

# **Final Audit Follow-up**

**As of March 31, 2011**



Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP  
City Auditor

## **Public Works Capital Project Contracts and ARRA Projects**

**(Report #1025 issued September 29, 2010)**

**Report #1118**

**August 15, 2011**

### **Summary**

*All five action plan steps established to address issues identified in audit report #1025 have been successfully completed or resolved. Completed actions involved establishing documented procedures for reducing contractually prescribed retainage percentages for construction projects and reporting corrected and complete salary and job creation information for American Recovery and Reinvestment Act (ARRA) projects.*

In audit report #1025 we determined that, overall, selected Public Works Department (PWD) capital project contracts and ARRA projects were properly managed and administered. Controls implemented provided reasonable assurance that contracts were properly authorized for appropriate purposes, competitively awarded, and properly monitored. Payments and related transactions and activities were generally correct, properly recorded, and in compliance with governing laws, rules, policies, and procedures. Activity for ARRA projects was properly reported to the Florida Department of Transportation (FDOT). We also identified issues indicative of the need for further improvements and enhancements. Accordingly, recommendations were made that:

- Management establish documented procedures for reducing contractually

prescribed retainage percentages prior to final approval and acceptance of a construction contract.

- Management take corrective action to ensure complete ARRA job creation information is reported to FDOT, including number of employees, their total hours worked, and total salaries for those hours worked.
- Management ensure the overstatement of salary costs for ARRA projects previously reported to FDOT is corrected.
- Management ensure that ARRA job creation information previously reported to FDOT using inconsistent local agency numbers is deleted and “re-reported” using the proper unique local agency number.

Five action plan steps were developed to address the identified issues. Those five action plan steps were due for completion as of March 31, 2011. During this follow-up engagement, PWD initiated and completed or resolved each of the five action plan steps.

We appreciate the cooperation and assistance provided by the PWD during this audit follow-up.

### **Scope, Objectives, and Methodology**

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing

Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

### **Original Report #1025**

The scope of report #1025 included a review of selected Public Works capital project contracts executed and implemented with one company (Sandco, Inc.) during the period covering fiscal years 2004 through 2009. The objectives were to determine whether (1) the contracts were properly approved and competitively awarded in accordance with City procurement policy and other governing laws, rules, policies, and procedures; (2) contract activity was properly monitored by appropriate City staff to ensure required work was performed in accordance with contract stipulations; and (3) payments to the contractor were proper, correct, supported, authorized, and in accordance with contract terms and conditions.

In addition, our audit included a review of projects funded by the American Recovery and Reinvestment Act (ARRA), starting in fiscal year 2010 and managed by the Public Works Department (PWD). The purpose was to determine whether (1) the department established and implemented appropriate processes to ensure ARRA funds were spent in accordance with applicable Federal, State and City laws, regulations, policies, and procedures; (2) proper processes were in place to monitor, measure, and account for ARRA funds and activities; and (3) complete, accurate, and required information for receipt and use of ARRA funds was reported to the Florida Department of Transportation (FDOT) in a timely manner.

### **Report #1118**

This is our first and only follow-up on action plan steps identified in audit report #1025. The purpose of this follow up is to report on the

progress and status of efforts to complete action plan steps due for completion as of March 31, 2011. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

## **Background**

The PWD is responsible for engineering services and project management relating to construction and maintenance of City streets, roadways, sidewalks, and other public right-of-ways. The PWD is also responsible for drainage maintenance relating to roadside ditches and major canals and stormwater ponds. Traffic engineering and management are also responsibilities of the department. Generally, the PWD provides any City infrastructure services not related to utilities, public safety, or mass transportation. Accordingly, the PWD administers and manages a significant portion of the City's capital projects (capital improvement projects). The Capital Programs Division within the PWD manages the professional services required for the planning, design, and construction of major capital improvement projects.

**Capital Project Contracts.** Pursuant to City Commission Policy 218, capital projects are projects that are at least \$50,000 in scope, have a life span of over five years, and are construction related or otherwise result in improving the City's infrastructure. PWD capital improvement expenditures approximated \$204 million during the period covering fiscal years 2004 through 2009. PWD information and records showed there were 51 capital project contracts of \$300,000 or more managed and administered by PWD at the time of our initial review. Seven of those contracts were with Sandco, Inc. We selected and tested a sample of three of those seven contracts as part of our initial audit.

