

**CONTRACT ADMINISTRATION  
CAPITAL PROJECTS  
AUDIT 10-02  
JUNE 28, 2010**



# CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

June 28, 2010

Honorable Pam Iorio  
Mayor, City of Tampa  
1 City Hall Plaza  
Tampa, Florida

RE: Capital Projects, Audit 10-02

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Capital Projects.

Contract Administration has already taken positive actions in response to our recommendations. We thank the management and staff of Contract Administration for their cooperation and assistance during this audit.

Sincerely,

/s/ Roger Strout

Roger Strout  
Internal Audit Director

cc: Darrell Smith, Chief of Staff  
Bonnie Wise, Chief Financial Officer  
Steve Daignault, Administrator of Public Works and Utility Services  
David Vaughn, Director of Contract Administration  
Lee Huffstutler, Chief Accountant

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/s/ Christine A. Dever  
Auditor

/s/ Roger A. Strout  
Audit Director

**CONTRACT ADMINISTRATION  
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**INTRODUCTION**

The Contract Administration Department prepares and manages contracts for professional and construction services, including but not limited to, planning and design, contract execution and construction phase administration, for City of Tampa capital construction projects.

Capital projects are those projects which have an extended life in the creation of an asset and/or the improvement of a current asset, which extends the life of that asset and generally is significant in dollar value.

This audit focused on capital projects where the expenditures exceeded \$100,000. City Code requires that all public improvement contracts requiring an expenditure of one hundred thousand dollars (\$100,000) or more shall be made upon a competitive bids basis after plans and specifications have been prepared, are on file, and upon recommendation of the Mayor, have been approved by the City Council.<sup>1</sup>

The final vendors selected submit periodic payment requests to the City for construction work completed in accordance with the executed construction contracts. Payments to these contractors by the City must be made on a timely basis in accordance with the Florida Prompt Payment Act.<sup>2</sup>

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Department's FY10 Audit Agenda. The objectives of this audit were to ensure that:

1. Capital construction projects were awarded in compliance with applicable rules and regulations.
2. Capital construction projects were processed in accordance with policies and procedures and related regulations.
3. Changes from the initial contract award amount and the final contract price were appropriately documented and properly approved.
4. Capital construction projects were capitalized in a timely manner.

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<sup>1</sup> City of Tampa Ordinance , Chapter 2, Article V, Division (Purchases and Contracts) Section 2-276

<sup>2</sup> Florida Statutes title XIV, Chapter 218, Section 218.735

## **STATEMENT OF SCOPE**

The audit period covered capital projects completed from October 1, 2007 through October 31, 2009. Source documentation for the contracts in our population, were obtained from contract files and from the City's computer systems including: financial system (FAMIS), accounts payable system (ADPICS).

## **STATEMENT OF METHODOLOGY**

The sample size and selection were generated using judgmental sampling for the objectives being tested to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on the City's financial system (FAMIS) and accounts payable systems (ADPICS). Procedures have been performed in past audits to determine their reliability. These procedures determined the data sufficiently reliable in all material respects.

## **STATEMENT OF AUDITING STANDARDS**

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 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.

## **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Capital construction projects were awarded in compliance with applicable rules and regulations.
2. Capital construction projects were processed in accordance with policies and procedures and related regulations. Contract files included most of the required documentation; however, the documentation was not always consistent, and contract payments were not always made in compliance with the Florida Prompt Payment Act.
3. Changes from the initial contract award to the final contract prices, were not always completely documented in the file. However, most of the change orders had proper supporting documentation.
4. Most capital construction projects were capitalized in the correct fiscal year; however, not always in a timely manner.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of Contract Administration; they do present risks that can be more effectively controlled. Before we completed our audit, Contract Administration personnel implemented some of the Internal Audit Department's recommendations.

## **PROPER CAPITLIZATION OF COMPLETED CONTRACTS**

### **AUDIT ISSUE**

Capital projects were not being capitalized in a timely manner. In addition, Capitalization Policies and Procedures were not complete and up-to-date.

