



# CITY OF SAN ANTONIO

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

February 28, 2012

**Julián Castro**  
Mayor

**Diego M. Bernal**  
Councilman, District 1

**Ivy R. Taylor**  
Councilwoman, District 2

**Leticia Ozuna**  
Councilwoman, District 3

**Rey Saldaña**  
Councilman, District 4

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Councilman, District 5

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Councilman, District 6

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Councilman, District 7

**W. Reed Williams**  
Councilman, District 8

**Elisa Chan**  
Councilwoman, District 9

**Carlton Soules**  
Councilman, District 10

**SUBJECT: Audit Report of Capital Improvements Management Services - CPS Energy and SAWS Reimbursements**

Mayor and Council Members:

We are pleased to send you the audit report of Capital Improvements Management Services - CPS Energy and SAWS Reimbursements. This audit began in August 2011 and concluded with an exit meeting with department management in February 2012. 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,

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
City of San Antonio

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Capital Improvements Management Services Department

CPS Energy and SAWS Reimbursements

Project No. AU11-006

February 28, 2012

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan, we conducted an audit of the Capital Improvements Management Services (CIMS) Department, specifically the controls over CPS Energy and SAWS reimbursement processes for City of San Antonio (COSA) capital projects. The audit objectives, conclusions, and recommendations follow:

### **Are there adequate controls over CPS Energy and SAWS reimbursement processes for COSA capital projects?**

Yes, overall, there are adequate controls over CPS Energy and SAWS reimbursement processes for COSA capital projects.

### **Are reimbursements from CPS Energy and SAWS accurate and timely?**

In the 11 projects tested, invoices to CPS Energy and SAWS are accurate; however, they are not submitted by CIMS timely. Collections from CPS Energy and SAWS are accurate and timely.

We recommend that the CIMS Department Director:

- Implement procedures that will facilitate the timely request of reimbursements from CPS Energy and SAWS, consistent with Administrative Directive 8.9, *Financial Management of Capital Projects*.

CIMS Department Management's verbatim response is in **Appendix B** on page 5.

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## Background

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The Capital Improvements Management Services (CIMS) Department, created in 2007, manages the City's capital improvement projects. The 2007-2012 Bond Program includes 57 capital improvement projects in which CPS Energy and/or SAWS participated in a joint bid process with the City. Additionally, CIMS manages 12 Local Agency Managed (LAM) projects in which CPS Energy and/or SAWS have agreed to reimburse the City for joint-bid work. These 69 projects include approximately \$60 million in planned expenditures for CPS Energy and SAWS. Total planned expenditures are originally agreed upon by all parties in the design and construction contracts. If CPS Energy or SAWS requires additional expenditures, changes are made through task or change orders, which also require approval from all parties.

The City pays the contractors as work progresses. Payments are based on the percentage of completion, which is documented by the contractors in pay applications. CPS Energy, SAWS, and CIMS must approve a pay application before Finance processes the payment. CIMS invoices CPS Energy and SAWS the amounts to be reimbursed. When providing the invoices to CPS Energy and SAWS, CIMS also includes the supporting pay applications and authorization logs (showing approvals for the pay applications). Generally, CPS Energy prepays the City at the start of each project, while SAWS pays as invoiced. Invoices to SAWS are delivered via the WebPortal<sup>1</sup>, while invoices to CPS Energy are delivered via email.

## Audit Scope and Methodology

The audit scope included 69 2007-2012 Bond Program and LAM projects with CPS Energy and/or SAWS reimbursements. The pay applications and invoices from these projects ranged from May 2008 to December 2011.

We interviewed CIMS staff, observed the invoicing process, and reviewed relevant documentation, including A.D. 8.9, *Financial Management of Capital Projects*.

We relied on computer-processed data in SAP<sup>2</sup>, specifically the planned expenditures, invoices, and payments, when selecting our sample and determining the accuracy and timeliness of payments. Our reliance was based on performing direct tests on the data rather than evaluating the system's general

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<sup>1</sup> The WebPortal is an automated system used to facilitate the exchange of documents and information between COSA and its contractors. CIMS uses this system to manage its capital projects and to transfer invoice information (goods receipting) into SAP.

<sup>2</sup> COSA's financial accounting system

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 also relied on computer-processed data (i.e. the authorization logs, which show when an attachment was approved) in the CIMS WebPortal when determining the timeliness of invoices. Our reliance was based on the testwork performed in AU11-012, *Audit of CIMS Vertical Construction Projects*, issued October 18, 2011. For this project, auditors performed direct tests on the logical access controls of the WebPortal to confirm the appropriateness of user access. They also reviewed information on the back-up and recovery procedures of the WebPortal. No material changes have been made to the WebPortal between the end of testwork for AU11-012 and the end of testwork for this audit. We do not believe that the absence of further testing of general and application controls had an effect on the results of our audit.

