



CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

Audit of San Antonio River Authority
Interlocal Agreements

Capital Improvements Management Services
Department

Project No. AU07-012

Issue Date: July 18, 2008

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EXECUTIVE SUMMARY

At the request of former District 3 Councilman Roland Gutierrez, we audited the San Antonio River Authority (SARA) interlocal agreements. We performed the audit to determine whether:

- SARA is providing effective fiscal management of the San Antonio River Improvement Project (SARIP) and the Regional Flood Control, Drainage and Storm Water Management Program (Regional Flood Control Program).
- SARA is complying with the interlocal agreements for SARIP and the Regional Flood Control Program.

RESULTS IN BRIEF

Overall, SARA was effective in ensuring that project costs were within budgetary constraints as part of their fiscal management responsibilities. In addition, SARA complied with the interlocal agreements (ILAs) for SARIP and the Regional Flood Control Program.

During the audit, we identified a need to strengthen ILA terms regarding cost allocations to the City and reimbursement of overhead costs. We also determined that the Capital Improvements Management Services Department (CIMS) Project Manager had not reviewed eight of SARA's monthly invoices related to cash advances, nor processed for payment seven invoices of SARA's requests for reimbursement for project costs. In addition, the CIMS Project Manager had not reconciled \$26.1 million in quarterly cash advances to SARA's monthly invoices of actual project costs. When we brought this to management's attention, they initiated corrective action to address our observations. With the temporary assistance of a Contract Officer, the CIMS Project Manager completed the review of all pending invoices, the Finance Department processed payments for two of the seven invoices, and quarterly cash advances were reconciled to actual project costs. CIMS is finalizing the review of the remaining five invoices for processing payment to SARA. Since corrective measures were taken prior to completion of this audit, no recommendations have been made for the following areas:

- Review of SARA's invoices related to cash advances
- Processing of SARA's invoices regarding requests for reimbursement
- Reconciliation of quarterly cash advances to actual project costs

RECOMMENDATIONS

We recommend CIMS include clearly defined terms in future ILAs with SARA regarding cost allocations to the City and reimbursement of overhead costs.

Management personnel of CIMS and SARA concur with the audit report. CIMS and SARA's verbatim response is in Appendix A on page 6.

INTRODUCTION

In 1998, the City of San Antonio, Bexar County, and the San Antonio River Authority (SARA) created the San Antonio River Oversight Committee as a concerted community effort to revitalize the river and amenities. As a result, the City and Bexar County executed an interlocal agreement (ILA) with SARA for the San Antonio River Improvement Project (SARIP). SARIP is a \$216.6 million multiyear project that encompasses the restoration, improvement, and enhancement of the San Antonio River, stretching 13 miles from Brackenridge Park to Mission Espada. Since the project's inception, there have been multiple ILAs amending the City's contribution to the project. The most recent amendment made April 14, 2007, increased the City's commitment from \$56.8 million to \$74.8 million. It represents 76.5 percent of the Museum Reach and 12 percent of the Mission Reach respective budgeted amounts for these sections of the project. Prior to this interlocal agreement, it was 68.1 percent for the Museum Reach and 12.2 percent for the Mission Reach. As part of the interlocal agreement, SARA is responsible for providing project and technical management, including coordination between the City and Bexar County.

In July 2005, the City and Bexar County also executed an ILA with SARA for the Regional Flood Control, Drainage and Storm Water Management Program (Regional Flood Control Program) for topographical and land use program. The City's financial commitment for the \$2.4 million project is \$1.9 million. The project's purpose is flood control and storm water management for Bexar County.

OBJECTIVES, SCOPE, AND METHODOLOGY

We performed this audit at the request of former District 3 Councilman Roland Gutierrez to determine whether:

- SARA is providing effective fiscal management of SARIP and the Regional Flood Control Program.
- SARA is complying with the ILAs for SARIP and the Regional Flood Control Program.

The scope of the audit was May 2003 to May 2007.

