



Internal Audit

Public Works – Construction and Maintenance Projects

October 2012

Bernalillo County Internal Audit Public Works – Construction and Maintenance Projects

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over the Bernalillo County Public Works Division's construction and maintenance project processes. Our internal audit focused on assessing the adequacy and reasonableness of the internal controls surrounding budgets, funding, change orders, posting of expenditures and compliance requirements for construction and maintenance projects within the Public Works Division.

The procedures performed included:

- Obtaining an understanding of the County procedures through reading relevant Administrative Instructions, County Purchasing and Contracting Guidelines, County P-card Guidelines, and Administrative Resolution 2012-17;
- Obtaining an understanding of the County Public Works Division procedures through interviewing various Public Works Division, Accounting Department and Purchasing Department Personnel;
- Testing a sample of projects with outside funding sources that were closed during fiscal years 2011 and 2012;
- Testing a sample of projects funded by the County that were closed during fiscal years 2011 and 2012; and,
- Visiting a sample of projects to determine if items identified on the pay applications could be observed at the project site.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Significant medium risk observations are presented below:

- **Tracking and documentation of project costs**— The County does not have a documented process in place for internally managed projects. As a result the Division did not maintain a complete set of project records to account for each project to include approvals, costs, and scheduling. A process for internally managed projects should be drafted and followed.
- **Documentation of modifications to funding agreements**—The Division did not follow through and obtain a written modification to one agreement with an outside funding source. Project costs posted in the accounting records did not match the allocation outlined in the funding agreement. The Division should ensure that any requested modifications are properly followed, documented, and approved.

The lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
November 27, 2012

Bernalillo County Internal Audit Public Works – Construction and Maintenance Projects

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Bernalillo County Internal Audit Public Works – Construction and Maintenance Projects Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls and safeguards in place surrounding Public Works Division Construction and Maintenance projects. We also assessed the County's compliance with funding agreement requirements. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on October 15, 2012, at which time most items needed for the audit were requested. Fieldwork began the week of October 15, 2012. An exit conference was held on November 27, 2012, and final management responses were received on November 27, 2012.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on the assessment and testing of internal controls encompassing Public Works Division Construction and Maintenance projects. Additionally, we evaluated project funding processes and determined if funds were properly expended in compliance with funding source requirements. We examined the project budgets and scope modifications to determine if projects changes were properly tracked for these capital projects.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations surrounding Public Works Division's construction and maintenance projects, we interviewed the following personnel:

- Roger Paul, Technical Services Department Director
- Nolan Bennett, Technical Services Construction & Engineering Manager

- Brad Catanach, Technical Services Construction & Engineering Manager
- Rodrigo Eichwald, Technical Services Project Engineer
- Lisa Manwill, Technical Services Project Engineer
- Veronica Cid, Technical Services Project Engineer
- Joe Luehring, Technical Services Project Engineer
- Mary Murnane, Fleet & Facilities Department Director
- Chris Jimenez, Fleet & Facilities Building Maintenance Supervisor
- David Mitchell, Operations & Maintenance Department Director
- Deborah Chavira, Department Grant Representative
- Adrienne Candelaria, Special Projects Coordinator for the Purchasing Department

In order to understand the Public Works Division construction and maintenance projects policies and procedures we read:

- Relevant sections of the County Purchasing and Contracting Guidelines including:
 - Section 3 “Shopping Cart;”
 - Section 6 “Request For Bids (RFB);”
 - Section 7 “Request For Proposals (RFP);”
 - Section 11.2 “Delegation of Approval of Authority” and,
 - Section 11.6 “Use of Existing Contracts;”
- Relevant sections of the County P-card Guidelines including:
 - Section 8A “Examples of Qualified and Unqualified Purchases;”
- Relevant sections of the County Administrative Resolution 2012-17 including:
 - Page 2, lines 15 through 17 as it relates to construction contract and change order approvals;
- Administrative Instruction No. BD 03 – Budget Process;
- Administrative Instruction No. BD 04 – Budgetary Controls;
- Administrative Instruction No. SG 01 – Grants;
- Administrative Instruction No. PD 01 – Purchasing;
- Administrative Instruction No. CM 05 – Required Signatures and Approvals; and
- Administrative Instruction No. CI 01 – CIP Program;

We performed the following testwork:

We obtained a listing of the Public Works Division’s construction and maintenance projects that were closed during fiscal years 2011 and 2012, which included a total population of 89 projects. A summary of expenditures by department is listed below:

- Technical Services \$ 11,800,000
- Fleet & Facilities \$ 5,300,000
- Capital Improvement \$ 3,800,000
- Operations & Maintenance \$ 3,000,000
- Infrastructure & Planning \$ 700,000
- Solid Waste \$ 45,000

We judgmentally selected seven projects by taking into consideration the managing department within the Public Works Division, cost, funding sources, and project timing prior to and after the SAP system implementation.

