CITY AUDITOR'S OFFICE

CITY OF ATLANTA

# PERFORMANCE AUDIT:

## Watershed Management
## Contract Amendments, Extensions, and Alternative Procurements

June 12, 2025
Project No. 24.08

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# CITY OF ATLANTA

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June 12, 2025

Honorable Mayor and Members of the City Council:

Contract changes and alternative procurements carry risks of reduced competition, which can lead to higher costs or lower-quality goods and services. This audit evaluates whether Watershed Management has adequate controls to ensure fair and competitive procurement practices. We reviewed 298 Watershed Management contracts and found that 80% were competitively procured, while 20% used alternative methods. However, some contracts were later modified, increasing contract values by 132%, and raising concerns about reduced oversight and diminished competition. We recommend that the chief procurement officer submit quarterly updates to City Council on contract modifications, provide clear guidance for documenting contract changes, and establish record-keeping procedures for contract files to strengthen oversight and transparency. Management agreed with all three recommendations.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We sent a draft report to management on April 22, 2025, and received their response on May 18, 2025. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Duane Braithwaite, Imani Adams, Kathy McCauley, and Chris Armstead.

Amanda Noble
City Auditor

Donald T. Penovi, CPA
Chair, Audit Committee

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# Audit Objectives

Contract amendments, extensions, and alternative procurements are inherently risky because they can signal a noncompetitive selection of a contractor, putting the city at risk of paying too much and/or accepting low-quality or non-compliant goods or services. This audit assesses whether Watershed Management has controls in place to ensure the department is requesting its procurements fairly and with as much competition as is appropriate.

This report addresses the following objectives:

1. What controls are in place to ensure Watershed Management's use of alternative procurement methods and contract modifications comply with city procedures?

# Executive Summary

## *What We Found*

The city aims to use competitive methods to procure goods and services in order to obtain lower costs, higher quality, and greater transparency in the procurement process. City code, however, gives the chief procurement officer broad authority to approve alternative methods when competitive methods are not practical. We reviewed 298 Watershed Management contracts and found that 237 (80%) were procured using competitive methods—requests for proposal and invitations for bid—and 61 (20%) were procured using alternative methods—sole source, emergency, and special procurement.

Although most of the department's contracts were competitively procured, 47 of those contracts were later modified, adding money, scope, or other changes using amendments, extensions, and/or change orders. Although contract modifications may be needed when unforeseen conditions arise, they can reduce competition and weaken oversight. The total value of all modified contracts (both competitively and noncompetitively procured) increased 132% after post-award modifications. If the modified value of those contracts had been included from the start, some would have been subject to greater scrutiny, including legislative review, IPRO reviews, and joint venture requirements. We also found that contract files lacked detailed justification for post-award changes, as well as justification for the user agency's request and chief procurement officer's approval of alternative contracts. Competitive procurement promotes efficiency and transparency, but post-award modifications have the potential to weaken controls, such as appropriate oversight, and missing documentation could be a red flag for potential fraud.

## *What We Recommended*

We recommend that the chief procurement officer provide a list of contract modifications in quarterly reports to the Finance Executive Committee for enhanced transparency. We also recommend that the chief procurement officer establish and provide guidance to all departments on the level of written detail that should be documented and maintained in contract files to justify contract modifications. Finally, we recommend that the city establish a record-keeping process and document retention procedure for contract files, as outlined in the city code.

# Background

The city code authorizes the CPO (Chief Procurement Officer) to administer the procurement function and establishes citywide processes for the function. Although Procurement assists departments in procuring goods and services, departments—including Watershed Management—are responsible for managing contracts once they are finalized.

Watershed Management (Department of Watershed Management) provides high-quality drinking water and wastewater services to residential, business, and wholesale customers while protecting Atlanta's urban waterways, conserving natural resources, and providing clean, safe water for downstream customers. Watershed Management relies on Procurement's (Department of Procurement) policies and procedures to manage and procure contracts.

Procurement assists with the purchasing of commodities, services, and construction for all departments and agencies within the city. Both Procurement and Watershed Management have had multiple leadership changes since 2017.

The city uses both competitive and alternative procurement methods. Competitive procurements have more oversight and controls than alternative procurements, which helps the city achieve its goal of maximizing cost-effectiveness; however, city code Sections 2-1191 through 1192 state that the city may use alternative non-competitive or less competitive methods—sole source, special and emergency procurements—under certain circumstances. The advantages of using competitive procurements include lower costs; higher quality; and greater transparency, which reduces the possibility of favoritism. Competitive procurements have specific guidelines as defined in Sections 2-1188-1189 of city code, to ensure fairness, transparency, economy, and enhanced public trust.

