



CITY OF SAN ANTONIO

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October 18, 2011

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SUBJECT: Capital Improvements Management Services (CIMS) Department Vertical Construction Project Contracts Audit Report

Mayor and Council Members:

We are pleased to send you the audit report of the CIMS Department Vertical Construction Project Contracts. This audit began in January 2011 and concluded with an exit meeting with department management in August 2011. Management's verbatim response is included in Appendix B of the report. The CIMS 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
Acting 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

Vertical Construction Project Contracts

Project No. AU11-012

October 18, 2011

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

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Capital Improvements Management Services (CIMS) Department, specifically the construction of the new Parman Library and renovation of the Lila Cockrell Theatre. The audit objective, conclusions, and recommendations follow:

Are design and construction costs to selected CIMS managed building projects properly supported and within authorized contract terms?

Overall, the design and construction costs for the Parman Library and the renovation of the Lila Cockrell Theatre were properly supported and within authorized contract terms with few exceptions. We noted the following:

- Inaccurate contract amounts in the WebPortal and SAP systems
- Overcharges of \$119,525 in the Lila Cockrell Theatre project
- Non-compliance in wage and hour functions
- Lack of periodic review of user access in the WebPortal system

We recommend that the CIMS Department Director:

- Devise procedures for management review of contract amounts entered into the WebPortal and SAP
- Withhold the overbilled amounts from contractor's final payment
- Develop a systematic methodology for wage and hour functions to ensure compliance with state law and to ensure the City collects the appropriate restitution
- Schedule periodic access reviews of WebPortal users

CIMS Department Management's verbatim response is in Appendix B on page 8.

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Background

In 2007, City Council approved the creation of the Capital Improvements Management Services (CIMS) Department with the primary responsibility of managing the \$550 million 2007-2012 General Obligation Bond Program. CIMS oversees the City's street improvements, facilities maintenance, and new construction capital projects, and it manages the City's Capital Improvements Program projects through all phases of design, construction, and inspection. CIMS also coordinates the consultant selection, construction contractor procurement, and project delivery for all capital improvement construction projects.

Capital improvement projects consist of both horizontal and vertical projects. Horizontal projects include streets and other infrastructure, while vertical projects include the construction of new buildings and renovations of existing facilities. In February 2011, CIMS was managing 180 capital improvement projects, fifty-four of which were vertical capital projects.

We selected two of the fifty-four vertical projects for testing: the new District 9 Parman Library (Parman) and the renovations to the Lila Cockrell Theatre (LCT) at the Henry B. Gonzales Convention Center. The 2008-2009 Capital Plan identified funding of approximately \$6.5 million for the Parman project from the 2007-2012 General Obligation Bond Program. The Hotel Occupancy Tax Revenue Bond would fund the \$24 million LCT renovation project.

Audit Scope and Methodology

The audit scope was limited to design, construction, and art expenses for both the construction of the Parman project and renovation of the LCT. Our audit period included expenditures paid through February 28, 2011.

We conducted interviews of CIMS staff and management. We reviewed federal, state, and local laws related to procurement and also to wage and hour compliance. We reviewed City of San Antonio (COSA) and CIMS policies and procedures to identify internal controls related to the management of capital projects, and we prepared flowcharts of relevant processes.

Testing criteria included:

- Federal Davis Bacon Act wage decision reports
- Texas Government Code 2258 Prevailing Wage Rates
- COSA Ordinance 2008-11-20-0145 Wage and Labor Standards
- Texas Local Government Code 252.048 Purchasing and Contracting Authority of Municipalities

- COSA Procurement Policy and Procedures
- CIMS Policy and Procedures
- COSA Administrative Directives 7.6, *Security and Passwords*, and 8.9, *Financial Management of Capital Projects*
- Contracts and schedules of values related to Parman and LCT

We relied on data in the CIMS WebPortal¹ for the designer, contractor, and artist schedules of values, project invoices (pay applications and change orders), and goods receipt approvals. We performed direct tests on the logical access controls of the WebPortal to confirm the appropriateness of user access. In addition, we reviewed information on the back-up and recovery procedures of the WebPortal. As a result of our testing, we concluded that the information in the WebPortal could be relied upon for testwork; however, other issues were identified, which are presented in the following “Audit Results and Recommendations” section of this report at item “C. WebPortal IT Controls.”

