



CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller
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September 13, 2016

Hon. James F. Kenney
Mayor
City of Philadelphia
City Hall 215
Philadelphia, PA 19102

Dear Mayor Kenney:

As part of my Office's efforts to ensure contract compliance for the City of Philadelphia, our Pre-Audit Division's Technical Unit saved \$1.3 million in Fiscal Year 2016 (FY2016) by identifying contractors who overcharged the City.

The Technical Unit, which consists of auditors and an engineer, reviews capital projects as well as examines engineering and construction-related expenditures on a daily basis. In fact, this small team reviewed more than \$275 million in contract invoices in FY2016 and discovered areas where contractors billed for incorrect taxes and insurance rates, charged for equipment that was never used for projects and billed for hours that were never worked by employees or subcontractors.

The enclosed summary report provides an outline of our work, a breakdown of savings by departments, and a list of all the FY2016 projects where we were able to save money for the city.

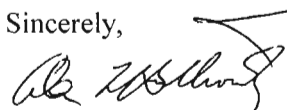
For example, \$272,131 was saved by uncovering a contractor who billed for incorrect equipment and labor charges relating to asbestos remediation projects. More than \$86,000 was saved by uncovering a contractor who billed for several items that were not permissible under the contracted terms for work at City Hall, including grooved concrete for the apron around the building which never occurred.

Our efforts have led to an education outreach initiative to help city departments identify areas where contractors are overbilling or billing incorrectly. This is to help city personnel discover the potential issues at the ground level before they reach our inspectors. Improved education provided by our team will help the City save even more money and more importantly, operate in a more efficient and effective manner.

As we continue our work with assisting other city departments, it is important that the procurement personnel and inspectors in these departments have the necessary resources to ensure the city is paying for quality contracted work at the appropriate, agreed-upon rates.

We look forward to continuing our working relationship with your Administration in placing the City of Philadelphia on the forefront of contract compliance for municipal projects.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan Butkovitz", with a stylized flourish at the end.

ALAN BUTKOVITZ
City Controller



Summary of Contract Compliance Oversight Savings Identified by Pre-Audit's Technical Unit

Fiscal Year 2016

Overview:

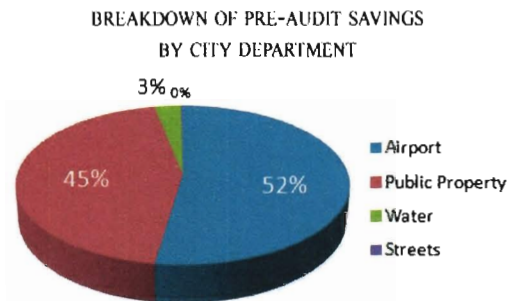
The City Controller's Pre-Audit Unit is responsible for approving disbursement requisitions for payment from the City Treasury. A division within Pre-Audit, the Technical Unit, consists of auditing and engineering staff that review capital projects as well as examine engineering and construction-related expenditures. Not only does this team examine invoices and payments but it conducts on-site inspections and confronts contractors and representatives of city departments when there are issues.

The Technical Unit identifies areas where contractors overcharge the City, which can cost millions of dollars in unnecessary tax dollars. By examining invoices, the Technical Unit can determine if contractors are billing for incorrect taxes and insurance rates, equipment that was never used for a project and hours that were never worked by employees or subcontractors.

Results of Contract Compliance:

The Pre-Audit Unit reviewed \$275,267,610 in contract invoices throughout Fiscal Year 2016. A breakdown of these savings included the following:

- A total of almost \$1.3 million in tax dollars was saved through the efforts of the Technical Unit's contract monitoring in Fiscal Year 2016.
- The majority of savings, 52 percent, were related to contracts at the Philadelphia International Airport. The bulk of these savings were the result of recovering money from contractors charging rates higher than allowable by contract or recovering money from contractors charging additional fees for costs that are included as part of the original contract.
- On a city-wide Department of Public Property contract for asbestos remediation, \$272,131 was saved due to identification of incorrect equipment and labor charges.
- Almost \$86,400 was saved by uncovering a contractor who billed for several items that were not allowable by the contract for work done at City Hall. This included billing for grooved concrete for the apron around City Hall, which was not implemented.