We audited SARA's compliance with the ILAs for SARIP and the Regional Flood Control Program. We did not audit the construction phase, nor did we verify subcontractors' compliance with the contract, or review their financial records.

We tested a sample of 17 invoices (16 SARIP and 1 Regional Flood Control Program) valued at \$3.2 million. We judgmentally selected this sample from the 106 invoices, totaling \$6.1 million that SARA submitted during the scope of the audit for the design phase. We reviewed SARA's payroll records, canceled checks, and other supporting documents. We also interviewed personnel from SARA and the City. Testing criteria included the ILAs for SARIP and the Regional Flood Control Program.

We conducted this audit from June 2007 to March 2008 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included tests of internal controls that we considered necessary under the circumstances.

STAFF ACKNOWLEDGMENT

Barry Lipton, CPA, DABFA, Deputy City Auditor
Denis Cano, CPA, CIA, CISA, Audit Manager
Celia Gaona, CFE, Auditor-In-Charge
Buddy Vargas, Auditor
Tanya Rodriguez, Auditor

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION A – Interlocal Agreement Terms

The ILA for SARIP does not have clearly defined terms regarding cost allocations to the City and reimbursement of overhead costs. Specifically:

Cost Allocations to the City

- The ILA does not contain clearly defined terms for project costs allocated to the City. According to SARA and the City's Capital Improvements Management Services (CIMS) Department, budget amounts established in the ILA by reach (sections of the SARIP) and phase (design/construction) provide an appropriate cost allocation methodology for the project. We determined that SARA splits SARIP costs among the City, County and SARA based on agreed to cost allocation percentages at meetings held throughout the project. These percentages change based on phase and issues encountered during the course of the project. However, the criteria used to arrive at these percentages is not documented. Clearly defined terms and/or agreed to documented criteria for project cost allocations is specifically critical due to the complexity of the SARIP.

Reimbursement of Overhead Costs

- The ILA does not have a clear provision for reimbursement of overhead costs. According to SARA, overhead costs are incorporated within contracted amounts. Similarly, CIMS feels that the overhead rates charged by SARA are reasonable. Nevertheless, the ILA does not contain terms for this and the City reimbursed SARA overhead costs through monthly invoices submitted for SARIP. For example, from January 2007 to May 2007, SARA charged the City \$54,822 in overhead costs (80 percent of direct labor and fringe benefits) in monthly invoices.

The ILA is a form of a contract, which requires specific contractual terms to avoid subjectivity. We understand that terms in the ILA were established to allow ease in its execution. Absent clearly defined terms, an environment of complete flexibility is created. It also places parties to an agreement at risk of payments that may not be appropriate.

RECOMMENDATION

We recommend CIMS include clearly defined terms in future ILAs with SARA regarding cost allocations to the City and reimbursement of overhead costs.

OBSERVATION B – Project Oversight by the City

B.1 The Capital Improvements Management Services (CIMS) Project Manager for SARIP had not reviewed SARA's monthly invoices related to cash advances. These invoices represented direct costs SARA incurred and amounts subcontractors billed for

the project. Of the 16 invoices tested, valued at \$1.6 million, eight invoices from January 2007 through May 2007, totaling \$693,439, had no evidence of review or approval by the City. We judgmentally selected this sample from the 106 invoices, totaling \$6.1 million that SARA submitted during the scope of the audit for the design phase. Proper internal controls require review and approval of these invoices. These prudent control activities help ensure that management objectives are carried out as intended. This condition occurred because the CIMS Project Manager assigned to SARIP was working on other project related activities. However, during the audit, the CIMS Project Manager completed the review of these invoices with the temporary assistance of a Contract Officer. Since CIMS addressed this issue during the audit, no recommendation has been made.

