
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Development Services

J.R. Ramon & Sons, Inc. Demolition Services Contract

Project No. AU15-008

August 6, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Development Services Department, specifically the demolition services contract with J.R. Ramon & Sons, Inc. The audit objective and conclusion follow:

Are COSA and J.R. Ramon & Sons, Inc. in compliance with key terms of the contract and is COSA monitoring of the contract effective?

Yes, COSA and J.R. Ramon & Sons, Inc. are in compliance with key terms of the contract. The demolitions we sampled were appropriately approved and performed. Additionally, payments to the contractor were correctly calculated and supported by the Dangerous Premises Officers' records.

While we did not identify any material control deficiencies, we did determine that controls could be improved for the following areas:

- Monitoring of contractor and subcontractor qualifications, wage and labor requirements, and insurance coverage
- Obtaining of permits for emergency demolitions

Development Services Management agreed with our observations and has begun to develop positive action plans to address them. Their verbatim response is in Appendix B on page 6.

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Background

The Development Services Department (DSD) is responsible for ensuring the safety of structures in the City of San Antonio. Structures that appear dangerous are presented to the Dangerous Structure Determination Board. If the structure is declared a public nuisance in violation of City Code, Chapter 6, Article 8 and the property owner does not address the safety issues, the Board orders a demolition. In the event of an emergency, a demolition is ordered by the DSD Director via an affidavit describing the danger of the structure.

The demolitions are performed for the City by J.R. Ramon & Sons, Inc. The City has a contract with the company for “as-needed” work, including emergency demolitions, throughout the year. Obtaining an annual contract allows DSD to avoid processing individual procurements for each project. This allows for more stable response times and costs. The most recent agreement between the City and J.R. Ramon & Sons, Inc. was approved by City Council in May 2014 for a maximum of \$2.4 million annually, with two 1-year renewal options.

Contract services include demolition, waste removal, asbestos abatement, and any required site fencing and backfill. J.R. Ramon & Sons, Inc. is responsible for providing the labor, equipment, and materials needed. Additionally, the most recent agreement gives the contractor additional responsibilities that were previously performed by City staff. Specifically, the contractor now completes the environmental surveys and coordinates the utility disconnections. Between May 2014 and January 2015, J.R. Ramon & Sons, Inc. completed 90 DSD demolition projects, totaling approximately \$560,000.

The coordination of the demolitions is performed by DSD’s Dangerous Premises Officers. Tasks performed by the Officers include determining if the property is regulated for asbestos, creating the demolition work order, verifying no changes of ownership or repairs have occurred, and photographing the property immediately prior to and after demolition.

Audit Scope and Methodology

The audit scope includes 90 demolitions performed by J.R. Ramon & Sons, Inc. from May 2014 through January 2015.

To obtain an understanding of the processes related to City demolitions, we interviewed DSD staff and observed controls. Testing criteria included the contract between J.R. Ramon & Sons, Inc. and the City, DSD policies and procedures, the City's Procurement Policy and Procedures Manual (revised August 2013), and City Code, Chapters 6 and 10.

We tested a random sample of 25 non-emergency demolitions to verify that demolition permit applications included CPS Energy's approval, permits were issued prior to the demolitions, work orders were accurately calculated and supported by data from Bexar County Appraisal District and Officer notes, and demolitions were performed within 45 days of the contractor receiving the work orders.

We verified that J.R. Ramon & Sons, Inc. appropriately disposed of waste for the sample of 25 non-emergency demolitions and the population of 8 emergency demolitions. We reviewed the Officers' files to determine if the demolitions were adequately documented. We also evaluated DSD's monitoring of contract requirements. Additionally, we verified that the correct cost centers and general ledger accounts were used and that the property owners were invoiced.

We tested a random sample of 35 non-emergency demolitions and the population of 8 emergency demolitions to determine if they were appropriately approved. We also tested the emergency demolitions to determine if the related work orders were correctly calculated. Additionally, we verified the emergency demolitions were performed within 96 hours of the authorizing affidavits.

We tested the population of 5 non-emergency, commercial demolitions to determine if the permit applications were approved by DSD Plans Examiners. We also verified that the environmental surveys were completed 10 or more business days before the related demolitions.

We verified the contractor's demolition license and the subcontractor's asbestos licenses. Additionally, we verified National Emission Standards for Hazardous Air Pollutants continuing education, insurance coverage, and bond coverage.

