

Office of Inspector General

City of New Orleans

Review of City of New Orleans Contract with Telecommunications Development Corporation

OIG-I&E-09003(C)

**E. R. Quatrevaux
Inspector General**

Final Report
August 30, 2010

OFFICE OF INSPECTOR GENERAL
CITY OF NEW ORLEANS



ED QUATREVAUX
INSPECTOR GENERAL

July 6, 2010

Re: Review of City of New Orleans Contract With Telecommunications Development Corporation: OIG-I&E-09003(C)

I certify that the Inspector General staff assigned to this project are free of personal or other external impairments to independence.

A handwritten signature in blue ink, appearing to read 'E.R. Quatrevaux', is positioned above the printed name.

E.R. Quatrevaux
Inspector General

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Development Corporation

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EXECUTIVE SUMMARY

The Office of Inspector General for the City of New Orleans (OIG) conducted an evaluation of the procurement and management of a contract awarded by the City to Washington D.C.-based Telecommunications Development Corporation (TDC) in October 2009. The purpose of the contract was to provide staffing to two City agencies, the management information systems (MIS) division, and the Project Delivery Unit, which manages a program of repair and rehabilitation of City buildings and facilities.

Our evaluation found that the contract was awarded through a flawed procurement process that did not promote fair competition. The City passed over a higher-ranked proposal to choose TDC despite its lower scores for experience and competency and its higher proposed hourly rates. The City negotiated a reduction in TDC's proposed hourly rates for the contract, but later agreed to pay TDC dramatically higher rates for staff in the Project Delivery Unit through a questionable contract amendment.

The City failed to budget adequate funds to cover the anticipated cost of the contract for 2010. The initial contract, for a three-month term, had a maximum value of \$450,000. During the next six months, the contract was amended three times to increase the maximum value to more than \$5 million. In the eight-month period from October 2009 through May 2010, TDC billed the City approximately \$3.7 million.

We found that by contracting with TDC for staffing services, the City wasted more than \$750,000 in an eight-month period. Our analysis showed that paying TDC to staff the MIS division would cost the City approximately \$960,000 more on an annual basis than would hiring City employees to perform these regular City operations. The City unnecessarily increased the cost of FEMA reimbursement assistance to the Project Delivery Unit by about \$275,000 by procuring the services through the TDC contract. The City also incurred \$52,000 in excessive costs by transferring clerical and administrative staff from a competitively bid contract to the TDC contract.

According to the City's response to this report, which is included as Appendix D, a number of steps have been taken to reduce the cost of the TDC contract and to avoid repeating the wasteful practices described in the report. The OIG made three recommendations to help the City obtain the benefit of market competition and avoid excessive costs in future City contracts:

Recommendation 1: Ensure that professional services contract awards are based on advertised criteria that are applied fairly and uniformly to all proposals.

Recommendation 2: Limit the amount by which maximum compensation can be increased through contract amendments.

Recommendation 3: In reviewing City contracts, compare the costs of alternative methods of delivering City services and determine the most cost-effective approach.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General for the City of New Orleans (OIG) conducted an evaluation of:

1. The procurement process used by the City to award a contract for staff augmentation services for the City's Management Information Systems Division and the Project Delivery Unit;
2. The terms of the contract the City awarded to Telecommunications Development Corporation (TDC) for these services;
3. The City's oversight and management of the contract.

The objectives of this evaluation were to obtain information about the City's procurement and contract management practices and to evaluate compliance with applicable legal requirements, policies, and prudent procurement and management practices. The evaluation considers actions taken during the period from June 2009 to May 2010.

The OIG interviewed City officials responsible for the procurement and oversight of the TDC contract and the owner of a business that has a staffing service contract with the City. We also reviewed documents provided by the City in response to requests issued pursuant to Sections 2-1120(18) and (20) of the Code of the City of New Orleans and La. R.S. 33:9613, including a request for proposals, proposals submitted by various respondents, documents reflecting the evaluation of proposals, contract documents, contracting billing and payment records, and email communications relating to the contract. This evaluation was performed in accordance with the Principles and Standards for Offices of Inspector General for Inspections, Evaluations, and Reviews.¹

The evaluation includes findings and recommendations regarding procurement of professional services contracts and contract management. These findings and recommendations are based on legal requirements and on best practices for improving accountability, effectiveness, efficiency, and fiscal control.

¹ Quality Standards for Inspections, Evaluations and Reviews by Offices of Inspector General, *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2004).

II. INTRODUCTION

On October 1, 2009, the City of New Orleans executed a contract with Telecommunications Development Corporation (TDC), a Washington D.C.-based information technology firm, to provide staff augmentation and project management services to two City departments. The initial contract was for a three-month term and had a maximum value of \$450,000. The contract was amended three times in the first six months, increasing the maximum allowable compensation to more than \$5 million. By the end of May 2010, TDC had billed the City \$3,697,212.35 under this contract.

Our review found that the City awarded this contract through a flawed procurement process that did not promote fair competition. The City passed over a higher ranked proposal and chose TDC despite lower scores for experience and competency and higher proposed hourly rates. After negotiating a reduction in TDC's proposed hourly rates for the contract, the City increased the rates through a questionable contract amendment.

TDC's role under this contract was to act as a billing conduit for contract workers and subcontractors in two City agencies. The review found that paying personnel in the Management Information Systems (MIS) division through this contract costs the City an estimated \$960,000 a year more than directly hiring City employees. We also calculated that the City paid about \$275,000 more over eight months to have TDC subcontract with a separate firm, Integrated Disaster Solutions (IDS), for FEMA reimbursement assistance, rather than simply awarding a City contract to IDS. In addition, the City circumvented public bidding laws and wasted more than \$52,000 by shifting administrative workers from a competitively bid contract for non-professional services to the higher priced TDC contract for professional services.

