

City of San Diego

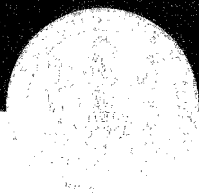
AUDIT REPORT

***AUDIT OF 2007 WILDFIRE
DEBRIS REMOVAL PROJECT***

December 19, 2008

**Office of the City Auditor
Eduardo Luna, CIA, CGFM, City Auditor**

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THE CITY OF SAN DIEGO

December 19, 2008

Honorable Mayor and Members of the City Council
City of San Diego, California

Attached is our report regarding our audit of the City's fire debris removal program that was coordinated as a result of the October 2007 wildfires. Management's response to our audit report can be found as Attachment 3. City Audit staff members that participated in the preparation of this report are Paul Alberga, Tiffany Chung, Tricia Mendenhall, John Teevan and Kyle Elser.

We would like to thank the staff from the Environment Services Department, as well as representatives from Granite Construction Company and A.J. Diani Construction Company for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna".

Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Elmer Heap Jr., Deputy Chief Operating Officer
Chris Gonaver, Environmental Services Director
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EXECUTIVE SUMMARY

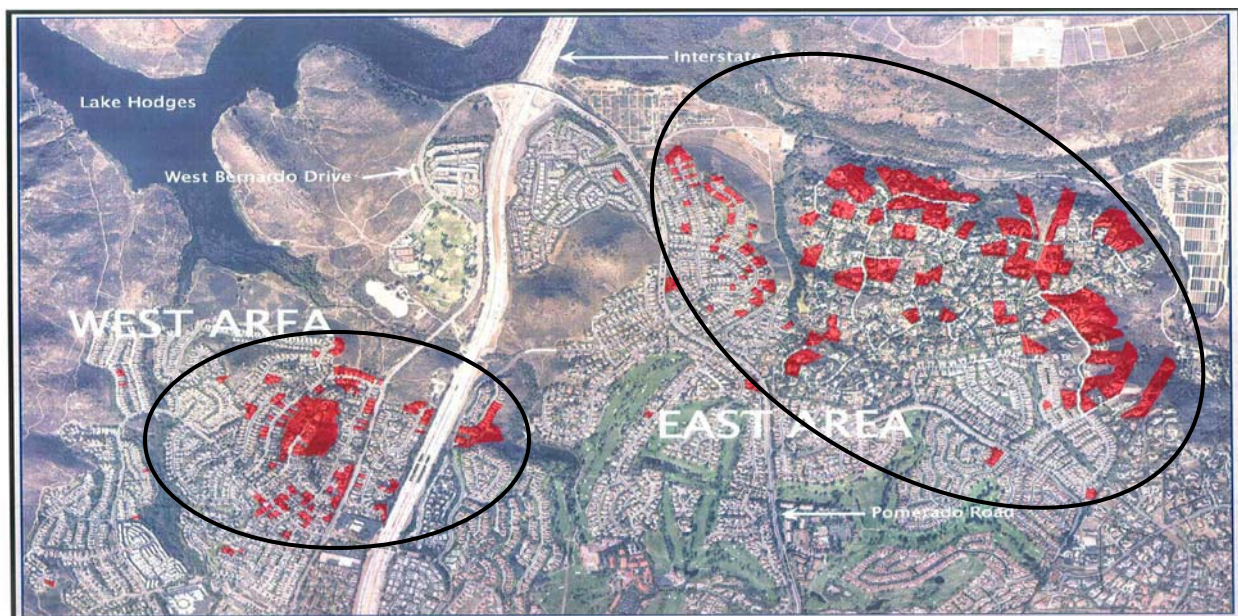
In October 2007, the City of San Diego faced devastating wildfires that destroyed homes and burned over 400,000 acres across San Diego County. To deal with the aftermath, the City established a centralized program to remove fire debris. As part of this program, the City awarded contracts to Granite Construction Company and A.J. Diani Construction Company to clean up affected properties in the Rancho Bernardo area. The debris removal work was completed in February 2008, and the total amount paid to the contractors was approximately \$9.4 million. The City's portion of these costs is expected to be \$658,000 after receiving Federal, State and homeowner insurance reimbursements.

Allegations were made that Granite Construction Company and A.J. Diani Construction Company did not accurately bill the City for costs associated with the fire debris removal program. In response to these allegations, the Mayor requested the Office of the City Auditor review the supporting documentation for these costs. Based on our review, we found the rates paid to the contractors appear to be generally reasonable, but the billings to the City contained mistakes and omissions; and from a contract management perspective the City was not prepared to administer a large-scale debris removal program. We made 14 recommendations to correct the weaknesses identified.

INTRODUCTION AND BACKGROUND

In October 2007 the City of San Diego (City) fell victim to severe wildfires, resulting in a declaration of a state of emergency from the President of the United States, the Governor and the Mayor. These wildfires resulted in significant property destruction within the City. Damage assessments at that time indicated that 362 homes were destroyed and another 62 homes sustained damage in the Rancho Bernardo area of the City. Figure 1 highlights the properties that were identified as severely damaged or destroyed.

Figure 1: Aerial Map of Severely Damaged Properties within the Rancho Bernardo Area



Source: Geo-Logic Associates.

The City's response included establishing a centralized program to remove debris from properties that had been destroyed or damaged by the fires.¹ On November 6, 2007, the City Council approved a resolution authorizing the Mayor to enter into contractual agreements with qualified debris removal firms. According to the staff report that recommended this resolution, "the benefits of having a centralized [debris removal] program are immense." Some of the benefits described within the staff report include the selection of a contractor that had the resources and knowledge to complete the project, assurance of a well-defined timeline for clean up and debris removal efforts, a coordinated disposal plan for waste and recyclable materials,

¹ The City undertook other efforts as well. On October 30, 2007, the City Council approved financial waivers for building and demolition permit fees as well as vouchers to pay for waste disposal and recycling fees. This program was for homeowners who opted not to participate in the City's program. These property owners received vouchers for the free disposal of all material types. This audit does not address the voucher program.

and the ability to provide a seamless program for participating property owners. Participation in the City's debris removal program was voluntary. If property owners decided not to participate in the City's program, they were individually responsible for procuring and paying for clean up and debris removal services for their properties.

As shown in Attachment 1, the City's debris removal program was developed and executed in a very short period of time. The information contained in this audit report should be considered in the appropriate context – that of a declared state of emergency.

Procurement Process for Debris Removal Services

The City's debris removal program resulted from a competitive process that involved five bidders and resulted in contracts with two firms. City staff initially planned to procure a sole-source contract with A.J. Diani Construction Company Inc., the only known contractor to have participated in an equivalent municipally led debris removal effort. However, on November 2, 2007, during a meeting with the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (OES) representatives, City staff was informed that in order to qualify for reimbursements from FEMA and OES, the City would need to undertake a competitive bid process to select a contractor. The City had no contractors that were pre-qualified to perform the type of services that would be necessary in completing the debris removal project, so City staff relied primarily on a list being prepared by the State's Department of General Services. City staff researched twelve contractors² and narrowed the list to five that had current contractor's licenses, including hazardous material licenses. On November 7, 2007, the City's Purchasing and Contracting Department (Purchasing) released a Request for Proposal (RFP) to these five contractors for services related to the clean up and debris removal for up to 169 private properties³ located within the Rancho Bernardo area.

The RFP requested contractors to provide a technical proposal outlining their qualifications and a job-specific plan for performing debris removal services for the 169 identified properties. In addition, the contractors were requested to provide price proposals for debris removal services for five specific material types:

- Trash & ash,
- Concrete,
- Metal,
- Landscaping (green waste), and
- Mixed construction and demolition.

² The twelve contractors included eleven local contractors and A.J. Diani. The City's Purchasing and Contracting Department classified those contractors who had telephone area codes of "619", "760" and "858" as being local. A.J. Diani was added to the list because it was the only firm to have participated in a large municipally led debris removal project.

³ This is the figure stated in the RFP's Background section. However, the RFP's pricing proposal section requests separate price proposals for 80 properties east and 80 properties west of Interstate 15 in Rancho Bernardo – 160 total properties.

Proposers were required to submit pricing on a per ton basis for handling, removal, transportation and disposal of material. However, proposers were not required to include disposal in the per ton cost for concrete because the RFP indicated that the City would provide vouchers to pay for the cost of disposal. The purpose of the vouchers was to ensure that selected contractors were not charged any fees for the disposal of concrete.⁴ Various unit and lump sum pricing for items such as mobilization, environmental assessments (i.e. site sampling), and erosion control measures were also included in the pricing proposal.

All five contractors responded with a proposal. On November 9, 2007, a Technical Evaluation Committee (TEC), consisting of two City Civil Engineers and one City Contract Specialist, completed a review of the technical proposals submitted. The TEC first reviewed bids based on qualifying experience only (no other information was revealed to the TEC); a second review was conducted to ascertain the TEC's ranking of bids based jointly on experience and price points. These two independent reviews yielded overall high rankings to the proposals submitted by two contractors –A.J. Diani Construction (A.J. Diani) and Granite Construction (Granite). The TEC rated Casper Construction, DenBoer Construction, and Orion Construction technical proposals as “Unacceptable” for such reasons as lack of experience and failure to demonstrate an understanding of the requirements of the specifications. On November 9, 2007, Purchasing sent a preliminary award letter to Granite for properties west of Interstate 15 and to A.J. Diani for properties east of Interstate 15 (I-15).