### **OBSERVATIONS**

Each project we reviewed contained many transactions and the dollar value of our sample tested was over \$ 4.4 million. Our sample size focused on contracts in 2009 (12 contracts) as the external auditors' financial audits in 2008 and 2009 addressed capitalization city-wide.

Our test results indicated:

- Two out of 12 (17%) were capitalized in the proper fiscal year and in a timely manner.
- Seven out of 12 (58%) were not capitalized timely; however, they were in the correct fiscal year.
- Three out of 12 (25%) were not capitalized in the proper fiscal year.

Those contracts that were not capitalized in the correct fiscal year totaled \$498,783 (11% of those tested). Contract Administration documentation listed these projects as complete and approved by City Council. These projects should have been capitalized as of the date of our test and depreciation recorded.

We noted that policies and procedures were not up-to-date and did not reflect current practices. Additionally, the policies did not clearly outline how project capitalization should be processed. The *Systems and Property Control Office – Capital Assets and Depreciation Policy and Procedures* (Policy) should incorporate procedures and forms for all assets that should be capitalized.

### **CRITERIA**

Assets should be moved from Construction In Progress (CIP) to the City's books as a Fixed Asset when the asset is substantially complete in accordance with the City's Policy.

### **RISK DESCRIPTION**

Assets may be recorded in the wrong period, not in a timely manner, and may be inappropriately maintained as construction in progress. In addition, there is an increased risk that some of these assets when not capitalized and not recognized as assets of the City, may not be adequately insured.

### **RECOMMENDATION 1**

We recommend that the policy and procedures directing how assets should be capitalized be updated and reviewed with users to ensure they understand the process and that the process helps ensure timely recording of completed contracts as fixed assets. If stand alone policies are maintained, they should be referenced in the primary policy.

MANAGEMENT'S RESPONSE (Contract Administration)

Contract Administration concurs with the recommendation and notes that the process and responsibility for capitalization lies outside of Contract Administration functions.

Contract Administration's understanding is that the current ongoing consolidation activities in the Revenue and Finance Department are addressing the issues raised in this recommendation.

MANAGEMENT'S RESPONSE (Revenue & Finance)

We concur with this recommendation. We are currently reviewing and updating policies and procedures related to fixed assets and capital assets and expect to complete revisions by June 30, 2010. After completion, we will follow up with distribution of the policies and procedures and training citywide.

## **CONTRACT TRACKING PROCESS**

### **AUDIT ISSUE**

There is no one place where all contract documentation is maintained and available to appropriate City contract monitoring personnel.

### **OBSERVATIONS**

Each area has a list and/or a database of contract information, which they use to track project requirements; however, it is not always available to those involved in the contract administration process. Additionally, the data is not updated on a specified frequency to help ensure the information is as up-to-date as possible.

The City does have software for construction management called Contracts Management Software. This software is used by different groups; however the system is not utilized for the entire process and does not contain complete information on all of the contracts.

### **CRITERIA**

Complete and current data on contracts will allow for the most efficient and effective monitoring of progress and completion of capital construction projects by all parties involved.

### **RISK DESCRIPTION**

If information is not maintained and available to all involved, and updated on specified intervals, critical dates and requirements may be missed.

### **RECOMMENDATION 2**

We recommend that a shared source, such as the Contracts Management Software be maintained by designated contract management personnel. One individual should be designated to review, at specific intervals, all contract data for completeness. The Contracts Management software access can be controlled utilizing different levels of security similar to the City of Tampa's network. This will allow personnel involved with tracking the progress of capital projects to have complete and current data. It will also allow documentation to be maintained electronically in a central location which should help increase efficiency, reduce duplication of data entry, and reduce printing and copying costs.

### **MANAGEMENT'S RESPONSE**

Contract Administration concurs with the recommendation.

Current ongoing consolidation activities in the Revenue and Finance Department are addressing the centralization of contract payment records.

