



CITY OF SAN ANTONIO

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

August 2, 2010

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Councilwoman, District 9

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Councilman, District 10

Mayor and Council Members:

SUBJECT: Public Works Department – Advanced Transportation District Fund Audit Report

We are pleased to send you the audit report of the Public Works Department. This audit began in August 2009 and concluded with an exit meeting with department management in June 2010. Management's verbatim response is included in Appendix C of the report. The Public Works 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,

Park E. Pearson, CPA
City Auditor
City of San Antonio

Distribution:

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Public Works Department

Advanced Transportation District Fund

Project No. AU09-008

August 2, 2010

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Advanced Transportation District Fund managed by the Public Works Department. The audit objectives, conclusions, and recommendations follow:

Is the usage of Advanced Transportation District (ATD) Funds in compliance with State and Local requirements?

Yes, usage of ATD funds complies with State and Local requirements. However, there are opportunities to strengthen internal controls over ATD funds in the areas of accounting, asset management, and the procurement process. In addition, contract files were not maintained in accordance with City policies.

We recommend the Public Works Director:

- Work with Finance to ensure ATD projects that meet the City's capitalization threshold are capitalized in the City's accounting system in accordance with the City's Fixed Asset Policy and Procedures Manual.
- Establish individual WBS elements (similar to a cost element) for ATD projects in the City's accounting system in compliance with the City's Administrative Directive 8.9 – Financial Management for Capital Projects.
- Comply with the City's Fixed Asset Policy and Procedures Manual in managing ATD assets.
- Comply with the City's Procurement Policy and Procedures Manual when creating purchase orders. If reasonable cost estimates are not available, Public Works should follow a process similar to that for creating purchase orders under an Indefinite Delivery Indefinite Quantity Contract.
- Obtain and comply with the City's Contracting Policy and Process Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.

Management's verbatim response is included at **Appendix C** on page 8.

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Background

On November 2, 2004, San Antonio voters approved the creation of the Advanced Transportation District (ATD) program. The purpose of the program is to increase mobility, reduce traffic congestion, and improve neighborhood connectivity. The City established an ATD fund to account for revenue and expenditures of the program.

Of the 8.125% sales tax collected in the City of San Antonio, one fourth of a cent is for the ATD program. VIA Metropolitan Transit receives 50% of the amount collected, while the City of San Antonio and the Texas Department of Transportation each receive 25%.

The City's fiscal year 2009 adopted budget totaled \$18.9 million for the ATD fund. Of this amount, Public Works dedicated \$17.1 million for capital projects and \$1.8 million for operating expenditures. Capital projects include bike facilities, mobility and sidewalk improvements, bus pads, pavement markings for school zones, video imaging video detection systems, audible countdown pedestrian signals, and continuation of the citywide traffic signal system modernization and synchronization program.

Audit Scope and Methodology

The audit scope included 1,375 capital expenditures from October 2007 through June 2009 totaling \$23.2 million. We selected a random attribute sample of 91 expenditures totaling \$1.8 million for testing. We reviewed expenditures for appropriateness and compliance with the State of Texas Transportation Code Chapter 451. We also evaluated the accounting treatment of expenditures related to infrastructure assets.

The audit scope also included 1,589 operating expenditures totaling \$3.0 million from October 2007 through June 2009. We selected a random attribute sample of 92 expenditures totaling \$225,314 for testing. We reviewed expenditures for appropriateness and compliance with the State of Texas Transportation Code Chapter 451.

We reviewed a judgmental sample of seven project files maintained by ATD staff for compliance with the City's Contracting Policy and Process Manual.

We also reviewed controls over assets purchased with ATD funds. Of the 82 transactions for purchase of tools and equipment totaling \$200,943, we selected a judgmental sample of 20 transactions (31 assets) totaling \$78,427 for testing.

We verified the existence of assets and determined if they were properly tagged and inventoried.