Program Covered 112 Properties and Involved Extensive Removal of Debris

About 39 percent of the affected properties in the Rancho Bernardo area ended up participating in the program. Table 1 presents summary data for debris removal program properties on the west and east side of I-15. Of the 286 properties seriously affected by the fires, Environmental Services Department (ESD) based RFP estimates on the assumption that approximately 160 properties would likely participate in the City's program. Owners of 129 properties initially agreed to participate in the program. Debris removal work began mid-November 2007, but after work began, 17 property owners opted out, leaving 112 properties that were actually cleaned up through the program – 44 west of I-15, 68 east of it. Debris removal was completed by February 2008.

⁴ Table 1 on page 5 of the Request for Proposal includes concrete recycling facilities for which the City provided vouchers.

Table 1: Summary of Debris Removal Program Properties West and East of Interstate 15

Contractor	West of Interstate 15	East of Interstate 15	Total
	<i>Granite Construction Company</i>	<i>A.J. Diani Construction Company, Inc.</i>	
Number of properties identified by the City within the Rancho Bernardo area as being severely damaged, destroyed, or creating a dangerous public safety hazard	135	151	286
Number of private properties requested to be bid on by Contractors within the City’s Request for Proposal (RFP) for debris removal services	80	80	160
Number of private properties initially participating in the City’s program	50	79	129
Number of private properties that opted-out of the City’s program after some debris removal program costs were incurred	6	11	17
Net number of private properties that participated in the City’s program	44	68	112

Source: Auditor analysis of ESD data.

Property owners who decided to participate in the project were required to sign a “Right of Entry Permit.” This form granted the City the right to perform the debris removal services on the property. Additionally, property owners agreed to cooperate with the City regarding insurance claims. Within 30 days of receipt of insurance proceeds, homeowners were to reimburse the City the amount covered for debris removal by their policy.

The fire also compromised the integrity of property foundations, walkways, and driveways. The intense heat of the fire created indentations (or “popping”) on foundations, walkways, and/or driveways; in some instances, these deformities caused surfaces to crack. The City Chief Building Official directed that all slabs and foundations damaged by the 2007 fires be removed prior to rebuilding. This direction was given due to the extreme difficulty and impracticality of fully evaluating the integrity of the existing fire damaged slabs and foundations that had been subjected to intense heat for unknown durations and confirming their sustainability to support any new structures. For these reasons, the City instructed its Contractors to remove all deformed surfaces.

Contract Pricing For Debris Removal Operations Was Based Primarily On Per Unit Costs

The two contracts had different per ton charges associated with each type of debris. As shown in Table 2, for the Granite Construction contract there were two levels of pricing – \$60 per ton for concrete, and \$220 per ton for all other materials. The A.J. Diani contract had ten different

levels of pricing, related both to type of material and location of the property, with pricing ranging from \$112 per ton to \$312 per ton. A.J. Diani’s more complicated pricing structure reflected the fact that properties in the Trails neighborhood were generally larger and more remote.

Table 2: Debris Removal Program Contract Pricing Amounts for Per Ton Items

Debris Type	Granite Construction	A.J. Diani: Trails Neighborhood Properties	A.J. Diani: Non-Trails Neighborhood Properties
Trash & Ash	\$220	\$238	\$180
Landscape	\$220	\$307	\$209
Mixed Construction & Demolition	\$220	\$312	\$225
Metals	\$220	\$248	\$183
Concrete	\$60	\$164	\$112

Source: Final Contract pricing.

In addition to costs for handling, removal, and disposal of debris, both contracts also included items that were charged on a lump-sum basis and other items that were charged by various units of measure. These items included the following:

- Tree removal,
- Swimming pool debris removal,
- Site signs,
- Street sweeping,
- Installation of temporary silt fences,
- Mobilization,
- Project work plan,
- Community health and safety plan, and
- Site specific health and safety plan.

Specific contract requirements may have contributed to costs that were higher than those of properties that did not participate in the City’s program. Fire events alter the chemical makeup of the surrounding environment and the resulting material may pose a threat to human and nonhuman life and/or quality of life. Debris remaining after a fire is often found to have concentrated and elevated levels of metals. As a result, Contractors were required to remove copious amounts of soil and concrete, and test the soil for contaminants. Specifically, contractors were required to remove (i.e. scrape) between four and six inches of soil within the debris removal foot print on each property, excluding the areas directly beneath the property foundations. After the soil was removed, a Professional Geologist or Registered Civil Engineer had to obtain and test soil samples in a California State Certified Laboratory and confirm the

clean up objectives had been met.⁵ If the results of the soil analysis exceeded the clean up objectives, additional soil was removed until the objectives were met. Following completion of the debris removal confirmation, and installation of erosion control measurers, a Final Report documenting the work on each property was prepared by the Contractors. Figure 2 shows a Trails property prior to debris removal work beginning.

Figure 2: Trails Property Prior to Commencement of Debris Removal



Source: ESD.

The City required contractors to comply with certain labor, environmental, health and safety standards. Contractors were required to pay prevailing wages to its employees, as set by the State of California's Department of Industrial Relations. Contractors were also required to weigh debris removed from participating properties in order to comply with the terms of their contract with the City. Contractors were required to set up equipment for each property and erosion control measures to prevent run off as is required under the terms of the contract and the City's Storm Water Pollution Prevention Plan.

Program Costs Totaled \$9.7 Million, with Funding Coming from Several Sources

Four major funding sources were utilized to pay for program costs: the Federal Emergency Management Agency (FEMA), State of California disaster relief funds, insurance reimbursements from affected property owners, and newly established City of San Diego October 2007 Wildfires fund.

⁵ Clean up objectives were described in the RFP. Clean up goals were 2 times the mean background as established by the San Diego County Department of Environmental Health.

The final costs of contracted services for Granite and A.J. Diani were \$3,016,495⁶ and \$6,414,708 respectively. As of May 15, 2008, these amounts have been paid in full by the City to the contractors. In addition to the amounts paid to the contractors, the City had staff labor and equipment costs associated with the project totaling \$294,263, bringing the total project cost to approximately \$9.7 million. According to City staff, the City will be reimbursed for the vast majority of this amount from Federal and State emergency relief funds and private insurance reimbursements. We should note, the Governor's Office of Emergency Services also confirmed that the City's estimates of the amount of reimbursements to be received appeared reasonable. Of the \$9.7 million in project costs incurred, ESD expects the total cost to the City to be approximately \$658,000, after receiving Federal and State emergency funds, and homeowner insurance reimbursements. The City is currently in the process of appealing funds that FEMA deemed ineligible. If the appeal is successful, the City's share of the total cost of the project will be reduced further. Attachment 2 provides a summary of project costs and reimbursements paid.⁷

Under contract requirements, each contractor was responsible for maintaining records to support costs billed to the city. Contractors billed the city by submitting invoices to ESD on a periodic basis. ESD staff would review and approve the invoices, then forward to the City Comptroller for payment. Table 3 summarizes the amounts billed to the City by the Contractors.

⁶ In January 2008, Granite Construction was also awarded a contract extension to perform the clean up and debris removal services for various properties owned by the City's Water Department near the Hodges & Sutherland Reservoirs and within the Pamo & San Pasqual Valleys. The costs associated with these Water Department properties amounted to \$1,665,220. Reimbursement to the Water Department for these costs is currently being pursued through insurance reimbursements and FEMA emergency relief funds.

⁷ Attachment 2 was provided by ESD staff. The amount shown on the attachment as the Debris Removal Contract Services Cost is \$9,431,358. This amount is \$155 greater than the total amount the City paid to both Contractors. Difference is immaterial.

Table 3: Amounts Billed for Debris Removal Services

Debris Type	Granite Construction		A.J. Diani: Trails Neighborhood Properties		A.J. Diani Non-Trails Neighborhood Properties		Total Billed for Both Contractors (1)
	Tons	Cost	Tons	Cost	Tons	Cost	Cost
Trash & Ash	4,909.93	\$1,080,185	9,539.65	\$2,257,886	7,809.32	\$1,405,678	\$4,743,749
Landscape	845.86	\$186,089	323.69	\$99,138	87.51	\$18,290	\$303,517
Mixed Construction & Demolition	911.78	\$200,592	796.25	\$248,430	123.99	\$27,898	\$476,920
Metals	66.63	\$14,659	130.96	\$32,002	96.38	\$17,638	\$64,299
Concrete	5,756.45	\$345,387	4,076.93	\$661,964	4,725.77	\$529,286	\$1,536,637
Total Billings for Tonnage	12,490.65	\$1,826,912	14,867.48	\$3,299,420	12,842.97	\$1,998,790	\$7,125,122
Total Billings for Fixed and Variable Costs	NA	\$1,189,583	NA	\$582,956	NA	\$533,549	\$2,306,088
Total Amount Billed	NA	\$3,016,495	NA	\$3,882,376	NA	\$2,532,339	\$9,431,210

(1) Total amount paid to both contractors is \$9,431,204. Immaterial differences due to rounding.

Source: Auditor analysis of information provided by Contractors and ESD staff.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the City Auditor's Fiscal Year 2009 Audit Work Plan, which called for an audit of the City's purchasing and contracting functions. The Mayor requested that we review the debris removal program, and because this review would entail analyzing contract compliance, we incorporated this review into our audit of the City's purchasing and contracting functions. Allegations were made that the Contractors hired by the City to perform debris removal services as a result of the October 2007 wildfires did not accurately bill the City. We focused our work in two main areas, as follows:

- The reasonableness of rates charged under the contracts and the adequacy of supporting documentation for debris removal costs billed to the City, and
- The performance of the City and its selected contractors during the procurement and execution of debris removal services, including lessons learned for contract management in the future.