A contract modification is any written change to a contract's terms, such as a change in price or scope of work and/or additional time added to the completion date. City code Section 2-1292 states that the CPO is authorized to execute contract modifications that increase contracts by less than 10 percent in emergency situations or when approved by City Council. Contract modifications include amendments, change orders, and extensions. An amendment is an agreed-upon addition to, deletion from, correction, or modification of a document or contract. Procurement stated that it uses the terms "change order" and "amendment" interchangeably, implying that these terms are treated as having the same meaning, regardless of the nature of the change. Extensions are actions that extend the contract termination date, the CPO has the authority to extend an active contract up to 90 days after the expiration date when certain conditions are met.

Exhibit 1 shows competitive and alternative procurement methods. Requests for proposals and invitations for bid are competitive; sole source procurements are noncompetitive, and special, and emergency procurements are alternative, less competitive methods. Our audit focuses on alternative procurement methods and post-award contract modifications.

**Exhibit 1: City Uses Both Competitive and Alternative Procurement Methods**

| Type of Procurement | Procurement Method | Definition | Award Process |
|---|---|---|---|
| **RFP (Request for Proposal)** | Competitive | Used when cost is not the driving factor; emphasis is placed on identifying the most responsible supplier who will provide the best value for money spent by the city. | City evaluates proposals to an RFP using a scoring matrix based on a variety of factors, including price, understanding of the scope and objectives, expertise, qualification of team members, experience, technical approach, past performance, and other evaluation criteria. |
| **IFB (Invitation for Bid)** | Competitive | Used when price and responsibility are the driving factors considered. | City evaluates bids and awards contracts to the responsive bidder with the lowest price. |
| **Sole Source** | Noncompetitive | Purchase order or contract that is awarded without competition when the CPO determines (in writing) that there is only one source for the required supply or service after conducting a review of the available resources. | CPO may award a contract or purchase without competition after a good-faith due diligence review of reasonably available sources. |
| **Special** | Less Competitive | Used when the CPO deems that using sealed bidding or sealed proposal methods of procurement is contrary to public interest. Must not technically qualify as sole source. | CPO has the discretion to require limited competition or decide there is only one logical choice of vendor to provide the needed services or commodities. |
| **Emergency** | Less Competitive | The purchase of supplies, services, or consulting needed under emergency conditions. These purchases should be made with as much competition as possible under the circumstances present at the time and should follow the Procurement code. | CPO may authorize others to procure supplies, services, construction items, or professional or consulting services using competition as is practical under the circumstances. |

**Source**: Developed by auditors based on Procurement Standard Operating Procedures

# Findings and Analyses

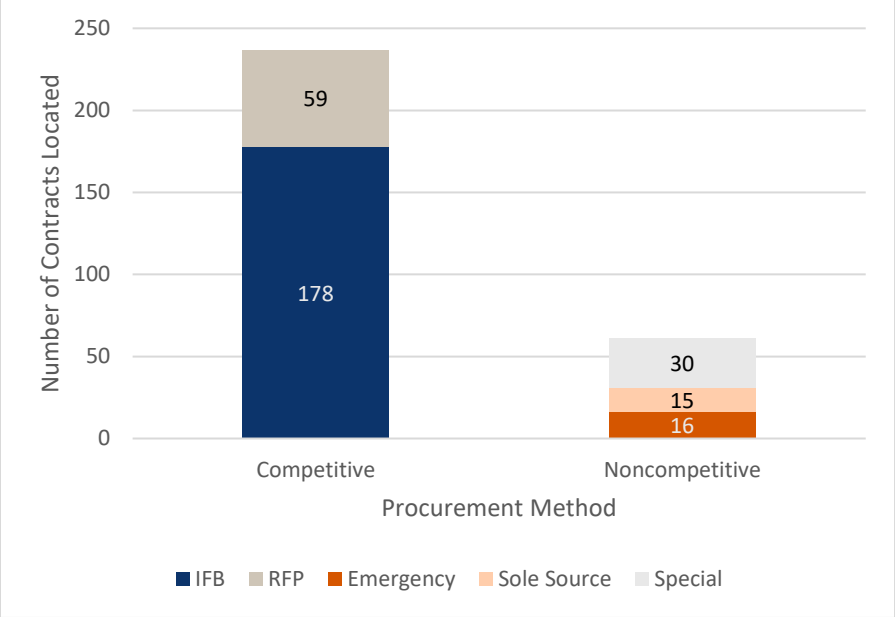
## Objective 1: What controls are in place to ensure Watershed Management's use of alternative procurement methods and contract modifications comply with city procedures?

Of the contracts we were able to locate for review, we found that the majority had been competitively procured. We located 298 Watershed Management contracts, and the majority—79.5% (237 of 298)—were procured using either requests for proposals or invitations for bid. We found 61 alternative contracts.

### *Most of Watershed Management's Contracts Were Competitively Procured*

Exhibit 2 shows the number of contracts within our population and the method through which they were procured. Invitations for bid (IFBs) were most used.

