



AUDIT DEPARTMENT

**CLARK COUNTY WATER RECLAMATION DISTRICT
CONTRACT MANAGEMENT AUDIT
for the period August 1, 2003, through August 31, 2007**

JEREMIAH P. CARROLL II, CPA
Audit Director



Audit Department

500 S Grand Central Pkwy Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120
(702) 455-3269 • Fax (702) 455-3893

Jeremiah P. Carroll II, CPA, Director • Charles W. Kendall, CPA, Audit Manager



March 21, 2008

Ms. Virginia Valentine
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Ms. Valentine:

As requested by management, we have conducted an audit of the Clark County Water Reclamation District regarding contracts with Severn Trent Laboratories and Foundation Builders Inc. General allegations have been made regarding the propriety of certain payments to contractors and employees, unauthorized payments, and other improprieties. Our procedures considered the period August 1, 2003, through August 31, 2007.

The objectives of our audit procedures were to determine if over payments occurred on the Severn Trent Laboratories contract; if payments to Severn Trent Laboratories should have been reduced upon the hiring of Brett Vandelinder as a District employee; if Tim O'Shields simultaneously benefited from the Severn Trent Laboratories and Foundation Builders contracts; and if current internal and management controls over the contracting process at the District are in accordance with statutes, regulations, and internal policies.

To accomplish these objectives, we obtained copies of the Severn Trent Laboratories and Foundation Builder's contracts and all paid invoices associated with the two contracts. The invoices were reviewed to determine if they met the terms as agreed in the contract. Additionally, we conducted interviews with key personnel and reviewed statutes, regulations, and policies to determine if the current controls in place are appropriate. We randomly selected five contracts to test that contract administrative controls are properly working and functioning as designed.

Based on the audit procedures, payments made to Severn Trent Laboratories were not in conformity with contract terms. Payments changed from an hourly rate/per diem charge to a flat fixed monthly rate during the contract term with no explanation as to the contract change or approval to change the contract. Upon the hiring of Brett Vanderlinder as a District employee, we believe the services required under the contract should have been reduced with a corresponding reduction in the contract amount. Rather than seeing a reduction, the amount paid actually increased. The current management team have implemented stronger internal and management controls over the contract monitoring process to prevent these types of problems with future contracts.

A draft report was provided to the District General Manager and his response is included. The assistance and cooperation of the Water Reclamation District staff is recognized and sincerely appreciated.

Sincerely,

/s/ Jeremiah P. Carroll

Jeremiah P. Carroll II, CPA
Audit Director

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
RESULTS IN BRIEF	3
DETAIL OF FINDINGS	3
Severn Trent Laboratories Management Contract	3
<i>Contract Change</i>	3
<i>Scope of Work not Properly Identified</i>	4
<i>Contract Hours</i>	5
<i>Supporting Documentation</i>	5
<i>Contract Amount Exceeded</i>	6
Foundation Builders Contract	6
<i>Supporting Travel Documentation</i>	6
<i>Verbal Authorization</i>	7
<i>Notice to Proceed</i>	7
Severn Trent Laboratories Analytical Services Contract	7
<i>Contract Amount Exceeded</i>	7
Other	8
<i>Internal and Management Controls</i>	8
APPENDIX	9

CLARK COUNTY WATER RECLAMATION DISTRICT
CONTRACT MANAGEMENT AUDIT
For the period August 1, 2003, through August 31, 2007

BACKGROUND

The Clark County Water Reclamation District (District), originally named the Clark County Sanitation District, was created by a decree of the District Court and authorized under Nevada Revised Statutes (NRS) as a general improvement district on August 11, 1954, and as such is a political subdivision of the state. In January 2003, the District changed its name to the Clark County Water Reclamation District to better reflect its mission. The rights to levy taxes, sell bonds, create assessment districts and the right of eminent domain all have been granted to the District. The elected seven-member Board of County Commissioners governs the District as ex-officio trustees of the District who have the power to set rates and charges. The Board also appoints a general manager to serve as the executive officer.