This initial report is being issued to specifically address our review of the debris removal program. We plan to issue one or more subsequent reports dealing with a broader range of purchasing and contracting activities, covering such matters as requisitions, purchase orders, and contract management.

To accomplish our objectives related to the debris removal program, we performed the following audit procedures:

- Reviewed pertinent laws and regulations related to emergency disaster response and debris removal.
- Reviewed the City Council minutes and resolution pertaining to the approval of the City's debris removal program.
- Reviewed City procurement policies and analyzed the Request for Proposal (RFP) and debris removal contractor selection process.
- Researched related press articles and other reports associated with emergency debris removal activity.
- Identified charges to the City for the debris removal program and reconciled amounts to Contractor invoices.
- Identified contract pricing structures and determined if Contractors adhered to the approved contract prices.

- Analyzed supporting documentation for invoices submitted by Contractors for validity and accuracy. These documents included weigh tickets from dump sites and public scales, debris tracking logs maintained by the Contractors, bills of lading, trucking tickets, and various environmental assessment reports.
- Inquired with Environmental Services staff to determine the extent and effectiveness of Contractor oversight during debris removal efforts.
- Met with Contractor staff to obtain original documents as needed, and to clarify operational issues.
- Evaluated the control systems implemented by Environmental Services staff to ensure accurate Contractor billings.

We did not review documentation relating to clean up work and their associated costs on properties that did not participate in the city's program.

We evaluated internal controls related to the audit objectives. Our review focused on Environmental Services Department controls over contract management. Our conclusions on the effectiveness of these controls we reviewed are detailed in the following audit results.

We conducted this audit in accordance with generally accepted government 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDING 1

RATES PAID BY THE CITY APPEAR GENERALLY REASONABLE, BUT BILLINGS CONTAINED MISTAKES AND OMISSIONS

Although we were unable to identify any market or standard rates for fire debris removal work, the rates paid to A.J. Diani and Granite were lower than the average for the five contract proposals the city received, and to that degree they appear generally reasonable. In one aspect, however, the rate appears excessive: A.J. Diani negotiated a rate adjustment for disposal costs that resulted in the City's paying A.J. Diani nearly \$200,000 more than the firm had to pay in disposal fees. In addition, we identified a number of instances in which A.J. Diani and Granite did not bill the City accurately for the work performed. In some of these instances, the City paid more than it should have, and in others, it paid too little.

Per Unit Contract Pricing Appears Generally Reasonable

We tried, but were unable to identify a market rate that could serve as a clear standard against which to measure the rates A.J. Diani and Granite received in their contracts with the City. We contacted a number of different groups to assist us in identifying market rates for the removal of fire debris on a per ton basis, but they were not able to identify any market or standard rates for debris removal services.⁸ Therefore, in order to determine if the contract pricing charged to the City by A.J. Diani and Granite appeared to be reasonable, we analyzed the pricing proposals received from all five bidders to the RFP to determine how A.J. Diani's and Granite's rates compared to the other rates submitted.⁹

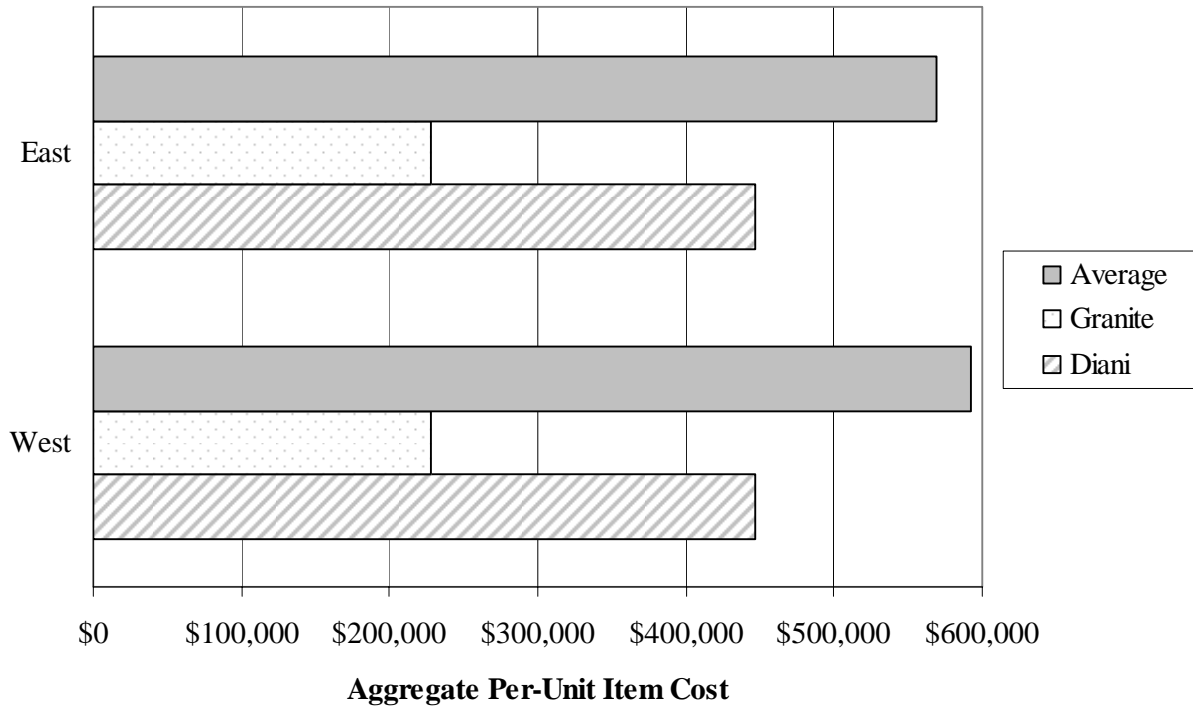
Our analysis showed that A.J. Diani's and Granite's rates were lower than the average rates of all five proposals. For debris removal, which accounted for more than \$7 million of the \$9.4 million paid to the two firms, A.J. Diani's and Granite's per ton charge for the removal of the debris was generally below the average per ton price for each material. For example, the average per ton price for the removal of metal debris for properties east of I-15 was \$316, while Diani's price per ton was \$238 for homes in the more remote Trails neighborhood and \$183 for all other homes.

⁸ Contacts included: City of Chula Vista Fire Department and Development Services Department, Har-Bro Construction and Consulting, Clark Seif Clark, California Society of Professional Engineers, California Environmental Protection Agency, Land Design Consultants, and San Diego and Los Angeles Counties.

⁹ A.J. Diani's rates as used in the analysis are the final contract rates; all approved contract modifications are included.

Similarly, the two firms' per unit rates for other clean up expenses were also lower than the average of all five proposals.¹⁰ These other clean up expenses were, in some cases, lump-sum amounts, and in others, were charged by various units of measure. As Figure 3 shows, the estimates for non-debris clean up expenses under both the Diani and Granite proposals were lower than the average of the other three proposals received, both for properties west of I-15 and east of I-15.

Figure 3: Comparison of Rates Proposed for Non-Debris Items¹¹



Source: Auditor analysis of all proposals received.

¹⁰ Other clean up expenses are those that are not trash and ash, landscape, concrete, metal, or mixed construction and demolition and reflects the total per unit cost for items that do not fall within the five key material types. These items are Mobilization, Hazard Tree Removal, Swimming Pool Debris Removal, Automobile Removal and Disposal, Site Signs Installed, Property - Photo Documentation and Hazard Assessment, Project Work Plan – Schedule, Health & Safety – Site Specific, Community Health and Safety Plan, Confirmation Sampling and Analysis, Final Property Report, Air Monitoring, Traffic Control, Pre-Wetting Property, Storm Drain Inlet Protection Installed, Erosion Control Mats, Erosion Control – Temporary Silt Fence Installed, Erosion Control - 8” Fiber Roll Barriers, Erosion Control - Filter Fabric Installed, Erosion Control - Gravel Bags, Street Sweeping, Temporary 6 Ft. Chain Link Fencing, Rumble Plates, and Mechanically Applied Tackifier.

¹¹ Analysis is based on contract pricing after approval of all contract amendments. Pricing information used for A.J. Diani in the preparation of this chart only takes into account non-Trails homes. The original RFP did not differentiate between Trails and non-Trails homes and therefore the proposals received did not include special pricing for Trails homes. A.J. Diani’s separate pricing structure for Trails homes was done via a contract amendment.

Modification to Rates on A.J. Diani Contract Was Higher than Needed to Address Disposal Costs

Under an approved contract amendment intended to cover certain disposal fees, A.J. Diani was able to bill the City at a rate that provided nearly \$200,000 more than the firm actually spent on disposal fees. Based on the documentation we reviewed, the firm apparently misread the original RFP and submitted its pricing proposal based on discussions with City staff that occurred prior to the issuance of the RFP, when the City was considering issuing the debris removal contract to A.J. Diani via a sole source procurement. During these discussions, City staff informed A.J. Diani that the contract would not include disposal fees. However, once it was determined that the contract needed to be competitively bid in order to obtain Federal and State reimbursements, disposal fees were included as part of the RFP/contract. The City agreed to modify the contract to allow A.J. Diani to recoup these costs, but the adjustment it agreed to considerably exceeded the disposal costs that A.J. Diani paid.

