



City of Seattle

Office of City Auditor

Susan Cohen, City Auditor

Date: November 22, 2000

To: Dee Smiley, Boundary Project Manager
Seattle City Light

From: Patti Jones, CDR Consultants, Inc. *(Handwritten initials)*
Eileen Norton, Office of City Auditor *(Handwritten initials)*

Re: Review of R.W. Beck's Labor Rates & Computer Charges

On September 28, 2000, we met with you and representatives from R.W. Beck (Beck) to discuss the items outlined in Patti Jones' memorandum to you, dated September 26, 2000. The two major areas of concern were: 1) rates Beck paid to its employees, and justifications for salary increases that appeared to be greater than industry standards, and 2) supporting documentation for Beck's computer charges to Seattle City Light. At the conclusion of this meeting, it was decided that we would visit Beck's Seattle office to review documents related to these two areas.

On November 13-14, 2000, we reviewed documents at Beck's Seattle office and also spoke with Beck personnel regarding the matters outlined in my September 26, 2000 memorandum.

Beck 2000/2001 Salary Increases

From the information initially provided by Beck, it appeared that many salary increases were above the industry standard of 4-5%, and Beck had not offered any explanation why these individuals received substantial increases. During our review we discovered that in some instances the rates reported to City Light were not the rates eventually approved by Beck's management. In short, City Light was receiving the salary increases recommended by supervisors, but in some instances Beck management approved a lower increase.

As you will note on the attached spreadsheet, other than Russell Stepp, the significant percentage increases were for administrative staff. The justification for the majority of those raises is attributed to performance and peer level. At the onset of the review at Beck's offices, Russell Stepp provided a lengthy explanation on salary increases; tough labor market, workforce availability, retention, etc. Oddly, the largest percentage increases were for administrative staff. They do not appear to be affected by the labor situation. Russ gave us the impression that they are having a very difficult time retaining quality staff. If you review the hire dates for administrative staff this does not appear to be the case.



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During our review Beck provided the actual salary increases, which brought them more in line with industry standard. It also appeared that Beck sometimes failed to report interim salary adjustments. For instance, one individual received a raise after six months of employment and then another after his year anniversary. Beck did not report that initial salary adjustment, but rather reported only the second increase. Where an employee received a salary adjustment greater than 5%, Beck has provided justification in support of those increases. OCA recommended to Beck that, in the future, they provide salary justifications when increases exceed the industry averages.

Our review focused only on Beck's rate increase for 2000/2001. Annual rate adjustments for subconsultants' staff appears even more confusing because they are not reported all at once, rather they "trickle in" to Beck from the subcontractors and then to City Light.

OCA prepared the attached spreadsheet that shows the salary rates from 1998 through 2000, the respective annual percentage increase, and justifications for increases identified as exceeding industry averages. (We have also attached other confidential salary information provided to us by Beck during our review.)

Recommendation:

- (1) Beck should report annual salary increases in a form the same or similar to the spreadsheet OCA prepared. Only "approved" salary increases should be reported and any increases that exceed the average industry rates adjustments should be justified to City Light.

In addition, Beck should follow the same procedure for reporting annual subconsultant salary increases.

Timesheets, Invoices & Monthly Progress Reports

OCA spot checked the invoices for May through July 2000 and compared them to the timesheets provided by Beck to check that the hours billed to City Light matched the hours listed on individual timesheets. We found no irregularities between the hours listed on the timesheet and the hours listed on the invoices. Beck employees complete electronic timesheets that are linked to the billing system. Thus, timesheets are entered only once avoiding data entry errors. Supervisors review the timesheets on-line and in the event that changes need to be made, the supervisor can "unsubmit" the timesheet and request the employee to revise time charges.

OCA also spot checked the hourly salary rates for individuals and compared them to the invoices submitted to City Light. We found no discrepancies between the rates charged to City Light and the list of rates provided to us by Beck.

OCA attempted to compare the narrative in the progress reports to the hours spent on various tasks to assess what discrete tasks employees are working on within the larger project task. However, the timesheets do not list discrete activities performed on a particular task, and the progress reports do not provide sufficient detail to make this

assessment. The manner in which employees bill their time did not allow OCA to specifically determine what an employee did relative to any billing task.

Our purpose in reviewing timesheets was to determine why so many individuals bill to Task 002 – Project Management. Many administrative staff and some engineers bill to this task. OCA understands that the Project Management task allows for time spent in meetings to be charged to this task. This accounts for the engineers billing time to Project Management but does not explain many of the small time charges billed by administrative staff. Typically, the project is assigned administrative staff so that these individuals develop a learning curve of specific to the needs of that particular project. For the Boundary Project, it appears that administrative staff are utilized on an as-available basis rather than assigning the same individuals. Also, some of the administrative staff that bill to Boundary work in accounting department, so it appears that City Light is being charged for Beck preparing their invoice to City Light. OCA cannot confirm what the accounting administrative staff is doing because their timesheets only show "Task Project Management." Any effort by Beck to prepare the invoice is paid for as part of the indirect overhead rate City Light pays. OCA did receive a Project Organization Chart that helped to bridge our understanding of who is assigned to the project but it only shows the engineers and managers. (Attached.)