**Exhibit 2: Majority of Watershed Managements Were Competitive**




**Source:** Developed by auditors using Watershed Management's contract data

We reviewed contracts from multiple systems within Watershed Management, Procurement, and Oracle Cloud, the city's financial system. Both Watershed Management and Procurement staff told us that there was not one location in which all contracts could be found because some historical paper contracts have not been uploaded electronically. Of the 298 contracts we were able to locate and determine the dates of execution, the oldest contract execution date was June 16, 2010, and the most recent execution date was September 24, 2024. Our analysis excluded citywide contracts, IGAs (Intragovernmental Agreement), MOUs (Memorandums of Understanding), contract or bid numbers that could not be identified, RFIs (Request for Information), and Co-ops (Cooperative Agreements).

Where we were able to identify the value, the contracts in our population totaled approximately $1.2 billion. The amount does not include amounts for all 298 contracts, because some only included price lists, as is common with annual contracts for commodities, and other contracts did not include the contract value.

## About 20% of Competitively Procured Contracts Were Subsequently Modified

Of the 298 contracts we found, 80% were procured competitively. But we identified 62 that were modified after the contracts were awarded—these include both competitively and alternatively procured contracts. The modifications included amendments, extensions, and/or change orders; some had multiple modifications and amendments. The contract modifications added value, time, and/or additional user departments.

Although contract modifications may be needed when unforeseen conditions arise, they can reduce competition and weaken oversight. Modifications can change the original terms of the contract, including value, time, or scope. As defined in city code Section 2-1292, the CPO is authorized to execute contract modifications that increase contracts by less than 10 percent in emergency situations or when approved by City Council. .

Other contract modifications may occur due to the nature of the project delivery method, for example in design-build contracts, where the total cost of a project may not be negotiated at the time of the initial contract. Watershed Management told us that when using this method, it enters into a two-phase agreement with the service provider to design and then build a project. The design-build method incorporates two project phases—the design of a project is referred to as phase I, and construction is phase 2. Watershed Management told us their design-build contracts usually have modifications that occur after phase I has reached approximately 60% completion; by that time, the service provider and the city have reached an agreement on the construction cost. An amendment to add the cost of phase II to the original contract is then presented to City Council for approval.

Of the 237 competitively procured contracts we located, 47 (20%) were modified, as shown in Exhibit 3. The modifications added either value and/or time to the original contracts. Of 61 total noncompetitive contracts, 15 (25%) were modified.

**Exhibit 3: 21% of All Contracts Were Modified; 20% Were Initially Competitive**

| Procurement Method | Count | % of Contracts |
|---|---|---|
| Competitive Contracts | | |
| Competitive | 190 | 80.2% |
| Competitive Then Modified | 47 | 19.8% |
| Total Competitive | 237 | 100.0% |
| Noncompetitive (Alternative) Contracts | | |
| Noncompetitive | 46 | 75.4% |
| Noncompetitive Then Modified | 15 | 24.6% |
| Total Noncompetitive | 61 | 100.0% |
| Total of All Contracts | | |
| Competitive Total All Contracts | 237 | 79.5% |
| Alternative Total All Contracts | 61 | 20.5% |
| Total of All Contracts | 298 | 100% |
| Total of Modified Contracts | 62 | 20.8% |

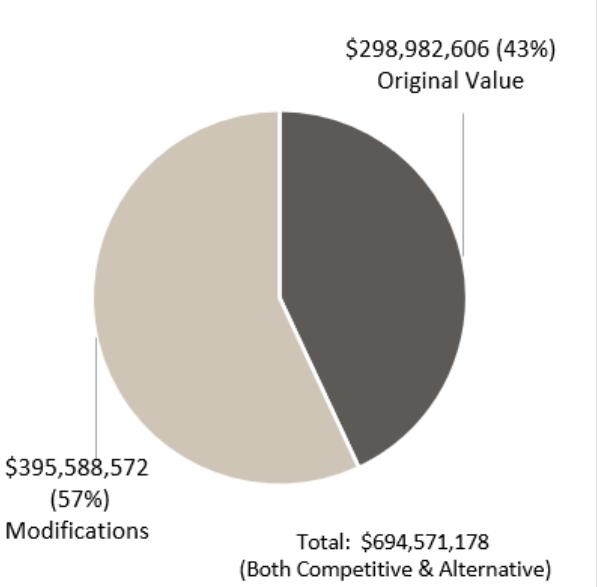
**Source:** Developed by auditors from Watershed Contract Data