The present facilities of the District provide sanitary sewer service to urban areas in the unincorporated portion of Clark County. Once wastewater is conveyed to the treatment facilities, it undergoes a series of physical, chemical, and biological treatment processes to meet state and federal environmental discharge standards. These standards are set to ensure that reclaimed water leaving the District's treatment facilities is compatible with the environment. Reclaimed water is discharged into the Las Vegas Wash and flows back into the Colorado River via Lake Mead. Throughout this treatment process, water samples are tested in an onsite laboratory to ensure the water meets stringent standards before being discharged into the Las Vegas Wash.

In 2003, the State of Nevada was threatening to not certify the lab because of quality control problems. The previous general manager hired Severn Trent Laboratories, an outside consultant located in Denver, Colorado, in August 2003, to provide management and reorganization of the laboratory to meet Clark County standards and state certification requirements for compliance and quality of data, as well as provide daily management and off-site management support of the laboratory. Severn Trent Laboratories has been working for the District since 1999 doing analytical testing requirements for water, soil, and air sampling. Since the District knew of Severn Trent Laboratories, a contract was entered to provide a management plan and reorganization of the laboratory in order to meet State certification requirements. The District considered this to be an emergency as defined by NRS 332.112. Therefore, no competitive bidding process was performed. The contract was approved by the Board of Trustees on August 5, 2003. The one year contract assigned Timothy M. O'Shields as the project manager, Brett Vandelinder as lab manager, and Rich McKee to provide IT support. The contract stated that the project manager would spend 20 hours per week on-site and the laboratory manager would not exceed 40 hours per week. The contract authorized flights from Denver, as well as meals and lodging for these three individuals. The first contract agreement, in the amount of \$389,000, with Severn Trent Laboratories covered the period

of August 5, 2003, to August 4, 2004. A second contract agreement with Severn Trent Laboratories was made on September 8, 2004, for the period of August 1, 2004, through December 31, 2004. The terms of the second contract agreement were a month to month fixed cost contract not to exceed \$70,000. The scope of work stated that Severn Trent Laboratories would provide Brett Vandelinder for the day-to-day supervision and management of the Laboratory under the sole guidance of the District. This agreement was amended on January 3, 2005. The amendment added 31 calendar days and \$14,000 to the basic agreement. On February 7, 2005, a new contract in the amount of \$25,000 was signed. This new contract superseded the amendment dated January 3, 2005. The termination date for the new contract was February 22, 2005.

Additionally, the previous general manager also hired Foundation Builders to assist the District in providing desk manuals and ethics training for laboratory personnel. The owner of Foundation Builders is Timothy M. O'Shields who served as project manager on the Severn Trent Laboratories contract for the period of August 5, 2003, through August 5, 2004. The scope of services letter with Foundation Builders was signed September 21, 2004.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit procedures were to:

- Determine if over payments occurred on the Severn Trent Laboratories contract.
- Determine if contract payments to Severn Trent Laboratories should have been reduced upon the hiring of Brett Vandelinder as a District Employee.
- Determine if Tim O'Shields simultaneously benefited from the Severn Trent Laboratories and Foundation Builders contracts.
- Determine if current internal and management controls over the contracting process at the District are in accordance with statutes, regulations, and internal policies, as well as prudent business practices.

To achieve the audit objectives, we obtained copies of the Severn Trent Laboratories and Foundation Builders contracts and all paid invoices associated with the two contracts. The invoices were reviewed to determine if they met the terms as agreed in the contract. Additionally, we conducted interviews with key personnel and reviewed any pertinent statutes, regulations, and policies and procedures to determine the current controls in place over the contracting process. We randomly selected five current contracts to test that contract administrative controls are properly working and functioning as designed.

Our procedures considered the period August 1, 2003, through August 31, 2007, and the last day of fieldwork was January 25, 2008.

Our audit was conducted in accordance with the generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based



on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Payments made to Severn Trent Laboratories were not in conformity with the contract terms. Payments changed from an hourly rate/per diem charge to a flat fixed monthly rate during the contract term with no explanation as to the contract change or approval to change the contract. Additionally, the total contract price was exceeded on the Severn Trent Analytical Testing contract. Upon the hiring of Brett Vanderlinder as a District employee, we believe the services required under the contract should have been reduced with a corresponding reduction in the contract amount. Rather than seeing a reduction, the amount paid actually increased. The following table summarizes these contract overpayments.