We relied on computer-processed data in the San Antonio Electronic Procurement System (SAePS) and SAP to verify that purchase orders were appropriately approved and that they matched the goods receipts, invoices, and payments. We also relied on computer-processed data in DSD's Hansen system and Enhanced Code Compliance Operations (ECCO) system to verify demolition permits and Officer notes. Our reliance was based on performing direct tests on the data rather than evaluating the systems'

general and application controls. Our testing of general controls was limited to obtaining evidence of the most recent backups for the ECCO system, Hansen system, and SAePS. We also verified segregation of duties for the demolition orders. We do not believe that the absence of additional testing general and application controls had an effect on the results of our audit.

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 audit results and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusion based on our audit objective. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Contract Monitoring

Contractor and subcontractor qualifications, wage and labor requirements, and insurance are not monitored. Additionally, the insurance does not meet contract requirements. The insurance coverage for damage to rented property is for \$50,000, instead of the required \$100,000 for the contractor and one subcontractor. Also, endorsements showing the City as an additional insured were not provided to the City.

Per the City's Procurement Policy and Procedures Manual, monitoring is performed by the managing department. A contract administration plan highlights the key provisions of the contract, the monitoring tasks to perform, and the frequency of actions to be taken. The lack of monitoring for certain contract provisions was caused by confusion over who is responsible for monitoring, as many staff members are involved in both the initial vendor selection and the on-going monitoring of tasks.

Contract monitoring helps to ensure that contract requirements are met and safety and financial risks are minimized.

Recommendation

The Director of DSD should ensure insurance coverage is sufficient and in compliance with the contract terms. The Director should also develop a contract administration plan to ensure that key provisions of the contract are regularly monitored.

B. Permits

Demolition permits were not obtained by the contractor for 6 of 7¹ emergency projects.

The normal process is that permit applications are submitted and recorded in the Hansen system. However, if the Director determines that a structure is an imminent threat to life, safety, and/or property, it is deemed an emergency and the permit can be obtained after the demolition.

Per City Code, Chapter 10, a permit must be obtained for each structure to be demolished. This allows DSD to confirm that the contractor's demolition license is current and to verify that the related insurance and bond coverage meet the City Code requirements.

Recommendation

The Director of DSD should ensure that the Dangerous Premises Officers verify that permits are obtained for each demolition.

¹ 1 of the 8 emergency demolitions was for a sign and did not require a permit.

Appendix A – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Rebecca Moulder, CIA, Auditor in Charge
Reina Sandoval, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
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July 16, 2015

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

RE: Management's Corrective Action Plan for the Audit of Development Services
Department J.R. Ramon & Sons, Inc. Demolition Services Contract

Development Services Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	Contract Monitoring The Director of DSD should ensure insurance coverage is sufficient and in compliance with the contract terms. The Director should also develop a contract administration plan to ensure that key provisions of the contract are regularly monitored.	4	Accept	Michael Shannon / Assistant Director	9/1/15
Action plan: DSD staff will ensure adequate insurance coverage and monitor key provisions of the demolition services contract on a quarterly basis. A Contract Administration Plan has been developed to facilitate the review of key provisions associated with the demolition services contract.					

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	Permits The Director of DSD should ensure that the Dangerous Premises Officers verify that permits are obtained for each demolition.	4	Accept	Alma Martinez-Jimenez / Senior Special Projects Manager	9/1/15
Action plan: <p>Dangerous Premises Officers (DPOs) will confirm that permits have been obtained for each demolition prior to commencement of demolition by contractor. In the event of an emergency demolition, the DPO will ensure that a demolition permit is obtained by the contractor within one (1) business day of demolition. The demolition permit number from Hansen will be recorded in ECCO. Demolition records from ECCO will be audited on a quarterly basis to ensure that permit numbers are obtained and recorded for all demolitions. Changes to policies and procedures have been made. Specifically, SOP 607 ~ ECCO System Entries ~ and the two demolition "checklists" have been updated to reflect changes to procedures for obtaining and notating demolition permits.</p>					

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

Sincerely,

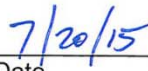


Roderick Sanchez
Director
Development Services Department


Erik Walsh
Deputy City Manager
City Manager's Office



Date



Date