

CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

January 7, 2008

Phil Hardberger Mayor	Mary Alice P. Cisneros Councilwoman, District 1	Sheila D. McNeil Councilwoman, District 2
Roland Gutierrez Councilman, District 3	Philip A. Cortez Councilman, District 4	Lourdes Galvan Councilwoman, District 5
Delicia Herrera Councilwoman, District 6	Justin Rodriguez Councilman, District 7	Diane G. Cibrian Councilwoman, District 8
Kevin A. Wolff Councilman, District 9	John G. Clamp Councilman, District 10	

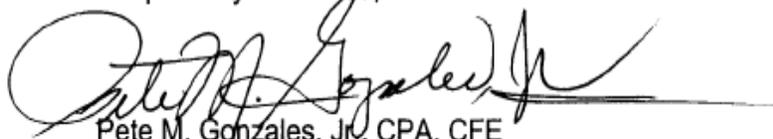
Mayor and Council Members:

SUBJECT: Aviation Department Audit Report

We are pleased to send you the report on the Audit of Contract for Project 3-Volume-2 Utility Relocation for Terminal B. This audit began in April 2007 and concluded with an exit meeting with department management in December 2007. Management's response is included in Appendix A of the report, which states full acceptance of the three recommendations made in the audit report. The Aviation Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this material with you individually at your convenience.

Respectfully submitted,



Pete M. Gonzales, Jr., CPA, CFE
City Auditor

Distribution:

Sheryl L. Sculley, City Manager
Pat DiGiovanni, Deputy City Manager
Penny Postoak-Ferguson, Assistant City Manager
Mark Webb, Director, Aviation Department
Michael Bernard, City Attorney
Leticia Vacek, City Clerk
Larry Zinn, Chief of Staff, Office of the Mayor
Jeanne Russell, Communications Director, Office of the Mayor
Trey Jacobson, Assistant to the Mayor, Office of the Mayor
Edward Benavides, Executive Assistant to the City Manager



CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

Pete M. Gonzales, Jr., CPA, CFE

Audit of Contract for Project 3-Volume-2
Utility Relocation for Terminal B

Aviation Department

Project No. AU07-010

Issue Date: January 7, 2008

Table of Contents

EXECUTIVE SUMMARY	1
INTRODUCTION.....	2
OBJECTIVES, SCOPE, AND METHODOLOGY	2
CONCLUSIONS.....	3
STAFF ACKNOWLEDGEMENT	3
OBSERVATIONS AND RECOMMENDATIONS	4
OBSERVATION A – Contractor Overcharges	4
OBSERVATION B – Calendar Day Provision for Liquidated Damages.....	5
OBSERVATION C – Acceleration Change Order Documentation	6
APPENDIX A – Management Response	7

EXECUTIVE SUMMARY

As part of our annual risk assessment, we conducted an audit of the Aviation Department, specifically the Contract for Project 3-Volume-2 Utility Relocation for Terminal B (P3V2) at the San Antonio International Airport. This audit was performed to determine if construction services were paid in accordance with the contract terms.

RESULTS IN BRIEF

We determined the following:

- Generally, contracted services were provided in accordance with contract terms; however, the Contractor overcharged the City \$254,796 for utility duct banks, subcontractor hours, barricades, signs and traffic handling, bond fees and delivery fees.
- The Contractor did not complete the contract on time and thus owes the City \$6,000 in liquidated damages.
- A change order for contract acceleration in the amount of \$134,000 lacked appropriate supporting documentation: a written field work directive or Request for Proposal. In addition, two supporting documents that exist were inconsistent with each other.

RECOMMENDATIONS

We recommend the Aviation Department:

- Collect **\$260,796** from the Contractor to recover the overcharges and liquidated damages as follows:

Summary of Dollar Recoveries	
Contractor Overcharges – Observation A	
<i>Utility duct banks</i>	\$212,817
<i>Subcontractor hours</i>	33,743
<i>Barricades, Signs and Traffic Handling</i>	4,842
<i>Bond fees</i>	3,239
<i>Delivery fees</i>	155
Liquidated Damages – Observation B	6,000
Total Dollar Recoveries	\$260,796

- Require appropriate supporting documentation for all payment applications and change orders.