Description	Overpayment
Severn Trent Laboratories Contract-Labor	\$172,600
Severn Trent Laboratories Total Contract Exceeded	5,330
Severn Trent Laboratories Analytical Contract Exceeded	49,129
Total	<u><u>\$227,059</u></u>

Additionally, no duplicated services were noted between the Severn Trent Laboratories and Foundation Builders contracts. The Severn Trent Laboratories contract was focused on the management of the lab, whereas; the Foundation Builders was hired to assist with desk manuals and training of lab personnel.

We noted that the new management team, that came on board January 3, 2005, has established internal and management controls over the contract monitoring process to prevent these types of problems with future contracts. These controls are in accordance with statutes, regulations, and internal policies, as well as prudent business practices.

Further information is contained in the sections below.

DETAIL OF FINDINGS

Severn Trent Laboratories Management Contract

Contract Change

The compensation for the Severn Trent Laboratories services was based on an hourly rate for the project manager, lab manager, and IT support with a flat rate per diem charge for air travel, lodging, and meals. The first contract period covered August 2003 to August 2004, with a set compensation of an amount not to exceed \$389,000. The detailed invoices for the months of August 2003 through March 2004 had the description of Clark



County lab management consultation/per diem. However, for the months of April to July 2004, the detailed invoice had a description of lab management consultation fixed rate monthly. The invoice amount and description for the April to July 2004 invoices reflects a fixed contract pricing rather than an hourly rate/per diem amount as stated in the contract. The agreement does not give any indication that the payment terms would change to a fixed contract amount during the term of this contract nor did the Board of Trustees approve the change in contract terms. Additionally, there is no invoice detail to determine how the fixed amount of \$34,000 per month was calculated. Also, during this period Brett Vandelinder, who was the consultant's lab manager, was hired as a District employee on April 5, 2004. It does not appear he was replaced under the contract per interview with laboratory personnel. The contract amount changed to a fixed rate monthly, and no documentation exists to support the contract change. Upon the hiring of Brett Vandelinder by the District, we feel that the amount paid on the contract should have been reduced by approximately \$19,400 (Brett's labor rate plus per diem) per month or \$77,600 (\$19,400 times four months) over the contract. Instead the District paid \$136,000 during the last four months of the contract period. Additionally, a second contract agreement was made on September 2, 2004, with the approval of the Board of Trustees and covered the period of August 1, 2004, through December 31, 2004. This contract was amended on January 3, 2005, but then superseded by a new contract dated February 7, 2005. The total cost of the two contracts was \$95,000 and the purpose of the extension was for Severn Trent Laboratories to provide Brett Vandelinder for the day-to-day supervision and management of the Clark County Water Reclamation District Laboratory. According to the scope of work, Brett would serve solely in this position under the direct supervision of the District. However, Brett was hired as a District employee on April 5, 2004 and resigned on February 24, 2005. As an employee, he was already under the supervision of the District and so the additional contracts in the amount of \$95,000 were not necessary. Additionally, the contract stated the following: "Consultant has or will retain such employees as it may need to perform the services required by this contract. Such employees shall not be employed by the owner." Brett Vandelinder already was a District employee prior to these new contracts.

We recommend that any such contract changes made on an executed contract should be done by amendment to the contract with the notification of all parties including the Board of Trustees and an agreement to the changes noted by signature of all appropriate parties. Additionally, the District should consult with counsel and review the contract language to determine if any recourse is available for the contract overpayment of \$172,600.

Scope of Work not Properly Identified

Detailed testing of the invoices associated with the Severn Trent Laboratories Contract revealed two invoices that appear to be separate from the contract agreement. One invoice in the amount of \$36,575 had two line items, "Initial Assessment and Corrective Action" for \$16,450 and a second line item "CC Lab Mgt Consultation/Per Diem ½ August for \$20,125." Stated on the invoice is the following: "The total invoice amount includes consulting services and per diem for the initial assessment pre contract award and the consultation fees and per diem for the first two weeks of August per contract."