The amendment stemmed from an apparent misunderstanding about whether disposal costs should be included in a firm's proposal. For most categories of waste—trash and ash, landscape, metal, and mixed construction and demolition—the RFP required each bidder to submit a pricing proposal that included a charge per ton for handling, removal, transportation, and disposal. By contrast, the charge per ton for concrete included only handling, removal and transportation—not disposal. On November 23, 2007, after the City had already made a preliminary contract award to A.J. Diani, the firm's Vice President sent an e-mail to ESD and Purchasing staff with an attached pricing proposal that included per tonnage pricing for trash and ash, metal, mixed construction and demolition and landscaping that was not in line with the original pricing proposal that had been submitted in response to the RFP. On November 27, 2007, the Vice President of A.J. Diani sent an e-mail to Purchasing staff stating that the increase in the unit or per ton charge for these items was due to the "inclusion of disposal fees for all of the waste streams excluding concrete." This e-mail stated that all conversations held between A.J. Diani and City personnel prior to the issuance of the RFP indicated that the City would be responsible for all disposal fees. The e-mail also said the firm's understanding that disposal fees were to be paid by the City was reinforced in the RFP on page 22, which states that the City will provide the proposer with vouchers for free disposal of all debris. However, the RFP actually states that the City will provide "proposer with vouchers for free disposal of all debris, concrete, and demolition material taken to facilities listed in Table 1..." The other categories, such as trash and ash or metal, were not specifically listed on Table 1 of the RFP.

City staff reviewed A.J. Diani's request and agreed to modify the contract. They said that at the time, they conducted an analysis to determine if the request had merit, basing this analysis on a comparison of A.J. Diani's original per ton pricing for materials to that of Granite.¹² Based on this comparison, ESD staff concluded that A.J. Diani had inadvertently omitted disposal costs from the original price proposal, and based on this they recommended that Purchasing staff approve A.J. Diani's revised pricing proposal. Purchasing approved this amendment on

¹² Granite's material per ton prices can be seen in Table 2 of this report.

December 3, 2007. This approved contract modification resulted in additional charges of \$989,573 as shown in Table 4.¹³

Table 4: Additional Costs Resulting from an Approved Contract Amendment

Material Type	Original Per Ton Contract Price⁽¹⁾	Amended Per Ton Contract Price⁽¹⁾	Difference	Tonnage Billed to City	Total Resulting Additional Costs to City
Trash & Ash Debris	\$126.59	\$180.00	\$53.41	17,348.97	\$926,608.49
Landscape	\$183.55	\$209.00	\$25.45	411.20	\$10,465.04
Mixed Construction and Demolition	\$168.00	\$225.00	\$57.00	920.24	\$52,453.68
Metal	\$182.80	\$183.00	\$0.20	227.34	\$45.47
TOTAL				18,907.75	\$989,572.68

(1) These prices reflect handling, removal, transportation, and disposal.
Source: Auditor analysis of RFP and invoice information.

Although an adjustment to the contract may have been in order, ESD did not choose an appropriate method to base its analysis. Even though there was only one RFP issued for this project, each of the two contracts awarded to A.J. Diani and Granite are independent of each other, and costs charged by one contractor have no correlation to costs charged by the other. An example is the costs for mobilization. Granite’s charge for mobilization was \$195,000, while A.J. Diani’s charge for mobilization was \$424,500; both charges were based on the estimate of 80 geographically distinct properties. Therefore, in our opinion the per ton cost in Granite’s contract with the City should not have been used as a basis when approving the additional per ton charge to A.J. Diani’s contract. A more appropriate method of determining if the requested disposal fees should be approved would be to do an analysis of disposal fees charged by Miramar Landfill.

An analysis based on landfill fees rather than on the other contract would likely have shown that A.J. Diani’s proposal would result in the firm’s receiving considerably more than needed to cover disposal costs. We performed an analysis comparing the disposal costs as summarized above with the actual disposal charges incurred by A.J. Diani. For example, all trash and ash debris material type was disposed of at Miramar Landfill. The amount of the increase in per ton

¹³ In addition to the inclusion of disposal costs, the contract modification included a request for an additional per ton charge for all material removed from homes located in The Trails community, a subdivision within the Rancho Bernardo neighborhood. In general, homes within The Trails were larger (3,889 square feet on average compared to non-Trails average property square footage of 2,131) and more difficult to access. According to ESD staff, the contractors were not made aware of the significant differences in the property sizes prior to submitting their proposals. Based on this information we believe this portion of the contract amendment to be reasonable.

contract pricing charged to the City for disposal fees for this material type was \$53.41 as outlined above. However, the charge per ton to dispose of this material type at Miramar Landfill is \$43 per ton. Our analysis indicates that actual disposal fees paid by A.J. Diani for the disposal of 18,908 tons all material types except concrete was \$794,622¹⁴. Under the amendment, the firm received \$989,573, or \$194,951 more than it spent on disposal fees.

We discussed the additional disposal fee payment with ESD staff. They provided additional documentation detailing correspondence with a City Contracting Specialist, who confirmed that charging an additional 15 to 20 percent above actual disposal costs for overhead and profit appeared reasonable.

The amendment requested by A.J. Diani was for “inclusion of disposal fees for all of the waste streams excluding concrete.” In our opinion, costs associated with overhead and profit should have already been accounted for in the per ton price for each material type as part of handling, removal and transportation. As a result, including overhead and profit as part of the contract amendment was unnecessary.

Recommendation:

1. City staff should ensure that future service contract amendments are reasonable, and do not allow reimbursable expenses to include overhead and profit.

Contractors’ Billings Had Errors and Omissions

Our analysis of bills submitted by A.J. Diani and Granite showed the City was not accurately billed for the debris removal project. We reviewed copies and originals¹⁵ of all weigh tickets for debris removed from the properties and documentation pertaining to other costs contractors billed to the City. In all, our testing covered approximately 90 percent of the \$9.4 million paid to the two contractors. We identified a number of errors and omissions, resulting both in overbillings and in underbillings. These are discussed in further detail below.

¹⁴ This does not include the amounts related to the disposal of metal as this was immaterial.

¹⁵ Both original and copies of Granite and A.J. Diani weigh tickets were considered in the review process. We reviewed copies of all weigh tickets. Some of the copies had missing and illegible information resulting from clerical errors (e.g. hasty handling of documents causing tears and missing information, inexact photocopying of documents, illegible and light font). We requested and received all original documentation from the Contractors. In addition to verifying information on weigh tickets we had questions about, we randomly verified the accuracy of the weigh ticket copies we reviewed. No discrepancies were found.

Granite Overbilled City by \$2,223 Through Errors in Handling Weigh Tickets

Documents relating to the work performed by Granite showed the firm overbilled the City a net amount of \$2,223 because of errors in handling weigh tickets. To certify the weight of debris removed from the affected properties, Granite relied upon the weigh scales at Miramar Landfill, at recycling companies, or (because some recycling companies did not have scales) at public scales. After returning to the project site, drivers would deliver the weigh ticket to Granite staff for entry into the debris tracking log. According to Granite staff, the log was updated daily with information based on the weigh tickets submitted by their trucking subcontractors. Granite staff would then reconcile weigh tickets with the debris tracking log in order to ensure accuracy for tonnages billed to the City.

During our review of weigh tickets and supporting documentation for the tonnage amounts billed by Granite, we found that 24 (or 1.75 percent) of the 1,371 weigh tickets were inappropriately billed. Of these 24 weigh tickets, 15 were misread or miscalculated by Granite staff, 7 were incorrectly keyed into the debris tracking log, and 2 were billed twice. The net effect of these errors was an overbilling of \$2,223. Granite's overall tonnage charges to the City totaled \$1,826,912.

Recommendation:

2. ESD should invoice Granite Construction Company \$2,223 for weigh tickets that were overbilled to the City.

Granite May Have Been Overpaid for Some Recycled Debris

Inconsistencies between some of Granite's invoices for recyclable debris and the firm's supporting documentation call into question the accuracy of \$64,922 in billings made by the firm. As outlined in the contract with Granite, the price for removal, handling, and disposal of concrete, a recyclable material, was \$60 per ton. The price for removal, handling, and disposal costs for other debris types, including trash and ash, landscape, mixed construction and demolition, and metals, was \$220 per ton. In all, Granite billed the City for removal of 5,756.42 tons of concrete, which constituted nearly half of the total tonnage Granite handled.

Our review of the weigh tickets and recycler receipts for the concrete removed by Granite showed that some loads of material that were disposed of at one concrete recycling center—Lakeside Land Company—were invoiced by Granite as mixed construction and demolition debris—a material which has a \$160 higher contracted per ton cost for handling, disposal, and removal than the rate for concrete. Had these loads been classified as concrete, the cost to the City would have been \$64,922 less.¹⁶ The recycling center itself identified these loads as clean concrete with additional surcharges due to the size of the loads and any excessive rebar and wire. In all, Granite disposed of 5,756 tons of debris at Lakeside, 460 tons of which it billed as mixed construction and demolition debris. By contrast, all of the loads taken to Lakeside by A.J. Diani

¹⁶ \$72,616 in tonnage charges, less \$7,694 in costs for 38 concrete loads disposed of at Lakeside Land Company that were originally billed as mixed construction and demolition.

were billed to the City as concrete. Because of the volume of concrete invoiced by each contractor, we would expect to see greater consistency in how the two contractors billed the City for loads taken to the same recycling facility.

The inconsistency suggests that ESD should investigate this matter further to determine if the City was overcharged. However, if the City were to seek a reclassification for these loads, it would also have to consider the effect of such a reclassification on the corresponding eligibility for FEMA reimbursement. Some concrete removal costs may ultimately not be eligible for FEMA reimbursement. Consequently, if the tonnage were reclassified as concrete, the City might have to return some funds to FEMA, as not all costs related to concrete removal were reimbursable.

