



Office of the City Auditor and Clerk

Construction Contract Oversight: Sarasota Police Department Headquarters Building

Executive Summary Report

Audit # EX 10-04

Performed by:

A handwritten signature in blue ink that reads "Heather Riti".

Heather Riti, MPA, CIA, CGAP
Senior Internal Auditor

Reviewed and Approved by:

A handwritten signature in black ink that reads "Pamela M. Nadalini".

Pamela M. Nadalini
City Auditor and Clerk

EXECUTIVE SUMMARY

Construction Contract Oversight: Sarasota Police Department Headquarters Building

Audit Scope

This was an audit of contract oversight operations which included a review of construction and design contracts pertaining to the SPD headquarters building, change orders and supporting documents, applicable City ordinances, project management documents and reports, and invoice and payment documents. The auditor also interviewed several individuals involved in the project. The period audited was November 1, 2006 to October 29, 2010.

In order to avoid duplication of efforts, the auditor performed limited testing of accuracy of financial documents as the Owner’s Representative was contracted to perform a financial project cost audit of all expenses, including invoices provided by subcontractors. The project cost audit report was not yet available for the auditor to review as of the end of audit testing.

Report Content and Limitation of Use

The executive summary report is an excerpt from the full detail audit report. In order to obtain the full background on a particular audit comment, please refer to the detailed audit report prior to drawing conclusions based on the limited information contained in this report. Objective ratings indicate the levels at which the objectives were met; rating definitions are included in the appendix.

Audit Conclusions

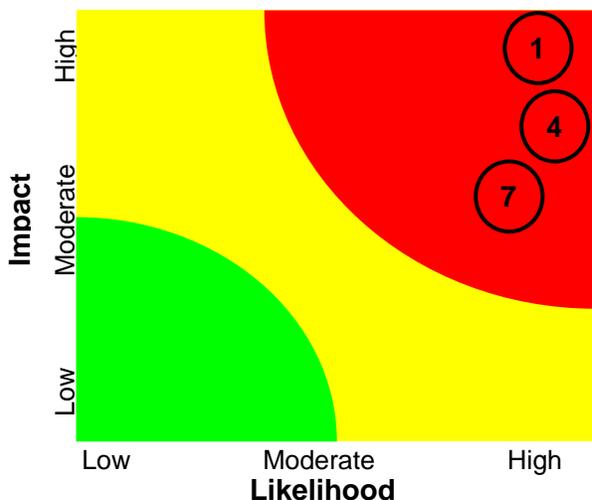
The results of our audit indicate **OPPORTUNITIES TO ENHANCE CONTROL DESIGN.**

This internal audit focused on the following objective:

| Audit Objective | Objective Ratings | | |
|---|-------------------|----------|-------|
| 1. Determine whether contract management oversight controls were in place and functioning as intended pertaining to the SPD headquarters building construction/design, specifically related to: | | | |
| I. Contract Administration and Monitoring | Green | Yellow X | Red |
| II. Change Management Processes | Green | Yellow | Red X |
| III. Appropriate Personnel for Project Management | Green | Yellow | Red X |
| IV. Invoice Review and Approval Processes | Green | Yellow | Red X |

Three significant audit observations (high-priority items) are highlighted below. For a complete list of audit items, see page 3 of this report.

Risk Exposure Map



| Significant Issues | |
|---|----------|
| Observation | Priority |
| 1. A Project Manager was not assigned to the project until just prior to construction. Responsibility over the design phase was placed on law enforcement officers who have limited, if any, knowledge of construction and design. | High |
| 4. There is evidence to suggest that work commenced prior to approval by the City Manager/ City Commission for over 50% of change orders in the auditor’s sample and that the changes were made several months prior to notifying the City Commission. | High |
| 7. While the Purchasing Division did implement some controls over the invoice and approval process, the controls lacked effective design. Some individuals indicated to the auditor that they had no knowledge of the validity of the expenditures or the fund availability and were uncomfortable attesting to payments. | High |