The actions described in this report occurred during the period from June 2009 to May 2010, during the administration of Mayor Nagin. The current City administration took office in May 2010 and has taken steps to address some of the findings in this report by eliminating some personnel paid through this contract, which will expire on September 30, 2010.

A. BACKGROUND

The purpose of the TDC contract was to provide personnel to two separate City offices: (1) the Management Information Systems (MIS) division, which is responsible for the City's information technology systems; and (2) the Project Delivery Unit, a division created by the Mayor in 2007 to manage the capital recovery program for repair and rehabilitation of City buildings and facilities.

In 2002, the City began to rely on contractors to staff the MIS division in lieu of hiring City employees. In 2007, after the City awarded a project management contract to MWH Americas, Inc. (MWH), the City extended this practice by placing Project Delivery Unit personnel under subcontract to MWH, rather than hiring them as City employees. The City refers to the practice of contracting with a firm to provide personnel to City departments as “staff augmentation.”

The MIS division and the Project Delivery Unit have little functional relationship to each other, but from about March 2009 until May 2010, both were managed by the same individual serving as an Executive Assistant to the Mayor (“Executive Assistant”). The Executive Assistant was first hired by the City in August 2008 as the Interim Chief Technology Officer and charged with management of the MIS division. Beginning in or about March 2009, the Mayor directed the Executive Assistant to assume responsibility for managing the Project Delivery Unit, in addition to his duties managing the MIS division.

In a November 2009 interview, the Executive Assistant told the OIG that he devised the TDC contract as a mechanism to replace other information technology contractors, including Ciber, Inc., VisionIT, and Microsoft, who were providing personnel to the MIS division, and to take over MWH’s role in providing personnel to work in the Project Delivery Unit. The Executive Assistant told us that he believed the City could obtain lower rates for staff augmentation services by seeking a new contract.

He prepared a request for proposals in June 2009, seeking a single contractor to provide staff augmentation services for both of the City divisions under his supervision. Although the experience and skills needed to staff these two divisions were very different, the City combined the services into one request for proposals.

B. THE PROCUREMENT PROCESS

On July 13, 2009, the MIS division issued a request for proposals for “Staff Augmentation and Project Management Services.”

FINDING 1. THE SCOPE OF SERVICES ADVERTISED IN THE REQUEST FOR PROPOSALS BORE LITTLE RELATIONSHIP TO THE SERVICES ACTUALLY PROVIDED UNDER THE CONTRACT.

The request for proposal included four categories of needed services. Two of these service areas were very broad and general:

- *Establishment of a Project Management Office (PMO) which will provide project management, and staff augmentation services for various citywide technology initiatives.*

- *Functional and technical subject matter experts to support the Capital Projects/Infrastructure Development Program Management on an as needed basis.*

The first of these categories creates a misleading impression of the nature of this contract; the contractor was not tasked to establish a project management office and we found no evidence that the City actually intended to ask the contractor to perform this function. The second category is vague and offers no information as to what kind of “subject matter experts” the City is seeking with respect to capital projects or infrastructure.

The other two categories of services included in the request for proposals were much more specific and related to telecommunications:

- *Project management and subject matter expertise in regard to the assessment and optimization of the city’s 3-1-1 call taking capability.*
- *Functional and technical subject matter experts as related to the integration of non-emergency and emergency call taking capabilities of the city.*

We found no reasonable explanation for including these services in the request for proposals as the contractor has had no role related to the City 3-1-1 system or technology initiatives involving other call-taking capabilities.

As discussed earlier in this report, the purpose of this request for proposals was to hire a contractor to act as a billing conduit for the operational staff working in the MIS division and for individuals and contractors working in the Project Delivery Unit. By misrepresenting the nature of the contract in the request for proposals, the City undermined effective competition through the procurement process.

FINDING 2. THE CITY LACKED A COHERENT RATIONALE FOR SELECTING TDC FOR THE CONTRACT.

The City received seven proposals in response to the RFP. According to a memorandum written by the Chief Administrative Officer, the Executive Assistant evaluated and scored the proposals, in consultation with MIS staff. The CAO also signed off on the ranking sheet indicating agreement with the scores. A ranking sheet signed by the Executive Assistant allocated the scores as shown in Figure A.

Pursuant to a process established by Executive Order, the results of the proposal evaluations were presented to the Mayor, who was responsible for selecting the winning contractor.² As shown in Figure A, the Executive Assistant gave Business Intelligence Solutions (BIS) the highest score.

² City of New Orleans Home Rule Charter Section 6-308.

Figure A: Scores Assigned to Competing Proposals

Vendor	Specialized experience and technical competence (25%)	Performance history, competency, etc. (25%)	Maintenance of an office in Orleans or other regional parishes (10%)	DBE (20%)	Cost (20%)	Total
Business Intelligence Solutions	22	22	10	20	18	92
Telecommunications Development Corp.	21	21	10	20	12	84
Strategic Staffing Solutions	17	15	10	20	18	80
Staffworks, LLC/ETI	15	13	10	20	20	78
PMO Link	19	15	10	20	12	76
Henry Consulting LLC	15	15	10	20	12	72
Polite & Associates, LLC	15	15	10	0	18	58

After proposals had been scored, the Chief Administrative Officer prepared a memorandum to the Mayor explaining the evaluation process. According to this memorandum, the Executive Assistant did not recommend that the contract be awarded to BIS, but rather to the second-ranked firm because he had “greater confidence” in TDC for the following reasons:

- *TDC is a proven provider of PMOs for complex security and public safety programs which include the Homeland Security Grant Program.*
- *TDC has strong credentials in the specific requirements of the RFP; e.g. Program Management, Public Safety Project Management, 3-1-1-Systems Implementation, Business Process Reengineering, etc.*
- *TDC specifically has candidates with Lagan experience which is a key differentiator for the success of the projects.³*
- *BIS’ rates are significantly lower than all other bidders which constitute[s] a risk for sustaining highly qualified personnel.*
- *BIS cannot be found in the Dun and Bradstreet System; therefore their financial stability is questionable.*

³ Lagan is a case management software solution which would be used to manage complaints lodged with the City’s 311 call center.

