



# OFFICE OF INSPECTOR GENERAL

## FLORIDA DEPARTMENT OF TRANSPORTATION

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Robert E. Clift  
Inspector General

November 19, 2012

Utility Work Agreement AO710  
between District Three and AT&T  
Attestation Report No. 12I-5002

### EXECUTIVE SUMMARY

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The Office of Inspector General (OIG) conducted an examination of Utility Work Agreement (UWA) AO710 between the Florida Department of Transportation (department) and American Telephone and Telegraph Company (AT&T). The purpose of UWA AO710 was to provide funding for the relocation and replacement of AT&T's submarine fiber optic cable to avoid conflict with the construction of the Escambia Bay Bridge on Interstate 10. We conducted the examination as part of the OIG's annual work plan. The purpose of the examination was to assess the reasonableness and allowability of the claimed and reimbursed costs for UWA AO710.

AT&T submitted and the department approved a total estimated cost of \$2,992,194 for the relocation project. The total amount requested for reimbursement and paid by the department to AT&T was \$1,937,367. Our examination concluded the costs billed to the department were adequately supported and allowable with the exception of the following findings:

- AT&T submitted and District Three approved project close-out costs in the amount of \$3,334 which had not been incurred as of the reimbursement date in August of 2009. \$2,806 of these project close-out costs were incurred over 2 years after this reimbursement, leaving a balance of \$528 in unutilized funds.
- District Three reimbursed AT&T \$972 for terrestrial fiber optic cable and \$21,037 for submarine fiber optic cable that was not installed on the project; and
- Form No. 710-010-06, Utility Estimate Summary, submitted by the utility, includes an adjustment line for "Expired Service Life," which is a credit deducted by the utility from the total cost of the project, based on the extended service life of the new fiber optic cable. AT&T included an "Expired Service Life" adjustment of \$0.00 for the twenty year old fiber optic cable replaced.

As a result of these findings, we recommend the District Three Utilities Engineer:

- follow **Procedure No. 710-010-130, Utility Invoicing**, to ensure the department makes reimbursements for deliverables received as required by the Utility Relocation Master Agreement and consider pursuing a refund from AT&T of the unutilized funds reimbursed of \$528;
- consider pursuing a refund from AT&T for the overpayment of \$22,009 for fiber optic cable that was not installed on the project; and
- determine if an adjustment for extended service life of the installed fiber optic cable should have been made by AT&T. If the Utilities Engineer determines a material adjustment amount should have been included, District Three should consider pursuing a refund from AT&T.

AT&T concurred with the findings regarding overpayment of \$528 in unutilized funds relating to project close-out costs and \$22,009 for fiber optic cable that was not installed. However, AT&T disagreed with the finding regarding expired service life. AT&T stated that, "Replacing a small section (Escambia Bay) in the Fiber cable route doesn't extend the life of the fiber cable. The cable was original placed over Twenty years ago, placing a piece of cable mid-span doesn't affect the Service Life either way due to older cable on both sides of the relocation..."

District Three indicated they are going to pursue a refund from AT&T for the \$528 in unutilized funds and \$22,009 for fiber optic cable that was not installed on the project. District Three also indicated they "...do not think there should be an adjustment for extended service life since the cable is located in the middle of a run and does not go from service point to service point."

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## **BACKGROUND AND INTRODUCTION**

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AT&T and the department entered into UWA AO710 on March 15, 2006. UWA AO710 was initiated by a change order to the AT&T Utility Relocation Master Agreement executed in 1974. The estimated cost of the project was \$1,655,377. The purpose of UWA AO710 was to provide funding for the relocation and replacement of AT&T's submarine fiber optic cable to avoid conflict with the construction of the new Escambia Bay Bridge on Interstate 10. Two additional change orders increased the estimated cost of the project to \$2,992,194.

Change order number two dated June 7, 2006, increased the estimate by \$56,000. The purpose was to lower AT&T's line that would be exposed when a ditch is relocated on the west side of the highway. This was a utility effort between AT&T and Energy Services of Pensacola and was separate from the cable relocation.

The third change order dated November 27, 2006, increased the estimate by \$1,280,817. The purpose was to find another route for AT&T's facilities outside of the 2,500 foot construction zone of the new Escambia Bay Bridge on Interstate 10. Another route for the fiber optic cable had to be secured a few miles south of Interstate 10. The new route added an additional 20,500 feet of terrestrial fiber optic cable and increased the amount of submarine fiber optic cable by 4,200 feet.

