



CITY OF SAN ANTONIO

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

December 20, 2013

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Councilman, District 8

SUBJECT: Audit Report of Capital Improvement Management Services Overhead Rates

Mayor and Council Members:

We are pleased to send you the final report of the Audit of CIMS Overhead Rates. This audit began in January 2013 and concluded with an exit meeting with department management in November 2013. Management's acknowledgement is included in Appendix C of the report. The CIMS management and staff should be commended for their 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 Improvement Management Services Overhead Rates

Project No. AU13-002

December 20, 2013

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the CIMS Department, specifically their development of the overhead rates charged to projects. The audit objective and conclusion follow:

Are CIMS capital project overhead rates appropriate, accurate and properly supported?

Yes, capital project overhead rates are appropriate, accurate and properly supported. The methodology implemented by CIMS includes costs that are allowable in accordance with OMB Circular A-87¹. The costs included in the capital project overhead rates were traced to supporting documentation in SAP and determined to be accurate. We make no recommendations to CIMS; consequently, no management responses are required.

Management's acknowledgement of these results is in Appendix C *on page 6*.

¹ Issued by the Office of Management and Budget as OMB Circular A-87, Cost Principles for State and Local Governments to establish principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments.

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Background

The Capital Improvements Management Services (CIMS) Department manages the City's Capital Improvement Program, which includes the Citywide Bond Programs. CIMS is responsible for all phases of design, construction and inspection; coordinates the consultation, selection, and project delivery for all capital improvements construction projects; serves as the City's procurement entity for all construction, architectural and engineering services; and serves as the central depository for all official records related to capital improvement projects.

CIMS recovers the cost of managing these projects by charging capital administrative costs to the capital projects. These costs are charged as either direct or indirect costs, depending on the staff assigned. CIMS recovers indirect costs by applying an overhead cost rate, which is updated annually. To assist with the development and methodology of the overhead rate, CIMS contracted with an independent third party, Maximus, Inc. through FY2012.

Starting in FY 2013, the CIMS Fiscal Division under the direction of the Finance Department began to develop an Indirect Cost Rate for CIMS annually. This rate was developed using an updated methodology reviewed and approved by the U.S. Department of Health and Human Services (HHS). HHS is the federal cognizant agency for the City of San Antonio.

CIMS capital administrative charges for both direct and indirect cost totaled approximately \$13.4 million in FY 2012 and for FY 2013 a total of \$16.8 million has been budgeted. CIMS received transfers from the City's General Fund in FY 2012 of approximately \$4 million and an estimated \$2 million is budgeted to be transferred in FY 2013.

Audit Scope and Methodology

The audit scope included a review of the overhead rates charged to projects for fiscal years 2012 and 2013.

We interviewed CIMS management responsible for developing the overhead rate. We conducted interviews with CIMS Fiscal to obtain an understanding of the methodology used to charge capital projects for capital administrative expenditures.

We verified that expenditures used to calculate the overhead rate for each fiscal year was appropriate and allocable per OMB Circular 87 – Cost Principles for State, Local and Indian Tribal Government. We traced overhead rate support documentation to SAP¹ to ensure that the rate was properly supported and accurate.

We tested completed capital projects to determine whether total capital administrative expenditures charged to the project were within budget. CIMS completed 72 capital projects in fiscal year 2012 and 52 capital projects through May of fiscal year 2013. For each project, we calculated the percentage of total capital administrative expenditures to total project cost and determined whether it was within the budgeted sliding scale employed by CIMS.

We relied on computer-processed data in SAP to validate the overhead rates used for fiscal year 2012 and 2013. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included tracing general ledger accounts used to generate the overhead rate to reports in SAP. 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 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.

¹ The City's financial accounting system

Audit Results

Overhead Rate

We determined capital project overhead rates were appropriate, accurate and properly supported.

We reviewed each variable used to generate the overhead rate and determined that the costs were both allowable and allocable in accordance with OMB Circular A-87. Additionally, we traced overhead rate support documentation to SAP and determined the rate was accurate and properly supported. The overhead rate used for fiscal year 2012 and 2013 was 36% and 37%, respectively. Note that this overhead rate is for overhead associated with executive management and CIMS administrative divisions. The overhead rate is applied to capital projects managed by CIMS and uses the direct labor costs as the basis.

CIMS Cost Model

CIMS uses a full cost allocation methodology to charge all incurred costs to capital projects. In addition to the overhead rate noted above, CIMS charges indirect labor and non-labor costs to all projects. Direct costs include direct project support costs such as Project Managers, Inspectors, and Engineers. Indirect costs include management and administrative support costs. The cost components are illustrated in the table below (see Appendix A for a glossary of terms):

FY2012 Cost Component					
	A	B	C	D	E
	Direct Labor	Indirect Labor in Direct Cost Centers	Allocated Overhead	Non-Labor Costs in Direct Cost Centers	Non-Direct Labor
FY2012 Costs	\$6,637,219	\$4,431,106	\$2,592,136	\$1,353,499	\$8,376,741
% of Direct Labor	Basis	67%	39%	20%	126%

The non-direct labor cost subtotal is \$8,376,741 (B+C+D) which is 126% of direct labor. Converting the allocation model to a rate, for every \$1.00 of direct labor time charged to a project, an additional \$1.26 is charged to the project for indirect CIMS expenses.

The cost components noted above are allocated to all capital projects managed by CIMS. These costs account for approximately 6.5% of the total costs of capital projects.

This model is consistent with full cost allocation models within the professional services industry.

Appendix A – Glossary of Terms

Direct Labor – Staff hours spent directly in support of a capital project.

Indirect Labor in Direct Cost Centers – Administrative staff hours from a direct cost center. This is time spent supporting those directly supporting a specific capital project. (i.e. City Architect from the Vertical Projects cost center)

Allocated Overhead – Costs allocated to capital projects by applying a predetermined overhead rate to direct labor hours. Used to recover the costs associated with executive management and support cost centers. (i.e. Fiscal, Contracts)

Non-Labor Cost of Direct Cost Centers – Costs other than labor in the direct cost centers. (i.e. Rent, Supplies)

Direct Cost Centers – Divisions within CIMS that account for costs of direct labor staff working on capital projects. (i.e. Horizontal, Vertical)

Appendix B – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Cristina Stavley, Auditor

Appendix C – Management Acknowledgement



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

November 21, 2013

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

RE: Management's Corrective Action Plan for the Audit of Capital Improvements Management Services (CIMS) Overhead Rates

The CIMS Department has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

CIMS:

Fully Agrees (provide detailed comments)

We would like to thank the City Auditor for the thorough review performed on CIMS Overhead Rates. Your team was very professional and easy to work with.

Does Not Agree (provide detailed comments)

Sincerely,



Michael S. Frisbie
Director
CIMS Department

11-21-13
Date



Peter Zanoni
Deputy City Manager
City Manager's Office

12-13-13
Date