The memorandum also stated that if TDC were selected, the Executive Assistant would negotiate a reduction in their proposed rates. In accordance with the Executive Assistant's recommendation, the Mayor selected TDC for the contract award.

The same individual – the Executive Assistant – was responsible for drafting the RFP, scoring proposals according to specified criteria, and recommending a vendor for the contract award. However, the proposal scores, which rated BIS as the most qualified firm, were not consistent with the recommendation to award the contract to TDC. Specifically, the Executive Assistant gave BIS higher marks for specialized experience, performance history, and competence, but the memorandum indicates that he regarded TDC as superior with respect to these criteria. We found no explanation for this inconsistency.

Equally puzzling was the Executive Assistant's opinion that BIS' lower proposed rates represented a risk to the City. BIS was apparently penalized in the selection process for offering a lower cost, even though it earned a higher score on this criterion under the City's official rating system. The concern that an apparently well qualified contractor's rates were too low is at odds with the objective of the contract, which was to reduce the cost of staff augmentation. It also undermined fair competition, because vendors would reasonably expect lower costs to be regarded favorably.

The Executive Assistant's other stated reasons for recommending TDC are not persuasive given the purpose of the contract. The memorandum noted TDC's strong credentials in program management, public safety project management, 311 systems implementation, and business process reengineering, as well as experience with complex security and public safety programs, but these credentials and experience were not relevant to the services TDC actually provided under the contract. Although the RFP indicated that the contractor would establish a project management office for technology initiatives, in reality, TDC acted primarily as a staffing agency and did not provide project management services.⁴

Finally, the Executive Assistant raised a question about BIS' financial stability, which was not one of the stated evaluation criteria. If the City intended to evaluate financial stability, it should have asked vendors to provide relevant evidence, such as financial statements or bank references. Having not put vendors on notice that this factor would be considered in the selection process, it was unfair, and detriment to the City's interests, to consider it as a reason to eliminate a proposal without giving the vendor an opportunity to present evidence.

⁴ The RFP called for the contractor to assess and optimize the City's 311 call-taking capability, and TDC's experience implementing and using Lagan software was cited by the Executive Assistant as a key reason for contracting with TDC. TDC did not, however, perform this task and the City ceased to operate the call center effective January 1, 2010.

III. THE TDC CONTRACT

The City entered into a professional services contract with TDC, effective October 1, 2009, to provide services to the MIS division. The contract provided for a three-month term through December 31, 2009, and a maximum payable sum of \$450,000. The contract included a schedule of hourly rates ranging from \$40 to \$145 for positions, some with such cryptic titles as “Subject Matter Expert,” “Sr. Management Principal,” “Sr. Management Consultant,” and “Sr. Program Manager.” The qualifications required for these positions were vague and included such requirements as “large scale project management experience,” “consensus building abilities,” “change management experience,” and “ability to listen.” The contract did not specify the type of training or technical expertise required for these position descriptions.

The contract included the following scope of services:

Telecommunications Development Corp. (TDC) will establish a project management office that will provide project management, administration, and staff augmentation service for various Citywide Technology initiatives.

To support this activity TDC will provide and maintain quality resources in the following areas:

- *Mainframe and System Migration*
- *System Architectural Design, Implementation and Maintenance*
- *Database Support*
- *Application Development*
- *Business Continuity and Disaster Recovery Planning*
- *Lagan Software Development and Implementation*
- *Training and Technical Support*
- *Capital Projects*
- *311 Call Center*
- *Financial Infrastructure*

Aside from these categories, the contract did not define the “citywide technology initiatives” or set out a timetable for implementing any such initiatives. As discussed in Finding 1, TDC was not tasked to establish a project management office. The only new project carried out by TDC was an assessment of the City’s Sharepoint capabilities performed at a cost of about \$9,000.

FINDING 3. THE CITY AMENDED THE TDC CONTRACT THREE TIMES IN THE FIRST SIX MONTHS, INCREASING THE MAXIMUM COMPENSATION FROM \$450,000 TO MORE THAN \$5 MILLION.

On October 7, 2009, only six days after the initial \$450,000 contract went into effect, the City amended it by adding \$1,024,920 for staff augmentation and project management services for the City's Project Delivery Unit. This change, Contract Amendment No. 1, increased the maximum sum payable to TDC to \$1.47 million but did not extend the contract term.

The contract initially had a termination date of December 31, 2009, but TDC continued to provide services after the contract expired. On April 6, 2010, the Mayor signed Amendment No. 2, retroactively extending the City's agreement with TDC through September 30, 2010, and increasing the maximum compensation to \$2.77 million. The Mayor signed Amendment No. 3 on March 31, 2010, six days prior to signing Amendment No. 2, increasing the maximum compensation to just over \$5 million.

FINDING 4. AFTER AWARDING A CONTRACT BASED ON AN ESTABLISHED SCHEDULE OF HOURLY RATES, THE CITY AGREED TO HIGHER RATES FOR PROJECT DELIVERY UNIT PERSONNEL.

The request for proposals included a list of position titles and required proposers to submit a single schedule of hourly rates for all contract work. TDC's proposal included rates ranging from \$40 to \$185. After selecting the TDC proposal, the Executive Assistant negotiated reductions in TDC's proposed hourly rates, and the lower rates were incorporated into the contract that went into effect on October 1, 2009, in an attachment titled "MIS Rate Sheet," appended to this report as Appendix A.

As discussed in Finding 3, the contract was amended six days later to increase the maximum compensation. Contract Amendment No. 1, appended to the report as Appendix B, contained no reference to a change in contract billing rates. A separate document, bearing only the Executive Assistant's signature, was also filed in the City's Electronic Contract Routing System in connection with Contract Amendment No. 1. This document is titled "PDU Position Mapping, Annualized Costs, 09.29.09," and is appended to this report as Appendix C. The document consists of a comparison of annualized costs for two different sets of hourly rates for personnel in the Project Delivery Unit.