OCA then evaluated the monthly progress reports to see if we could determine the specific work efforts under each of the tasks. The progress reports are marked up and modified from month to month but often do not provide enough detail to assess what work has been accomplished. A more detailed description of the month's work would provide both City Light and other stakeholders a more thorough understanding of the project's current status and the progress being made on each task within the project. A more detailed monthly report would also provide City Light more information with which to review monthly invoices.

Recommendations

- (1) Beck employees billing the Boundary Project should include comments on their timesheets indicating what they worked on during the time being billed, rather than just billing to the main task number. Beck indicated there is a short field in which employees can include comments.
- (2) The monthly progress reports could include a more detailed narrative description of the work accomplished during that month. Because Beck has been on the Boundary project for quite a while, it appears that their reporting processes might have become rather lax. The Project Manager should be encouraged to accurately assess the progress and report the specifics of what was accomplished.

Project Management Task

As we mentioned during our last meeting with you, we noted that numerous engineers and administrative personnel charge to the Project Management Task. In some instances, an engineer may bill significantly more hours under project management than

he/she will under a particular engineering task. Besides the Project Management Task, only tasks 009 and 011 have substantial ongoing work. OCA was unable to reconcile why so many different individuals were billing against the Boundary Project when the majority of the work is being accomplished by a handful of engineers.

In July 2000, three engineers provided most of the work billed to City Light. OCA understands that Beck provides project management oversight to the subconsultants on the project but this would primarily be done by Beck's Project Manager on the Boundary Project. However, project management costs represent 51% of the total direct labor costs for the month. While the Contract permits meetings, etc., to be charged under this task, there is no way to determine what these individuals have done to move the work forward because neither the timesheets nor the monthly progress reports provide sufficient detail to make such a determination.

Recommendations

- (1) City Light may want to limit the functions that can be billed as "Project Management". OCA recommends, for future amendments to this Contract, that City Light include a listing of tasks that are considered to be project management functions. City Light may want to consider limiting the project management budget to only supervision of employees assigned to Boundary and oversight of subcontractors. By doing so, then work that is associated with engineering would be tracked under the engineering tasks, and City Light could limit the circumstances where miscellaneous undefined work effort are billed to Project Management.

Overhead Rate

We would also note that Beck informed us that it has switched to a regional overhead rate because Beck's cost of doing business differs from region to region. For example, regions outside of Washington do not pay B&O tax. Therefore, these other regions should not be forced to absorb such costs into their overhead. We are not commenting on whether or not we agree or disagree with Beck's move to a regional overhead, rather we are informing you that Beck will want to renegotiate its overhead rate on this contract. We were informed that the Northwest Regional overhead rate has been calculated at 188.65%, inclusive of B&O tax (Reference: R.W. Beck Northwest Regional Summary of Indirect Cost Rate Computation, which is attached) and exclusive of computer expenses.

OCA did not review how the corporate allocations are passed on to the Regional Offices. Further, OCA did not review or validate whether unallowed expenses are removed from the corporate allocation prior to apportioning it to the Regional offices.

Recommendation

- (1) OCA believes there is room for negotiation on the new O/H rate. As a comparison, SPU is contracted with HDR whose FAR O/H rate is 161.67%. City Light has the right to pay only reasonable costs. Just because one firm does not operate as efficiently as another, does not mean that City Light just has to accept the higher rate. When another

amendment to the Contract is executed, it would be an appropriate time to negotiate this item if Beck does seek an increase to its current overhead rate.¹

Computer Charges

Beck provided OCA a copy of the "Computer Cost Analysis for 12/31/99", which is included in the backup documentation we have attached to this memo. Beck totals any charge related to the computer centers in their offices. The computer expenses total \$1.6M. This figure is then divided by 610,442 hours. We are assuming these are the number of direct labor hours charged to projects. We need to verify this with Connie Sousa when she returns from vacation on 11/24/00. As of 1999, the computer charge calculates at \$2.62/computer hour. Beck indicated that they have evaluated computer charges as a part of indirect costs and as a direct cost item, and there is nominal difference between the two methods. Beck's current accounting procedure automatically bills the City Light \$2.50/each and every hour billed on the Boundary project.

Recommendation

- (1) City Light as a whole should develop a consistent approach on how it will pay for computer expenses. Each engineering firm is charging the City in a different manner. OCA realizes that little can be done on this contract other than requiring substantiating information if adjustments to the current rate are requested by Beck.

If you have any questions, or wish to discuss these issues further, please feel free to call or email us. Patti can be reached at (760) 602-9709 or pjonescdr@aol.com and Eileen can be reached at 233-1092 or via email.

Attachments

cc: (w/o attachments)
Dana Backiel, Deputy Superintendent, Seattle City Light
Becky Rufin, Deputy Director, Boundary CIP, Seattle City Light
Susan Cohen, City Auditor

¹ We would note that representatives from the Consultant Engineer Council of Washington (CECW) and the City, including Jim Karosich of SCL, Susan Cohen, City Auditor, and Russ Stepp from R.W. Beck will be doing a general review of overhead rates and identifying issues for further analysis.