Aviation Department Management concurs with the audit report. Their response can be seen in Appendix A.

INTRODUCTION

We performed this audit as part of our annual risk assessment.

On August 25, 2005, the City Council approved Ordinance 101266, accepting the low qualified bid from Jerdon Enterprises, Inc. (Contractor) for construction services for the Project 3-Volume 2-Utility Relocation for Terminal B (P3V2) at the San Antonio International Airport (SAIA). The amount approved was \$5,638,500.00. Additional funds totaling \$1,305,229 were approved for 33 change orders. The total value of this contract amounts to \$6,943,729.

The P3V2 contract is part of a multi-year; multi-phased Expansion Program at the SAIA. The contract included the relocation of existing utilities and installation of temporary utilities to maintain Terminals 1 and 2 in full operation during construction of the new terminal and new parking facility. Construction began in September 2005 and was substantially complete by December 2006.

In 2003, the City contracted Carter & Burgess, Inc., Program Manager (PM), to manage the various construction contracts of the Expansion Program including P3V2. Among its duties, the PM is responsible for negotiating contract change orders and providing first-level approval of all contractor payment applications.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted an audit of the Aviation Department, specifically the P3V2 contract. This audit was performed to determine if contracted construction services were paid and performed in accordance with the contract terms.

The audit period was from September 2005 to September 2007.

We obtained and reviewed all contract documents associated with P3V2 and the PM. We interviewed and obtained documentation from Aviation management and staff, Program Management staff, a Contractor representative, and City-contracted engineer. We utilized SAP to verify financial information and performed tests on selected documents and information. Testing criteria included specific contract terms.

We conducted this contract audit from April-November 2007 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

CONCLUSIONS

- Generally, contracted services were performed in accordance with contract terms; however, the Contractor overcharged the City \$254,796 for utility duct banks, subcontractor hours, barricades, signs and traffic handling, bond fees and delivery fees.
- The Contractor did not complete the contract on time and thus owes the City \$6,000 in liquidated damages.
- A change order for contract acceleration in the amount of \$134,000 lacked appropriate supporting documentation: a written field work directive or Request for Proposal. In addition, two supporting documents that exist were inconsistent with each other.

STAFF ACKNOWLEDGEMENT

Barry Lipton, CPA, DABFA, Deputy City Auditor
Theresa Cameron, CPA, CIA, Audit Manager
Rosalia Vielma, Auditor
Sylvia Esparza, Auditor

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION A – Contractor Overcharges

We identified a total of **\$254,796** in overcharges. See **Exhibit A** and **Notes A-E** for a summary and explanation of these overcharges.

Exhibit A

Summary of Contractor Overcharges			
Item Description	Total Billed	Overcharges	Reference
Utility duct banks	\$2,032,456	\$212,817	Note A
Subcontractor hours	154,232	33,743	Note B
Barricades, Signs and Traffic Handling	345,000	4,842	Note C
Bond fees	9,642	3,239	Note D
Delivery fees	155	155	Note E
Other Items	4,402,244	0	N/A
Total	\$6,943,729	\$254,796	N/A

Note A – Utility Duct banks

The Contractor billed the City for 1,100 linear feet of utility duct bank that was not installed. In accordance with P3V2 contract, General Requirements Manual Division 01, Addendum No. 2, "Payments to the contractor will be made only for actual worked performed in compliance with the contract documents." This overcharge occurred because the PM, Carter & Burgess, Inc., and Aviation did not verify actual quantities prior to payment. As a result, the City overpaid the Contractor **\$212,817**.

Note B – Subcontractor Hours

Integritel, Inc., the subcontractor that installed communications under the contract allowance provisions, charged the City for 1,236 hours that could not be supported by employee time sheets. In accordance with P3V2 contract, General Requirements Manual Division 01, Addendum No. 2, "Payments to the contractor will be made only for actual worked performed in compliance with the contract documents." This occurred because the Contractor did not require adequate documentation from the subcontractor for hours billed. As a result, the City paid **\$33,743** for services that could not be supported.