Although the significance of the "PDU Position Mapping" document is not clear on its face, it apparently represented an agreement between the Executive Assistant and TDC to establish a rate schedule for the Project Delivery Unit that was much different from the contract rates for the MIS division. Neither the request for proposals nor the contract itself indicated that the rates for the two divisions would be different. All of the proposers, including TDC, submitted a single schedule of billing rates for all contract work.

The City paid TDC for Project Delivery Unit personnel based on rates in the “PDU Position Mapping” document, some of which were dramatically higher than the contract rates for MIS positions. For example, the original contract included a range of rates from \$60 to \$145 per hour for “subject matter experts”, while TDC billed the City \$210 per hour for this position in the Project Delivery Unit. The rates for some of the Project Delivery Unit personnel were even higher than the proposal rates, which had been reduced in contract negotiations. Figure B below compares hourly rates from TDC’s proposal, contract rates for MIS positions, and rates TDC charged the City for various Project Delivery Unit positions.

Figure B: TDC’s Hourly Billing Rates

TDC Proposal		Contract Rates for MIS Personnel		Project Delivery Unit Rates	
Position Title	Hourly Rate	Position Title	Hourly Rate	Position Title	Hourly Rate
Subject Matter Expert I	\$128	Subject Matter Expert I	\$60	Subject Matter Expert	\$210
Subject Matter Expert II	\$130	Subject Matter Expert II	\$95		
Subject Matter Expert III	\$142	Subject Matter Expert III	\$145		
Program Manager	\$148	Program Manager	\$55	Program Manager I	\$143
Senior Program Manager	\$152	Senior Program Manager	\$125	Program Manager II	\$198
				Program Manager III	\$257
Communications Specialist	\$40	Communications Specialist	\$40	Communications Specialist	\$70

To be valid, a major change in contract terms would have to be approved by the Mayor. It is impossible to determine from City records whether the Mayor intended to authorize the higher billing rates when he signed Contract Amendment No. 1 because the amendment itself makes no reference to any change in rates. Whether or not this change in contract terms was legally authorized, the method by which it was accomplished was not transparent and raised questions about the integrity of the contracting process.

It should be noted that the adoption of an unpublished rate schedule for the Project Delivery Unit had a major impact on the cost of the contract; some 62% of all contract work was billed at these increased rates.

IV. TDC PERSONNEL IN THE MIS DIVISION

As discussed earlier, the contract described TDC's role as "establishing a project management office that will provide project management, administration, and staff augmentation service for various Citywide technology initiatives," but TDC's actual role in the MIS division has been to provide staff to support, maintain, and operate the City's information technology systems. For the most part, TDC did not bring in new personnel to operate the MIS division but rather assumed the role, previously played by other contractors, of billing the City by the hour for staff that had been working in the division for years.

The Executive Assistant who recommended TDC for the contract award and oversaw TDC's work through April 2010 left City employment when the current Mayor took office on May 3, 2010. The recently hired Deputy Chief Information Officer (CIO) subsequently took over responsibility for contract oversight. The Deputy CIO told us in an interview that at least 70% of the TDC contract workers were carried over from the City's previous MIS contractors. He said that in the past, the MIS division had a pattern of switching contractors that involved changing the entity collecting the overhead while retaining the same workers. In fact, he said that some of these contract workers had formerly been City employees who went to work for contractors when the City contracted their work.⁵

FINDING 5. THE CITY PAYS AN ESTIMATED \$960,000 MORE PER YEAR TO STAFF THE MIS DIVISION WITH TDC PERSONNEL RATHER THAN HIRING CITY EMPLOYEES.

TDC began billing the City for MIS division personnel in October 2009 at hourly rates ranging from \$60 to \$125. Through May 2010, TDC was paid \$1,407,281.75 for MIS staff. From February through May 2010 alone, the City paid TDC \$978,248.75, an average of nearly \$245,000 per month, for MIS staff. The staff performed such functions as mainframe support and reporting, with many hours devoted to preparing reports for other departments and helping the City respond to public records requests. TDC's services did not include project management services. TDC's billings translate into an average cost to the City of about \$136,500 annually for each contract employee in the MIS division.

The Deputy CIO said that the City plans to modernize its information technology systems, but that the transition out of its antiquated mainframe-based system will likely take two years or more. In the meantime, the personnel currently provided under the TDC contract are vital because the City's systems are difficult to support and operate. To determine the cost of staffing the MIS division through the TDC contract, we calculated the average hourly billing rate for 23 TDC workers for the seven-month period from October 2009 to May 2010 and compared it with the cost of hiring salaried City employees to perform this work. Our analysis, shown

⁵ State ethics laws prohibit former city employees, for a period of two years, from contracting with the City to perform their former duties. La. R.S. §1121(B)(1).

below in Figure C, indicates that the City could save about \$960,000 annually by replacing these contract workers with City employees.

The City’s Civil Service Commission has established classifications for information technology positions with annual salaries ranging from \$28,882 to \$131,468. We were not able to determine equivalent civil service salaries for each of the contracted positions, so we calculated an average civil service salary for these positions. Figure C compares the annual cost for 23 City employees at the civil service average salary of \$69,630 with the annual cost for 23 workers under the TDC contract. The total difference in annual cost of City employees and TDC contract personnel is \$961,653.