We also relied on computer-processed data in SAP, COSA’s financial accounting application, and the LCP Tracker system, which CIMS uses to receive and review compliance with federal wage regulations. In SAP, we relied on data from contracts, purchase orders, invoices, and payments related to the construction projects, as well as sales orders that assessed penalties to contractors for wage violations. In LCP Tracker, we relied on the contractors’ certified weekly payroll and various violation and penalty reports. Our reliance was based on performing direct tests on the data rather than evaluating the systems’ 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 compared the schedules of values from the WebPortal to seven City Council approved contracts and noted differences in two of our selections, which are further presented in the following section at item “A. Contract Management.”

We tested thirty-nine Parman project invoices and sixty-two LCT project invoices. We tested for proper approval, accuracy, and proper posting into the correct project and line item in SAP. No exceptions were noted.

We also tested twenty-three Parman change orders and fifty-six LCT change orders using the same aforementioned criteria for our invoice testing. In addition, we looked at the change order description to determine if the work was part of the original contract and, lastly, to determine if changes exceeding \$25,000 received City Council authorization for construction changes or \$50,000 for design changes. No exceptions were noted.

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

We reviewed documentation maintained by CIMS' Labor Compliance Office to determine if the correct federal wage decision had been selected and to determine if site visits and employee interviews had been performed. No exceptions were noted. In addition, we judgmentally selected the week with the largest payroll from each project to determine if the minimum prevailing wage rate had been paid. We utilized LCP Tracker reports to determine if wage and hour violations had been resolved and noted the wages in the LCP Tracker system accurately reflected the appropriate federal wage decisions. Finally, we tested the restitution and penalties assessed for three violations in the Lila Cockrell project for accuracy and timeliness. Our findings are presented in the following section at item "B. Labor Compliance Office."

We conducted this audit from February 2011 to July 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

A. Contract Management

CIMS did not accurately record contract information into the WebPortal or SAP for one of seven contracts tested. In this instance, the amount was \$15,500 greater than the contract amount.

This error appears to have been caused by clerical oversight, as CIMS does not have adequate controls in place to ensure that the dollar amounts of the schedule of values entered into the WebPortal and SAP agree to the approved contract amounts. Without accurate information in the WebPortal, CIMS could erroneously obligate funds that are not contractually approved.

Another issue was noted in the detail of the Schedule of Values for the LCT Project in that the contractor double-billed \$119,525 in IT services, bond, and insurance expenses on the LCT project. The original proposal from the contractor lists these three expenses in the General Conditions Cost Breakdown. In addition to being included in the General Conditions line item, they were also itemized on the Schedule of Values, which caused the double-billing. The Contract Manager at Risk Agreement states that insurance, bonds and other administrative expenses are part of the General Conditions line item.

Recommendation: The Director of CIMS should implement controls to monitor the data entered into the WebPortal system (and SAP) to ensure the totals agree to the approved contract.

Finally, the Director of CIMS should deduct \$119,525 from the final payment to the contractor to recoup the overbilled amounts.

B. Labor Compliance Office

At the commencement of this audit, the Labor Compliance Office (LCO) staff had not performed the following functions for the Parman project:

- review of the weekly certified payroll reports
- research of possible wage violations
- calculation of restitution due to employees
- assessment of penalties against the contractor

By state law and local ordinance, the contractors on locally funded construction projects must comply with the prevailing wage rates as determined by the U.S. Department of Labor wage decision reports.

The LCO uses the LCP Tracker system software as its system of record to ensure accurate payment of wage and overtime. The LCO grants contractors online access to the LCP Tracker system whereby they upload their weekly payroll data. The LCP Tracker system will then review the wage and hour data and generate a Penalty Report if it detects a potential error. The LCO reviews the Penalty Report and researches the noted items. Some of the items are the result of clerical error and can be quickly resolved. If the item results in true wage violation, the LCO works with the contractor to ensure the employee received the appropriate restitution. The LCO then assesses a penalty against the contractor and notes the resolution in the LCP Tracker system.