A summary of savings by department includes the following:

Department	Savings	% of Total
Airport	\$665,105	52.4%
Public Property	\$565,932	44.5%
Water	\$36,550	2.9%
Streets	\$2,821	0.2%
Total	\$1,270,408	100.0%

A complete list of all FY2016 savings and projects can be reviewed in Attachment A.

Moving Forward

The City Controller's Pre-Audit Unit has already launched an education outreach initiative to help city departments identify areas where contractors are overbilling or billing incorrectly. The City Controller's Pre-Audit Deputy Controller and in-house Engineer have been providing presentations and workshops to inform personnel who oversee capital contracts in all departments what to look for once they receive an invoice and how to properly use tools and resources to determine the appropriate cost for work performed.

The major departments that complete capital work have adjusted their process of reviewing invoices that include labor rates, taxes and insurances, material costs, equipment rates and necessity of equipment.

ATTACHMENT A

Pre-Audit Contract Compliance: Monitoring & Reviewing Invoices, Saving Tax Dollars						
Fiscal Year 2016						
Project	Address	Department	Savings	Date	Issue(s)	Issue Explained
1 On call Contract	PHL	Airport	\$ 274,000.00	8/11/2015	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
2 Asbestos Remediation	City-wide	Public Property	\$ 148,500.00	6/11/2016	Equipment Rates	The contractor was billing their truck at a rate higher than allowable
3 Asbestos Remediation	City-wide	Public Property	\$ 123,631.24	3/8/2016	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
4 On call Contract	PHL	Airport	\$ 110,000.00	8/3/2015	Labor Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
5 On Call Contract	City-wide	Public Property	\$ 95,483.75	10/13/2015	Labor rates, equipment rates, labor hours, supervision, necessity of equipment	The contractor had incorrectly billed labor hours, labor rates, equipment hours, equipment rates, fuel, supervision, small tools, etc.
6 City Hall Work	City Hall 1401 John F. Kennedy Blvd.	Public Property	\$ 86,385.75	1/20/2016	Job Order Contracting System Issues	The contractor billed for several items that were not allowable under the contract. In some instances, costs were added which were not permissible according to the contract.
7 On Call Paving	PHL	Airport	\$ 58,253.27	10/5/2015	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
8 On call Contract	PHL	Airport	\$ 57,000.00	8/27/2015	Labor Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
9 On call Electrical	City-wide	Public Property	\$ 55,113.00	10/22/2015	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
10 On call General Construction	PHL	Airport	\$ 54,626.34	5/10/2016	Math Error	The Controller's Office identified a math error on the contractor's invoice
11 Demolition at Airport	PHL	Airport	\$ 52,097.00	5/5/2016	Change order cost was too high (lump sum)	The cost for a demolition change order appeared high so the Controller's Office challenged the cost and it was reduced.
12 TSA CCTV Project	TSA CCTV Expand Project Phase III	Airport	\$ 33,061.00	7/28/2015	Warranty, Project Manual, Handling Hours, General Requirements	The contractor billed for several items that were not allowable or were included as part of a separate cost. These items included freight, warranty markups, handling, inappropriate night shift differential, and general requirements.