We interviewed Public Works personnel to obtain an understanding of the construction process for ATD capital projects outsourced and those activities performed in-house. We also reviewed relevant documentation, such as the City's Administrative Directive 8.9 – Financial Management for Capital Projects, the City's Fixed Asset Policy and Procedures Manual, the City's Procurement Policy and Procedures Manual, the City's annual budgets, and the State of Texas Transportation Code Chapter 451. We reviewed source documents that included purchase orders, contracts, and vendor invoices.

We relied on computer-processed data in the City's accounting system to review ATD fund expenditures. We based our reliance on performing direct tests of the data rather than evaluating the system's 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 conducted this audit from August 2009 to April 2010 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. Internal Control Issues

A.1 Accounting for Infrastructure Assets

Public Works recorded ATD infrastructure¹ projects totaling \$8.2 million as an expense, rather than as a capital asset in the City's accounting system for fiscal years 2008 and 2009. This occurred because Public Works considered these projects as regular maintenance. However, the City's Fixed Asset Policy and Procedures Manual requires the capitalization of infrastructure projects that meet a \$100,000 threshold. Consequently, the accounting system reflected overstated expenses and understated capital assets for fiscal years 2008 and 2009.

In response to our observations, the Finance Department reported \$5.6 million of these projects as capital assets in the City's fiscal year 2009 financial statements. Nevertheless, as of May 7, 2010, no adjustments had been recorded in the City's accounting system to capitalize these projects. According to Finance, the fiscal year 2010 financial statements will report the remaining \$2.6 million as capital assets.

A.2 Establishing Cost Elements for ATD Projects

The City's accounting system did not include individual WBS elements² (similar to a cost element) for eight of the ten ATD projects we reviewed. Instead, these projects are grouped by construction type (i.e., intersection improvements, sidewalk projects, audible countdown pedestrian signals, bike facilities, or mobility improvement projects). The City's Administrative Directive 8.9 – Financial Management for Capital Projects requires that departments create individual cost elements (WBS elements) for projects in the City's accounting system to track costs over the life of the project. Managers can use this information to monitor adherence to approved budgets for the individual projects.

A.3 Asset Management

Public Works did not fully comply with existing policy for safeguarding "controlled assets and personal property" paid for with ATD funds. The City's policy is contained in the Fixed Asset Policy and Procedures Manual. Of the 31 assets judgmentally selected for testing, we noted the following:

- Nine small tools did not have asset tags.

¹ GASB 34 defines infrastructure as long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

² Work Breakdown Structure (WBS) element is similar to a cost center. The City's accounting system uses this information to monitor costs over the life of a particular project.

- Two cameras had asset tags, but were not included in Public Works' inventory listing.
- Five furniture fixtures (desks and chairs) were not located.

We also determined that Public Works did not conduct annual physical inventory counts of ATD assets. Physical inventories assist in safeguarding assets. Although the City's Fixed Asset Policy and Procedures Manual outlines asset management requirements, Public Works did not designate this responsibility to the Project Control Manager when implementing the ATD program.

A.4 Issuance of Purchase Orders

Public Works did not consistently comply with the City's Procurement Policy and Procedures Manual in creating purchase orders. Our review of 91 statistically selected capital expenditures identified three purchase orders totaling \$328,951 dated subsequent to the invoice date. This occurred because Public Works staff waited until the vendor submitted an invoice to create a purchase order in the City's accounting system because they were unable to obtain a reasonable cost estimate of the expense prior to initiating the purchase. However, departments typically create purchase orders using Indefinite Delivery Indefinite Quantity³ (IDIQ) Contracts under similar circumstances. Proper purchasing controls mitigate the risk that the City will be invoiced for quantities or prices for goods/services not ordered.

Recommendations: Public Works Director should:

A.1 Work with Finance to ensure ATD projects that meet the City's capitalization threshold are capitalized in the City's accounting system in accordance with the City's Fixed Asset Policy and Procedures Manual.

A.2 Establish individual WBS elements (similar to a cost element) for ATD projects in the City's accounting system in compliance with the City's Administrative Directive 8.9 – Financial Management for Capital Projects.