A Penalty Report for all projects in the LCP Tracker system (from 10/1/08 to 5/9/11) showed \$102,120 in potential penalties from possible wage violations for 85 different projects. To reiterate, this report is based on potential violations. Research must be conducted to determine if actual violations have occurred.

Many of the potential violations are the result of clerical error and can easily be resolved. Additionally, some of the violations were resolved but were not cleared in the LCP Tracker system. This issue occurred because LCO does not have a systematic process for reviewing the weekly certified payroll records reports and researching potential wage violations. Also, the construction projects are not assigned to a specific staff member, which results in a lack of ownership of specific projects.

On the LCT project, the LCO had reviewed the weekly payroll reports and assessed penalties to contractors; however, we noted two related issues. The LCP Tracker system failed to correctly calculate the restitution due to six employees because the LCO had manually entered incorrect wage data into the system. The second issue is a lack of timeliness on the part of the LCO, as one of the three penalty assessments occurred more than one year after the violation.

Without accurate data and timely review, contractor employees might not receive the minimum prevailing wage due them and the City may be forfeiting the applicable penalty assessments.

Recommendation: The Director of CIMS should create a systematic method for approving the weekly certified payrolls, reviewing and resolving potential violations, and assessing penalties to contractors in a timely manner. Also, the Director of CIMS should consider electronically downloading wage data to prevent manual data entry errors. Should the cost of obtaining wage data by download be cost prohibitive, a review of manually entered data should occur for each project. Finally, the Director of CIMS should ensure that the LCO researches and resolves the potential violations in the LCP Tracker system.

C. WebPortal IT Controls

While there appears to be adequate controls for restricting user access to the WebPortal, CIMS does not periodically monitor this access. Instead, it relies on the Information Technology Services Department (ITSD) to maintain appropriate Citrix access, which acts as the gateway to the WebPortal. While ITSD's management of Citrix serves as an effective mitigating control for employees departing COSA, no control exists to terminate WebPortal access when CIMS employees transfer to other City departments. At the onset of this audit, four of fifty former CIMS employees had inappropriate access to the WebPortal. As such, the WebPortal is susceptible to intrusion from former CIMS employees.

We also noted that several WebPortal users could not log their approvals in the system because of errors that occurred during the set-up process. As a result, the WebPortal did not illustrate accurate approvals, thereby creating an insufficient audit trail. CIMS was able to remediate this issue during the audit.

Recommendation: The Director of CIMS should perform a periodic review of users with WebPortal access to ensure that unauthorized persons do not have access, and he should also ensure that WebPortal approvers are set-up correctly to accurately produce a systematic audit trail.

Appendix A – Staff Acknowledgement

Andre DeLeon, CPA, Audit Manager
Arlena Sones, CPA, CIA, CGAP, Auditor in Charge
Rosalia Vielma, CFE, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 30, 2011

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

RE: Management's Corrective Action Plan for the Audit of Capital Improvements Management Services Department – Vertical Construction Project Contracts

Capital Improvements Management Services (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>Contract Management</p> <p>1) The Director of CIMS should implement controls to monitor the data entered into the WebPortal system (and SAP) to ensure the totals agree to the approved contract.</p> <p>2) The Director of CIMS should deduct \$119,525 from the final payment to the contractor to recoup the overbilled amounts.</p> | 4 | Accept | Debbie Sittre, Assistant Director Project Support | 9/30/11 |
| | <p>Action plan:</p> <p>1) We concur that discrepancies existed between the design contract and amounts subsequently entered into SAP and the WebPortal. Control difficulties over items such as this were noted during the procurement of the 2007-2012 Bond Program due to the volume of contracts being processed simultaneously.</p> <p>Action – The Contract Services division will perform reviews to ensure the contract language is consistent with supporting exhibit documentation and information entered into SAP and WebPortal. Additionally, the CIMS department is implementing a new web portal system that will better integrate with SAP.</p> <p>2) We concur that the contractor double-billed for certain items. While the contractor included all appropriate costs in their general conditions, the City requested a General Conditions Cost Breakdown for the Schedule of Values. During this process, items included in this breakout were not reduced from the original General Conditions line.</p> <p>Action – CIMS is seeking reimbursement from the contractor.</p> | | | | |