B.2 During the audit, we became aware that the City had not processed seven of SARA's monthly invoices regarding requests for reimbursement of project costs. Six SARIP invoices and one Regional Flood Control Program invoice, valued at \$855,058, were pending payment to SARA. These invoices were not part of the sample tested on B.1 above. They are dated October 2006 through September 2007. The City's Contracting Policy and Process Manual requires that "once an invoice has been presented to the City, the appropriate level of review should take place as a priority and payment should follow contract terms." However, as of this audit's completion, the Finance Department processed payments for two of these invoices and CIMS was finalizing the review of the remaining five invoices for processing payment to SARA. Since CIMS addressed this issue during the audit, no recommendation has been made.

B.3 The City had not reconciled \$26.1 million in quarterly cash advances to SARA's monthly invoices of actual project costs. The City provided cash advances of \$5.3 million, \$7.6 million, and \$13.2 million to SARA on June 6, 2007, August 6, 2007, and February 8, 2008, respectively. Timely reconciliations are particularly important given the project's long-term nature, currently through 2012. However, as of this audit's completion, the CIMS Project Manager had reconciled the cash advances to actual project costs with the temporary assistance of a Contract Officer. Since CIMS addressed this issue during the audit, no recommendation has been made.

APPENDIX A – Management Response



CITY OF SAN ANTONIO

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

June 13, 2008

TO: Barry Lipton, Deputy City Auditor

FROM: Debbie Sittre, Assistant Director
Capital Improvements Management Services Department

RE: Management's Corrective Action Plan for the Audit of San Antonio River Authority
Interlocal Agreements

Capital Improvements Management Services Management 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>Interlocal Agreement Terms</p> <p>Include clearly defined terms in future ILAs with SARA regarding cost allocations to the City and reimbursement of overhead costs.</p> <p>Action plan: San Antonio River Authority (SARA) uses Maximus software to determine overhead costs. This software is generally accepted by most government entities for determination of indirect cost rates. While this particular project was difficult to define cost allocations in the ILA due to legal requirements related to funding provided by Bexar County, SARA has begun providing detailed backup documentation that will allow a more clear identification of the cost allocation method. In future ILA's with SARA, Capital Improvements Management Services Department (CIMS) will require a more clearly defined cost allocation methodology and will require the allocations to be clearly identifiable in the invoices.</p>	4	Accept	Denise Shaffer Contracts Administrator	N/a

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


Debbie Sittre
Assistant Director
Capital Improvements Management Services Department


Penny Postoak Ferguson
Assistant City Manager
City Manager's Office



May 30, 2008

Barry Lipton, Deputy City Auditor
City of San Antonio
PO Box 839966
San Antonio, TX 78283-3966

RE: Audit of the interlocal agreements between the City of San Antonio and the San Antonio River Authority

Dear Mr. Lipton,


The San Antonio River Authority is in receipt and has reviewed the draft report on the audit of the San Antonio River Authority interlocal agreements on the San Antonio River Improvements Project and the Bexar Regional Watershed Management Program. The River Authority prides itself on providing effective project management of the joint projects we have engaged in with the City of San Antonio. The findings of the audit confirm that our project management processes and financial controls ensure that project costs remain within budgetary constraints and support the River Authority's compliance with the terms of the interlocal agreements. We follow consistent and professionally accepted financial management standards in the invoicing and management of contracts and interlocal agreements; however the ideas and suggestions of your audit team helped to further refine our procedures. The River Authority strives to be responsive to information requested by the City and takes every effort to report the information in a timely and thorough manner.

The River Authority concurs with the recommendations to more clearly define the terms of future interlocal agreements as outlined in the draft report. We will work with City staff to determine how best to strengthen the terms relating to cost allocation and reimbursement of overhead costs to promote better understanding of the accounting and management of project expenses.

Thank you for this opportunity to share with the City the fiscal management processes and procedures utilized to accomplish these important projects for our community.

Sincerely,


Sharon L. McCoy-Huber
Financial Services Manager


Suzanne B. Scott
General Manager

cc: Sheryl L. Sculley, City Manager
Michael S. Frisbie, Director,
Capital Improvements Management Services Department

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