A.3 Comply with the City's Fixed Asset Policy and Procedures Manual in managing ATD assets.

A.4 Comply with the City's Procurement Policy and Procedures Manual when creating purchase orders. If reasonable cost estimates are not available, Public Works should follow a process similar to that for creating purchase orders under an Indefinite Delivery Indefinite Quantity Contract.

³ IDIQ is a type of contract that provides for an indefinite quantity of supplies or services during a fixed period. Delivery orders (for supplies) or task orders (for services) are placed against a basic contract for individual requirements. Minimum and maximum quantity limits are specified in the contract as either number of units (for supplies) or as dollar values (for services). An IDIQ contract is used when the precise quantities of supplies or services required during the contract period cannot be determined.

B. Records Management Issue

B.1 Incomplete Contract Files

Public Works did not maintain complete contract files for any of the seven ATD projects we reviewed. The City's Contracting Policy and Process Manual requires retention of certain documentation pertaining to contracts with the City. However, Public Works staff did not receive the training needed to implement the requirements in the manual for administering and monitoring contracts. See **Appendix A** for specific examples on incomplete contract files. Without complete contract files, the City does not have assurance that project managers monitored contractors for compliance with contract requirements.

Recommendations: Public Works Director should:

B.1 Obtain and comply with the City's Contracting Policy and Process Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.

This concludes the Audit Results and Recommendations. Management's responses to the observations can be seen in **Appendix C**.

Appendix A – Specific Examples of Incomplete Contract Files Identified

Required Documents	Evans Rd & Roan Park Intersection Improvement	Commerce Palmetto Railroad Sidewalk Project	Commercial W. Formosa SW Military Sidewalk Project	VIVIDS - Hidebrand W. San Pedro Ave	Audible Countdown Pedestrian - Military Dr. SE & Pickwell Dr	Downtown Traffic Simulation Model	Timber Trace Bike Facilities Lane	O' Connor & Larkdale Mobility Improvement	Vance Jackson & Keller Sidewalk Project	TSSM Program
Approved Ordinance and Council Memo										
Solicitation (RFP, RFQ or IFB) with copy of successful response										
Copy of contract and all attachments/exhibits										
Contract Administration Plan (CAP)	X	X	X			X		X	X	X
SBEDA - List of Subcontractors or Good Effort Faith Plan										
Initial Budget		X	X	I	I	X	I	X		
Insurance & Bonding Documents				n	n		n	N/A		X
Permits/Certificates				H	H		H	N/A		N/A
SAP Contract Record Information	X	X	X	o	o	X	o	N/A	X	X
Communications with Contractor (Letters, E-Mails, Phone Call Notes)		X	N/A	s	s	X	p	N/A		
Records of Meetings/Inspections	X	X	N/A	e	e	N/A	r	N/A	X	
Performance Reports		X	N/A	r	r	X	j	N/A	X	X
Other Important items such as "paper" deliverables	N/A	X	N/A	e	e	X	c	N/A	N/A	
Budget Adjustments	N/A	N/A	N/A	t	t	N/A	t	N/A	N/A	N/A
Invoices/Billing Packages		X	X			X		N/A		
Approved Amendments or Change Orders	N/A	X	N/A			N/A		N/A	N/A	N/A
Renewals or Extensions and authorizing ordinance, if applicable		N/A	N/A			N/A		N/A	N/A	N/A
Subcontract Documentation	X	X	N/A			N/A		N/A	X	
<p><i>X - Item is not kept in a contract file or SharePoint (electronic filing system).</i></p> <p><i>N/A - Item is not applicable to the project or for the stage of the project at the time of the audit.</i></p>										

Appendix B – Staff Acknowledgment

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

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

July 14, 2010

Park E. Pearson, CPA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Public Works Department's Advanced Transportation District (ATD) Fund