Figure C: Annual Cost of City Employees vs. TDC Personnel in the MIS Division

	City Employees			TDC Contract			Difference
	Salary	Payroll Tax & Benefits	Total	Average Hourly Rate	Annual Hours	Total	
Mean Cost Per Employee	\$69,630	\$25,059	\$94,689	\$78	1750	\$136,500	\$41,811
Cost for 23 Employees	\$1,601,490	\$576,357	\$2,177,847	\$78	40,250	\$3,139,500	\$961,653

In a June 2010 interview, the Deputy Chief Information Officer told us that expenditures on professional services contracts in the MIS Division are about \$2.8 million over budget for the 2010 fiscal year. The former administration failed to budget adequate funds to cover the annual cost of the TDC contract and one other professional services contract. As a result of this fiscal failure, the City is now forced to identify ways to reduce the current rate of contract expenditures in the MIS Division.

V. TDC PERSONNEL IN THE PROJECT DELIVERY UNIT

From October 1, 2009 through May 2010, TDC billed \$2,289,930.60 – nearly 62% of its total billings to the City under the contract – for providing the City with personnel to work in the Project Delivery Unit. As discussed in Finding 4, some of these personnel were billed at rates that were higher than rates included in the contract. As was the case with MIS personnel, most of the individuals working in the Project Delivery Unit had previously worked for the City under other contractors and were shifted over to the TDC contract.

FINDING 6. THE CITY UNNECESSARILY INCREASED THE COST OF FEMA REIMBURSEMENT ASSISTANCE BY ABOUT \$275,000 BY PROCURING THE SERVICES THROUGH THE TDC CONTRACT.

Most of the services provided to the Project Delivery Unit under the TDC contract were performed by 20 individuals working for Integrated Disaster Solutions (IDS). IDS was a joint venture that began working in early 2009 as a subcontractor “assigned” by the City to perform work under the City’s project management contract with MWH Americas, Inc.⁶ IDS acted as the City’s agent in negotiations with FEMA to maximize funds for hurricane related damage to City-owned buildings and facilities. MWH billed the City for IDS’ services until the City awarded the current contract to TDC in October 2009 and “re-assigned” IDS as a subcontractor to TDC.

In an interview, IDS principals informed us that their firm had no contact with any representative of TDC prior to becoming its subcontractor. They reported that TDC played no role in managing IDS’ work or its interactions with City and FEMA officials. TDC’s only role as the “prime” contractor was to receive IDS invoices before invoicing the City for those services at marked-up rates. During the six-month period from October 2009 through March 2010, IDS charged a total of \$1,648,147.50 for its services. TDC billed the City \$1,923,184.50 for this work, adding on mark-ups totaling \$275,037, or about 14.3% of the total billings. The City could have avoided paying this unnecessary mark-up simply by contracting directly with IDS.

FINDING 7. THE CITY CIRCUMVENTED BIDDING REQUIREMENTS AND INCURRED MORE THAN \$52,000 IN EXCESSIVE COSTS BY PROCURING ADMINISTRATIVE AND CLERICAL SERVICES THROUGH THE TDC CONTRACT.

In November 2007, the City solicited bids from staffing firms to provide administrative assistants and other clerical workers at hourly rates to City departments in need of temporary help. The services called for are not “professional” services, hence the City Charter required the

⁶ In February 2009, the City instructed MWH to award a subcontract to IDS and MWH subsequently billed the City more than \$640,000 for subcontract work done by IDS over a five-month period. A report issued by this Office on April 21, 2010, titled *Review of City of New Orleans Professional Services Contract with MWH Americas, Inc. for Infrastructure Project Management* <http://www.nolaioig.org/uploads/File/Final%20Report%20With%20Appendices.pdf>, found that the City used the MWH contract as a vehicle for procuring the services of IDS without competition.

contract to be awarded to the lowest responsive and responsible bidder.⁷ Through this competitive bidding process, the City selected Remedy Intelligent Staffing, Inc. (Remedy) for the contract. Remedy bid an hourly rate of \$13.50 for administrative and clerical workers. This rate included \$10.00 per hour to be paid to the employee and a markup of 35%, or \$3.50 per hour.

Beginning in January 2008, Remedy provided administrative personnel to several different City departments. According to Remedy's president, she received instructions from several City managers, including the Executive Assistant, to increase the compensation of some personnel provided under the contract. She complied with the requests, and began to pay workers at rates ranging from \$13.50 to \$25.52 per hour, applying the same 35% markup in billings to the City. Remedy's president told us that the City's Director of Purchasing became aware that the City was being billed at rates in excess of the competitively bid contract rate in October 2009. The Director of Purchasing immediately informed Remedy and City managers that this practice violated state law and instructed the firm to charge the City only the contract rate of \$13.50 on all future billings.

According to Remedy's president, the Executive Assistant directed her not to reduce the pay for Remedy workers in the MIS division as 311 call center operators to the contract rate, despite the instructions from the Director of Purchasing. The Executive Assistant told Remedy's president that TDC had agreed to subcontract with Remedy, an arrangement that would allow her to continue to charge higher rates for administrative and clerical staff. Remedy's president told us that she spoke with TDC's president, who sent her a subcontract calling for her to bill the temporary employees to TDC at rates ranging from about \$18 to about \$25 per hour. TDC would then bill the City for these staff at its higher contract rates. Remedy's president said that she did not follow through with this plan because she received a call from an MIS employee telling her not to send any bills to TDC.

TDC invoices show that starting in late December 2009, two administrative workers who had formerly worked for the City under the Remedy contract were shifted to the TDC contract. These two individuals were assigned to the Project Delivery Unit, where one worked as a receptionist and the other as an administrative assistant. From late December 2009 through May 2010, TDC billed the City at the rate of \$45 per hour for each of these workers. During this five month period, TDC charged the City a total of \$75,330 for 1674 hours worked by these two individuals. As shown in Figure D below, shifting these administrative workers from the Remedy contract to the TDC contract resulted in an additional cost to the City of over \$52,000. This action also circumvented a Charter requirement to award the contract for these services to the lowest bidder.

⁷ Pursuant to the City of New Orleans Charter, contracts for "professional" services, including services provided by architects, engineers, physicians, lawyers, accountants, and other fields requiring extensive education or specialized training, are procured using a competitive selection process established by Executive Order. Contracts for services that do not fall within the definition of "professional" must be awarded to the lowest responsive bidder (Home Rule Charter Section 6-308).