In addition to performing debris removal services for the City, Granite also performed debris removal services as a subcontractor for the County of San Diego. We compared the weigh tickets Granite billed to the County with those billed to the City and found one duplicate billing. This billing was for 3.08 tons of metal which resulted in a billing to the City of \$678.

Recommendations:

3. ESD should review all of Granite's weigh tickets involving debris disposed of at Lakeside Land Company and determine if the City was overbilled because the type of material was inaccurately described.
4. If the review yields an over billing due to inaccurate material types, the City should invoice Granite Construction Company the amount of the over billings.
5. ESD should determine if the City should have been billed for the weigh ticket that was also charged to the County. If the billing was not applicable to the City's debris removal, ESD should invoice Granite \$678 for the duplicate billing.

A.J. Diani May Not Have Billed for All Debris Removed, and Some of Its Billings Lacked Sufficient Documentation or Were Inaccurate

Our review of documents relating to work performed by A.J. Diani showed the firm apparently did not bill the City for part of the debris it removed. In total, A.J. Diani billed the City for the removal of 27,710.45 tons of fire debris from 68 properties. However, our review of 2,103 weigh tickets indicated that the firm removed a total of 28,047.10 tons—a difference 336.65 tons from the tonnage billed. There is no reliable documentation to accurately determine the amount owed to A.J. Diani if this underbilling is accurate. The firm used three different forms of documentation to record the information pertaining to material type (a bill of lading, a daily tracking log, and a truck log) and we noted that in several instances the three documents were not consistent in the type of material they showed for the same load. Using the various values for the different types of materials, we estimate that an underbilling of this size would range from \$38,000 to \$105,000.

While A.J. Diani's invoices may not have included all the tonnage shown on weigh tickets, our review also showed that some of the firm's billings were for tonnage amounts that could not be

verified through the documentation available. In particular, five debris loads totaling 85.52 tons are questionable.

- Four of these loads were concrete and were disposed of by the use of vouchers. However, when the four vouchers were used, no weigh tickets were provided to support the tonnage billed. To determine the charge to the City, the contractor estimated the tonnage for each load, with the estimates ranging from 14 tons to 25 tons. Our analysis of all concrete weigh tickets A.J. Diani submitted show that concrete weighed, on average, 13.85 tons. The billing for the four loads totaled \$8,400, but if their actual weight was at the average for all weigh tickets, the bill to the City for the loads would have been \$6,205, or \$2,195 less.
- For the fifth load, which was disposed of at Miramar Landfill, the documentation did not indicate the type of material and because the landfill accepted many of the debris material types, we were not able to determine the amount A.J. Diani billed to the City for this load.

Finally, the bills A.J. Diani submitted included other errors that resulted in a net overbilling of \$8,442 relating to per unit charges.¹⁷ Specifically:

- The firm billed the City for more days of street sweeping than the firm actually conducted. The total billed for street sweeping was \$62,220 – a total of 51 days at \$1,220 per day. We requested ESD staff to provide documentation to verify the amount billed. ESD informed us that this documentation did not exist, but that street sweeping occurred only on the days that debris hauling took place. An analysis of the weigh tickets showed that debris hauling occurred on 44 unique dates. Based on this analysis, the City was overcharged for 7 days of street sweeping for a total overbilling of \$8,540.
- This overbilling was offset, to a small degree, by an underbilling for site signs. Each property in the debris removal program received a site sign, for which A.J. Diani charged \$98. This site sign was used to document which phases of the project had been completed, which phase the project was currently in, and which phases had yet to be completed. Billings for one of the properties did not include the charge for the site sign—an underbilling of \$98.

¹⁷ In addition to the two errors noted specifically here, the City may not have been correctly billed for tree removal, but there is no way to determine whether billings for tree removal were correct or not. A.J. Diani billed the City for the removal of 276 trees, but ESD did not have a control document that showed how many trees had been removed. ESD staff initially provided us with a spreadsheet indicating that 364 trees had been removed, but they subsequently informed us that this spreadsheet showed the total number of trees on the properties, not the number of trees removed. ESD staff told us that the billings for tree removal were confirmed visually and that no document existed that could be used as a control to verify billings for tree removal.

Recommendations:

6. ESD staff should work with A.J. Diani staff to determine the best course of action pertaining to the potential underbillings for 336.65 tons of debris and for the questionable billings of 85.52 tons of debris. If this determination results in additional payments to A.J. Diani, ESD staff should request funding from FEMA for the additional amount.
7. ESD staff should invoice A.J. Diani Construction Company for \$8,442 in net overbillings pertaining to billing discrepancies for a site sign and for street sweeping.

FINDING 2

FROM A CONTRACT MANAGEMENT PERSPECTIVE, THE CITY WAS NOT PREPARED TO ADMINISTER A LARGE-SCALE DEBRIS REMOVAL PROGRAM

The suddenness and magnitude of the fire disaster placed great stress on the need for an immediate response. The City was in a declared state of emergency—a difficult situation that tested the quality of the City’s preparations. This is not likely to be the last time the City will face such an emergency, and in that regard, any problems in the City’s response suggest lessons to be learned for the future. We identified several such lessons. They relate to the following:

- Developing a comprehensive debris management plan, both to mount an effective response and to ensure the City’s ability to receive the maximum amount of Federal funding for emergency debris removal activity. The City did not have such a plan in place when the wildfires occurred, and so lost out on the opportunity for some Federal funds.
- Taking steps to ensure the City has the best possible information to be able to estimate the likely costs of future debris removal efforts. The cost of these debris removal efforts was underestimated considerably, in part because staff were unaware of information that could have helped in developing more accurate estimates.
- Ensuring that a sound set of contract monitoring steps can be readily put in place. Inadequate controls for monitoring the contracts contributed to inaccurate payments to contractors, lack of clear support for all payments to contractors, and potential incomplete recovery of funds from private insurers.

The City Did Not Have an Approved Debris Management Plan in Place

The City did not have a debris management plan in place prior to the October 2007 wildfires. In order to comply with Federal and State policies and to meet disaster funding eligibility requirements, the City was required to create a plan to monitor the fire disaster and debris removal clean up project.¹⁸ This plan was created on approximately November 16, 2007, days before the contractors began work.¹⁹ This document described the duties of City staff in relation to the monitoring of the debris removal work that was to be carried out by the City’s contractors. This plan, however, did not contain all of the elements of a Fire Disaster plan as recommended by the California Office of Emergency Services (OES).

¹⁸ FEMA Fact Sheet 9580.201, “Debris Removal – Applicant’s Contracting Checklist.”

¹⁹ On November 6, 2007, ESD staff also issued a document entitled “Debris Removal and Clean-up Guidelines.” This document was available to City of San Diego citizens via the City public website (www.sandiego.gov/newsflash/pdf/debrisremovalguidelines.pdf) to assist in fire debris clean up efforts, and provide information on debris removal specifications, recycling facilities, and health and safety requirements.

As a result of not having an approved debris management plan in place prior to this project, the City was unable to pursue increased additional funding. In June 2008, the City received a Project Application Summary describing the costs FEMA had approved for Federal reimbursement. The summary states, “The applicant (City) was unable to pursue the increased Federal share incentive portion of the Pilot Program, as it did not develop a disaster debris management plan or prequalify two or more debris removal contractors prior to the disaster declaration date.” Although the report does not state the dollar value of the increased Federal share incentive portion of the Pilot Program, we were able to ascertain that for large projects the Pilot Program could have provided up to \$500,000 in additional Federal funding.²⁰

Recommendation:

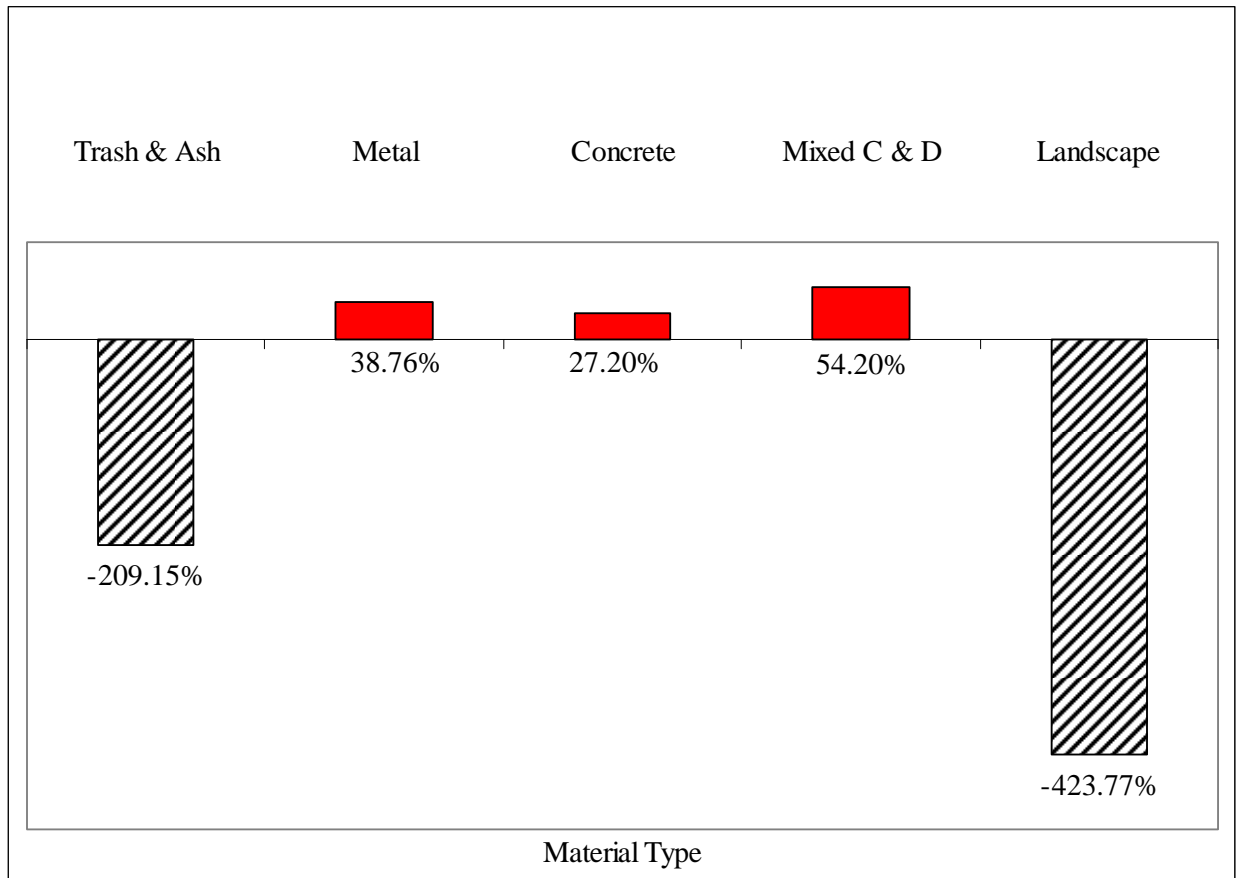
8. City Management should establish a comprehensive debris management plan. This plan should be approved by the Mayor and City Council. Prior to establishing the Plan, City staff should consult with the California Office of Emergency Services to ensure the Plan takes into consideration all items needed in order to qualify for Federal and State subsidies, such as pre-qualification of at least two contractors.