**ARRA Projects.** The American Recovery and Reinvestment Act (ARRA) was an economic stimulus package enacted by Congress and signed into law on February 17, 2009. Its intent was to stimulate the U.S. economy in the wake of the economic downturn. Nationwide, ARRA provided \$787 billion for Federal tax cuts,

expansion of unemployment benefits, and domestic spending in education, health care, infrastructure, and the energy sector. One key goal of ARRA was the creation and retention of jobs. Also included in the Act were requirements detailing unprecedented levels of transparency, oversight, and accountability.

ARRA funds were awarded to the City of Tallahassee in the form of direct Federal grants (i.e., awarded directly to the City) and in pass-through grants (i.e., awarded through the State of Florida). When a local government such as the City of Tallahassee obtained grant funds directly from a Federal agency, the local government (City) was considered a prime recipient. When funds were granted to the City through a non-federal entity, such as the State of Florida, the City was considered a sub-recipient.

The PWD was awarded over \$1 million of ARRA funds as a sub-recipient of FDOT. Those ARRA funds were primarily for engineering, design, and construction of five sidewalk projects within the City. ARRA provisions required the City to report to FDOT information on (1) the number of employees working on those projects, (2) total hours worked and charged by those employees to the projects, and (3) total payroll for those hours worked and reported. We selected and tested/analyzed activity for two of the five sidewalk projects as part of our initial audit.

## *Previous Conditions and Current Status*

In report #1025, we noted that, overall, PWD capital project contracts were properly managed and administered. ARRA projects were generally properly managed and properly monitored. We also reported that issues were identified that were indicative of the need for improvement and enhancements in processes.

Accordingly, recommendations were made that:

- Management establish documented procedures for reducing retainage percentages on capital project contracts;
- Management ensure complete and accurate reporting of ARRA job creation information to FDOT;
- Management ensure the incomplete and incorrect job creation information previously reported to FDOT is corrected; and
- Management ensure the ARRA job creation information reported to FDOT using inconsistent “local agency numbers” is corrected.

Five action plan steps were developed to address the identified issues and audit recommendations. The five action plan steps were due for completion as of March 31, 2011. As shown below in Table 1, the PWD has successfully completed or resolved all five of those action plan steps.

**Table 1  
Action Plan Steps from Audit Report #1025  
Due as of March 31, 2011, and Current Status**

Action Plan Steps Due as of March 31, 2011	Current Status
<b>Ensure proper, fair, and equitable retainage reductions.</b>	
<ul style="list-style-type: none"> <li>• Management will develop written standard operating procedures that establish (1) criteria under which contractually prescribed retainage percentages may be reduced and (2) the method and criteria to determine the amount and timing of such reductions.</li> </ul>	<p>✓ <b>Completed</b> - In our initial audit, we found instances where retainage withheld from payments on capital projects was reduced from the contractually prescribed ten percent to one percent during the final stages of the projects, but before the projects were completed. As reported, there were no contractual provisions or documented City (PWD) policy or procedure providing for such reductions in retainage percentages prior to the end of the projects. The amount of retainage reductions and point (stage of project completion) at which they were applied was a subjective process, with the decision made and approved by applicable PWD engineers overseeing the projects. We recommended that PWD establish within its documented procedures the process for reducing contractually prescribed retainage percentages prior to the final approval and acceptance of a construction contract. We also recommended that the developed procedure be consistent with the intent of the retainage process. That is, to protect the interest of the City and to encourage proper and timely completion of projects. During our follow up review (in June 2011), PWD revised its existing documented procedures to address the process for reducing contractually prescribed retainage prior to the final approval and acceptance of a construction contract. Our review showed that the procedure is consistent with the intent of the process as recommended. We also noted that the procedure was incorporated into the standard “City Information for Bid (IFB)” for construction contracts (e.g., the Gaines Street Corridor Reconstruction – Segment 2 IFB).</p>