**Figure D: Cost of Administrative Services in Project Delivery Unit
Under TDC Contract vs. Remedy Contract**

	Hours Worked	Hourly Billing Rate	Total Cost
TDC Contract	1674	\$45.00	\$75,330
Remedy Contract	1674	\$13.50	\$22,599
Difference			\$52,731

In an interview in June 2010, the City’s Deputy Mayor for Facilities, Infrastructure, and Community Development, who assumed responsibility for the Project Delivery Unit when the current Mayor took office in May 2010, told us that all but one of the TDC personnel assigned to the Project Delivery Unit were dismissed at the end of May 2010.

VII. CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

Although this contract was intended to reduce the City's personnel costs for the MIS Division and the Project Delivery Unit, the failure to assess costs and benefits of alternatives for obtaining the needed services or to prudently manage the contract resulted in excessive costs to the City. The responsible officials did not ensure that adequate funds were available for the contract, jeopardizing the integrity of the City's budget.

The process used to award the contract was not objective and fair. The rationale for selecting TDC was not consistent with the evaluation scores and was based largely on factors that had little relevance to the services provided under the contract. The highest ranked proposal was apparently penalized for offering lower rates than TDC, a seemingly arbitrary determination that undermined the fairness of the selection process.

The contract maximum swelled from \$450,000 to more than \$5 million, without regard for the impact on the City's budget. The City initially negotiated lower rates for the contract, then increased the rates for some personnel through a questionable contract amendment. Other actions, such as placing the City's FEMA assistance consultant under subcontract to TDC and shifting administrative personnel to the TDC contract from a competitively bid contract, were taken without regard for increased costs to the City.

Subsequent to the actions described in this report, the Project Delivery Unit identified an overall budget shortfall for recovery projects and is working to achieve cost savings in the management of the recovery program. The MIS Division is also facing a budget shortfall for this year, partly as a consequence of expenditures under the TDC contract, as the former administration failed to budget an adequate amount to cover expenditures on its professional services contracts. Based on our interviews with current City managers, we understand that steps have already been taken to reduce excessive costs under the TDC contract. The following recommendations are intended to avoid repeating the missteps described in this report.

B. RECOMMENDATIONS

RECOMMENDATION 1. ENSURE THAT PROFESSIONAL SERVICES CONTRACT AWARDS ARE BASED ON ADVERTISED CRITERIA THAT ARE APPLIED FAIRLY AND UNIFORMLY TO ALL PROPOSALS.

Procurement practices that appear irrational and arbitrary erode confidence in City contracting. Adhering to clear, fair rules will encourage vendors to compete for public contracts and help the City secure the benefits of a competitive marketplace.

The City has recently adopted an Executive Order relating to the award of professional service contracts requiring proposals to be evaluated solely on criteria included in the request for proposals. This requirement will help promote open and fair competition for future City contracts, provided the criteria are reasonably related to the contract requirements and are applied fairly.

RECOMMENDATION 2. LIMIT THE AMOUNT BY WHICH MAXIMUM COMPENSATION CAN BE INCREASED THROUGH CONTRACT AMENDMENTS.

Every procurement should begin with a planning process that establishes the source and amount of funding available. This premise is incorporated in the City Charter, which requires the Department of Finance to attest to the availability of funds for every contract before it is executed.⁸ This safeguard should be observed with respect to both the origination and the amendment of every City contract.

In addition to establishing a contract budget, the City should provide vendors with information on the anticipated magnitude of contracts to allow them to assess the required resources and decide whether to submit a proposal. If the size of a contract increases substantially for unexpected reasons, the City should consider conducting a new competition, which may provide more favorable terms than a contract amendment.

RECOMMENDATION 3. IN REVIEWING CITY CONTRACTS, COMPARE THE COSTS OF ALTERNATIVE METHODS OF DELIVERING CITY SERVICES AND DETERMINE THE MOST COST-EFFECTIVE APPROACH.

All contracting decisions, including the choice of using contract personnel versus City employees, should be subject to a cost-benefit analysis. The City should cease the practice, described in this report, of assigning vendors to work under subcontract with existing contractors for billing purposes because it increases the cost to the City with no added benefit.

⁸ City of New Orleans Home Rule Charter Section 6-308.

VIII. OFFICIAL COMMENTS FROM CITY OF NEW ORLEANS

City Ordinance section 2-1120(9)(c) provides that a person or entity who is the subject of a report shall have 30 working days to submit a written explanation or rebuttal of the findings before the report is finalized, and that such timely submitted written explanation or rebuttal shall be attached to the finalized report.

An Internal Review Copy of this report was distributed on July 6, 2010 to the entities who were the subject of the evaluation in order that they would have an opportunity to comment on the report prior to the public release of this Final Report. Comments were received from the City of New Orleans; these comments are attached as Appendix D.

APPENDIX A**ATTACHMENT A_1
MIS Rate Sheet
09.15.09**

Labor Code	Labor Category	Fully Loaded Hourly Rate
1.01	Sr. Management Principal	\$ 130.00
1.02	Management Principal	\$ 75.00
1.03	Sr. Management Analyst	\$ 85.00
1.04	Management Analyst	\$ 70.00
1.05	Analyst	\$ 60.00
1.06	Sr. Financial Analyst	\$ 90.00
1.07	Financial Analyst	\$ 65.00
1.08	Sr. Management Consultant	\$ 95.00
1.09	Management Consultant	\$ 65.00
1.10	Sr. Program Manager	\$ 125.00
1.11	Program Manager	\$ 55.00
1.12	Project Manager	\$ 90.00
1.13	Subject Matter Expert I	\$ 60.00
1.14	Subject Matter Expert II	\$ 95.00
1.15	Subject Matter Expert III	\$ 145.00
1.16	Sr. Support Specialist	\$ 90.00
1.17	Support Specialist	\$ 40.00
1.18	IT Specialist	\$ 70.00
1.19	Communications Specialist	\$ 40.00
1.20	Sr. Engineer	\$ 85.00
1.21	Engineer	\$ 60.00
	Blended Rate	\$ 80.48

AMENDMENT NO.1

TO THE AGREEMENT FOR PROFESSIONAL SERVICES

BETWEEN

THE CITY OF NEW ORLEANS

AND

TELECOMMUNICATION DEVELOPMENT CORP.