Limited Information Led to Understated Cost Estimates

The difference between initial estimates of debris tonnage to be removed and the tonnage actually billed was substantial. For example, the RFP’s estimate of total tonnage for landscape material for both east and west of I-15 was 240 tons, but actual landscape tonnage collected was 1,257 tons, an underestimation of 1,017 tons or 424 percent. As Figure 4 shows, the differences range from an overestimation of 54 percent to an underestimation of 424 percent. As a result of the inaccurate estimates, costs were far beyond original estimates.

²⁰ Public Assistance Pilot Program, Program Guidance Pamphlet, June 2007, http://www.fema.gov/pdf/government/policy/pa_pilot_pg.pdf

Figure 4: Magnitude of RFP Tonnage Estimates Versus Billed Tonnage



Source: Auditor analysis of RFP estimates versus invoice amounts.

Estimates may have been more accurate if information from past local fires had been considered. ESD, which was responsible for the estimates included in the RFP, based these estimates on information obtained from a 2007 fire in the Tahoe Basin, referred to as the Angora Fire. However, the most recent fire of this magnitude in the San Diego region, which occurred in 2003, had estimated debris volumes that would more accurately capture the City’s geographic characteristics. We asked ESD staff why they had not used information from the 2003 fire, known as the Cedar Fire, when preparing tonnage estimates for the RFP. Information on this fire was available,²¹ but ESD staff said that they were not aware of it. They said that, because of time constraints, they had used information from the Angora Fire in preparing their estimates. Although the actual costs of the debris removal program were not impacted by the underestimates, it is important that cost estimates are as accurate as possible for budgeting, planning and staffing purposes.

²¹ On October 30, 2007, City Council voted unanimously to pass a resolution to waive City fees associated with the 2007 wildfire damages; specifically demolition and building permit fees. Referenced backup material to this agenda item included a Report to the City Council dated October 26, 2007. This report was submitted by the City’s Development Services and Environmental Services Directors and references results of demolition of homes damaged and destroyed by the Cedar Fires of 2003.

Recommendation:

9. When preparing estimates for future contracting services, City staff should use information that will provide for the most accurate and appropriate estimates.

Lack of Controls Contributed to Billing Errors and Potential Incomplete Recovery of Payments from Insurers

ESD, which administered and directed all fire clean up work, did not have adequate cost assurance controls in place during debris removal operations. As part of the administrative duties, ESD was responsible for tracking project progress and ensuring the accuracy of reports, billings, subsequent payments of invoices, and on-site monitoring. In several ways, however, ESD's controls were inadequate for these tasks.

- **No clear work plans (i.e. checklist or property control log).** ESD did not document specific details of the work that should be done on each property. Although an independent third party performed a site survey of each property prior to debris removal activities, ESD did not complete a work order or checklist for each property that detailed what tasks the contractor should undertake. A work order could include estimated ash and debris, demolition, concrete, soil, and landscaping material to be removed from each property. Although ESD advised that visual inspection of debris clean up was done and that Contractors only removed debris that was approved by ESD, property work orders would have provided a basis to dispute allegations that Contractors removed more debris than was necessary. In our opinion, a property work order would have allowed ESD to better monitor and evaluate the costs associated with the clean up of each property. Without this documentation, we could not determine if excess debris was removed.
- **Limited verification of debris removed.** ESD did not independently verify or document the material type and tonnage amounts of debris removed. Instead, it relied solely on contractor invoices when approving the amounts paid for debris removal services. Because it lacked independently documented confirmations on a test basis (such as checking bills against weigh tickets), ESD was unable to verify the accuracy of the amounts submitted for payment prior to paying invoices. This resulted in the inaccurate payments we discussed earlier.
- **Limited checking of loads at the City's landfill.** At Miramar Landfill, which is operated by ESD's Waste Reduction and Disposal Division, staff were not vigilant in inspecting loads from contractors and accurately categorizing truck load material type during the project. We could not rely on the debris material description as shown on the Miramar Landfill weigh tickets. The terms of the contracts and pricing agreements were not communicated with Miramar Landfill staff and as a result the City had no reliable and independent verification of Contractor charges for the type of debris removed. This lack of controls was significant, because of the 3,474 weigh tickets we reviewed for the project, 2,293 (or 66 percent) originated from Miramar Landfill. ESD staff told us that landfill staff members were not notified how important it was for the appropriate material types to be recorded by the landfill's fee booth operators in order for the City to have accurate records of per material tonnage disposed of at the landfill. Had this information

been accurately recorded at the landfill, ESD staff could have relied on these records prior to approving invoice payments to the contractors, rather than relying on the contractors' documentation.

- **Insurance reimbursements not thoroughly reviewed.** ESD staff have not verified that all reimbursements from insurance companies have been received or reflect the terms of the homeowners' insurance policies. For properties covered by homeowner's insurance, owners agreed to reimburse the City the amount covered for debris removal by their policy within 30 days of receiving their insurance proceeds. Once debris removal work was completed, ESD staff also sent each property owner a notification requesting payment of the homeowner's insurance policy award for fire debris removal or 5 percent of the total property coverage paid by the insurer. We analyzed the insurance proceeds ESD had received and found that, on average, the amount received from each property owner was 6 percent of the property coverage, with amounts ranging from 1 percent to 10 percent. Additionally, we noted that for three properties, ESD did not have copies of the insurance settlement agreements. For these three properties, insurance proceeds received were 5 percent of structure replacement value and the City received these proceeds via personal check from the homeowners. However, without the insurance settlement agreements, ESD staff cannot ascertain if the correct amount was received.

Recommendations:

10. In future debris removal programs involving numerous properties, the City should include requirements for a documented work order or checklist to be completed for each property so that all parties are in agreement regarding work to be performed. This work order could also provide a control document for staff to use prior to approving invoices for payments to Contractors.
11. For all contracts, ESD staff should ensure that independent verifications of billed amounts that are done by staff be documented and retained.
12. For all future contracts or projects that rely on processes followed by other City departments or divisions, ESD staff should be proactive in communicating the contract or project requirements.
13. ESD staff should contact homeowners who have not submitted copies of insurance settlement agreements and request copies of the settlement agreement in order to verify that the City received the appropriate amount.
14. ESD staff should ensure that all remaining insurance proceeds received are accurate based on insurance settlement statements.

CONCLUSION

In October 2007, wildfires burned over 400,000 acres across San Diego County. It was estimated that 513,000 residents were evacuated and economic costs to San Diego County would exceed \$2 billion. Damage assessments estimated that 362 homes were destroyed within the City of San Diego. A state of emergency was declared and it was determined that it was beneficial for the City to have a centralized debris removal program to quickly remove all fire debris that posed potential health risks to citizens and hazards to the environment. Within two weeks of the Governor declaring a State of Emergency, the City had entered into contracts with A.J. Diani Construction Company, Inc. and Granite Construction Company, and by February 10, 2008, all properties that participated in the program were cleared of all fire debris. The total cost of the debris removal program was approximately \$9.7 million, which included \$300,000 in City staff labor and equipment costs. The City's portion of these costs is expected to be \$658,000 after receiving Federal, State and homeowner insurance reimbursements, and the City is pursuing additional Federal reimbursements. Our review found billing inaccuracies and questionable cost that were approximately two percent of the total amount paid to the contractors. In order to be better prepared for future wildfires, the City would benefit by developing a comprehensive Debris Management Plan, and establishing procedures for contract monitoring to ensure accurate payment to vendors and to maximize Federal and State reimbursements for emergency services.

