.	C04152130	\$595,927	\$59,000	\$49,294	10%	84%
PWD/Ops.	Sidewalk Replacement Ph. II 01-02	Vanguard Construction	C2140088	\$543,420	\$54,500	\$27,920	10%	51%
UTL/Elec.	Northampton / Southampton	Arguss Communications, Inc.	C03150651	\$520,045 <sup>4</sup>	\$52,000	\$0	10%	0%
PWD/Eng.	Street Maintenance 2003 Ph. II	JJR Construction, Inc.	C04152422	\$495,965	\$49,597	\$8,609	10%	17%
PWD/WQ	Dual Media Filter Replacements	ERS Industrial Services, Inc.	C3151016	\$348,578	\$34,858	\$30,937	10%	89%
PLA/Trans.	Signal Agreement	CalTrans	C04105803	\$234,000	\$46,800	\$0 <sup>5</sup>	20%	0%
UTL/Elec.	Substation Breaker - Park Blvd.	Rosendin Electric, Inc.	C3148416	\$124,485	\$13,000	\$5,419	10%	42%
PLA/Trans.	Downtown Traffic Calming	JJ Albanese, Inc.	S04103349	\$46,406	\$18,593 <sup>6</sup>	\$14,996	40% <sup>7</sup>	81%
<b>Subtotal Average</b>				<b>\$49,205,386</b> <b>\$2,343,114</b>	<b>\$5,969,086</b> <b>\$284,242</b>	<b>\$4,118,726</b> <b>\$196,130</b>	<b>12%</b>	<b>54%</b>

**Contracts Still in Progress**

UTL/Elec.	Substructure Work	Underground Construction Co., Inc.	C04151876	\$710,000	\$71,000	\$0	10%	0%
CSD	Baylands Parking Lot Improvements, Ph. I	Duran and Venables, Inc.	C04142146	\$442,000	\$44,000	\$29,397	10%	67%
<b>Subtotal Average</b>				<b>\$1,152,000</b> <b>\$576,000</b>	<b>\$115,000</b> <b>\$57,500</b>	<b>\$29,397</b> <b>\$14,699</b>	<b>10%</b>	<b>33%</b>

**Construction Contract Total  
Construction Contract Average**

<b>Construction Contract Total</b>	<b>\$50,357,386</b>	<b>\$6,084,086</b>	<b>\$4,148,123</b>	<b>12%</b>	<b>53%</b>
<b>Construction Contract Average</b>	<b>\$2,189,452</b>	<b>\$264,525</b>	<b>\$180,353</b>	<b>12%</b>	<b>53%</b>

<sup>1</sup> Original contingency of \$198,300. It was increased by \$150,000.  
<sup>2</sup> The original contract had a contingency of 10%, but it was increased through an amendment to become a total of 18% of the contract value.  
<sup>3</sup> Contingency was subsequently reduced via a change order by \$32,000.  
<sup>4</sup> The \$520,045 is comprised of \$394,975 for Northampton / Southampton and \$125,070 for the Baylands, the contingencies are respectively \$40,000 and \$12,000.  
<sup>5</sup> This was a joint project with CalTrans, Mountain View and Palo Alto. The City was required to deposit the contract amount prior to the State's bidding the project. Once the State completes the final accounting the City will know the actual cost of the project. The Planning Department indicated that if the cost exceeds the estimated \$234,000, the contingency will be used to cover such additional costs.  
<sup>6</sup> Original contingency was \$9,281 and then it was increased by \$9,312.  
<sup>7</sup> The original contract had a contingency that was 20% of the contract value, but the contingency was increased through an amendment. The total contingency is therefore 40% of the contract value.

**Appendix G  
Professional and General Service Contracts**

**Completed or Substantially Completed Contracts**

Dept. / Division	Project Description	Contractor	Contract Number	Contract Amount	Contingency /Additional Services Amount	Contingency /Additional Services Spent <sup>1</sup>	Contingency /Additional Services as a Percent of Contract Amount <sup>1</sup>	Percent of Contingency /Additional Services Spent <sup>1</sup>
PWD/Eng	Downtown Parking Garages	Watry Design Group	C6076145	\$2,494,736 <sup>2</sup>	\$599,020	\$468,177	24%	78%
PWD/Eng	Downtown Parking Garages	Turner Construction Co.	C8103688	\$2,161,398 <sup>3</sup>	\$300,119	\$278,670	14%	93%
CSD/Parks	Landscape Maintenance (Various Sites)	Gachina Landscape Management, Inc.	C02131301	\$1,360,971	\$136,096	\$103,808 <sup>4</sup>	10%	76%
PWD/Ops.	Utility Line Clearing	Davey Tree Surgery Company	C04151782	\$650,500 <sup>5</sup>	\$65,000	\$50	10%	0%
PWD/Ops.	Area Tree Trimming 03-04	TruGreen LandCare, L.L.C.	C04100140	\$325,000	\$0	N/A	N/A	N/A
<b>Subtotal Average</b>				<b>\$6,992,605</b> <b>\$1,398,521</b>	<b>\$1,100,235</b> <b>\$220,047</b>	<b>\$850,705</b> <b>\$212,676</b>	<b>12%</b>	<b>62%</b>

**Contracts Still in Progress**

UTL/Water	Water System Improvements - Ph. I Plans Based on 1999 Study	Carollo Engineers, P.C.	C2138257	\$2,324,637	\$0	N/A	N/A	N/A
Open Space	Baylands Parking Lot Improvements - Design and Engineering Services	DES Architects and Engineers, Inc.	C1131960	\$137,466 <sup>6</sup>	\$12,500	\$8,250	9%	66%
Vehicle Replacement Fund	Automotive Washing and Water Recycling Facility - Design and Engineering Services	URS Corporation Americas	S1128584	\$89,962 <sup>7</sup>	\$0	N/A	N/A	N/A
<b>Subtotal Average</b>				<b>\$2,552,065</b> <b>\$850,688</b>	<b>\$12,500</b> <b>\$4,167</b>	<b>\$8,250</b> <b>\$8,250</b>	<b>3%</b>	<b>66%</b>

**Total Average**

				<b>\$9,544,670</b>	<b>\$1,112,735</b>	<b>\$858,955</b>	<b>8%</b>	<b>63%</b>
				<b>\$1,193,084</b>	<b>\$139,092</b>	<b>\$171,791</b>		

<sup>1</sup> Calculated based only on contracts with a contingency amount.  
<sup>2</sup> Original contract amount of \$70,000 plus four amendments  
<sup>3</sup> Contract amount includes amended amounts, as does the contingency.  
<sup>4</sup> The spent amount was estimated by the department  
<sup>5</sup> This is the contract amount for 03-04. The contract is renewable for 4 more years with a total contract value of \$3,889,505.  
<sup>6</sup> Contract amount includes amended amounts.  
<sup>7</sup> The original contract was for \$60,748. Amendment No. 1 added \$26,740, which includes \$1,237 for a change order.