The invoice gives the impression that both amounts are part of the contract i.e., pre contract award and contract. However, further inquiry disclosed that the \$16,450 was a purchase order amount and the \$20,125 was a contract amount. The invoice did not reference the purchase order or the contract. Separate invoices should have been requested with references made to the purchase order number and the contract agreement. This invoice should not have been processed for payment.

The second invoice in the amount of \$3,150 is for “Initial Assessment Presentation of Findings” again this amount was part of a purchase order. We did obtain copies of the purchase orders for these two invoices, but they did not adequately explain the purpose for the expenditure. Additionally, there was no scope of work agreement with Severn Trent Laboratories to explain the purpose or the pricing structure for this initial assessment and presentation of findings. It is good business practice to always have a scope of work or some type of documentation to support the need for the expenditure, especially when dealing with an outside consultant who is providing a service rather than a product. Since the invoices were not properly supported, the invoices should not have been processed for payment until proper documentation was obtained and verified.

Contract Hours

Exhibit A of the contract states that the hours per week for Brett Vandelinder should not exceed 40 hours per week. However, the invoice detail reflects work weeks of 50 hours per week for Brett. The hours worked by this individual should be in agreement with the terms and conditions as outlined in the contract.

We recommend that prior to processing the invoice for payment by Accounting, Contract Administration should compare the invoice to the terms of the contract and verify the details of the invoice agree with the terms and conditions of the contract.

Supporting Documentation

Two Severn Trent invoices dated August 29, 2003, and January 5, 2004 totaling \$48,255, did not have any supporting documentation for the invoices. The invoices reflect a total only with no breakdown of the hours worked. It is unknown if the documentation was provided by Severn Trent and just not maintained by the District or if documentation was never received. Since the compensation for the work performed is based on an hourly rate, the verification of the invoice amount is dependent upon the supporting documentation. Without the documentation, the payment request cannot be compared to the terms of the contract to determine if the invoice amount is in agreement with contract terms.

We recommend that all invoices are properly supported with documentation so that the pricing structure of the invoice can be agreed to the terms stated in the contract. If such documentation is not made available, then the invoice should not be processed for payment. Additionally, all received documentation should be properly maintained and available for future examination.



Contract Amount Exceeded

Section two of the contract states that the consultant is to be paid an amount not to exceed \$389,000. The total amount paid on this contract was \$394,330 for the period of August 2003 to July 2004. The contract amount was exceeded by \$5,330.

We recommend that Contract Administration review the invoices and compare the invoices to the contract to ensure that all terms and conditions are met including not exceeding the stated amount per the contract. Additionally, the District should consult with its counsel and review the contract language to determine if any recourse is available for the \$5,330 overpayment.

Foundation Builders Contract

The District also had three contracts with Foundation Builders that began September 15, 2004. The owner of Foundation Builders is Mr. Timothy M. O'Shields. Mr. O'Shields served as the project manager under the Severn Trent Laboratories contract through August 2004. Foundation Builders was hired to:

- Provide individualized work progress plans.
- Develop an organization wide individual performance standard desk manual and management training.
- Provide comprehensive laboratory compliance audit and ethics training.

As stated above, the Severn Trent Laboratories contract was extended. However, the scope of work for the contract extension did not require a project manager from Severn Trent Laboratories. Project oversight was assumed by the District. Therefore, it appears that Mr. O'Shields did not simultaneously benefit from the Severn Trent Laboratories and Foundation Builders contracts.

Supporting Travel Documentation

There are twelve invoices that represent \$20,193 in expenditures associated with travel costs for Mr. O'Shields. The invoice provides a total amount for travel (i.e. airfare, hotel, rental car/fuel, food, and transportation). However, there is no indication that actual receipts or a travel expense report was reviewed to determine if expenditures were reasonable and appropriate.

We recommend that language is inserted in all future contracts requiring receipts and travel expense reports be submitted for any expenditures that the District will cover under the terms of the contract. The receipts and travel expense report need to be reviewed to determine if they are appropriate.