We selected four projects that were either partially or completely funded from outside sources and three projects that were funded by the County. For each project in the sample we tested that:

- Budgeted costs matched the requests for proposals, requests for bid, estimates and change orders or amendments to the original agreements, as needed;
- Required forms were submitted prior to the contract award and the information tied to procurement requirements (insurance levels, bonding requirements);
- Contracts were awarded in accordance with the County Procurement Code;
- Change orders had proper supporting documentation and were properly evaluated and approved (Change Order Committee, Board of County Commissioners);
- Prices were matched against agreed upon pricing (contracts, agreements, estimates, unit prices) on pay applications and/or related invoices;
- Professional service invoices had appropriate detail (the Architect/Engineer specified the work performed including drawings, specifications, inspections);
- Expenditures posted in the accounting records were properly matched to the funding sources;
- For those projects that had leftover funding at project closeout, line item transfers or funding reimbursements to funding agencies appeared properly transferred; and,
- Compliance requirements as outlined in the funding agreements were followed for projects that were funded with outside sources.

In addition we judgmentally selected one of each type of project whether funded by the County or through outside funding sources and visited the project to determine if items identified on the pay applications or invoices could be observed at the project site.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Public Works Division's construction and maintenance project processes:

1) Tracking and documentation of project costs

The County does not have a documented process in place to manage projects where internal personnel are utilized. For two of three internal projects tested, the projects did not have controls in place to properly track and document the overall project cost and progress. Initial budgets established for the projects within the SAP system exceeded \$60,000; therefore, it appears that the expectation of the Division was that the costs would be significant; however, we were unable to obtain a complete project scope of work or estimate. Additionally, the Division did not have a complete set of project records; therefore, we had to request the majority of documentation of project costs from the Accounting and Purchasing Departments. With no scope of work or initial project estimate, additional materials could be ordered and misappropriated as there is no project outline to compare to and ensure that all materials purchased were accounted for on the project.

Risk level - Moderate

Recommendation

A process for internally managed projects should be drafted to include formal approval at project inception, which should include a scope of work, overall project estimate, and end-user sign-off. The project should also be documented with proper tracking of costs and scope changes throughout the project timeline.

Management Response

The Public Works Division is investigating several computer programs to assist in improving our project management capabilities. However, a decision on a preferred option(s) and associated scope won't be made until CY 2013. Until that decision is made and implemented, in-house projects will follow our current monthly reporting process. That process establishes the initial scope, cost estimate, timeline, and other critical parameters for each project. Monthly updates track the progress of the project and identify any significant issues and resultant changes. These monthly updates are reviewed monthly by Division management and the County Manager. Data for projects smaller than \$20,000 will not be entered into this monthly process. As such, the approval hierarchy for associated PO increases will be responsible for monitoring these small projects accordingly. As of fall, 2012, the Fleet and Facilities Management Department is using the Technical Services Department's document filing system to facilitate storage and retrieval of applicable documents. FFM has also developed a form for agreement on the scope of work with user groups and other impacted parties. This form will roll out fully in CY 2013.

2) *Documentation of modifications to funding agreements*

For one of four projects tested with outside funding sources, the Division did not allocate the funding according to the written agreement with Albuquerque Metropolitan Arroyo Flood Control Authority “AMAFCA”. As stated in the funding agreement for the project, “No modification or amendment shall be enforceable unless done in writing and signed by the parties”. The agreement outlined funding of \$700,000 for the project tested; however, only \$42,000 was allocated to the project within the SAP system, with the remaining funding allocated to an alternate project listed in the agreement. Although the Division requested to change the allocation requirements of the agreement, this change was not supported by a written modification or amendment. We were also unable to determine if AMAFCA agreed with the change, as their response stated that it would require “Board Action”. We understand and observed that the two projects outlined in the funding agreement served the same purpose; however, because they were listed separately with different funding amounts on the agreement the modifications to those amounts should have been in writing.

Risk level - Moderate

Recommendation

Properly supported modifications, as required by agreements, will ensure that all parties agreed upon the change. To ensure compliance with funding agreement requirements, the Division should ensure that any requested modification are properly followed, documented, and approved as necessary.

Management Response

Public Works Division staff complies with all conditions required by funding agreements and works cooperatively with each granting agency. The drainage infrastructure that was constructed is consistent with the subject AMAFCA agreement and the agreement did not require any modifications. The Division request referenced in the observation was a staff inquiry to AMAFCA asking if there was need for modifying the agreement language. In subsequent verbal communications, respective staff agreed that a change to the agreement was not warranted. AMAFCA has fully reimbursed Division expenditures, indicating a cooperative decision that the agreement did not require modification.

Staff will be reminded of the importance that verbal communication should be documented in the project files to memorialize such decisions.

3) *Outside funding compliance requirements*

For one of four projects tested with outside funding sources, the Division submitted an alternate form titled “Certification of Capital Cooperative Agreement Compliance/Completion” instead of the form required by the agreement. As outlined in the funding agreement, the “Project Certification of Design, Construction, and Cost” should be submitted within thirty (30) days of project completion. Although these forms are similar the “Project Certification of Design, Construction, and Cost” has more detailed information communicated to NMDOT, which includes completion date and project cost, which is not included on the alternate form. Submitting the correct certification form is particularly important when the requirements of the agreement could result in a material breach of contract or loss of funding.

Risk level - Low

Recommendation

To ensure compliance with funding agreement requirements, the Division should thoroughly identify all compliance requirements stated in the agreement and track these at various stages of the project.

Management Response

Upon reviewing each contact we will identify all compliance requirements that are stated in the agreement and comply at the various stages of the project as noted.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
November 27, 2012