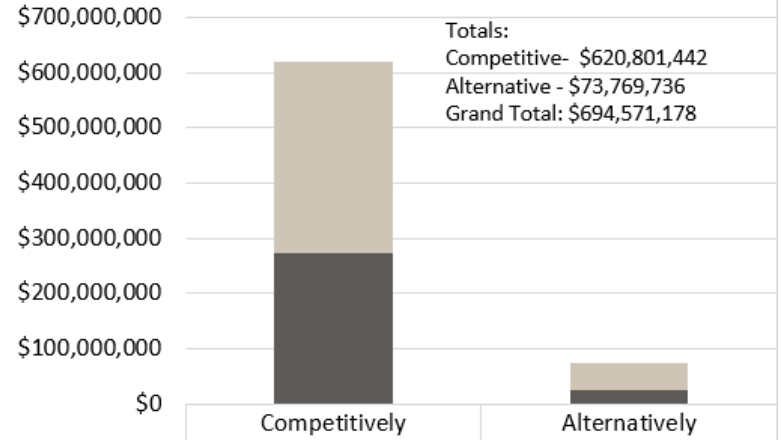
When an initially competitively procured contract is modified after award, it may no longer be competitive, depending on the extent of the changes made. According to GAO (U.S. Government Accountability Office), federal agencies are generally allowed to modify contracts, but the modifications must stay within the original scope to avoid violating competitive contract rules. Similarly, out-of-scope modifications may subject the city to post-award bid protests. Section 2-1292(b) of city code provides that contract modifications and change orders that exceed ten percent of the total "not to exceed" cost of the contract must be approved by the City Council and mayor. A recently added provision, city code Section 2-1292(e) requires that any modifications, change orders, or amendments that expand the scope or extend the term of the original contract are subject to the source selection methods described in the code. This does not mean that competitive methods of procurement *must* be used for any additional scope not originally authorized in the contract; however, it does mean that the city should procure a contract for the added scope either competitively, or under one of the other exceptions allowed under the code, such as special, emergency, or sole source. The intent of the added legislation is in part, to make the city's procurement processes accessible to all qualified vendors and to achieve the lowest possible costs through competition.

## Value of Modified Contracts Increased 132% After Post-Award Modifications

We found that the value of post-award modifications to both competitively and alternatively procured contracts increased the original contract total by more than 100%. Our population of modified contracts included 47 competitively procured contracts and 15 that were initially noncompetitive, less competitive, or noncompetitive, originally totaling $298,982,606. Modifications to these contracts added more than $395 million to the total contract value, bringing the overall total to more than $694 million (see Exhibit 4). Post award modifications to contracts, whether competitively or alternatively procured initially, could introduce inconsistencies with original contract terms, potential for contract steering, or an erosion of public trust due to a lack of justification for changes.

**Exhibit 4: Modifications Increased Value of Competitively and Alternatively Procured Contracts**




| | Competitively Procured | Alternatively Procured |
|---|---|---|
| Modifications | $346,732,042 | $48,856,530 |
| Original Value | $274,069,400 | $24,913,206 |

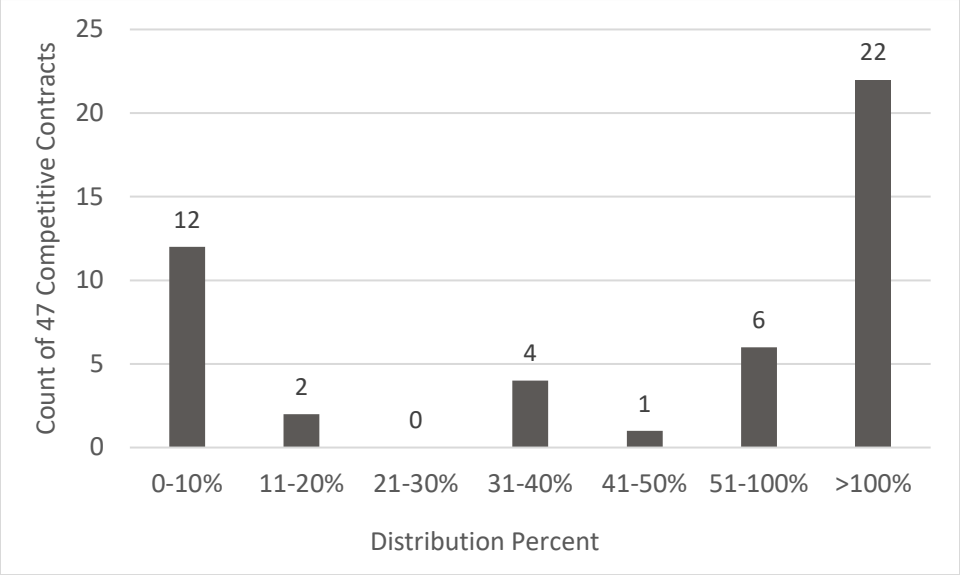
**Source:** Developed by auditors from Watershed Contract Data

The most significant individual change to a contract that we identified was an amendment that added $50 million to the original contract value. The competitively procured contract had an original value of just under $18 million; after it was modified, the contract value increased to $68 million, more than tripling the contract's original value. In this situation, the legislation requesting the amendment explained that when the department tried to rebid the current contract, the department received only one response, and it was significantly higher than anticipated; therefore, the department instead amended the existing contract

## *One Amendment Increased a Contract by $50 Million*

Contract modifications increased the original values of competitively procured contracts by varying amounts. Modifications ranged from less than 10% for 12 contracts to more than 100% for 22 contracts, as shown in Exhibit 5. The exhibit shows the distribution of the percent increase for the 47 competitively procured contracts within our scope that were modified after they were awarded.