Verbal Authorization

There were three invoices in the amount of \$1,500, \$6,938, and \$8,140 that represent work performed by Foundation Builders for various services. In each case, the contract/agreement reference noted on the invoice was verbal from the laboratory manager or simply verbal authorization.

Work performed by an outside consultant should never be based on verbal authorization. Per policy, consulting services are authorized by properly approved requests and are acquired by purchase orders or procurement agreements, as appropriate. Therefore, in each case, the District should require a purchase order for any work performed by outside consultants.

Notice to Proceed

We noted a total of eight invoices, four invoices that were presented for payment that referred to a letter of agreement dated September 2, 2004, and another four invoices that referred to a letter of agreement dated September 9, 2004. The dates the work was performed were September 2-3, 2004, and September 21-22, 2004, respectively. However, the documentation provided was a contract dated September 15, 2004, and signed September 21, 2004 by the General Manager.

It appears that the consultant began work prior to the date of the signed contract. Policy states that consultants must sign all required documents before they begin work for the District. Therefore, work should not begin until a contract has been properly signed.

Severn Trent Laboratories Analytical Services Contract

Contract Amount Exceeded

The District entered into a contract dated October 1, 2005, with Severn Trent Laboratories to provide laboratory analytical services at an amount of \$41,300 for the first year, with a four year renewal option, and an option to increase the amount up to 15% annually for the renewal terms. The renewal option was exercised in the second year at an annual cost of \$47,495. However, the invoice totals for the second year amounted to \$96,624. The contracted amount was exceeded by \$49,129.

We recommend that a contract payment total is maintained and reviewed each month by Contract Administration to monitor the total contract amount and ensure that it does not exceed the amount as stated in the contract.



Other

Internal and Management Controls

We selected five current contracts to determine if internal and management controls are functioning as designed. The five contracts selected for control testing were:

<u>Project #</u>	<u>Date</u>	<u>Project Description</u>	<u>Firm Name</u>	<u>Dollar Amount</u>
606	05/02/2006	Twain Pipeline Rehabilitation	HDR Engineering	\$621,419
625	09/18/2007	Pump Station Condition Assessment	V & A Consulting	1,672,685
600	03/06/2007	Cottonwood Lift Station	Brown & Caldwell	250,810
572A	04/05/2005	Laughlin Lift Station	Carollo Engineers	2,237,643
564-05	11/15/2005	Program Management Services	MWH Americas	15,204,965
Total				<u>\$19,987,522</u>

Our testing procedures disclosed that the contracts appear to be in order and proper controls are in place to provide reasonable assurance that the contracts have been properly executed in accordance with County policy, payments are proper, and contracts are appropriately monitored.



APPENDIX



Clark County Water Reclamation District

Mission: To manage reclaimed water as a resource.

March 13, 2008

Clark County Water Reclamation Management's Response Letter to Clark County Audit Department's Contract Management Audit

At the request of Clark County Water Reclamation District (CCWRD), Clark County Audit Department (CCAD) conducted an audit of all contracts and associated payments made to Severn Trent Laboratories/Test America (STL) and Foundation Builders. The audit objectives of CCAD are listed on page three of the audit report and the detailed findings of the report begin on page six of the audit report. The management's responses to the findings are listed below:

STL Laboratories Management Contracts

Contract Change

CCWRD is in agreement with the audit findings that midway through the original contract with STL, dated August 2003, the invoice amounts, and therefore payment amounts, reflect an apparent change in the contract from an hourly/per diem rate to a fixed monthly rate and a possible change in scope of services. Supporting documentation for this change was not found in the records. Personnel documentation shows that during this time CCWRD hired Brett Vandelinder as a temporary lab manager for an estimated one year term. CCWRD personnel rules required the supervisor of the lab be a CCWRD employee in order to fully supervise the lab employees. It appears that because STL was holding Mr. Vandelinder's job for him, while he was performing this supervisory function for CCWRD, CCWRD continued to pay Mr. Vandelinder's travel and Las Vegas living expenses during this interim period of temporary employment. CCWRD agrees this arrangement changed the contract and therefore should have been reduced to writing and approved by the Board of Trustees. The current policy and practice of CCWRD is for all contract changes to be documented in an amended contract which is then approved by our Board of Trustees unless otherwise delegated by the Board.