Note C – Barricades, Signs and Traffic Handling

The Contractor charged the City for full months of barricades, signs and traffic handling on the first and last months of the contract. However, these items were only required for partial months. In accordance with P3V2 contract, General Requirements Manual Division 01, Addendum No. 2, "Payments to the contractor will be made only for actual

worked performed in compliance with the contract documents.” This condition occurred because the PM, Carter & Burgess, Inc., and Aviation did not consider prorating this line item for partial units used. As a result, the City overpaid the Contractor **\$4,842**.

Note D – Bond Fees

The Contractor billed the City a one percent bond fee on Cash Allowance items. In accordance with P3V2 contract, The General Requirements Manual, Addendum No. 2, Cash Allowances, does not include bond fees in the list of allowable costs. This occurred because the PM, Carter & Burgess, Inc., and Aviation did not compare contract terms with items billed. As a result, the City paid **\$3,239** of unallowable costs.

Note E – Delivery Fees

The Contractor billed the City for delivery fees associated with Cash Allowance # 8, Temporary Roadway Lighting of P3V2 contract. However, The General Requirements Manual, Addendum No. 2, Cash Allowances, states that costs included in a cash allowance include cost of product to Contractor or subcontractor less cost of delivery. This unallowed charge occurred because the PM, Carter & Burgess, Inc., and Aviation did not compare contract terms with items billed. As a result, the City paid **\$155** of unallowable cost.

RECOMMENDATIONS

We recommend the Aviation Department:

1. Collect **\$254,796** from the Contractor to recover the overcharges,
2. Require contractors to provide sufficient supporting documentation to support the completion of each pay element contained in each payment application. The PM should reconcile the drawings to quantities billed and should also physically verify the quantities using appropriate means of measurement.
3. Require supporting documents for contract allowance items, such as time sheets and payroll reports, to substantiate hours billed and paid for subcontractors' work.
4. Compare all types of claimed expenses with the terms of the contract.

OBSERVATION B – Calendar Day Provision for Liquidated Damages

The Calendar Day provision, which specifies the number of days allowed to complete the project and liquidated damages for extra days, was not enforced. Specifically, the Contractor spent 461 calendar days to complete the contract when only 459 days were allowed. This condition occurred because Aviation did not calculate total number of project days and assess liquidated damages for extra days. As a result, the Contractor owes the City **\$6,000** in liquidated damages.

RECOMMENDATIONS

We recommend the Aviation Department:

1. Collect **\$6,000** in liquidated damages from the Contractor.
2. Enforce all Calendar Day provisions and ensure that any liquidated damages are collected from the Contractor.

OBSERVATION C – Acceleration Change Order Documentation

A change order for contract acceleration in the amount of \$134,000 lacked appropriate supporting documentation: a written field work directive or Request for Proposal. In addition, two supporting documents that exist were inconsistent with each other. Specifically, a proposal letter from the Contractor to the City dated May 26, 2006 indicates the acceleration was for substantial completion of the project by September 30, 2006; however the Field Alteration document indicates the acceleration was for one phase of the project with the work to be completed within 30 calendar days.

These conditions occurred because the Program Manager, Carter & Burgess, Inc. and the Aviation Department did not follow Contract document 00703 – Additional General Conditions, Article 48, Changes. This Article states that in changes initiated by the Owner, the City, together with the Architect and Program Manager shall prepare an RFP clearly documenting the scope and nature of the change.

We determined that the original intent of the acceleration change order is unclear due to the lack of an RFP and conflicting change order documents. The lack of an RFP and conflicting change order documents results in misunderstanding of the scope of the work to be performed as well as the time allowed to perform the work.

RECOMMENDATIONS

We recommend the Aviation Department:

1. Ensure all change orders are initiated with a field work directive or RFP with specific details on the requested changes.
2. Require all supporting change order documentation contain accurate and complete information so that the work can be properly monitored and measured.

APPENDIX A – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

Pete M. Gonzales, Jr., CPA, CFE
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Contract for Project 3-Volume-2 Utility Relocation for Terminal B

Aviation Department Management would like to acknowledge the value of the entire audit process and the professionalism of the auditors assigned to the audit. This process has identified areas where changes are needed and the Aviation Department Management is committed to developing and implementing the Corrective Action Plans listed below corresponding to report recommendations.