**Exhibit 5: The Values of the Majority of Competitively Procured Contracts Increased by More Than 50%**




**Source:** Developed by auditors from Watershed Contract Data

**Note:** City code Section 2-1292(a) authorizes the CPO to authorize contract modifications that do not exceed 10% of the total "not to exceed" cost of the contract.

One example of a competitive contract that was subsequently modified is a contract with an original value of approximately $3.1 million for providing corrective and preventive maintenance, repair, and replacement services for drinking water and wastewater systems. After the contract modification, the value increased to just over $11 million, more than tripling the contract's original value. Another example is a competitive contract that had an original value of $5 million for providing pipe laying and repair services, and installation of large and small meters, fire hydrants, and valves on demand for Watershed Management. The contract was modified and added over $21 million, more than quadrupling the contract's original value.

Although circumstances may arise that could cause the need for contract modifications, contracts that are competitively procured and then modified to add significant value may, in some cases, change the competitive nature of the contract.

## Higher Contract Amounts, if Initially Proposed, Would Have Received Greater Scrutiny

We analyzed the 298 Watershed Management contracts in our population to identify those in which the initial amounts were below the city's current control thresholds, but the additional value added during the modifications would have subjected them to additional scrutiny. In 18 instances, the increased contract amounts avoided controls that would have likely been applicable if the subsequent amounts had initially been proposed. The controls, including legislative review for contracts in excess of a certain amount, IPRO reviews, and joint venture requirements, were intended to encourage competition, consistency with procurement procedures, and transparency.

We analyzed the contracts to identify those that were modified after award and compared the initial contract amounts to the total value after modifications. We reviewed the final value to determine if they surpassed the threshold in which additional controls would have applied. Exhibits 6-8 show the number of modified contracts and the number of contracts in which the modifications that added value that pushed those contracts to the thresholds requiring additional controls.

**Small purchase authority:** City code Section 2-1190 states that any contract or purchase order for supplies, services, and construction not exceeding $100,000 does not require legislation.

As shown in Exhibit 6, we identified 22 contracts that were initially below the $100,000 threshold for small purchases. Of these 22, 3 were modified—2 of those had final values that put the costs over the threshold. If the amount of the modification had been initially proposed, those two contracts would not have been eligible for a small purchase and would have required legislation and City Council approval.

**Exhibit 6: Two Modified Contracts Exceeded the Small Purchase Authority Threshold**

| City Code Section | Threshold Amount | Contracts With Initial Value Under the Threshold | | Contracts With Final Value That Did **Not** Exceed the Threshold After Modifications | Contracts With Final Values That Exceeded the Threshold After Modifications |
|---|---|---|---|---|---|
| | | # of Contracts | # Contracts Modified | | |
| Small Purchase Approval | | | | | |
| Section 2-1190. Small purchases | Under $100,000 | 22 | 3 | 1 | 2 |

**Note:** Not all contracts identified an amount.

**Note:** City Council ordinance 23-O-1212, effective 7/1/2023, increased the small purchase threshold from $20,000 to $100,000. For this analysis we used the small purchase threshold currently in city code; more contracts may have been flagged using the thresholds in effect prior to 2023.

**Source:** Developed by auditors using Watershed Management contract data

**IPRO review:** City code Section 8-107 states the city's IPRO (Independent Procurement Review Division), within the Office of the Inspector General, should review contracts with a value of $1 million or greater to assess whether the contract file is complete and note areas of perceived deficiencies. IPRO reviews procurement records of solicitations to note areas of concern before the City Council considers legislation to approve contracts.[1] As shown in Exhibit 7, 57 contracts in our sample had a value below $1,000,000. Of those, 19 were modified—7 of the modified contracts added value that placed those contracts over the threshold that would have prompted an IPRO review.

[1] City Council ordinance 18-O-1189, effective 2018, established the IPRO (Independent Procurement Review Division).