The Public Works 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	Internal Control Issues				
A.1	Accounting for Infrastructure Assets Recommendation: Public Works Director should work with Finance to ensure ATD projects that meet the City's capitalization threshold are capitalized in the City's accounting system in accordance with the City's Fixed Asset Policy and Procedures Manual.	4	Accept	Anna Resendez, Contract Administrator	9/30/2010
	Action plan: Finance has set a \$100,000 threshold for projects to be capitalized as established in the City's Fixed Asset Policy and Procedures Manual. Staff will review all ATD capital projects completed between FY 2006 - FY 2010 and forward all projects meeting the \$100,000 threshold to the Finance Department for capitalization. In the future, an annual list of capitalization projects will be provided to Finance.				
A.2	Establishing Cost Elements for ATD Projects Recommendation: Public Works Director should establish individual WBS elements (similar to a cost element) for ATD projects in the City's accounting system in compliance with the City's Administrative Directive 8.9 – Financial Management for Capital Projects.	4	Accept	Anna Resendez, Contract Administrator	9/30/2010
	Action plan: Staff will assign a WBS element number to all future ATD projects during the city's budget process beginning with fiscal year 2011 projects. This process will be followed in each subsequent program year. Implementation will coincide with the start of FY 2011.				

Audit of Public Works Department
Advanced Transportation District Fund

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A.3	<p>Asset Management</p> <p>Recommendation: Public Works Director should comply with the City's Fixed Asset Policy and Procedures Manual in managing ATD assets.</p>	4	Accept	Maggie Scheppers, Project Control Manager	8/31/2010
<p>Action plan: ATD staff will tag all assets purchased with ATD funds, and establish an inventory list, with future purchases be added to this list. A review of assets will be completed at the end of each fiscal year.</p>					
A.4	<p>Issuance of Purchase Orders</p> <p>Recommendation: Public Works Director should comply with the City's Procurement Policy and Procedures Manual when creating purchase orders. If reasonable cost estimates are not available, Public Works should follow a process similar to that for creating purchase orders under an Indefinite Delivery Indefinite Quantity Contract.</p>	4	Accept	Maggie Scheppers, Project Control Manager	Completed
<p>Action plan: This situation occurred on only three occasions out of 91 items reviewed. However staff will ensure that all purchase orders are completed prior to the future purchase of any items. In instances where actual item cost is not available, staff will estimate the cost and adjust the purchase order once the final invoice is received. Any staff not adhering to this policy will be appropriately disciplined.</p>					
B	<p>Records Management Issue</p>				
B.1	<p>Incomplete Contract Files</p> <p>Recommendation: Public Works Director should obtain and comply with the City's Contracting Policy and Process Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.</p>	5	Accept	Anna Resendez, Contract Administrator	6/30/2011
<p>Action plan: All employees responsible for project management have been provided a copy of the City's Contract Policy and Process Manual, and will be given training on the proper establishment of project folders and required documents that must be maintained in each folder. Additionally, a Share Point drive will be created to house all project-related documents. Public Works has assigned a Contract Coordinator to liaison with the Capital Improvement Management Services Department, who oversees the Contracting Policy, to ensure that staff is in compliance with all aspects of the City's Contracting Policy and Process Manual.</p>					

Audit of Public Works Department
Advanced Transportation District Fund

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

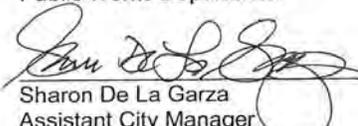
Sincerely,



Majed Al-Ghafry
Director
Public Works Department

7/14/2010

Date



Sharon De La Garza
Assistant City Manager
City Manager's Office

7/14/2010

Date



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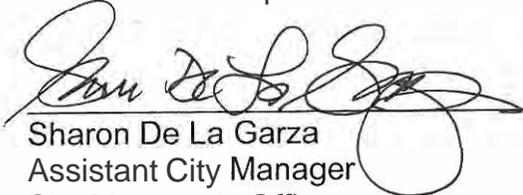
Sincerely,



Majed Al-Ghafry
Director
Public Works Department

7/14/2010

Date



Sharon De La Garza
Assistant City Manager
City Manager's Office

7/14/2010

Date