THIS AMENDMENT is made and entered into as of this 7th day of October 2009 by and between the City of New Orleans (hereinafter referred to as "City") and Telecommunication Development Corp. (hereinafter referred to as "Contractor").

WITNESSETH

WHEREAS, the City has entered into an agreement dated **October 1st, 2009**, with Telecommunication Development Corp, for the purpose of providing Staff Augmentation and Project Management Services on behalf of the City, and

WHEREAS, the City desires to amend this agreement for continuity of services; and

WHEREAS, such amendment to the services and term shall constitute an increase in compensation to the Contractor; and

WHEREAS, all parties to the agreement dated **October 1st, 2009** desire to amend the agreement and have the necessary authority to do so.

NOW THEREFORE, the City and the Contractor under the conditions set forth, do agree to the following amendment:

1. To amend contract to include staff augmentation and project management services in the City's Project Development Unit (PDU).

2. Contractor shall provide detailed invoices explaining the following in connection with its Agreement with the City:

- a) The services provided;
- b) The individual(s) who provided the services; and
- c) The number of hours expended by said individual(s) to perform the needed services

Contractor shall provide the above for the time period beginning October 1, 2009 through the present. Contractor shall provide the above information to the City within 30 days (thirty) of execution of this amendment.

3. To add \$1,024,920.00 to the Original Agreement making the maximum amount not to exceed compensation payable under the terms of this Agreement as **\$1,474,920.00**

ALL PARTIES to this amendment hereby reaffirm the validity of all other provisions of the original agreement dated **October 1st, 2009**, save the above and foregoing changes.

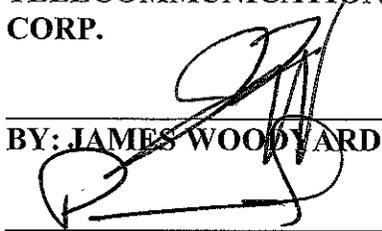
CITY OF NEW ORLEANS



BY: C. RAY NAGIN, MAYOR

DATE: 11-2-09

TELECOMMUNICATION DEVELOPMENT CORP.


BY: JAMES WOODYARD

BY: ROGER RICHMOND

DATE: _____

FORM AND LEGALITY APPROVED:

Law Department, City of New Orleans

52-2013283
CORPORATE TAXPAYER ID

APPENDIX C

**PDU Position Mapping
Annualized Costs
09.29.09**

Existing Position	Name	Company	Current Bill Rate	New Contract Position Name	New Contract Bill Rate	Biliability	Current Annual Cost	Proposed New Annual Contract Cost **	Proposed 90 Day Costs**
1 Subject Matter Expert	Shapiro, David	Shapiro	\$ 243.52	Program Analyst	\$ 210.00	60 hrs / mo	\$ 233,779.20	\$ 151,200.00	\$ 37,800.00
2 Subject Matter Expert	Lewis, Tom	Shapiro	\$ 243.52	Program Analyst	\$ 210.00	5 hrs / mo	\$ 14,611.20	\$ 12,600.00	\$ 3,150.00
3 Subject Matter Expert	Carter, Teresa	Shapiro	\$ 243.52	Program Analyst	\$ 210.00	55 hrs / mo	\$ 233,779.20	\$ 138,600.00	\$ 34,650.00
4 Program Manager	Altman, Marty	Shapiro	\$ 243.52	Program Manager III	\$ 257.00	40 hrs / wk	\$ 467,558.40	\$ 493,440.00	\$ 123,360.00
5 Project Coordinator	Hash, Joann J.	Shapiro	\$ 181.85	Program Manager II	\$ 198.00	40 hrs / wk	\$ 349,152.00	\$ 380,160.00	\$ 95,040.00
6 Project Specialist II	Lynn, Amy	Shapiro	\$ 181.85	Project Specialist II	\$ 187.00	40 hrs / wk	\$ 349,152.00	\$ 359,040.00	\$ 89,760.00
7 Project Specialist I	Long, Anthony	Shapiro	\$ 95.97	Project Specialist II	\$ 187.00	40 hrs / wk	\$ 349,152.00	\$ 359,040.00	\$ 89,760.00
8 Project Specialist I	Shapiro, Aaron	Shapiro	\$ 95.97	Grant Manager II	\$ 88.00	41 hrs / wk	\$ 184,262.40	\$ 168,960.00	\$ 42,240.00
9 Project Specialist I	Wexler, Stephanie	Shapiro	\$ 95.97	Grant Manager II	\$ 88.00	40 hrs / wk	\$ 184,262.40	\$ 168,960.00	\$ 42,240.00
10 Project Specialist I	Brocato, Tracy	Shapiro	\$ 95.97	Grant Manager II	\$ 88.00	40 hrs / wk	\$ 184,262.40	\$ 168,960.00	\$ 42,240.00
11 Project Specialist I	Accardo, Yvette	Shapiro	\$ 95.97	Grant Manager II	\$ 88.00	40 hrs / wk	\$ 184,262.40	\$ 168,960.00	\$ 42,240.00
12 Grant Monitor	Tipton, Lori	Shapiro	\$ 95.97	Grant Manager I	\$ 70.00	53 hrs / mo	\$ 184,262.40	\$ 44,520.00	\$ 11,130.00
13 Grant Monitor	Roberson, Crystal	Shapiro	\$ 95.97	Grant Manager I	\$ 70.00	53 hrs / mo	\$ 184,262.40	\$ 44,520.00	\$ 11,130.00
14 Grant Monitor	Pederson, Amanda	Shapiro	\$ 95.97	Grant Manager I	\$ 70.00	53 hrs / mo	\$ 184,262.40	\$ 44,520.00	\$ 11,130.00
15 Grant Monitor	Lee, Taylor	Shapiro	\$ 95.97	Grant Manager I	\$ 70.00	53 hrs / mo	\$ 184,262.40	\$ 44,520.00	\$ 11,130.00
16 Sr Program Manager - CPA	Springman, Robert	TDC	\$ 180.00	Grant Manager I	\$ 70.00	54 hrs / mo	\$ 46,065.60	\$ 44,520.00	\$ 11,130.00
17 Construction Manager	OPEN	TDC	\$ -165.00	Program Manager I	\$ 143.00	40 hrs / wk	\$ 345,600.00	\$ 274,560.00	\$ 68,640.00
18 Contract Administration Management	OPEN	TDC	\$ 165.00	Construction Manager II	\$ 143.00	40 hrs / wk	\$ 345,600.00	\$ 274,560.00	\$ 68,640.00
19 Administrative Budget Support	Iverson, Rebecca	TDC	\$ 75.00	Contracts Manager II	\$ 70.00	40 hrs / wk	\$ 144,000.00	\$ 134,400.00	\$ 33,600.00
20 Communications Specialist	Walker, Zaree	TDC	\$ 75.00	Support Specialist II	\$ 70.00	40 hrs / wk	\$ 144,000.00	\$ 134,400.00	\$ 33,600.00
21 Administrative Support	Dorsey, Pam	TDC	\$ 55.00	Support Specialist II	\$ 45.00	40 hrs / wk	\$ 105,600.00	\$ 86,400.00	\$ 21,600.00
22 Administrative Support	Henry, Travis	TDC	\$ 55.00	Support Specialist I	\$ 45.00	40 hrs / wk	\$ 105,600.00	\$ 86,400.00	\$ 21,600.00
23 Administrative Support	OPEN	TDC	\$ 55.00	Support Specialist I	\$ 45.00	40 hrs / wk	\$ 105,600.00	\$ 86,400.00	\$ 21,600.00

