



CITY OF SAN ANTONIO

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October 1, 2010

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Mayor and Council Members:

**SUBJECT: Audit of the Capital Improvements Management Services Department
Sunset Phase II – Teak to Broadway Project Report**

We are pleased to send you the audit report of the Capital Improvements Management Services Department Sunset Phase II – Teak to Broadway Project. This audit began in July 2009 and concluded in June 2010. Management's verbatim response is included in Appendix B of the report. The Capital Improvements Management Services Department should be commended for its cooperation and assistance during this audit.

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

Respectfully submitted,

Park E. Pearson, CPA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of the Capital Improvements Management Services Department
Sunset Phase II – Teak to Broadway Project

Project No. AU09-012

October 1, 2010

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Sunset Phase II – Teak to Broadway project managed by the Capital Improvements Management Services Department (CIMS). The audit objectives, conclusions, and recommendations follow:

Did contractors comply with contract requirements and terms?

Were payments to contractors consistent with contract terms?

Yes, services provided by contractors and related payments complied with contract requirements and terms. However, the City did not make timely requests for reimbursable costs to the Texas Department of Transportation (TxDOT). Further, the City did not follow up timely when payments were overdue from TxDOT. In addition, staff did not include a field office provision in the original contract that may result in TxDOT not reimbursing the City for the cost.

We recommend the CIMS Director:

- Follow Administrative Directive 8.9 – Financial Management for Capital Projects and implement procedures that will facilitate the timely request for and receipt of reimbursements from TxDOT.
- Ensure all required line items are included in original contracts in accordance with TxDOT Standard Specifications.

Management's verbatim response will be included in **Appendix B** on page 6.

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Background

In 2007, City Council approved the creation of the Capital Improvements Management Services (CIMS) department. CIMS is responsible for managing the City's Capital Improvement Program, including all projects related to the 2007 - 2012 Bond Program. This includes coordinating the delivery of construction projects, as well as selection of the consultant and construction contractor.

CIMS also manages federally funded street improvement projects referred to as Local Agency Managed (LAM) projects. Currently, there are 30 LAM projects totaling \$104.7 million. These projects include street construction and rehabilitation, bike lanes, sidewalk improvements, and parks.

One of these LAM projects, Sunset Road Phase II – Teak to Broadway, includes the reconstruction and widening of Sunset Road from Teak to Broadway. The construction expanded the existing storm drain trunk line and provided new inlets, curbs, sidewalks and driveway approaches. The City Council approved the project on June 28, 2007. Of the \$3.9 million in costs incurred for this project, the San Antonio Water System was responsible for about \$835,000 and CPS Energy \$430,000. In accordance with an advanced funding agreement, The Texas Department of Transportation (TxDOT) agreed to reimburse the City for 80% of the remaining costs.

Audit Scope and Methodology

The audit scope included the Sunset Road Phase II – Teak to Broadway project.

We reviewed source documents that included pay estimates, change orders, certified payrolls, and on-site inspection logs. The review included all 17 pay estimates valued at \$3.9 million including 18 change orders valued at \$163,000. We also reviewed 13 weeks of certified payrolls submitted by the contractor and subcontractor to confirm compliance with Texas Government Code Chapter 2258 – Prevailing Wage Rates.

We reviewed CIMS compliance with LAM advertising procedures for the project. In addition, we judgmentally selected for review six weeks of daily on-site inspection logs and minutes of progress meetings.

We interviewed CIMS personnel to obtain an understanding of the processes followed to advertise the project, account for expenditures, request and receive reimbursement of funds, and approve change orders. We also reviewed relevant documentation used as testing criteria, such as:

- Contract between the City of San Antonio and the contractor

- CIMS Local Agency Management Procedures
- TxDOT Local Government Project Procedures (LGPP)
- Texas Government Code
- Advanced Funding Agreement between TxDOT and the City

We relied on computer-assisted data in the City's accounting system to review the Sunset Phase II project expenditures. We based our reliance on direct tests of the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from July 2009 to June 2010 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Requests for Reimbursements

The City did not make timely requests for reimbursable costs to the Texas Department of Transportation (TxDOT). On average, it took CIMS 150 days to request reimbursement from TxDOT. The City’s Administrative Directive (AD) 8.9 – Financial Management for Capital Projects requires departments to invoice external agencies for services provided within five business days after the month of the incurred expenditure. Further, TxDOT took 180 days on average to provide reimbursements to the City and CIMS did not follow up timely to collect unpaid receivables as required by the City’s AD 8.9.

These practices occurred because at the time of this project, CIMS staff was not familiar with TxDOT’s reimbursement process and the required documentation needed to support reimbursements. Untimely requests for reimbursement effect the cash position of the City. In addition, since the City paid for these costs with funds from interest earning accounts, the City did not earn interest of approximately \$27,000. **Exhibit 1** shows the elapsed time in days to request reimbursements and receive payments from TxDOT.