The recent consolidation of the inspections staff of the Water Department into Contract Administration is addressing centralization and standardization of the project files.

Contract Administration personnel have been actively involved in the committee activities developing both the Enterprise Resource Program (ERP) and Enterprise Content

Management (ECM). The outcome and implementation of both programs are expected to have an impact on contract tracking activities, and in coordination with the Technology & Innovation Department, some changes to tracking databases have been suspended pending the implementation of ERP and ECM.

## **CHANGE ORDERS**

### **AUDIT ISSUE**

Some change orders were presented to City Council for approval after the work had been completed and paid for.

### **OBSERVATIONS**

In testing contract payments we noted that one contract had change orders that did not agree to any of the payments or summation of payments. Actual payments did not agree to amounts in the change orders and resolutions. The contract was paid in full; however, seven change orders were submitted subsequent to that in a two year period following the final payment.

Our testing results found that only one of the twelve change orders for this project agreed to the actual payments or summation of payments. We noted that the contract allows for work to continue prior to approval when it is an emergency or under a work order directive. Both of these situations require documentation of the approval process. However, this documentation was not in the file to properly note the approval of the expenditure and the final change order did not correspond with the actual payments and expenses.

### **CRITERIA**

Change orders should be submitted for approval to council for the work to be completed. There are times under Work Order Directives and Emergencies where the work has to be started before council approves the full change order, however, the work performed should match the amount requested. File documentation should be maintained to support the work and related change order and any emergency requests.

### **RISK DESCRIPTION**

Work may be completed that has not been properly approved. If documentation is not in the file to support the change order it may appear unauthorized.

### **RECOMMENDATION 3**

We recommend that Contract Administration and those departments that are part of the capital construction process follow the policies and procedures established for the capital construction process. Documentation procedures should be strengthened to clearly show the policy was followed.

It is important to note that this was an older contract and that there has been a change in management since this contract and the new management enforces adherence to the current policy and procedures for capital construction projects.

### **MANAGEMENT'S RESPONSE**

Contract Administration concurs with the recommendation.

The recent consolidation of the inspections staff of the Water Department into Contract Administration is addressing the issues with the project referenced in the audit.

## **CONTRACT FILE DOCUMENTATION**

### **AUDIT ISSUE**

File documentation is not always complete or consistent in the contract files.

### **OBSERVATIONS**

In testing contracts for a number of attributes we noted that contract files were not consistent with respect to the documentation maintained in the file. Additionally, the contract files were not always complete based on the standard documents described in the policies and procedures manual.

Our testing results indicated that all of the contract files had various missing documentation and some were missing more than one document:

- Five out of nine were missing Start-Up Project Sheets.
- Three out of nine were missing Minority Business Department (SLBE/WMBE) compliance or goals documentation; however, we did note that the Minority Business Department had a copy in their files.
- Two out of nine were missing subcontractor documentation.
- Six out of nine were missing the Pre-Construction Conference Letters.

### **CRITERIA**

File documentation should be consistent among contract files and in compliance with the policies and procedures manual.

### **RISK DESCRIPTION**

Without proper documentation in the contract file, there may be lack of required proof of compliance with City ordinances, rules and regulations, and policies and procedures.

### **RECOMMENDATION 4**

We recommend that a checklist be developed for contract files city-wide which includes all the required documentation to comply with City ordinances, rules and regulations, and policy and procedures. The checklist should be reviewed with all those involved in the contract process to ensure completeness and proper communication. The checklist should be completed for each contract file and signed off by the individuals designated to maintain contract files.

### **MANAGEMENT'S RESPONSE**

Contract Administration concurs with the recommendation.

It is noted that partway through the period covered by the audit, revisions were made that address concerns raised in this recommendation:

- Startup sheets were updated and are now consistently used as a tool to coordinate both within and without the department.
- All WMBE and SLBE related contractor submittals, including subcontractor documentation, are coming to Contract Administration for scanning and storing on the contract tracking software at the department's 40th St location.