Recommendations					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A. Contractor Overcharges		5			
A.1	Collect \$254,796 from the Contractor to recover the overcharges	5	Accept	Mark Webb Aviation Director	January 2008
		Action plan: Aviation Department personnel will discuss all of the audit findings with the contractor to ensure similar billing situations identified in this audit are avoided in the future. The \$254,796 will be withheld from the contractor's retainage and the contract will be closed.			
A.2	Require contractors to provide sufficient documentation to support the completion of each pay element contained in each payment application. The PM should reconcile the quantities billed and should also physically verify the quantities using appropriate means of measurement.	5	Accept	Mark Webb Aviation Director	January 2008
		Action plan: Aviation Department is coordinating with the PM Team to establish new documented procedures for reviewing and approving contractor invoices. These document procedures will include: <ul style="list-style-type: none"> • Physical verifications of unit quantities installed; • Reconciliations of verified unit quantities with pay application unit quantities; • Ensure all required supporting documents are present prior to processing the pay application; • Inspection of the permanent "record" drawings to ensure design or quantity changes are reflected 			

A.3	Require supporting documents for contract allowance items, such as time sheets and payroll reports, to substantiate hours billed and paid for subcontractors' work.	5	Accept	Mark Webb Aviation Director	January 2008
		<p>Action plan: Aviation Department will coordinate with the PM Team to establish new documented procedures requiring contractors' to obtain supporting documentation for contract allowance items, such as time sheets or payroll reports from their subcontractors prior to billing the City for subcontractor invoices.</p>			
A.4	Compare all types of claimed expenses with the terms of the contract.	5	Accept	Mark Webb Aviation Director	January 2008
		<p>Action plan: Aviation Department is coordinating with the PM Team to establish new documented procedures for reviewing and approving contractor invoices. These new procedures will include a verification process to ensure that all charges are in accordance to the contract terms and conditions.</p> <p>In addition, the Aviation Department Contract Compliance Division will begin a process of periodically selecting a sample of pay applications that have been processed to ensure the new pay application verification process is functioning properly.</p>			
B. Calendar Day Contract Liquidated Damages		5			
B.1	Collect \$6,000 in liquidated damages from the Contractor	5	Accept	Mark Webb Aviation Director	January 2008
		<p>Action plan: Aviation Department personnel will discuss this audit finding with the contractor and the \$6,000 will be withheld from the contractor's retainage.</p>			
B.2	Enforce all Calendar Day provisions and ensure that any liquidated damages are deducted from the final payment owed the Contractor.	5	Accept	Mark Webb Aviation Director	January 2008
		<p>Action plan: Aviation Department will coordinate with the PM Team to ensure that a tracking tool is developed and maintained to monitor of all calendar day contracts.</p> <p>In addition, document procedures will be developed to ensure remaining days on calendar contracts are communicated to the contractor and to the Aviation Department staff on a periodic basis.</p> <p>Contract Close-out procedures will also be documented and include comparing the actual elapsed calendar days to the contract terms (including change order days) and assessing any</p>			

		applicable liquidated damages prior to releasing the contractor's retainage.			
C. Acceleration Change Order Documentation		6			
C.1	Ensure that all change orders are initiated with a field work directive or RFP with specific details on the requested changes.	6	Accept	Mark Webb Aviation Director	February 2008
		Action plan: Aviation Department will coordinate with the PM Team to ensure that all change order requests are documented in accordance to the contract requirements. In addition, the Aviation Department Contract Compliance Division will begin a process of periodically selecting a sample of change orders that have been processed to ensure contractor change order requests and owner requested field work directives or RFP's are initiated with sufficient details.			
C.2	Require that all supporting change order documentation contains accurate and complete information so that the work can be properly monitored and measured.	6	Accept	Mark Webb Aviation Director	March 2008
		Action plan: Aviation Department will coordinate with the PM Team to ensure change orders contain accurate and complete information that can be properly monitored and measured. Change order procedures and a training course will be developed for all PM Team and Aviation staff responsible for preparing these documents.			

We appreciate the recommendations in the audit report and are committed to addressing the action plans presented above.

Sincerely,


 Mark Webb
 Director, Aviation Department


 Penny Postoak-Ferguson
 Assistant City Manager