## **INDEPENDENT ACCOUNTANT'S REPORT**

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We have examined AT&T's records for the period October 10, 2005 through August 31, 2009, in accordance with UWA AO710 and specified requirements.

AT&T's management is responsible for compliance with these requirements. Our responsibility is to express an opinion based on AT&T's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to Attestation Engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, this engagement included examining, on a test basis, evidence of AT&T's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on AT&T's compliance with the specified requirements. In our opinion, AT&T's billings for UWA AO710 present, in all material respects, allowable amounts due for the period October 10, 2005 through August 31, 2009, in conformity with the terms of the UWA, except for the findings in this report.

## **RESULTS OF EXAMINATION**

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During this examination, we reviewed invoices classified as either subcontractor or materials. These invoices totaled \$787,340 representing over 40 percent of the total reimbursement of \$1,937,367 made to AT&T.

During this examination, we reviewed a sample of 18 subcontractor invoices from P.E.A., Inc. totaling \$599,775, from a population of 72 invoices containing billings totaling \$953,225. Each of the 18 invoices contained multiple subcontractor invoices. The dollar amount sampled represents approximately 63 percent of the P.E.A., Inc. invoices.

We also reviewed a sample of six materials invoices from a population of eight invoices. This included one high end cost, one middle range cost and four low end costs. The total amount of material invoices sampled was \$187,565 or 99 percent of the total materials purchased of \$189,269.

We examined handling fees and project close-out costs on the subcontractor invoices for allowability, accuracy, reasonableness and completeness. All per diem and mileage costs charged by subcontractors were compared to the rates authorized by Florida Statutes and the U.S. General Services Administration.

All costs billed to the department were adequately supported and complied with the terms of the UWA, except for those related to project close-out costs, the fiber optic cable purchased and extended service life of the fiber optic cable replaced. These areas are further detailed below.

## Finding 1 – Project Close-Out Costs

<b>Objective</b>	To determine if invoiced costs are reasonable, based on actual costs and adequately supported.
<b>Conclusion</b>	AT&T submitted and District Three approved project close-out costs in the amount of \$3,334 which had not been incurred when the final reimbursement was paid by the department in August of 2009.
<b>Condition (Supporting Evidence)</b>	In August of 2009, AT&T submitted project close-out costs of \$8,706 from subcontractor P.E.A., Inc for reimbursement. At the time the invoice was submitted for reimbursement, \$3,334 of the project close-out costs had not been incurred. Subsequently, during this review, AT&T submitted additional documentation showing close-out costs incurred by P.E.A., Inc. of \$2,806 between April 15 and April 16 2012, approximately 2 ½ years after this agreement was closed in the enterprise portal system. A balance of \$528 in project close-out funds paid by the department remains unutilized.
<b>Criteria</b>	Pursuant to the Utility Relocation Master Agreement between the department and AT&T, “the term “cost of relocation” shall include the entire amount paid by the COMPANY properly attributable to each such relocation...”
<b>Cause</b>	Subcontractor P.E.A., Inc. anticipated additional project close-out costs and submitted invoices to AT&T before the costs were incurred.
<b>Effect (Impact)</b>	The department paid for deliverables in the amount of \$3,334 that were not properly attributable to the project when reimbursed by the department. Additional evidence of deliverables attributable to this project was submitted by AT&T, but the deliverables were not received until after the contract was closed.
<b>Recommendation</b>	We recommend the District Three Utilities Engineer follow <b>Procedure No. 710-010-130, Utility Invoicing</b> , to ensure the department makes reimbursements for deliverables received as required by the Utility Relocation Master Agreement and consider pursuing a refund from AT&T for the \$528 unutilized project close-out funds.