<b>Ensure accurate and complete ARRA job creation information is reported to FDOT.</b>	
<ul style="list-style-type: none"> <li>Management will develop and implement enhanced procedures to report complete, accurate, and proper job creation information to FDOT for the remaining duration of the ARRA projects. Those procedures will include, but not be limited to, independent supervisory reviews of (1) information prepared for reporting and (2) information that is reported.</li> </ul>	<p>✓ <b>Completed</b> - In our initial audit, we determined that incomplete and incorrect ARRA information was reported to FDOT for the projects and for the periods reviewed. We also noted that inconsistent “local agency contract numbers” were used to report job information to FDOT for one project. Accordingly, we recommended management develop and implement enhanced procedures for reporting complete, accurate, and proper job creation information to FDOT for the remaining duration of the ARRA projects.</p> <p>During our follow up, PWD staff reported (in June 2011) all remaining job creation data to FDOT. Our review of four items showed the reported job creation data was accurate, complete, and appropriate.</p>
<ul style="list-style-type: none"> <li>With the assistance of FDOT, <u>incomplete</u> job creation information noted within this report as not previously reported to FDOT will be completed and reported to FDOT through the automated reporting system.</li> </ul>	<p>✓ <b>Completed</b> - As indicated above, we noted in our initial audit that incomplete job creation data was reported to FDOT. Specifically, we noted that (1) hours worked by three PWD employees and associated salary costs as reported to FDOT were understated by 44 hours and \$1,858, respectively and (2) job creation data for hours worked by and associated salaries paid to 10 contractor employees were not reported to FDOT. We recommended that management ensure appropriate corrective action was implemented, including reporting this data (not previously reported) to FDOT.</p> <p>During our follow up efforts in June 2011, PWD, with the assistance of FDOT staff, corrected and reported complete job creation data to FDOT for the applicable projects.</p>
<ul style="list-style-type: none"> <li>With the assistance of FDOT, all <u>incorrect</u> job creation information previously reported to FDOT will be corrected and re-submitted to FDOT through the automated reporting system.</li> </ul>	<p>✓ <b>Completed</b> - As indicated above, in our initial audit, we found that incorrect job creation data was reported to FDOT for the selected ARRA projects reviewed. Specifically, we reported that payroll related job creation information for City employee activities was overstated by \$3,045 due to the inappropriate inclusion of salary overhead charges. We recommended that, with the</p>

	<p>assistance of FDOT staff, the amounts reported to FDOT be corrected for those overstatements.</p> <p>During our follow up fieldwork in June 2011, PWD, with the assistance of FDOT staff, submitted corrected payroll information to FDOT.</p>
<ul style="list-style-type: none"> <li>• With assistance of FDOT staff, job creation information reported to FDOT with an inconsistent “local agency number” through the automated reporting system will be deleted and re-entered with the consistent number.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Considered Resolved</b> - In our initial audit, and as stated above, we noted that inconsistent “local agency numbers” were used to report job information to FDOT for one of the projects reviewed. We recommended that, with the assistance of FDOT staff, job creation information reported to FDOT with inconsistent “local agency numbers” be deleted and re-entered using a consistent number. We also recommended that subsequent job creation information be reported to FDOT using an appropriate “local agency number.”</li> </ul> <p>During our follow up process, FDOT staff determined that the previously used inconsistent “local agency numbers” could not be deleted from the automated reporting system. However, we found PWD entered subsequent job creation information using an appropriate and consistent “local agency number.” Accordingly, this issue is considered resolved.</p>

**Table Legend:**

- Issue to be addressed from the original audit.
- ✓ Issue addressed and resolved.

***Conclusion***

As described in Table 1 above, all five action plan steps established to address issues identified in audit report #1025 have been successfully completed or resolved.

We appreciate the cooperation and assistance provided by Public Works Department staff during this audit follow-up.

***Appointed Official's Response***

**City Manager:**

I am pleased with the overall findings of this audit and the corrective actions that have been taken to address any outstanding issues. As reflected in the report, the Public Works Department has demonstrated strong leadership and a commitment to comply with the City's applicable financial regulations and established procedures as well as the unique requirements of the Federal ARRA funding process. I sincerely appreciate the thorough analysis, professionalism and timely follow-up provided by the City Auditor and his staff over the course of this review.

Copies of this audit final follow-up #1118 or audit report #1025 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

Audit follow-up conducted by:

Reuben Iyamu, Senior Auditor

T. Bert Fletcher, CPA, Sr. Audit Manager

Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP, City Auditor