- The preparation and coordination of Pre-Construction Conference letters are now issued by the Construction Management Division and stored on the contract tracking software at 40 St.

Checklists will be updated and included with contract file documentation.

## **CONTRACTOR PAYMENT PROCESS**

### **AUDIT ISSUE**

Date received stamps are not always being used on a consistent basis by the user department and Contract Administration.

### **OBSERVATIONS**

Contract payments were tested for a series of attributes based on the payment processing. A key attribute tested was compliance with the Florida Prompt Payment Act. The payment process begins when a Contractor Payment Request is submitted by the contractor. The date of the submission of the request form becomes the invoice date and this request is processed through the user department and Contract Administration. According to Contract Administration's policy and procedures, the Contractor Payment Request Form is to be stamped with a Date Received Stamp from Contract Administration. This stamp is pertinent in that it shows the date the Contractor Payment Request was initially received. The date is tracked through the approval process which is used to ensure compliance with the Florida Prompt Payment Act.

Our test results indicated:

- 19 out of 53 (36%) payments were not stamped with the Contract Administration Received Stamp therefore compliance could not be determined.
- 29 out of 53 (54%) payments were in compliance.
- Five out of 53 (9%) payments were not in compliance. Four out of the five were final retainage payments and all were less than \$2,000.

We also noted:

- Ten out of 53 (19%) of the change orders were not correctly documented and did not agree to payments and related supporting documentation. These change orders were all under one contract as discussed in the "Change Order" finding.

Overall, no complaints had been filed with respect to late payments and no penalties had been assessed.

### **CRITERIA**

All Contractor Payment Requests should have a date received stamp indicating when the user department receives it and a date when Contract Administration receives it.

### **RISK DESCRIPTION**

Payments may not be in compliance with the Florida Prompt Payment Act and penalties could be assessed.

### **RECOMMENDATION 5**

We recommend that the current procedure be reviewed, strengthened, and clarified with all staff, noting when the stamp should be used, where it should be placed, and the importance of it to the contract documentation process.

MANAGEMENT'S RESPONSE

Contract Administration concurs with the recommendation.

The consolidation of all construction inspectors into Contract Administration as well as the consolidation in the Revenue and Finance Department, as described elsewhere in this response, is addressing the standardization of payment handling.

The stamping of all invoices with the date received has been corrected.

## CLOSING CONTRACTS

### AUDIT ISSUE

Contracts remain open after completion even-though there is no current activity.

### OBSERVATIONS

In testing contracts we noted that there were contracts that were complete per the Contract Administration database; however, they had not been closed.

Our testing results indicated:

- One contract 7-C-4 was completed, however, it had not been closed. Per a discussion with the Construction Engineer for Contract Administration, the process to close the contract has been started.
- One contract 7-C-2 was noted in the database as completed. Per discussion with the fiscal accountant for Stormwater, this contract still has funds in it so it has not been closed.

The practice of leaving contracts open until the money has been used does not facilitate good control.

### CRITERIA

Contracts should be closed when complete. If there are additional funds remaining in the contract at the end of the contract period, an extension should be requested for additional work orders if appropriate, if not the contract should be closed and the funds unencumbered for use elsewhere or returned to the proper fund.

### RISK DESCRIPTION

Funds may be encumbered that do not need to be and can be used elsewhere. Posting errors could be made to contracts that should have been closed.

### RECOMMENDATION 6

We recommend that the contracts be closed timely. Policies and procedures should be updated to clearly note when and how contracts should be closed. Policies and procedures should be reviewed with all departments that are involved in the capital construction projects to help ensure understanding and compliance.

### MANAGEMENT'S RESPONSE

There is no objection to the recommendation.

The consolidation of all construction inspectors into Contract Administration, as well as, the consolidation in the Revenue and Finance Department, as described elsewhere in this response, will centralize and facilitate the activities associated with the closing of contracts.

Policies and Procedures will be updated accordingly.