CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Transportation and Capital Improvements Department

Capital Projects Accounting

Project No. AU18-023

November 1, 2018

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 Transportation and Capital Improvements (TCI) Department, specifically the accounting of capital projects, to include bond projects. The audit objective, conclusions, and recommendation follows:

Determine if accounting for Capital Projects is accurate including overhead allocations and project closeout.

Accounting for Capital Improvement Program projects was accurate including overhead allocations. TCI has procedures and controls in place to ensure capital projects were accurately accounted for in SAP and properly supported. In addition, the methodology for applying overhead and the allocation of overhead to capital projects was accurate.

However, we identified one area needing improvement. TCI department did not close out capital projects completely and in one instance did not start the close out procedures.

We recommend the TCI Director:

Implement effective monitoring procedures to identify capital projects that are near completion, and ensure projects progress through the complete close out process.

TCI Department Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 5.

Table of Contents

Background

The City of San Antonio's 2017 – 2022 Six-Year Capital Improvement Program (CIP) includes 308 projects totaling $1.29 billion. The CIP represents the City's long-range physical infrastructure development and improvement plan. Projects in the six-year scope include new streets and sidewalks, street improvements, drainage enhancement projects, park and library facility rehabilitation projects, aquifer land acquisition and linear park development, public health and safety enhancements, airport system improvements, flood control projects, and municipal facility construction and refurbishment projects. The program is funded by various local, state, and federal revenues which are categorized into eight major revenue sources.

The 2012 - 2017 General Obligation (GO) Bond Program totaled $596 million and was approved by voters in May 2012. The 2017- 2022 GO Bond Program totaled $850 million and was approved by voters in May 2017. Both bond programs are included in the CIP.

TCI is responsible for managing the CIP capital project contracts for the City of San Antonio. TCI recovers the cost of managing these projects by charging capital administrative costs to the capital projects. These costs are charged as either direct or indirect costs, depending on the staff assigned. TCI recovers indirect costs by applying an overhead cost rate, which is updated quarterly. To assist with the development and methodology of the overhead rate, CIMS, now TCI, contracted with an independent third party, MGT, Inc.[1]

Finally, TCI performs close-out procedures for each capital project. TCI created a close-out list that is attached to each capital project in PrimeLink[2] that details steps project managers and staff must perform to consider a project closed. After all steps have been completed, the capital project purchase order is closed and any remaining funds revert back to their original source for reallocation to other capital projects.

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[1] Company contracted to assist with developing the overhead rate methodology.
[2] Project Reporting Information Management Exchange Link is a project management tool

Audit Scope and Methodology

The audit scope was from October 2016 to January 2018 for current and completed capital projects, to include bond projects. We reviewed the methodology and allocation of overhead as well as close out procedures for capital projects.

We interviewed TCI fiscal staff to obtain an understanding of the accounting procedures performed and the recording of overhead allocation for capital projects. In addition, we interviewed project management to obtain an understanding of the close out procedures performed for capital projects.

We tested a statistical sample of 56 active capital projects out of 371 to determine if the accounting of the projects in SAP was accurate. We reviewed PrimeLink support documentation as well as journal entries and P-card payments to verify the capital project total cost agreed to SAP.

We reviewed the indirect overhead rate applied to capital projects to verify it was accurate and supported. We traced overhead rate support documentation to SAP to verify the projects were billed with accurate overhead costs. We confirmed the methodology and overhead rate calculations were correct.

We reviewed 25 closed projects to verify close out procedures were properly applied and any remaining funds were transferred back to the general fund. Close out procedures include purchase order closure, transferring of funding from the project to the general fund, capitalizing and depreciating the capital project.

Testing criteria included compliance with Administrative Directive 8.9 Financial Management of Capital Projects and TCI's close out process manual for capital projects.

We relied on computer-processed data in SAP and PrimeLink to validate the accounting records for each capital project. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing PrimeLink invoice support documentation to SAP. In addition, we compared manual journal entries and P-card transactions to SAP. 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 performance 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 Results and Recommendations

A. Capital Projects Accounting

TCI accounting for capital projects was accurate. We reviewed 56 active capital projects that incurred actual costs of approximately $433M and determined they were accurately recorded in SAP and adequately supported with pay applications, journal entries and P-card transactions.

The methodology for applying overhead and the allocation of overhead to capital projects was accurate. We reviewed the last month's overhead charge for 54 capital projects and determined the charges were accurate in SAP. In addition, the direct and indirect divisions were updated to reflect changes in the calculation for applying overhead. Finally, the overhead rate was correctly applied to all capital projects.

Recommendation

None

B. Capital Project Close Out Process

TCI did not close out capital projects. We tested a random sample of 25 completed capital projects, valued at approximately $55M, to verify they were closed out and any remaining funds were allocated back to the original funding source. We identified four out of 25 completed capital projects that were not closed out in SAP. However, the remaining funds for each capital project were properly transferred from the project fund to the original funding source. In addition, one capital project was identified as active but was in fact completed in January 2015 and not closed out until March 2018. The funds for this active project had not been transferred back to its original funding source and remained in the project fund. This occurred because TCI staff did not adequately monitor capital projects to ensure close out procedures occur timely.

Per TCI project close out process, the goal is to complete all close-out activities within 15 months after Substantial Completion/In-Service.

Recommendation

TCI Director implement effective monitoring procedures to identify capital projects that are near completion, and ensure projects progress through the complete close out process.

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Abigail Medina, CPA, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO

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

September 27, 2018

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

RE: Management's Corrective Action Plan for Audit of Transportation and Capital
Improvements Department Capital Projects Accounting

Transportation and Capital Improvements 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	**Capital Project Close Out Process** TCI Director implement effective monitoring procedures to identify capital projects that are near completion, and ensure projects progress through the complete close out process.	3	Accept	Christie Chapman, TCI Assistant Director	02/28/19

	Recommendation				
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: In November 2017, TCI implemented and trained project management, fiscal and contracts staff on an improved project close-out process outlined in a department-wide document. The process document defines project close out roles and responsibilities, identifies required documentation and regulatory clearance needed before closing a project, as well as defines the timeline of activities and the list of close-out tasks. A project close-out business process was also built in the City's web-based project management tool, PRIMELink, which is used to manage capital projects. The project close out business process includes the necessary close out tasks and tracks the status of completion of those tasks. Every month a report is generated from PRIMELink detailing the close-out status and is emailed to persons responsible for completing the tasks. A project close out user guide was also created with instructions and program screen illustrations to assist PRIMELink users. Building the project closeout business process into PRIMELink has helped facilitate the project close-out process. In addition, in December 2017, TCI implemented an internal process to review completed projects to ensure the close-out process is initiated, that outstanding claims or issues are being resolved, and available capital project balances are identified to revert back to the original funding source upon project closeout. Twice a year, in December and May, TCI reviews the completed projects with respective project managers, client departments and Directors. Once the projects to be closed out are identified and available balances are confirmed, TCI generates a memo to OMB and Finance informing them of the projects to be closed and respective available balances. Prior to completion of the audit, TCI began the review of the current project closeout process document to further improve, educate and enforce the project close out process. TCI will convert the process document into a Department Standard Operating Procedure (SOP), reference applicable City Administrative Directives such as 8.9 Financial Management of Capital Projects, and include an employee acknowledgment form to adhere to the required roles, responsibilities and processes. The SOP will also clarify and define other department roles such client departments, Finance and ITSD.				

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

Sincerely,

_____   _10-25-18_
Mike Frisbie   Date
Director, TCI

_____   _10-26-18_
Peter Zanoni   Date
Deputy City Manager, City Manager's Office

2