13 On call Electrical	City-wide	Public Property	\$ 27,584.00	12/10/2015	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
14 On call mechanical	PHL	Airport	\$ 20,778.00	7/31/2015	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
15 Water and Sewers	Water and sewer in Hansbury St. etc	Water	\$ 7,456.59	2/25/2016	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
16 Nursing Home	2100 West Girard Ave.	Public Property	\$ 7,418.28	6/29/2016	Job Order Contracting Proposal Review	The Controller's Office identified several cost components that were not billed according to the contract.
17 Water Pollution Control Plant	3899 Richmond St.	Water	\$ 7,250.48	4/4/2016	Supervision Charges, labor rates, labor hours, taxes and insurances	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable. Additionally, the contractor billed for eight hour days when the workers only worked 7.5 hour days. The contractor used improper labor rates for labor foreman. They billed for a supervisor but it was covered by the markups and is not billed separately. There was no evidence of "concrete finishers" being on the site on 7/17/15 but the contractor invoiced as if they were. The billing rate for a plumber does not agree with the certified payroll.
18 Raw Water Basin	Improvements to Belmont Raw Water Basin, Belmont Ave. and Ford Ave.	Water	\$ 7,208.82	10/14/2015	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
19 Water and Sewers	G. Street from Allegheny Ave. to Ontario St.	Water	\$ 4,795.08	3/4/2016	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
20 Health Center	1900 N. 20th St.	Public Property	\$ 4,221.75	5/11/2016	Excessive labor hours	The cost for engineering review appeared high so the Controller's Office challenged the cost and it was reduced.
21 Raw Water Basin	Improvements to Belmont Raw Water Basin, Belmont Ave. and Ford Ave.	Water	\$ 3,739.22	7/7/2015	Taxes and Insurances Rate	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
22 Zoo Building	3400 West Girard Ave.	Public Property	\$ 3,159.96	3/29/2016	Missing Equipment on a credit change order	The contractor did not include necessary equipment in his credit change order proposal.
23 Police Building	Police Headquarters 4601 Market St.	Public Property	\$ 2,566.00	10/1/2015	Personal Protective Equipment, Tools	They billed for several items that are not allowable, including safety vests, hard hats, thermometers, a digital camera, etc.
24 Water Mains	Water main in Olney Ave.	Water	\$ 2,213.10	2/29/2016	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable. In addition, there was an unallowable markup on the equipment cost.
25 Citywide ADA Ramps	City-wide	Streets	\$ 2,000.00	3/9/2016	Inaccurate Unforeseen conditions	The contractor billed for a high value for "unseen conditions" which the Controller's Office had lowered.
26 Water and Sewer	Water and sewer in Lippincott St, Ontario St., etc..	Water	\$ 1,933.46	6/22/2016	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable. They also billed higher labor rates than the workers were paid.
27 On call Contract	PHL	Airport	\$ 1,683.00	5/26/2016	Markups	The contractor billed a subcontractor as material which raised the markup.