\$ 4,917,086.40 \$ 4,099,680.00 \$ 1,024,920.00
Delta (Annual Savings) \$ 817,406.40

** - Based on 1,920 estimated manhours for FTEs

M. Shuman Bayl
Approved.

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR

ANDREW D. KOPPLIN
FIRST DEPUTY MAYOR & CAO

August 17, 2010

Edouard Quatrevaux
Inspector General
City of New Orleans
525 St. Charles Avenue
New Orleans, LA 70130

Dear Mr. Quatrevaux:

This letter is in response to OIG Case #OIG-I&E-09003(D) "Review of City of New Orleans Contract With Telecommunications Development Corporation". There were several findings documented in the OIG review regarding how this contract was managed by the prior administration:

1. The scope of services advertised in the request for proposals bore little relationship to the services actually provided under the contract.
2. The City lacked a coherent rationale for selecting TDC for the contract.
3. The City amended the TDC contract three times in the first six months, increasing the maximum compensation from \$450,000 to more than \$5 million.
4. After awarding a contract based on an established schedule of hourly rates, the City agreed to higher rates for Project Delivery Unit personnel.
5. The City paid an estimated \$960,000 more per year to staff the MIS Division with TDC personnel rather than hiring City employees.
6. The City unnecessarily increased the cost of FEMA reimbursement assistance by about \$275,000 by procuring the services through the TDC contract.
7. The City circumvented State Bidding Law and incurred more than \$52,000 in excessive costs by procuring administrative and clerical services through the TDC contract.

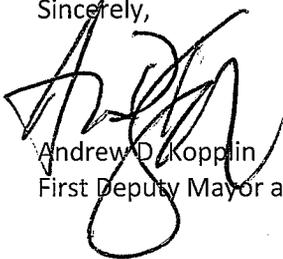
We appreciate your office's work and your review of the TDC contract, and we concur with your findings. Since taking office on May 3, 2010, the Landrieu administration has taken several steps to address the current state of the TDC contract. Below is a summary of actions taken as well as comments provided by the City's Information Technology and Innovation (ITI) department and the Project Delivery Unit (PDU).



- The Landrieu administration was not involved in the procurement and selection process or the amendments to contractor rates and contract value of the TDC contractor. But because of concerns we had about the TDC contract and others as well as the procurement policies that we inherited that led directly to these problems, Mayor Landrieu issued a series of Executive Orders on June 3, 2010 (MJL 10-02, MJL 10-03, MJL 10-04, and MJL 10-05), to reform the procurement processes of the City. The Landrieu administration also named an interim Chief Procurement Officer to ensure that all future professional services contracts are procured and managed in an open, honest, and fair manner.
- The City agrees that the ITI department, formerly MIS, developed an over reliance on contractors to augment staff. Since June 2010, we have taken several actions to decrease this reliance and reduce overall costs. The City has created savings (by cost avoidance) of over \$600k by dismissing contractors (including TDC) serving non-critical roles, reducing contractor rates, and by hiring several contractors as city employees where necessary.
- The City concurs that the reassignment of IDS under the TDC contract was inappropriate and resulted in prime contractor billings which should have been avoided through procurement or improved contract fee negotiations. Within the first month of the Landrieu Administration, all but one TDC and IDS staff members serving in the PDU were dismissed. On June 30, 2010 the PDU TDC contract expired and the last TDC employee departed from the PDU.

Once again, thank you and your staff for your work to improve the efficiency and effectiveness of City government. Please do not hesitate to contact me if you have any additional suggestions for improving procurement processes or the utilization of staff augmentation contracts.

Sincerely,



Andrew D. Kopplin
First Deputy Mayor and Chief Administrative Officer