Construction Contract Oversight: Sarasota Police Department Headquarters Building Observations and Recommendations

| Management Action Plans | | | | | |
|---|----------|--------|---------------|---|----------------------|
| Audit Recommendation | Priority | Concur | Do not concur | Proposed Management Action | Action Item Due Date |
| <p>1. Assign a knowledgeable Project Manager at the inception of each construction project to ensure the City's best interests are considered throughout the project and to provide adequate oversight of all vendors' compliance with contract terms.</p> <p>The individual should be someone who understands both constructability and the City's resource needs.</p> | High | | X | <p>Management's [sic] plan for large projects that span multiple years will be to continue to use a team approach beginning with the initiation of the project that includes staff from multiple City departments and specialized consultants/owner representatives to assist the project manager. The team approach will be used to provide the knowledge base from multiple disciplines and reduce the risk of knowledge loss associated with employee turnover.</p> <p>Auditor Comment: Management has indicated “do not concur”, but the response appears to indicate otherwise as a “team approach” is suggested to help assist the project manager and enhance skill sets. Ensuring that knowledgeable people have accountability over a large project such as this \$46 million project is essential to its success.</p> <p>The implementation of this model will satisfy the audit recommendation when it is established at the inception of the project and includes an assigned project manager.</p> | N/A |
| <p>2. Consider developing a Project Manager Handbook for project/ construction management to provide consistent guidance and clear definition of responsibilities for employees charged with managing aspects of construction projects.</p> <p>Also, consider investing in training or memberships offered by professional organizations, such as the Construction Management Association of America, to provide project managers with added knowledge and resources.</p> | High | | X | <p>Provide continuing education through SCTI's public works academy and professional associations. Work with SCTI's public works academy in the development of resources to assist project managers.</p> <p>Auditor Comment: Management has indicated “do not concur”, but the response appears to indicate otherwise.</p> <p>Although management has not accepted the auditor's specific recommendation, a different plan of action has been identified by management which also aids in the reduction of risk associated with lack of resources or tools. Management plans to offer educational sessions and develop project resources, which, if implemented to appropriately equip project managers with tools, will successfully address the audit observation.</p> | N/A |

| Audit Recommendation | Priority | Concur | Do not concur | Proposed Management Action | Action Item Due Date |
|---|----------|--------|---------------|---|----------------------|
| <p>3. Establish authorization limits for the Project Manager to prevent issues associated with excessive authority; one individual should not have complete control over all final decisions.</p> <p>Adding a level of oversight for higher dollar thresholds (ie, department director) introduces another layer of accountability over the project and reduces the probability of excessive changes and the potential for misuse of authority.</p> | High | | X | <p>Ordinance No. 03-4440 and Ordinance [sic] No.07-4763</p> <p>Auditor Comment: Management has referenced ordinances relating to administrative approval of contracts; the auditor assumes management is referencing the clause for change orders, which must be approved by the City Commission after reaching a specified amount.</p> <p>Management's response does not answer the audit recommendation, which suggests that by adding department director oversight there will be more direct accountability over the project, as he/she reports directly to the City Manager. The Owner's Representative has indicated through discussions with the auditor, that it would have been more appropriate to have a department director oversee the actions and decisions of the project manager rather than granting the project manager unlimited authority.</p> | N/A |
| <p>4. Advise staff to comply with local purchasing rules and the City Code, especially concerning large construction projects where cost overruns and unapproved changes are a major potential risk.</p> <p>The City Commission should be apprised of all major monetary changes to any project, as stipulated by City Code. Changes to the scope of work should commence only after the appropriate approvals have been obtained.</p> | High | X | | At the beginning of a large complex project purchasing will meet with staff to review City's policy and procedures. | Ongoing |
| <p>5. Provide detailed information to the City Commission concerning change orders that require their approval to assist them in their decision-making responsibilities.</p> <p>All change orders brought before the City Commission should include itemized detail of the funds requested for approval. This will help keep a documented, detailed record of changes to the project and establish a record of approval.</p> | High | X | | <p>On May 3, 2010, staff went before the City Commission seeking approval of a do not exceed amount of \$1,133,000.00, in changes, to be executed by the City Manager to complete the police headquarter's [sic] construction project. The exact amount was unknown because staff was still negotiating the costs. Based upon the City Commission's authorization and after the changes were finalized [sic], the City Manager was able to approve the detailed change orders. In fact the change orders came in under one million dollars.</p> <p>Amend change order policy - Purchasing</p> | 6/30/11 |