| Recommendation | | | | | |
|---|--|-------------------|-----------------------------------|---|-----------------|
| # | Description | Audit Report Page | Accept, Partially Accept, Decline | Responsible Person's Name/Title | Completion Date |
| B | <p>Labor Compliance Office (LCO) The Director of CIMS should create a systematic method for approving the weekly certified payrolls, reviewing and resolving potential violations, and assessing penalties to contractors in a timely manner. Also, the Director of CIMS should consider electronically downloading wage data to prevent manual data entry errors. Should the cost of obtaining wage data by download be cost prohibitive, a review of manually entered data should occur for each project. Finally, the Director of CIMS should ensure that the LCO researches and resolves the potential violations in the LCP Tracker system.</p> | 4 | Accept | Debbie Sittre, Assistant Director Project Support | 10/15/11 |
| <p>Action plan: We concur with the findings related to the Labor Compliance Office (LCO). The LCO does have a systematic process for reviewing weekly certified payrolls and assessing penalties, however, those processes were previously undocumented. Additionally, components within the LCPTracker system were not initially set-up for use, which could have increased the accuracy and timeliness of the reviews performed by staff.</p> <p>Action – Significant changes are currently underway to address these issues. A Labor Compliance Manual has been adopted, which will provide a documented resource for staff to ensure standardized and effective monitoring of labor compliance requirements; a revamping of the validation settings within LCPTracker system; and LCPTracker re-training is currently being scheduled, which will allow for more efficient use and monitoring of the LCPTracker system.</p> <p>Of the \$102,120 of potential violations noted, the LCO determined that \$25,440 were actual penalties, of which \$10,140 was previously collected. The "potential" violations were the result of various LCPTracker system issues, such as rounding, as well as contractor errors in reporting data within the system.</p> <p>Action – The LCO is currently submitting invoice requests for the remaining penalties not yet collected. Compliance management is exploring alternative, in-depth approaches to effectively address timely and effective monitoring of projects within the LCPTracker system.</p> | | | | | |
| C | <p>WebPortal IT Controls The Director of CIMS should perform a periodic review of users with WebPortal access to ensure that unauthorized persons do not have access, and he should also ensure that WebPortal approvers are set-up correctly to accurately produce a systematic audit trail.</p> | 5 | Accept | Debbie Sittre, Assistant Director Project Support | 8/30/11 |

| Recommendation | | | | | |
|----------------|---|-------------------|-----------------------------------|---------------------------------|-----------------|
| # | Description | Audit Report Page | Accept, Partially Accept, Decline | Responsible Person's Name/Title | Completion Date |
| | <p>Action plan: We concur with the audit conclusion that no controls were in place to periodically monitor access to the WebPortal by employees transferred to other departments. Additionally, although four former CIMS employees had access to the WebPortal, no evidence exists that would indicate that these former employees had actually accessed the system. Further, workflows are subject to more than just one level of approval.</p> <p>Action -- CIMS Portal team has since coordinated with the CIMS Human Resources Specialist in monitoring employee transfers and departures for follow-up on whether access to the WebPortal needs to be adjusted and/or deleted. Former employees' access has since been disabled. CIMS Portal has also updated the Approvers and Point of Contact listing within WebPortal to enable users of the system to appropriately identify themselves when performing transactions (such as approvals) within the system. Additionally, the CIMS department will soon be implementing a new web portal system that is a hosted solution with built-in safeguards for this type of control.</p> | | | | |

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

Sincerely,



 Mike Frisbie, P.E.
 Director
 Capital Improvements Management
 Services Department

9-30-11

 Date



 Peter Zanolini
 Assistant City Manager
 City Manager's Office

10-11-11

 Date