



CITY OF SAN ANTONIO

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December 4, 2014

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Councilman, District 10

SUBJECT: Audit Report of Transportation & Capital Improvements Project Management of the Henry B. Gonzalez Convention Center Expansion

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Transportation & Capital Improvements Project Management of the Henry B. Gonzalez Convention Center Expansion. This audit began in April 2014 and concluded with an exit meeting with department management in October 2014. Management's verbatim response is included in Appendix B of the report. The Transportation and Capital Improvements 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, CRMA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Transportation & Capital Improvements Department
Project Management of the Henry B. Gonzalez Convention Center
Expansion

Project No. AU14-006

December 4, 2014

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 Henry B. Gonzalez Convention Center Expansion Project. The audit objective, conclusion, and recommendation follow:

Is Transportation and Capital Improvements project management personnel adequately and properly managing significant components of the Henry B. Gonzalez Convention Center (HBGCC) expansion project?

Yes, key management controls are in place to ensure project management personnel are adequately and properly managing significant components of the HBGCC expansion project. The overall project management structure is adequate and had proper controls in place to monitor the project timeline, budget and the materials testing process. Additionally, they coordinate on a daily basis with Project Control of Texas to ensure construction is progressing timely.

However, we observed one area that needed improvement. We identified wage and hour violations that were not resolved for several employees being paid less than the prevailing minimum wage. Procedures were in place to resolve these issues but the project management team did not adhere to them.

We recommend the Director of TCI:

Ensure that potential wage and hour violations are monitored and resolved timely by following established procedures in the Labor and Compliance Policy and Procedures Manual. Additionally, require the HBGCC project management team to conduct periodic on-site employee interviews to obtain assurance that the certified payrolls are reliable.

TCI Management's verbatim response is in Appendix *B* on page 7.

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Background

The Henry B. Gonzalez Convention Center (HBGCC) was lastly renovated in 1999. The renovation included an expansion that doubled the size of HBGCC to 1.3 million gross feet. The HBGCC plays host to over 300 events each year with over 750,000 convention delegates from around the world. Seeing the need to expand, the City hired Populous Inc. to perform a facilities development study for the Convention Center in 2010 and they developed, recommended and proposed a Convention Center expansion plan that was presented to City Council.

In September 2012, City Council awarded Hunt/Zachry with a Design/Build contract, not to exceed \$304.8 million, for the design and construction of the HBGCC expansion project. The total project budget is \$325 million of which \$304.8 is for design and construction, \$12.2 million is for program documents, permitting fees, surveys and City staff salaries. Additionally, \$8 million is for the staff augmentation team of Project Control of Texas (PCT). The project timeline is scheduled to start October 2012 and completion is due in July 2016.

The City assigned a Project Management (PM) team consisting of 6 staff that has ultimate responsibility of the HBGCC expansion project. The PM team is in charge of both the Design/Construction and the financial obligations of the project. To assist with the Design/Construction, the PM team hired the consulting firm PCT. PCT then hired 17 sub-consultants from all the specialized trades needed to oversee the project (i.e. plumbing, electrical, carpentry, mechanical). These sub-consultants are monitoring work performed by Hunt/Zachry on a daily basis.

TCI's fiscal team and the Finance department monitor pay applications to ensure budgetary compliance and costs are allowable. The TCI fiscal team reviews the pay applications to verify all costs are supported and allowable prior to paying Hunt/Zachry. The Finance department provides a secondary review prior to releasing the funds.

Audit Scope and Methodology

The audit scope included assessing the effectiveness of the project management over the HBGCC expansion from the inception of the project through the current progress. Since construction was just beginning, we reviewed controls in place to ensure future construction of the project would progress according to the contract.

We interviewed staff from the project team to obtain an understanding of their specific responsibilities related to the HBGCC expansion project. Additionally, we interviewed the senior project manager from PCT to understand his team's roles and responsibilities during the HBGCC project expansion.

We determined the adequacy of overall project management. To determine adequacy we reviewed the project management structure in place over the HBGCC expansion, obtained evidence of project management daily on-site observations of work performed, and ensured continuous material testing was being conducted. Additionally, we obtained all signed sub contractor agreements for those contractors currently working on the project. Finally, we reviewed the project management processes in place to monitor the work performed by PCT staff.

We tested all pay applications that were submitted by Hunt/Zachry and PCT from December 2012 through May 2014. The testing included verifying that pay applications were submitted timely and properly supported with detailed invoices. Additionally, we verified the pay application amounts were calculated accurately and agreed with the payment amounts in SAP.

We reviewed the adequacy of the Wage and Hour process and ensure wage and hour issues were resolved. In addition, we confirmed that random on-site employee interviews were occurring. The on-site interviews occur to ensure sub contractor employees are aware of their minimum salary requirements and are categorized in the right trade on the payroll certifications.

