



CITY OF SAN ANTONIO

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March 25, 2011

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SUBJECT: CIMS Capital Project Administrative Expenditures Allocation Audit Report

We are pleased to send you the audit report of the CIMS Capital Project Administrative Expenditures Allocation process. We identified no deficiencies in this process. This audit began in September 2010 and concluded with a summary meeting with department management in February 2011. Management's acknowledgement and comment is included in Appendix B of the report. Capital Improvements Management Services department management 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
Capital Project Administrative Expenditures Allocation

Project No. AU10-007

March 25, 2011

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Capital Improvements Management Services Department's (CIMS) capital project administrative expenditures allocation process. The audit objective and conclusions follow:

Are capital project administrative expenditures appropriately allocated to capital projects?

Yes, capital project administrative expenditures are appropriately allocated to capital projects.

Specifically, we concluded that:

- CIMS appropriately developed allocation rates in compliance with Office of Management and Budget Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments.
- CIMS properly classified direct and indirect expenditures.
- The Time Entry (TE) application that allocates capital project administrative expenditures to specific capital projects was operating effectively.
- General and applications controls over the TE application were adequate.
- CIMS accurately recorded capital project administrative expenditures in the City's financial accounting system.
- Capital project administrative expenditures were not charged in excess of project funding limits.
- Capital project administrative expenditure transfers were valid.

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

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Background

The Capital Improvements Management Services Department (CIMS) oversees the City's street improvements, facilities maintenance, and new construction capital projects. The operating budget for CIMS primarily includes personnel costs. During Fiscal Year (FY) 2008, CIMS implemented an allocation system to charge personnel expenditures to capital projects.

CIMS management initiates the allocation process by classifying its employees as either direct or indirect. Direct employees are those who work directly on capital projects, such as Project Inspectors. Direct employees record time worked on projects in CIMS Time Entry (TE) application.¹ Employees whose work efforts are not identified to specific capital projects are classified as indirect. CIMS management, supervisors, fiscal, and administrative personnel are considered indirect.

CIMS contracts with Maximus Consultants, Inc. to calculate an indirect cost rate based on employee classifications and related payroll information. CIMS programs the indirect cost rate into the TE application. The TE application calculates capital project administrative expenditure allocations by applying the indirect cost rate to direct time worked on projects.

CIMS uses information from the TE application to record monthly capital project administrative expenditures in the City's financial accounting system. CIMS capital project administrative expenditures exceeded \$10 million during FY 2010 and \$9.5 million during FY 2009.²

CIMS also submits its indirect cost methodology to the U.S. Department of Health and Human Services (HHS) for approval. As of the date of this audit, HHS was reviewing the FY 2010 and FY 2009 indirect cost methodologies.

1 - The TE application is a user-developed Microsoft Access application.

2 - FY 2011 San Antonio City Budget.

Audit Scope and Methodology

The audit scope was October 1, 2008 to September 30, 2010. We interviewed staff, reviewed policies and procedures, and observed the capital project administrative expenditures journal entry process. Testing criteria included the following:

- OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments,
- CIMS Fiscal Year 2010 and Fiscal Year 2009 cost allocation plans, and
- Maximus Consultants, Inc. contracts terms.

OMB Circular A-87 provides required guidance for cost allocation methodologies. We considered the consistency, reasonableness, and documentation of the methodology to determine if management appropriately applied guidance contained in OMB Circular A-87.

We performed trend analyses of monthly capital project administrative expenditures recorded during the audit scope. Based on these analyses, we judgmentally selected 4 monthly journal entries, 7 capital projects, and 10 capital project administrative expenditure transfers for testing. Our testing procedures consisted of reviewing support documentation to determine if:

- Capital project administrative expenditures were accurately computed and recorded in the City's financial accounting system,
- Capital project administrative expenditures were not charged in excess of project funding limits, and
- Capital project administrative expenditure transfers were valid and appropriately processed in the City's financial accounting system.

We relied on computer-processed data from CIMS Time Entry (TE) application. The TE application allocates capital project administrative expenditures to specific projects. Since the TE application is instrumental to the allocation process, we performed general and applications control testing including:

- Adequacy of application documentation,
- Appropriateness of access security, including user roles and segregation of duties, and
- Effectiveness of back-up and recovery procedures.

We discussed some minor issues in the area of system application documentation with management. The remaining components of the TE application were operating effectively to provide accurate information for management needs.

We also relied on computer-processed data from the City's financial accounting system (SAP). 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 journal entries traced to support documentation and validated in the TE application. We do not believe that the absence of general and application controls testing of the City's financial accounting system had an effect on the results of our audit.

We conducted this audit from September 2010 to January 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.

Appendix A – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Tanya Rodriguez, CPA, Auditor in Charge
Rosalia Vielma, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

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

RE: Management's Acknowledgement of the Capital Improvements Management Services Audit of
Capital Project Administrative Expenditures Allocation

Here are our comments to the subject report.

Fully Agree (provide detailed comments)

The Capital Improvements Management Services Department (CIMS) was created in 2007 to focus on managing and administering the City's Capital Improvement Program, including all projects related to the 2007-2012 Bond Program as well as federally funded street improvement projects referred to as Local Agency Managed (LAM) projects. This was a dramatic change from the previous organizational structure in which Public Works performed maintenance and oversaw the capital projects. The City Manager planned for CIMS to be run like a business so we developed a cost recovery model that allocates all project management and overhead costs to capital projects. CIMS incurs both indirect and direct costs in the management, administration, and delivery of these projects. The allocation of these costs is crucial as the costs are recovered through Capital Program revenues such as General Obligation Bonds and Certificates of Obligation.

Because this was a new department with a new mission, CIMS contracted with Maximus, Inc. to assist in developing a cost allocation and budgeting model that would be in compliance with OMB Circular A-87. In collaboration with Maximus, Inc., internal staff developed a data solution that would accurately reflect costs.


The audit performed by the City Auditor was very thorough and provided a complete review of the model and CIMS process. CIMS Management has found it very helpful to discuss various alternatives and best practices with the Auditor In Charge. Your assistance with an internal review of this area has greatly assisted us in working with the City's cognizant federal agency in approving our cost allocation methodology.

Therefore, we concur with the audit report results which concluded that capital project administrative expenditures are appropriately allocated to capital projects and there were no audit findings. We are appreciative of the audit conducted by the Office of the City Auditor on the CIMS Capital Project Administrative Expenditures Allocation.

Agree Except For (provide detailed comments)

Do Not Agree (provide detailed comments)

Sincerely,


Peter Zanoni
Assistant City Manager
City Manager's Office

3-22-11
Date


Michael S. Frisbie
Director
CIMS Department

3-22-11
Date