**Exhibit 7: IPRO Review Would Have Been Required for Seven Modified Contracts**

| City Code Section | Threshold Amount | Contracts With Initial Value Under the Threshold | | Contracts With Final Value That Did **Not** Exceed the Threshold After Modifications | Contracts With Final Values That Exceeded the Threshold After Modifications |
|---|---|---|---|---|---|
| | | # of Contracts | # Contracts Modified | | |
| Independent Procurement Review Division (IPRO) Threshold | | | | | |
| Section 8-107. Independent Procurement Review Division of the OIG | Over $1,000,000 | 57 | 19 | 12 | 7 |

**Note:** Not all contracts identified an amount.
**Source:** Developed by auditors using Watershed Management contract data

**Joint venture requirement:** Section 2-1450 of city code states that projects valued at $5 million or greater will not be accepted unless submitted by a joint venture, unless the OCC (Office of Contract Compliance) has determined that good faith efforts to enter into a joint venture have been demonstrated. Joint ventures are contracts with more than one vendor or contractor. OCC's role is to encourage equal opportunity for all businesses and individuals in the city. While contract modifications are appropriate when deemed necessary, modifications after contract execution avoid certain controls and could indicate potential fraud or overspending. As shown in Exhibit 8, modifications put 9 contracts over the threshold that would have been considered for a joint venture requirement by the Office of Contract Compliance.

**Exhibit 8: Nine Contracts May Have Had a Joint Venture Requirement**

| City Code Section | Threshold Amount | Contracts With Initial Value Under the Threshold | | Contracts With Final Value That Did **Not** Exceed the Threshold After Modifications | Contracts With Final Values That Exceeded the Threshold After Modifications |
|---|---|---|---|---|---|
| | | # of Contracts | # Contracts Modified | | |
| Joint Venture (JV) Contracts Requirement | | | | | |
| Section 2-1450. Requirements for joint ventures | Over $5,000,000 | 110 | 36 | 27 | 9 |

**Note:** Not all contracts identified an amount.
**Source:** Developed by auditors using Watershed Management contract data

When the services needed are added to an existing contract, the user agency does not advertise a new solicitation for the service. Contracts that are modified after award may bypass controls established by city code, reducing both transparency and competition. **We recommend that Procurement provide a list of contract modifications in its quarterly report to the Finance Executive Committee to promote transparency.**

We also reviewed whether vendors appeared to benefit disproportionately from the contract modifications. While certain vendors had a higher percentage of contract modifications than others, we were unable to determine whether this occurred due to favoritism. Some modifications may result from certain contractors offering specialized services or having familiarity with the requested scope of work. Detailed justification could add more transparency.

## Contract Justification for Post-Award Contract Changes Lack Sufficient Details

We selected a sample of 12 of the 47 competitively procured contracts that were modified to evaluate whether the justifications for the modifications were adequate and aligned with city code and Procurement's procedures. The 12 contracts had a total of 24 amendments and 6 extensions—a total of 30 modifications. We identified some justification for 24 of the 30 contract modifications in the legislation or memorandum, but only 4 of these provided detailed reasoning for the modification. The justification language was vague and didn't provide sufficient context and description for 20 of the modifications, and 6 modifications were missing justification.

Contract modifications can add time, money, or scope to contracts after they are awarded using amendments, change orders, or extensions. Section 2-1292 of the city code states that contract modifications under 10% of the contract value do not require City Council approval. Section 2-1206 states that the first 90-day extension does not require city council approval but must be approved by the CPO. Section 2-1108 states that Procurement is responsible for retaining copies of all city contracts. Procurement told us it retains files for seven years. Additionally, Procurement staff told us that any contract modification, including all extensions, requires justification. Procedures state that a contract modification that adds time, value or scope should include 1) documentation indicating the need for a change in the form of an administrative or legislative memorandum, and 2) approvals and signatures from Procurement, the Department of Law, and the user agency. According to best practices, the need for contract modifications should be clearly stated, and supporting documents should provide details to substantiate the need for a change.

Of our population of 298 Watershed Management contracts, we identified 47 contracts that were initially competitive and subsequently modified. We selected a sample of 12 (9 randomly

sampled and 3 judgmentally selected based on the highest dollar value added to the contract) of those 47 contracts. Procurement was unable to provide files for 1 of the 12 contract files in our sample.

Although we found some form of justification for 24 of the 30 contract modifications in the legislation or memorandum, only four of these provided detailed reasoning for the modification. For example, Exhibit 9 represents a change order with a detailed justification for a construction contract. The agreement explains that the department experienced "unforeseen conditions encountered during construction" and also needed to do additional upgrades to its electrical and instrumentation system at two of the water reclamation facilities.

**Exhibit 9: Construction Contract Indicates Sufficient Detail for Contract Change**

Exhibit D of the Agreement entitled, "01010 Summary of Work" ("Summary") is hereby modified to allow for SCADA upgrades to the existing DCS electrical and instrumentation system at the Intrenchment Creek WRC and the South River WRC sites and for other unforeseen conditions encountered during construction as more particularly set forth in Exhibit A in accordance with terms and conditions of the Agreement. The Summary is attached to this Change Order No.1 as Exhibit A* and is incorporated into the Agreement by reference.