## Audit Finding 2 – Excessive Fiber Optic Cable Purchased

<b>Objective</b>	To determine if invoiced costs are reasonable, based on actual costs and adequately supported.
<b>Conclusion</b>	District Three reimbursed AT&T \$972 for terrestrial fiber optic cable and \$21,037 for submarine fiber optic cable which was not installed on the project.
<b>Condition (Supporting Evidence)</b>	According to AT&T's responses to our questions regarding the relocation of the fiber optic cable, 20,500 feet of terrestrial fiber optic cable and 20,200 feet of submarine fiber optic cable was installed for this project. Based on our review of the invoices submitted for reimbursement, 22,700 feet of terrestrial fiber optic cable and 23,500 of submarine fiber optic cable was purchased. Allowing a two percent waste factor for both types of cable, 1,790 feet of excess terrestrial fiber optic cable and 2,896 feet of excess submarine fiber optic cable were purchased. The total cost of the excess terrestrial fiber optic cable is \$972 and the total cost of the excess submarine fiber optic cable is \$21,037.
<b>Criteria</b>	Pursuant to the Utility Relocation Master Agreement between the department and AT&T, "the term "costs of relocation" shall include the entire amount paid by the COMPANY properly attributable to each such relocation..."
<b>Cause</b>	District Three did not properly account for the fiber optic cable purchased by AT&T, but not used on this project.
<b>Effect (Impact)</b>	The department purchased excess materials not properly attributable to this project.
<b>Recommendation</b>	We recommend the District Three Utilities Engineer consider pursuing a refund from AT&T for the overpayment of \$22,009 in excess fiber optic cable.

### Audit Finding 3 – Extended Service Life Adjustment

<b>Objective</b>	Determine if costs complied with the contractual provisions and other applicable laws, rules and regulations.
<b>Conclusion</b>	AT&T included an “Expired Service Life” adjustment of \$0.00 for the twenty year old fiber optic cable replaced.
<b>Condition (Supporting Evidence)</b>	Form No. 710-010-06, Utility Estimate Summary, part of change order one, included an adjustment for “Expired Service Life” of \$0.00. “Expired Service Life” is a credit deducted by the utility from the total cost of the project; based on the extended service life of the new fiber optic cable. AT&T personnel stated during our review the original fiber optic cable, which was replaced, was installed in 1987. This original cable was approximately 20 years old at the time of the replacement. The utility relocation file did not contain any supporting documentation from AT&T to justify a \$0.00 extended service life adjustment on the Utility Estimate Summary.
<b>Criteria</b>	Pursuant to Paragraph 8 of the Utility Relocation Master Agreement between the department and AT&T, “...if an entirely new facility is constructed and the old facility retired, credit for extended service life will apply and the estimated or actual credit must appear in COMPANY’s plans and estimates.”
<b>Cause</b>	AT&T informed our office the replacement of the old fiber optic cable did not, in their opinion, extend the service life of their network. Therefore, they did not include a credit for extended service life.
<b>Effect (Impact)</b>	The total funds paid to AT&T may have been for an amount greater than required because a credit for the extended service life created by replacing 20 year old fiber optic cable would have reduced the department’s total reimbursable costs.
<b>Recommendation</b>	We recommend the District Three Utilities Engineer re-examine the credit for extended service life of the fiber optic cable replaced to determine if an adjustment was necessary. If the Utilities Engineer determines a material adjustment amount should have been included, District Three should consider pursuing a refund from AT&T.

## **APPENDIX A – Purpose, Scope and Methodology**

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Sections 20.055 and 20.23, Florida Statutes (F.S.), require the OIG to conduct audits, examinations, investigations and management reviews related to programs and operations of the department. This examination was performed as part of the OIG's mission to promote integrity, accountability and process improvement in the Department of Transportation by providing objective fact-based assessments to the DOT team.

The **purpose** of the examination was to assess compliance with the provisions of UWA AO710 and the reasonableness and allowability of the claimed and reimbursed costs.

The **scope** of our examination consisted of examining financial and other documentation relative to the costs invoiced for UWA AO710 from October 10, 2005 through August 31, 2009.

Our **methodology** consisted of:

- reviewing the UWA AO710 and applicable laws, rules, regulations, procedures and other guidance to obtain adequate understanding of the applicable requirements;
- examining and testing supporting documentation to determine whether costs charged to the project were allowable, reasonable and in accordance with the terms of the UWA and other governing authorities;
- reviewing Sections 337.403 and 112.061, F.S.;
- reviewing Procedure No. 710-010-130, Utility Invoicing;
- reviewing Title 23, Part 645, Code of Federal Regulations; and
- interviewing appropriate staff.