We judgmentally selected 11 of 69 projects, which account for approximately \$31 million of the \$60 million in planned expenditures for CPS Energy and SAWS. Actual CPS Energy and SAWS expenditures for these 11 projects totaled approximately \$20 million as of October 25, 2011.

For each project, auditors:

- verified that total amounts from the pay applications are equal to the total of the project invoices
- verified that the “Total Dollars to Date” from the pay applications and the invoiced amounts do not exceed the contract and change order amounts in the design and construction phases
- determined if the number of days between the pay application approval dates and the dates the invoices were uploaded to the WebPortal or sent via email are reasonable (i.e. by the 5<sup>th</sup> business day of the following month)
- computed the lost interest due to untimely invoicing
- compared invoice amounts to amounts paid
- compared invoice due dates to date payments were posted
- compared the dates CPS Energy and SAWS received the invoices to the dates payments were posted
- computed the lost interest due to untimely collections

We conducted this audit from August 2011 to December 2011 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

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### A. Untimely Invoicing

CIMS was not invoicing CPS Energy and SAWS in accordance with A.D. 8.9 *Financial Management of Capital Projects*, which states, “The department managing the work effort project will bill the appropriate external agency<sup>3</sup> for amounts 5 business days after the end of the month in which the associated expenditure was made.” In the 11 projects tested, 84% of the invoices were untimely, averaging 170 days late.

CIMS Management explained that invoices were untimely due to a combination of causes. The system that houses the SAWS invoices is unreliable and frequently requires multiple attempts to attach each invoice. CIMS Management is confident that a new system, with a proposed implementation in April 2012, will be more reliable and facilitate timely invoicing. CIMS Management also asserts that a lack of available staff was a contributing factor. During this audit, CIMS Fiscal staff levels increased and two additional employees were trained to invoice CPS Energy and SAWS. As a result of staff efforts between October 25, 2011 and December 2, 2011, 123 invoices totaling approximately \$10 million from the 11 projects were submitted to CPS Energy and SAWS. As of December 31, 2011, CPS Energy and SAWS have reimbursed approximately \$9 million related to these invoices. Additionally, CIMS has been addressing the other projects that have backlogs of invoices.

### Recommendations

The CIMS Director should implement procedures that will facilitate the timely request of reimbursements from CPS Energy and SAWS, consistent with Administrative Directive 8.9, *Financial Management of Capital Projects*.

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<sup>3</sup> For the purpose of financial reporting, CPS Energy and SAWS are component units of the City. Operationally, however, they function as external agencies.

## **Appendix A – Staff Acknowledgement**

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Andre DeLeon, CPA, Audit Manager  
Rebecca Moulder, CIA, Auditor in Charge  
Rosalia Vielma, CFE, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

February 16, 2012

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of CPS Energy and SAWS Reimbursements

Capital Improvements Management Services (CIMS) Department has reviewed the audit report and has developed the Corrective Action Plan below corresponding to the report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p><b>Untimely Invoicing</b></p> <p>The CIMS Director should implement procedures that will facilitate the timely request of reimbursements from CPS Energy and SAWS, consistent with Administrative Directive 8.9, <i>Financial Management of Capital Projects</i>.</p>	3	Accept	Debbie Sittre, Assistant Director	April 2012
<p><b>Action plan:</b></p> <p>We concur that CPS and SAWS were not invoiced timely in accordance with A.D. 8.9 Financial Management of Capital Projects. As a result of the reorganization required for the implementation of shared services, CIMS Budget and Fiscal Division had 2 vacancies from July 16, 2011 through today (February 6, 2012). CIMS hired 2 temporary employees to help alleviate the impact on account receivables (one on August 22, 2011 and second on September 26, 2011) which took about 2 months to set up and train in City procedures, SAP and web portal.</p> <p>Because of the City's close relationship with SAWS and CPS, CIMS management made an operational decision to focus on other high priority functions such as: paying 2007 Bond project vendors in a timely manner, processing purchase requisitions for Request for Council Action items so contracts could be created within days of the ordinance approval and processing payments for large high profile projects critical to public safety such as Public Safety Headquarters, 911 Emergency Dispatch Center, and Fire Stations #50 &amp; #51 including drawing down American Recovery &amp; Reinvestment Act (federal stimulus) funds.</p> <p>Action -- The Budget and Fiscal division will perform reviews monthly to ensure the invoices are submitted by the 5<sup>th</sup> day after the following month the invoice is paid to vendor. Additionally, the CIMS department is implementing a new hosted solution to the web portal system (CoSA PRIME Link) that will improve the routing of invoices and streamline billing processes for CPS and SAWS.</p>					

## Appendix B – Management Response (Continued)

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We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,

  
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Michael S. Frisbie  
Director  
CIMS Department

2-14-12  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Peter Zaroni  
Assistant City Manager  
City Manager's Office

2-15-12  
\_\_\_\_\_  
Date