The contractor will continue to perform all necessary work as detailed in the original agreement.

**Source:** Change order memorandum, provided by Watershed Management staff.

In contrast, the memorandum in Exhibit 10 requests an additional $2 million to continue what appears to be work already included in the original scope, without an explanation of why the additional funding is needed.

**Exhibit 10: Almost $2,000,000 Amendment Lacks Justification**

**SUBJECT:** ***Request for Legislation to Add funds to FC-10469C***

This memorandum serves as a formal request to authorize approval to add additional approved funds to the above contract for continuous service of Small Meter Installation.

| | |
|---|---|
| **Project Name:** | FC-10469C, Water Distribution System Rehabilitation and Improvements |
| **Funding Total:** | **$1,981,752.55** |
| **Start/Finish:** | May 2023 – October 2023 |
| **Project Details:** | To add additional funds to existing contract and allow DWM Office of Customer Care and Billing Services, the opportunity to continue in contractual agreement with vendor and performance of small new water meter installations and construction projects. |

**Source:** Interoffice memorandum provided by Watershed Management staff.

The city lacks a system for monitoring and tracking post-award contract modifications, which could lead to potential overspending and reduced transparency. Additional guidance could improve the transparency and consistency of the contract modification process. **We recommend that the Chief Procurement Officer establish and provide guidance to all departments on the level of written detail that should be documented and maintained in contract files to justify contract modifications.**

## Justifications to Support Alternative Procurements Are Incomplete

Watershed Management uses alternative procurement methods—sole source, special, and emergency procurements—to secure contracts for some goods and services. For each alternative method, the department is required to submit a written request to the CPO for approval, which includes a justification for procuring goods and services using the alternative method. If the request is deemed justified, the CPO issues an alternative procurement designation letter to the requesting department. We reviewed a sample of 18 alternative contracts to assess whether the appropriate justification was included in the contract files and found that user agency requests for alternative procurements were present in the files for less than half of the contracts, and the letters from the CPO approving the alternative procurements were present for most of them.

According to Sections 2-1191, 2-1191.1, and 2-1192 of the city code, each type of alternative procurement must have a written determination from the CPO documenting the reason for the procurement. Whether due to circumstances that threaten public health or safety for emergency procurement, due diligence research of offerors for a sole source procurement, or unique situations where the selection of a particular vendor is in the best interest of the city for special procurements, the CPO must document reasons necessary to procure goods without inviting competition. Each alternative procurement designation letter issued should contain the rationale used by the CPO for granting the alternative procurement request. This requirement serves as a control to mitigate risks associated with procuring goods and services using noncompetitive methods, such as contract steering or favoritism.

Of the 298 Watershed Management contracts in our population, 61 contracts were procured using alternative methods. Of those, we selected a sample of 18 for review—9 special, 5 sole-source, and 4 emergency procurements. We selected 14 randomly and selected 4 judgmentally. We searched for documentation that contained the justification for requesting an alternative procurement from the department and also reviewed the files for the designation letter that contained the rationale used by the CPO when granting the alternative procurement request. Of the 18 contracts we reviewed, we found that 6 contracts had documentation to justify the department's request for an alternative procurement; 12 did not.

We also found that 15 of the 18 contract files contained the letter from the CPO granting alternative procurement (see Exhibit 11).

**Exhibit 11: Records of Justification for Alternative Procurements**

| | Located in Contract Files | | |
|---|---|---|---|
| Required Documents for Alternative Procurement | Yes | No | **Totals** |
| DWM Request for Alternative Procurement | 6 | 12 | 18 |
| Letter from CPO Granting Request | 15 | 3 | 18 |

**Source:** Developed by auditors using Watershed Management contract data

Accurate recordkeeping is essential when managing public contracts to ensure proper oversight of public funds. Missing documentation could be a red flag for potential fraud or hide possible favoritism. Even if all processes were followed, without the necessary document retention as required by the city code, the validity of each transaction cannot be verified. **We recommend that the Chief Procurement Officer establish a record-keeping process and document retention procedures for contract files as required by Section 2-1108 of city code**.