28	Canoe House	2400 Kelly Dr.	Public Property	\$ 1,602.80	5/13/2016	Labor Rates and Taxes and Insurance Rates	Incorrect taxes and insurances rates - contractor billed for rates higher than allowable
29	Police Building	New Police Training Center 2838 Woodhaven Rd.	Public Property	\$ 1,513.00	10/6/2015	Equipment Rates, Markups, Labor Costs	Contractor billed equipment at rates higher than designated by the Blue Book rate.
30	Police Building	Police Headquarters 4601 Market St.	Public Property	\$ 1,325.00	4/1/2016	Credit for work not completed	The contractor billed for work that was not completed.
31	Job Order Contracting Electrical	City-wide	Public Property	\$ 1,269.96	3/5/2016	JOC Labor Rate	They billed the electrician hours incorrectly. The rate is defined by the contract but the contractor used a higher rate.
32	Airport Signs	Philadelphia International Airport signage upgrade project	Airport	\$ 1,157.00	2/25/2016	Taxes and Insurances Rate	incorrect taxes and insurances rates - contractor billed for rates higher than allowable
33	Airport Signs	Philadelphia International Airport Multi User Flight Information Displays	Airport	\$ 1,005.26	3/8/2016	Credit Markup	The contractor did not include the required credit markup on credit change order work.
34	Water pollution control plant	3899 Richmond St.	Water	\$ 943.80	6/7/2016	credit markup	The contractor did not include the required credit markup on credit change order work.
35	Roof of City Building	1401 John Kennedy Blvd.	Public Property	\$ 861.33	3/28/2016	Credit Markup	The contractor did not include the required credit markup on credit change order work.
36	Incinerator	North Delaware Ave. and Wheatshaf Lane	Streets	\$ 820.80	7/8/2015	Supervision Charges	Supervision was billed on a time and materials contract but supervision is included in the contract and by the labor markups, and is not allowed to be billed additionally.
37	Water and Sewer	Reconstruction of sewers and water mains in Buckius St., etc.	Water	\$ 749.33	6/28/2016	Taxes and Insurances Rate	incorrect taxes and insurances rates - contractor billed for rates higher than allowable
38	Police Building	New Police Training Center 2838 Woodhaven Rd.	Public Property	\$ 748.64	8/21/2015	Labor Hours, Equipment rates, General Liability Insurance	incorrect taxes and insurances rates - contractor billed for rates higher than allowable. Additionally the contractor billed for eight hour days when the workers only worked 7.5 hour days. They used improper labor rates for labor foreman.
39	Library	4634 Frankford Ave. and 5543 Haverford Ave.	Public Property	\$ 711.97	6/13/2016	Labor rate, materials, equipment rates	The contractor's labor rate was higher than allowable and his material costs were higher than the local market.
40	On Call Electrical	City-wide	Public Property	\$ 640.50	4/12/2016	Small Tools	The contractor billed for small tools which is not allowed by contract.
41	City Hall Work	City Hall 1401 John F. Kennedy Blvd.	Public Property	\$ 634.00	9/23/2015	Material Cost	Incorrect material dimensions. Eight foot bollards were billed for but only six foot bollards were installed.
42	Playground	1800 Johnston St.	Public Property	\$ 590.27	5/20/2016	material cost, equipment cost, labor hours	The contractor billed for materials at higher rates than typical which were restored after the Controller's Office questioned the charges.
43	On call Contract	City-wide	Public Property	\$ 513.75	7/28/2015	Math Error	The Controller's Office identified a math error on the contractor's invoice
44	On Call Paving	PHL	Airport	\$ 465.32	2/23/2016	Operating Equipment	The contractor billed for equipment as operating when it was not.
45	City Hall	City Hall 1401 John F. Kennedy Blvd.	Public Property	\$ 415.65	7/16/2015	Bond Charge	A bond charge was billed by the contractor but contracts are required to be bonded to the contract limit, so no additional bond charges apply if the contract does not exceed the contract limit
46	Police Building	New Police Training Center 2838 Woodhaven Rd.	Public Property	\$ 403.68	1/28/2016	Equipment Rates	Contractor billed equipment at rates higher than designated by the Blue Book rate.
47	Police Building	New Police Training Center 2838 Woodhaven Rd.	Public Property	\$ 388.00	11/2/2015	Equipment rates, supervision	Contractor billed equipment at rates higher than designated by the Blue Book rate.
48	On call contract	PHL	Airport	\$ 379.62	2/1/2016	Small Tools	The contractor billed for small tools which is not allowed by contract.
49	On call Contract	PHL	Airport	\$ 330.18	2/22/2016	Small Tools	The contractor billed for small tools which is not allowed by contract.
50	On Call Mechanical	PHL	Airport	\$ 269.36	5/25/2016	Gas cylinder deposit	The contractor billed for the deposit on a gas cylinder but did not credit the city for returning the cylinder until the Controller's Office questioned the charge.
51	Water Plant Work	3110 W. Queen Lane	Water	\$ 260.18	2/4/2016	Bond Charge*	A bond charge was billed by the contractor but contracts are required to be bonded to the contract limit, so no additional bond charges apply if the contract does not exceed the contract limit
52	Fire Department	1900 Cottman Ave.	Public Property	\$ 128.03	3/10/2016	Material Tax	The contractor marked up material tax, which is forbidden.
53	Police Building	New Police Training Center 2838 Woodhaven Rd.	Public Property	\$ 121.34	7/24/2015	Markups	The Contractor used two unallowable markups which were identified and removed by the Controller's office
				\$ 1,270,407.86			