ATTACHMENT 1

Time Line of Significant Events

Date	Event	Source
October 21 – October 31, 2007	<p>Fires rage across San Diego County burning over 335,000 acres and destroying over 2,500 structures.</p> <p>City began contract discussions with A.J. Diani Construction Company (A.J. Diani); as a result of Municipal Code Section 22.3212 not requiring contracts to be competitively bid to remedy an emergency that affects public health or safety, the City moved forward to procure the services of A.J. Diani – only known contractor to have participated in an equivalent municipally led debris removal effort. Effectively, sole source procurement with A.J. Diani was being sought.</p>	<p>CAL FIRE 2007 Wildland Fire Summary (www.fire.ca.gov)</p> <p>Document created and provided by ESD Staff Member</p>
October 21, 2007	Governor of California declares State of Emergency.	Document created and provided by ESD Staff Member
October 22, 2007	Mayor Jerry Sanders declares local emergency.	Document created and provided by ESD Staff Member
October 24, 2007	President of the United States declares emergency exists in California wildfire areas.	Document created and provided by ESD Staff Member
November 2, 2007	City staff met with representatives from Federal Emergency Management Agency (FEMA) and Office of Emergency Services (OES). At this meeting the City learned that in order to qualify for reimbursements from FEMA and OES, the City needed to undertake a competitive bid process to select a contractor.	Document created and provided by ESD Staff Member
November 6, 2007	San Diego City Council adopted Resolution 303151 authorizing the Mayor to negotiate and enter into agreement(s) for clean up services for wildfire damaged property.	Council Meeting Minutes

ATTACHMENT 1

Time Line of Significant Events

Date	Event	Source
November 7, 2007	<p>Request for Proposal (RFP) sent to 5 vendors with a due date of November 9, 2007.</p> <p><i>Note: RFP divided debris removal area into 2 separate locations – East of Interstate 15 (I-15) and West of I-15. This was to facilitate awarding of contract to 2 contractors if necessary. Total tonnage estimates in the RFP were: 13,040 for west of I-15 and 18,880 for east of I-15.</i></p>	Purchasing Department via E-mail correspondence to Auditor
November 9, 2007	<p>Proposals received by 5 vendors.</p> <p>Technical Evaluation Committee (TEC) recommends to Purchasing that A.J. Diani be awarded the contract for homes east of I-15 at an estimated cost of \$3,301,350 and Granite Construction Company (Granite) was awarded the contract for homes west of I-15 at an estimated cost of \$2,308,680.</p> <p>Purchasing sent award letters to AJ Diani and Granite.</p>	Documents provided by Purchasing
November 20, 2007	City debris removal program begins.	Document created and provided by ESD Staff Member
December 3, 2007	Purchasing and Contracting approved an amendment to the contract with A.J. Diani allowing for increased unit pricing for trash and ash, landscaping and mixed construction and demolition and increased unit pricing for all materials removed from the properties located in the Trails community.	Purchasing memo with approval signature
January 10, 2008	Purchasing and Contracting approved an amendment to the contract with A.J. Diani allowing for costs associated with locating sewer laterals, utilization of public scales and fees related to the disposal of concrete.	Purchasing memo with approval signature

ATTACHMENT 1

Time Line of Significant Events

Date	Event	Source
January 11, 2008	Purchasing and Contracting approved an amendment to the contract with Granite allowing for costs associated with locating sewer laterals, utilization of public scales and fees related to the disposal of concrete.	Purchasing memo with approval signature
February 5, 2008 and February 12, 2008	First payment made to each contractor A.J. Diani and Granite, for debris removal services.	City's Accounts Payable System
February 10, 2008	All Rancho Bernardo properties were cleared by this date – 15 weeks after the fire.	Document created and provided by ESD Staff Member
April 28, 2008	Final payment made to A.J. Diani for debris removal services. Total amount paid to this contractor was \$6,414,708.	City's Accounts Payable System
May 15, 2008	Final payment made to Granite for debris removal services. Total amount paid to this contractor was \$3,016,495.	City's Accounts Payable System

ATTACHMENT 2

Debris Removal Program Costs and Estimated Cost Share as of 8/15/08:

Debris Removal Contract Services ¹	\$9,431,357.62
City Staff Labor & Equipment	<u>\$294,263.07</u>
Total Project Costs	\$9,725,620.69
Estimated Insurance Reimbursements ²	\$3,038,183.00
FEMA Ineligible Costs ³	\$1,282,124.83
FEMA Eligible Costs ³	\$5,405,312.86
FEMA Share (75% of Eligible Costs)	\$4,053,984.65
State Share(18.75% of FEMA Eligible Costs)	\$1,013,496.16
State Share(75% of FEMA Ineligible Costs)	<u>\$961,593.62</u>
Total State Share	\$1,975,089.78
City Share (6.25% of FEMA Eligible Costs)	\$337,832.05
City Share (25% of FEMA Ineligible Costs)	<u>\$320,531.21</u>
Total City Share	\$658,363.26

Estimated Cost Share Percentages:

Insurance Reimbursements	31.24%
FEMA Funds	41.68%
State Funds	20.31%
City Funds	6.77%

¹This amount is different than the amount shown in the report as the total amount paid to both Contractors; the difference is approximately \$155 and is immaterial.

²As of September, 26, 2008, actual insurance reimbursements received by the City from 79 property owners totaled \$2,365,851. \$773,000 is anticipated to be received by the City from 32 property owners, with one property owner not having insurance.

³ Documentation was submitted to and approved by FEMA for eligible work including City Labor and & Equipment costs totaling \$5,405,312. The eligible amount deducted the anticipated insurance reimbursement amounts.

Ineligible work included:

Concrete Handling On All Properties	\$1,166,580.83
Concrete Transport & Disposal Where Load Trucks Were Not Stationed on a Public Right of Way	<u>\$73,457.00</u>

Source: City of San Diego Environmental Services Department



ATTACHMENT 3

THE CITY OF SAN DIEGO

MEMORANDUM

DATE: December 18, 2008

TO: Eduardo Luna, City Auditor

FROM: Chris Gonaver, Environmental Services Director

SUBJECT: 2007 Wildfires – Fire Debris Removal Project Audit

The Environmental Services Department (ESD) has reviewed the Audit Report (Report) dated November 7, 2008. In general, we find the report to be factual and appreciate the extensive work your team did in reviewing and analyzing the voluminous documents.

We are pleased to have this opportunity to respond to each of the Report's specific recommendations, and also to place the Fire Debris Removal Project in its proper context.

In October 2007, fast-moving wildfires destroyed 362 homes within the City and damaged 62 others. The City promptly assessed their devastation, which was primarily in the community of Rancho Bernardo, and determined it had a duty to protect the public health and the environment in a timely and controlled manner. Within 2 weeks following the fires, the City had prepared a Request for Proposals (RFP), solicited bids and entered into two (2) debris removal contracts with A.J. Diani and Granite Construction to provide a comprehensive clean up option to impacted property owners. The City successfully administered this large scale debris removal program, and completed the debris removal work within 9 weeks of execution.

While the City may have lacked experience administering a large-scale debris removal program from a contract management perspective, no other agency could have undertaken this vital mission. Nor could the property owners, acting individually, have hoped to accomplish the work in as orderly and expeditious a manner.

ESD's response following the fires included working closely with the community and impacted residents. This included providing outreach to over 386 impacted property owners, and entered into 112 separate Right of Entry Agreements with property owners for debris removal and installation of erosion control measures. The City utilized existing trained employees and worked out of City facilities which resulted in significant cost savings. ESD coordinated with seven (7) recycling facilities to accept recyclable materials for free or minimal charges that also resulted in significant cost savings to the residents.

In some instances, the audit found discrepancies in billings by the private contractors. The City is working with the contractors to resolve those discrepancies and determine where the City may have been inappropriately charged.

One of the public concerns with the debris removal program has been the discrepancy between the tonnage removed from the Rancho Bernardo properties and the City's initial estimates of the tonnage. This discrepancy was due in large part to the size and construction of the homes in that neighborhood.

To speed recovery and renewal efforts in the aftermath of the fire, the City and County of San Diego worked collaboratively with federal and state agencies to develop a comprehensive debris cleanup plan. It was modeled after a program that was implemented in El Dorado County following the Angora wildfires near Lake Tahoe during the summer of 2007.

To qualify for reimbursement under the California Disaster Assistance Act, the City was required to prepare a Damage Survey Report. At the direction of the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (OES), the City was directed to provide debris removal estimates and to utilize the quantities and costs from the Angora debris removal program. These were, at the time, the only confirmed tonnages available.

In retrospect, our estimate was fundamentally flawed. The homes lost in the Angora fire were typically smaller than those in Rancho Bernardo. They were typically built of wood, and without concrete slabs. They had less hardscape and fewer swimming pools. And they did not have the same need for erosion control due to graded properties.

As a consequence, the tonnage of debris removed from Rancho Bernardo was significantly greater than the estimates. Yet a more fitting comparison, while desirable, would not have reduced the cost of the removal, only the accuracy of the estimate.

The City's two contractors removed over 22,000 tons of debris, and recovered over 16,300 tons of recyclable debris from 112 properties. This resulted in over 42% of the material being diverted from the landfill and recycled.

The City also provided 431 vouchers for free disposal of debris to property owners that had not signed up for the City's debris removal program. This resulted in over 43,000 tons of debris and recyclables disposed of at no expense to the property owners.

ESD has secured over 93% of the total cost of the program from FEMA, State emergency funds, and property owners insurance proceeds. To date over \$2.6 million in insurance proceeds have been received. However, more than 20 residents have yet to reimburse the City for the debris removal service, despite the passage of more than a year. In these cases, the City expects only to receive whatever amount of money the property owners have received for their insurers for this purpose. More aggressive collection efforts will soon begin.