# Recommendations

To ensure city contracts are procured with the goal of competition and transparency, the Chief Procurement Officer should:

1. provide a list of contract modifications in the department's quarterly report to the Finance Executive Committee
2. establish and provide guidance to all departments on the level of written details that should be documented and maintained in contract files to justify contract modifications
3. establish a record-keeping process and document retention procedure for contract files in accordance with Section 2-1108 of city code

# Appendix A: Management's Response

| **Report Title:** Watershed Management Contract Amendments, Extensions, and Alternative Procurements | **Project No.** 24.08 |
|---|---|

| **Recommendation #1:** We recommend that the Chief Procurement Officer provide a list of contract modifications in the department's quarterly report to the Finance Executive Committee. | | |
|---|---|---|
| **Risk Category:** Contractual | **Recommendation Priority:** Medium | **Auditee Response:** Agree |
| **Related Finding(s):** • Higher contract amounts, if initially proposed, would have received greater scrutiny | | |
| **Proposed Action:** To ensure transparency, the interim CPO will request that DOP's monthly report to Council on procurement activity, including contract modifications, be posted monthly for public access.<br><br>Note that Code Section 2-1142 requires reporting of procurement activity, which includes contract modifications as outlined in subsections (4), (5) and (6) of that Section on a monthly basis to full council; however, DOP will add data on contract modifications in its quarterly report to FEC as well. | | |
| **Name & Title of Business Owner:** Chandra Houston, Chief Procurement Officer | **Current Status:** Not Started | **Estimated Implementation Date Month/Year):** July 2025 |

| **Recommendation #2:**<br>We recommend that the Chief Procurement Officer establish and provide guidance to all departments on the level of written details that should be documented and maintained in contract files to justify contract modifications. | | |
|---|---|---|
| **Risk Category:**<br>Contractual | **Recommendation Priority:**<br>Medium | **Auditee Response:**<br>Agree |
| **Related Finding(s):**<br>• Justifications for post-award contract changes lacked sufficient detail | | |
| **Proposed Action:** The interim CPO will require that departments submit justification for contract modifications in a letter to the CPO before modification documentation is initiated by DOP. | | |
| **Name & Title of Business Owner:**<br>Chandra Houston, Chief Procurement Officer | **Current Status:**<br>Not Started | **Estimated Implementation Date Month/Year):**<br>July 2025 |

| **Recommendation #3:**<br>We recommend that the Chief Procurement Officer establish a record-keeping process and document retention procedure for contract files in accordance with Section 2-1108 of city code. | | |
|---|---|---|
| **Risk Category:**<br>Legal and Regulatory Compliance | **Recommendation Priority:**<br>Medium | **Auditee Response:**<br>Agree |
| **Related Finding(s):**<br>• Justifications to support alternative procurements were incomplete | | |
| Proposed Action: The interim CPO agrees to continue to improve DOP's record-keeping processes and document retention procedure in accordance with Code Section 2-1108.<br><br>Since the inception of Code Sec. 2-1108, DOP has continued to maintain records in accordance with such Section, as evidenced by IPRO's ability to regularly review contract files in the case of procurements valued at $1,000,000.00 or more. Notwithstanding this long-standing practice, the interim CPO has recently initiated further improvements to contract files to include planned full access to all departments of all procured city contracts and modifications thereof in Oracle, as well as strengthening other documentation contained in such files. | | |
| **Name & Title of Business Owner:**<br>Chandra Houston, Chief Procurement Officer | **Current Status:**<br>Implemented | **Estimated Implementation Date Month/Year):**<br>July 2025 |

# Appendix B: Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our scope consisted of Watershed Management's active and historical contracts, which we compiled from various sources, including City Council's final action legislation, Watershed Management and Procurement staff, and Oracle Cloud's contracts and purchase order modules. Our population did not include citywide contracts, intragovernmental agreements, memorandums of understanding, contract or bid numbers that could not be identified, requests for information, or cooperative agreements.

**Population of Contracts:**

We were able to locate a total of **298 contracts**; the oldest contract execution date in this population was June 16, 2010, and the most recent execution date was September 24, 2024. Of these 298 contracts we were able to locate, 237 were procured using competitive methods, and 61 were procured using noncompetitive methods. Of the 237 competitive contracts, 47 were later modified.

**Sampling Methodology:**

- Of the **47 competitively procured** contracts that were later modified, we selected a sample of 12 to analyze in detail. This included nine that we randomly selected, plus three additional that we judgmentally selected, based on the amount added to the original contract.
- Of the **61 noncompetitively procured** contracts, we selected a total of 18 to analyze in detail. This included a random sample of 14 plus 4 additional contracts that we judgmentally selected based on the amount added to the original contract.

  From these samples, we selected the earliest contract date of 2017 because Procurement retains documents for seven years, in accordance with city code Section 2-1108**.**

Our audit methods included:

- Reviewing the best practices related to alternative procurements and contract modifications to assess whether procedures align with best practices
- Reviewing city code to identify requirements for pre-award and post-award procurement methods
- Reviewing audits from outside jurisdictions to identify industry-wide risks and potential control weaknesses
- Interviewing Watershed Management and Procurement staff to determine department procedures
- Reviewing procurement processes to gain an understanding of controls

- Compiling all accessible Watershed Management contracts to conduct analyses
- Reviewing a sample of Watershed Management contract files to determine whether documented controls were followed

Generally accepted government auditing 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 objective.