Scope of Work not Properly Identified

CCWRD is in agreement with the audit findings associated with two STL invoices which had both contract agreement services and purchase order services listed. The initial assessment services were not properly identified in either the invoices or a separate agreement. Although services were performed and therefore payment was due, it is understood that these items should have been invoiced separately and the purchase order referenced for the assessment services. The current policy and practice of CCWRD is for all invoices to reference the appropriate purchase order number or the invoice is returned to the vendor/consultant rejected and without payment.

BOARD OF TRUSTEES

Chip Maxfield, *Chair* • Rory Reid, *Vice Chair*
Susan Brager • Tom Collins • Chris Giunchigliani • Lawrence Weekly • Bruce Woodbury
Richard Mendes, *General Manager*

5857 East Flamingo Road • Las Vegas, Nevada 89122 • (702) 434-6600 • (800) 782-4324

cleanwaterteam.com

Contract Hours

CCWRD is in agreement with the audit findings relating to the hours worked by Mr. Vandelinder. The contract stated Mr. Vandelinder's total weekly hours worked would not exceed 40 hours. According to the documents associated with the invoices paid, Mr. Vandelinder did, on more than one occasion, work more than 40 hours in a week. The current policy and practice of CCWRD is to have all supporting documentation verified against the contract in order to confirm all contracted staff are working within the contract terms.

Supporting Documentation

CCWRD is in agreement with the audit findings regarding two STL invoices that did not have supporting documentation. It is the current policy and practice of CCWRD to verify that all supporting documentation accompanies invoices and that all supporting documentation is retained with the associated invoice.

Contract Amount Exceeded

CCWRD is in agreement that the original STL contract of \$389,000, dated August 2003, was overpaid in the amount of \$5,330. Current policy and practice of CCWRD is to input the full contract amount into our procurement system therefore not allowing an overpayment. Contracts are also monitored by date so services and associated payments do not occur after a contract has lapsed.

Foundation Builders Contract

Supporting Travel Documentation

CCWRD is in agreement with the audit findings. Supporting documentation for travel expense by Foundation Builders was not located. It is the current policy and practice for all travel expenses to be accompanied by receipts in order to verify costs unless a flat rate for travel expenses is agreed upon and documented in the contract. Currently all supporting documentation is retained with the associated invoice and scanned for proper retention.

Verbal Authorization

CCWRD is in agreement with the audit findings. Invoices referenced verbal authorizations for services received. It is the current policy and practice for CCWRD to acquire purchase orders for such agreements of services.

Notice to Proceed

CCWRD is in agreement with the audit findings. It appears that consultant services began prior to proper signing of the contract. It is the current policy and practice of CCWRD for all contracts to be properly signed and appropriate Board approval completed prior to services commencing.

Severn Trent Laboratories Analytical Services Contract

Contract Amount Exceeded

CCWRD is in agreement with the audit findings. The contract amount was exceeded by \$49,129 due to improper tracking of the contract services and payments; however, CCWRD did received services for all amounts paid. It is current policy and practice of CCWRD to input the full contract amount into our procurement system therefore not allowing an overpayment. Contracts are also monitored by date so services and associated payments do not occur after a contract has lapsed.

CCWRD management is currently in discussions with the Clark County District Attorney's office to determine whether any recourse is available for the payments which exceeded contact amounts.

As noted in the audit findings, a random selection of current CCWRD contracts were audited by CCAD in order to test current contract administration controls. It is our understanding that the audit findings verified that established CCWRD internal and management controls are currently in place and are in accordance with statutes, regulations, internal policies and prudent business practices.

CCWRD has initiated the Request for Proposal (RFP) process in order to have an internal controls audit completed, by an outside consultant, as a means to verify that the internal controls currently in place are appropriate to protect the assets of CCWRD. It is expected that CCWRD will bring a recommendation to our Board of Trustees for approval to negotiate and award a contract on or before May 30, 2008.



Richard Mendes
General Manager