We confirmed that the project management team was working with the Economic Development Department to ensure Hunt/Zachry was in SBEDA compliance. We obtained the Utilization Plan submitted for the project to determine that it was being monitored and kept up to date.

Testing Criteria included the signed contract between Hunt-Zachry and the City of San Antonio and the contract between Project Control of Texas and the City of San Antonio. In addition, we reviewed SBEDA city policies and Federal Wage and Labor Laws.

We relied on computer-processed data in SAP and PrimeLink¹. 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 comparing PrimeLink invoice amounts to actual payment amounts 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 Project Reporting Information Management Exchange Link is a project management tool

Audit Results and Recommendations

A. HBGCC Project Management

The HBGCC Project Management (PM) team, which consists of 6 staff, is responsible for oversight of the HBGCC expansion project. The PM team is in charge of monitoring the design phase, tracking construction progress and monitoring the project to ensure it stays within the guaranteed maximum price (GMP). We verified the PM team had adequate processes and controls in place to ensure the project is completed timely and within the GMP. The processes and controls included maintaining and updating project timelines, daily project status communications with Hunt/Zachry and a monthly review of the project expenditures. Additionally, Project Control of Texas is involved with daily communications and monthly reviews.

Additionally, we tested 50 pay applications dated December 2012 through May 2014 and determined that all 50 had adequate support documentation, proper approvals and were accurately calculated and billed in SAP.

Finally, the Small Business Economic Development Advocacy (SBEDA) requirements were being monitored for compliance with contract terms. We could not confirm that the SBEDA requirements were being met since construction has just started and contractors are still being hired. However, the current utilization plan has been updated and is in the final review phase for approval by the Economic Development Department.

Recommendation

No recommendation.

B. Wage and Hour Compliance

The HBGCC project management team did not adequately monitor or resolve potential prevailing wage violations identified on the Penalty Report. At the end of each month, a penalty report is created that details the potential wage and hour violations by employee. From this report, we selected 10 employees to determine if the HBGCC project management team followed procedures and resolved the potential violations. We noted that 5 out of 10 employees tested were not resolved to identify possible wage restitution.

This was caused by the HBGCC project management team not initiating proper procedures to correct the potential wage and hour violations. Per the Labor Compliance Office Policy and Procedures Manual, potential violations should be resolved by requesting support documentation either by contacting the contractor or submitting an official penalty letter. The letter indicates the issues identified

and any potential penalties that will be incurred for the violation. As a result, employees may not be paid the prevailing minimum wage required and Hunt/Zachry may not be fined for the violations.

Additionally, the project team did not perform periodic on-site employee interviews. We identified only one on-site interview that was performed and documented. Performing periodic on-site interviews provides the HBGCC project team confirmation that certified payrolls submitted by Hunt/Zachry are correct and reliable as the project begins to increase construction activity.

Recommendations

The Director of TCI should ensure that potential wage and hour violations are monitored and resolved timely by following established procedures in the Labor and Compliance Policy and Procedures Manual. Additionally, require the HBGCC project management team to conduct periodic on-site employee interviews to obtain assurance that the certified payrolls are reliable.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Danny Zuniga, CPA, Auditor in Charge
Lorenzo Garza, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

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

October 30, 2014

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

RE: Management's Corrective Action Plan for the Audit of Transportation & Capital Improvements Project Management of the Henry B. Gonzalez Convention Center Expansion

The Transportation and Capital Improvements Department (TCI) would like to thank the City Auditor for providing guidance on developing documentation standards to be included in the contract. In doing so, \$54 million in payments were reviewed with no findings. In addition, TCI has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Wage and Hour Compliance</p> <p>The Director of TCI should ensure that potential wage and hour violations are monitored and resolved timely by following established procedures in the Labor and Compliance Policy and Procedures Manual. Additionally, require the HBGCC project management team to conduct periodic on-site employee interviews to obtain assurance that the certified payrolls are reliable.</p>	4, 5	Accept	Jeffry Knippel	October 30, 2014

Audit of TCI Project Management of the HBGCC Expansion

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>All potential violations identified have been resolved through LCPTracker with no underpayments to construction workers or penalties owed to the City. HBGCC team continues to work with the prime contractor to monitor, train and communicate with subcontractors at all tiers to resolve issues that involve job misclassification of employees, data entry errors, rounding errors and fringe benefit payment errors.</p> <p>On a weekly basis, TCI continues to utilize LCPTracker to monitor potential wage violations through the Penalty Report. A schedule has been implemented where construction worker interviews will be conducted on the fourth Tuesday of each month or more frequently when interviews result in potential violations of underpayments. The Project has approximately two years of construction remaining and as a result of the audit report, staff is better prepared to effectively execute policies and procedures.</p>				

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

Sincerely,



 Mike Erisbie
 Director
 TCI Department

10-30-14

 Date



 Peter Zanoni
 Deputy City Manager
 City Manager's Office

11-13-14

 Date