It should be noted that the City was successful in protecting the public health and environment of the community in a well-controlled and expeditious manner. The program was praised by residents and emergency-management administrators alike. Mr. Michael J. Hall, FEMA's Coordinating Officer sent a letter of recognition on March 31, 2008 to the City Debris Operations Manager, summarized as:

"I received several comments from your San Diego residents grateful for the excellent performance of the City of San Diego DROC team members in your debris removal management of the Rancho Bernardo burn area. Your team's compassion for property owners and innovative approach to job performance was noted and appreciated as you provided assistance and guidance to those impacted by recent 2007 California wildfires. The professionalism displayed was of the highest caliber and measured by your personal standard of excellence."

We acknowledge that the errors found in the audit potentially could have been reduced had we had the time to properly plan and prepare our response to this emergency. We are now preparing to respond to future emergencies and will be incorporating many of the lessons learned from the 2007 wildfires. Planning efforts include:

1. ESD staff is working with other City Departments in preparing a Request for Qualifications (RFQ) for establishing of a pre-qualified list of contractors to perform emergency responses services. It is anticipated that this RFQ will be advertised in January 2009.
2. ESD staff is participating along with FEMA, OES and CIWMB on the Golden Guardian 2008 Debris Management Task Force. ESD is providing guidance and assistance to other jurisdictions in preparation of contracts and debris management documents.
3. ESD is preparing a comprehensive Debris Management Plan that will provide a framework for the City and other entities to clear, remove, reduce, recycle and dispose of debris generated during a public emergency within city limits. This Plan unifies the efforts of the city, county, State, and Federal organizations for a comprehensive and effective approach.
4. In the event of another disaster, the City's responsibility will be limited to debris removal on city streets, facilities and properties. Debris removal on private property will be the responsibility of the individual property owner. However, if the debris on private property is so widespread that public health, safety, and/or the economic recovery of the community is threatened, and FEMA approves advanced funding, the City may consider assisting these property owners on a case-by-case basis.
5. If the City adopts a policy to provide property owners with free disposal of disaster debris, this will be accomplished through a reimbursement program, rather than with vouchers.
6. ESD will provide additional curbside collection of metals for recycling for homeowners.

7. ESD will provide emergency supplies of personal protective equipment to homeowners immediately following a disaster.
8. ESD will provide outreach and enhanced customer service to the residents and community impacted by the fires.

We look forward to addressing the errors identified in the audit and to resolving all of the discrepancies. The following comments are in response to your findings and recommendations.

FINDING 1- RATES PAID BY THE CITY APPEAR GENERALLY REASONABLE, BUT BILLINGS CONTAINED MISTAKES AND OMISSIONS

Recommendation 1:

City staff should ensure that future service contact amendments are reasonable, and do not allow reimbursable expenses to include overhead and profit.

Response:

ESD disagrees with any implication that the contract amendment was not reasonable. There is no hard and fast rule that precludes adding some amount for overhead and profit to the costs included in these types of contracts. Nor does ESD agree with the characterization of disposal costs as a "reimbursable expense." ESD and Purchasing and Contracting considered these costs more analogous to the cost of construction materials, commonly included in construction contracts with an allowance for overhead and profit, than to reimbursable expenses like travel costs, which are more commonly included, without an allowance for overhead and profit, in contexts like consultant contracts. ESD performed its due diligence in vetting the terms of this amendment with Purchasing and Contracting and the City Attorney's Office.

Recommendation 2:

ESD should invoice Granite Construction Company \$2,223 for weigh tickets that were over billed to the City.

Response:

ESD agrees. As discussed with the Auditor, once ESD confirms that 24 (or 1.75%) of the 1,371 weight tickets were inappropriately billed as a result of being misread or miscalculated and incorrectly keyed, and that two weight tickets were billed twice, ESD will invoice Granite \$2,223 or the appropriate charges. This review will be completed no later than January 30, 2009.

Recommendation 3:

ESD should review all of Granite's weight tickets involving debris disposed of at Lakeside Land Company and determine if the City was over billed because the type of material was inaccurately described.

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Response:

ESD agrees and will review all of Granite's weigh tickets totaling 5,756 tons of debris disposed at Lakeside Land Company and determine if the 460 tons of material billed as construction and demolition were appropriately billed for the type of material disposed. This review will be completed no later than January 30, 2009.

Recommendation 4:

If the review yields an over billing due to inaccurate material types, the City should invoice Granite Construction Company the amount of the over billings.

Response:

ESD agrees that if it is determined that the material was inaccurately billed, ESD will invoice Granite the appropriate charges within 2 weeks of confirming the accuracy of the charges.

Recommendation 5:

ESD should determine if the City should have been billed for the weight ticket that was also charged to the County. If the billing was not applicable to the City's debris removal, ESD should invoice Granite \$678 for the duplicate billing.

Response:

ESD agrees and will work with Granite to resolve the issue of the weigh ticket for \$678 to ensure that it is an appropriate charge to the City. If it is determined that the City was inappropriately charged, the City will invoice Granite for the appropriate amount. This review will be completed no later than January 15, 2009.

Recommendation 6:

ESD staff should work with A.J. Diani staff to determine the best course of action pertaining to the potential under billings for 336.65 tons of debris and for the questionable billings of 85.52 tons of debris. If this determination results in additional payments to A.J. Diani, ESD staff should request funding from FEMA for the additional amount.

Response:

ESD will work with A.J. Diani staff to first confirm the potential under billing of 333.65 tons of debris and the appropriate billing for the 85.52 tons of debris and then determine the best course of action. The four (4) loads of concrete referenced that were billed based on estimated tons (between 14 and 25 tons) are above the average of 13.85 tons. It should be noted that these estimates are within the range of all concrete weight tickets of 2.9 to 26.78 tons of concrete per truck.

ESD will meet with A.J. Diani no later January 30, 2009 to resolve this issue. Following completion of all work associated with this project ESD will submit a final report to FEMA updating all costs associated with this project.

Recommendation 7:

ESD staff should invoice A.J. Diani Construction Company for \$8,442 in net over billings pertaining to billing discrepancies for a site sign and for street sweeping.

Response:

ESD agrees that the City owes \$98 to A.J. Diani for a site sign that was not billed and that A.J. Diani owes the City \$8,540 for overcharging an additional 7 days of street sweeping. ESD will invoice A.J. Diani the net amount of \$8,440.

FINDING 2 - FROM A CONTRACT MANAGEMENT PERSPECTIVE, THE CITY WAS NOT PREPARED TO ADMINISTER A LARGE-SCALE DEBRIS REMOVAL PROGRAM

Recommendation 8:

City Management should establish a comprehensive Debris Management Plan. This plan should be approved by the Mayor and City Council. Prior to establishing the Plan, City staff should consult with the California Office of Emergency Services to ensure the Plan takes into consideration all items needed in order to qualify for federal and state subsidies, such as pre-qualification of at least two contractors.

Response:

ESD agrees and is working with the Office of Homeland Security to develop a comprehensive Debris Management Plan. The City in cooperative effort of several City departments, is currently preparing a Request for Qualification to have pre-qualified contractors available to respond to any future disasters. ESD will develop this Plan over the next 60 days.

Recommendation 9:

When preparing estimates for future contracting services, City staff should use information that will provide for the most accurate and appropriate estimates.

Response:

ESD agrees that the most accurate information will be used for estimating future contracting services. ESD based its original estimates on the quantity of debris removed from properties following the 2007 debris removal in Angora. These were the only confirmed tonnages available at the time of preparing the estimated cost for this project. The quantities were adjusted upward for the larger homes as well as the different materials used in constructing the homes in Rancho Bernardo. It should be noted that even though the original estimates were lower than what was actually removed from the properties, the original cost per unit of debris did not change. Having a more accurate estimate is always desirable; however in the end this would not have changed the final cost for this project.

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Recommendation 10:

In future debris removal programs involving numerous properties, the City should include requirements for a documented work order or checklist to be completed for each property so that all parties are in agreement regarding work to be performed. This work order could also provide a control document for staff to use prior to approving invoices for payments to Contractors.

Response:

ESD agrees that for future debris removal projects involving numerous properties, the City will develop and utilize some form of a list of tasks to be completed for each property. ESD realizes the documentation including the daily inspection reports that were prepared on each property did not provide a comprehensive document for each pay item for each property.

Recommendation 11:

For all debris removal contracts, ESD staff should ensure that independent verification of billed amounts that are done by staff be documented and retained.

Response:

ESD agrees that the City should prepare independent documentation to verify all quantities and items associated with the project.

Recommendation 12:

For all future contracts or projects that rely on processes followed by other City department or divisions, ESD staff should be proactive in communicating the contract or project requirements

Response:

ESD agrees that for all future contracts or projects we will be more proactive in communicating to other City departments or divisions the importance and significance of detailed documentation.

Recommendation 13:

ESD staff should contact homeowners who have not submitted copies of insurance settlement agreements and request copies of the settlement agreement in order to verify that the City received the appropriate amount.

Response:

ESD agrees and will follow up with the three (3) homeowners to ensure the City receives copies of their insurance settlement agreements and that the City has received the appropriate reimbursement amounts. ESD will contact these homeowners by January 30, 2009.

Recommendation 14:

ESD staff should ensure that all remaining insurance proceeds received are accurate based on insurance settlement statements.

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Response:

ESD agrees and will ensure all remaining insurance proceeds received are accurate and based on insurance settlement agreements.

A handwritten signature in black ink, appearing to read "Chris Gonaver". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chris Gonaver
Environmental Services Director

cc: Jay M. Goldstone, Chief Operating Officer
Elmer L. Heap, Jr., Deputy Chief Operating Officer
David Jarrell, Deputy Chief Operating Officer
Sylvia M. Castillo, Senior Civil Engineer