Exhibit 1 –Requests and Receipt of Payments

# of Days	CIMS Requested Reimbursement		CIMS Received Payment	
	# of Invoices	Amount	# of Invoices	Amount
60 or less	3	\$ 290,858	2	\$ 446,600
61 - 90	2	276,698	3	869,957
91 - 120	3	809,904	-	-
121 - 150	2	253,026	-	-
151 - 350	7	777,665	12	1,091,594
Total	17	\$2,408,151	17	\$2,408,151

Recommendation: The CIMS Director should:

A. Follow Administrative Directive 8.9 – Financial Management for Capital Projects and implement procedures that will facilitate the timely request and receipt of reimbursements from TxDOT.

B. Change Order for Field Office

CIMS authorized a change order and payment of \$16,535 to the contractor for a field office not originally included as part of the contract. TxDOT personnel working directly with City staff during the project performance signed and approved this change order, which also defined federal participation of 80%, as acceptable. However, TxDOT may not reimburse costs for the change order since it was not included in the original contract under the specified line item per TxDOT standard specifications.

Recommendations: The CIMS Director should:

B. Ensure all required line items are included in original contracts in accordance with TxDOT Standard Specifications.

*This concludes the Audit Results and Recommendations. Management's responses to the observations will be in **Appendix B**.*

Appendix A – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Denis Cano, CPA, CIA, CISA, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Rosalia Vielma, Auditor

Appendix B – Management Response

Capital Improvements Management Services Department
Sunset Phase II – Teak to Broadway Project

Appendix B – Management Response

CIMS Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>Requests for Reimbursements Plan Recommendation: Follow Administrative Directive 8.9 – Financial Management for Capital Projects and implement procedures that will facilitate the timely request and receipt of reimbursements from TxDOT.</p>	3	Accept	Mike Frisbie Director	October 2010
<p>Action plan:</p> <p>Between Sunset Road Phase I and Phase II, the City became the administrator of MPO projects through the implementation of the Local Agency Management (LAM) Program. This change was pursued to prevent work stoppages and other issues that occurred with the Sunset Phase I project from occurring on the Sunset Phase II project. Additionally, the CIMS department was created in the fall of 2007, just after this project began. The project was initiated by the Public Works department.</p> <p>Initially, TxDOT refused to pay estimates that had been submitted in 2007 because an Amended Advance Funding Agreement (AAFA) which designated the City as the administrator instead of TXDOT had not been executed by the City and TXDOT. In September 2008, COSA was told by TxDOT not to submit reimbursement requests until an executed AAFA was received. An email from TxDOT on 6/11/07 indicated that <i>complete data</i> from COSA had been received for the Sunset project on 5/17/07 and Austin concurrence had been requested 5/18/2007. However, the City did not receive official word from TXDOT until November 2008. City Council authorized the execution of the AAFA on December 4, 2008 and a final AAFA was executed by both parties (COSA and TxDOT) as of February 11, 2009.</p> <p>While the transition from TXDOT managed projects to Local Agency Management contributed to certain inadequacies related to oversight of policy implementation, other factors above and beyond our control were evident. Reimbursement requirements such as documentation support and format were not clearly defined by TxDOT despite COSA inquiries dating back to early 2007. This lack of clarification resulted in multiple resubmittals prior to TxDOT's acceptance of reimbursement requests. These types of discrepancies and lack of guidance from TxDOT were key factors contributing to the management outcome of the project.</p> <p>The City has since improved processes and procedures related to LAM project management including monthly submissions to TxDOT and appropriate monthly follow-up on open receivables. Additionally, the City has built a working relationship with TxDOT aimed at understanding and improving overall adherence to TxDOT requirements.</p> <p>Under an efficiency approved by City Council in the 2011 budget, a new team of four City staff will be added to CIMS to support the LAM program which will further strengthen program oversight.</p>					

Appendix B – Management Response (Continued)

Capital Improvements Management Services Department
Sunset Phase II – Teak to Broadway Project

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B	Change Order for Field Office Plan Recommendation: Ensure all required line items are included in original contracts in accordance with TxDOT Standard Specifications.	4	Accept	Mike Frisbie, Director	November 2011
Action plan: While every effort is made to ensure all necessary line items are included in the original contract, changes can and do occur. Eligible expenses for federal participation are delineated by several documents rather than by its absence from or inclusion in the original construction contract. Some of these documents include the Master Funding Agreement, the Advanced Funding Agreement, Federal Acquisition Regulations Chapter 48 of the Code of Federal Regulations, Texas Administrative Code Section 43 Part 1 Chapter 15, Subchapter E and the TXDOT Change Order Policy. The use of a change order to add a specification is consistent with procedures outlined in TXDOT Change Order Policy in the Construction Contract Administration Manual Chapter 7: Changes to the Contract. Consistent with the TXDOT review process, this change order was reviewed and approved by TXDOT. CIMS has asked TXDOT to cover this change order. This item relates to a \$16,535 change order which is less than one tenth of 1% of the total project costs.					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



 Michael S. Frisbie
 Director
 CIMS Department

9-27-10

 Date



 Peter Zaroni
 Assistant City Manager
 City Manager's Office

9-28-10

 Date