## APPENDIX B – AT&T Response

**From:** BOLES JR., WALTER E [mailto:wb2472@att.com]  
**Sent:** Monday, October 08, 2012 1:58 PM  
**To:** Deason, Jared  
**Cc:** BOLES JR., WALTER E; GEREN, GENE R  
**Subject:** RE: Documents for Conference Call on Monday

Mr. Deason,

- AT&T submitted and District Three approved project close-out costs in the amount of \$3,334 which had not been incurred as of the reimbursement date in August of 2009. \$2,806 of these project close-out costs were incurred over 2 years after this reimbursement, leaving a balance of \$528 in unutilized funds. - **AT&T concurs with the state findings.**
- District Three reimbursed AT&T \$972 for terrestrial fiber optic cable and \$21,037 for submarine fiber optic cable that was not installed on the project. - **AT&T concurs with the state findings.**
- Form No. 710-010-06, Utility Estimate Summary, submitted by the utility, includes an adjustment line for "Expired Service Life," which is a credit deducted by the utility from the total cost of the project, based on the extended service life of the new fiber optic cable. AT&T included an "Expired Service – **AT&T disagrees with the "Expired Service Life which is a credit deducted by the utility from the total cost of the project, based on the extended service life of the new fiber optic cable". AT&T service is from Terminal to Terminal. Replacing a small section (Escambia Bay) in the Fiber cable route doesn't extend the life of the fiber cable. The cable was original placed over Twenty years ago, placing a piece of cable mid-span doesn't affect the Service Life either way due to older cable on both sides of the relocation. Relocations are replaced with the same wave length fiber that exists in the original cables due to electronic on the Terminal end. Electronic are the same with or without a relocation.**

Please keep in mind that if there are further clarifications, I will be out of the office till hopefully Oct 22.

Thanks for your time to allow AT&T this time for rebuttal of the finding.

Walter (Wally) E. Boles Jr.  
Area Manager Construction and Engineering  
National Construction and Engineering  
AT&T Corp  
AT&T Network Operations  
360 Gees Mill Business Parkway  
Conyers, GA 30013  
Office 770-602-2102  
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[wb2472@att.com](mailto:wb2472@att.com)

Rethink Possible 

## APPENDIX C – District Three Response

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**From:** Hunter, Clay  
**Sent:** Friday, November 16, 2012 8:55 AM  
**To:** Gilboy, Joseph; Barfield, Tommy; Peters, Jason; Golden, Scott  
**Cc:** Clift, Robert; Sullivan, Kristofer; Deason, Jared; Mistry, Carlos; Smith, Tim  
**Subject:** RE: 12I-5002 Preliminary and Tentative Report, Utility Work Order Agreement A0710

District 3 is going to pursue a refund from AT&T for the \$528 of unutilized funds reimbursed and the overpayment of \$22,009 for fiber optic cable that was not installed on the project. We do not think there should be an adjustment for extended service life since the cable is located in the middle of a run and does not go from service point to service point.

Please let me know if I can be of further assistance or if you should have any questions.

Sincerely,

Clay Hunter, P.E.  
District Utilities Engineer  
Florida Department of Transportation  
District Three Design  
Phone: (850)330-1479  
email: [clay.hunter@dot.state.fl.us](mailto:clay.hunter@dot.state.fl.us)

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## **DISTRIBUTION, PROJECT TEAM AND STATEMENT OF ACCORDANCE**

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### **Distribution:**

Tommy Barfield, P.E., District Three Secretary  
Jason Peters, P.E., District Three Director of Transportation Development  
Scott Golden, P.E., District Three Design Engineer

### **Information Distribution:**

Copies distributed to:

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Tom Byron, P.E., Chief Engineer  
Duane Brautigam, P.E., Office of Design Director  
Thomas Bane, P.E., State Utilities Engineer  
Brian Peters, Assistant Secretary for Finance and Administration  
Robin Naitove, Comptroller  
Francis Gibbs, Chief of Staff  
Walter E. Boles Jr., Area Manager Construction and Engineering, AT&T  
Speedy Gonzalez, Associate Director - Accounting, AT&T

### **Project Team:**

Engagement was conducted by:  
Jared Deason, Auditor in Charge  
Carlos Mistry, Auditor  
Under the supervision of:  
Joseph W. Gilboy, Audit Manager;  
Kris Sullivan, Audit Director; and  
Approved by: Robert E. Clift, Inspector General

### ***Statement of Accordance***

*The mission of the department is to provide a safe transportation system that ensures the mobility of people and goods, enhances economic prosperity, and preserves the quality of our environment and communities.*

*The mission of the Office of Inspector General is to promote integrity, accountability and process improvement in the Department of Transportation by providing objective fact-based assessments to the DOT team.*

This work product was prepared pursuant to Section 20.055, Florida Statutes, in accordance with the applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General and the American Institute of Certified Public Accountants and standards contained in Government Auditing Standards issued by the Comptroller General of the United States.

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