| Audit Recommendation | Priority | Concur | Do not concur | Proposed Management Action | Action Item Due Date |
|---|----------|--------|---------------|---|----------------------|
| <p>6. Request copies of all records relating to this project from the key vendors so that the City has a complete record of the project in its custody.</p> <p>Utilize one central document management system, of which the City has control, to effectively manage, catalogue, retrieve, and retain project documentation for future projects.</p> <p>Keeping an accurate record of the project from initiation until completion is essential to comply with state recordkeeping requirements.</p> | High | | X | <p>A City staff member was on the job site for record retention. Purchasing staff pursuant to comment contacted PDI, ADG and Kraft to verify that City had all documentation [sic] concerning this project. It was determined that the City had all copies as does Kraft and ADG.</p> <p>Auditor Comment: Management has indicated “do not concur”, but the response appears to indicate otherwise.</p> <p>Management has indicated that staff contacted vendors and successfully reports that all records have been obtained by the City, which satisfies the first portion of the auditor’s recommendation.</p> <p>The auditor encourages management to consider utilizing one central records repository, of which the City has control, for future projects. It is important to take into account that the City is ultimately responsible for compliance with state recordkeeping requirements and adhering to Florida’s public records law.</p> | N/A |
| <p>7. Document a formal payment review and approval process and communicate the process to all project team members at the beginning of each project to ensure expectations are understood.</p> <p>Avoid requiring excessive signatures so that only individuals with real responsibility and accountability over project deliverables and City funds are involved in the payment process.</p> | High | | X | <p>Administrative Regulations No. 037.A006.0802 and 037.A004.1008 were in place well before the project commenced.</p> <p>Auditor Comment: Management has indicated that there are policies and procedures to guide invoice review and approval processes.</p> <p>The audit observation speaks to the fact that the controls were not functioning as intended as payment approvers did not understand or were uncomfortable with their approval responsibilities. A policy or process cannot be considered effective unless the participants are engaged and understand their role in the process.</p> <p>The audit recommendation encourages management to document participant responsibilities at the beginning of large projects, which will increase understanding and accountability of all involved.</p> | N/A |
| <p>8. Document authorization limits and specify which individuals have signatory authority over a project in a formal Authorization Document at the beginning of each large project to ensure accountability over funds.</p> <p>Ideally, the City Manager should approve of and sign the document for validation.</p> | High | | X | <p>City Commission approved contracts. Administrative Regulation No. 037.A004.1008 details staff authorization for approval purposes.</p> <p>Auditor Comment: Similar to the audit item above, the auditor encourages documenting project participants’ responsibilities at the inception of the project. While there is an administrative regulation in place to prescribe how to delegate signatory authority, the auditor was unable to locate forms for some payment approvers and unable to verify that specific funds were authorized for others. It was not clear who was ultimately responsible for all expenditures associated with the project.</p> <p>Confusion over spending authority may be better avoided by documenting responsibilities at the beginning of a project and by assigning a contract owner who has ultimate responsibility over the terms in the contract to ensure nothing is overlooked.</p> | N/A |

| Audit Recommendation | Priority | Concur | Do not concur | Proposed Management Action | Action Item Due Date |
|--|----------|--------|---------------|--|----------------------|
| <p>9. Consider whether the City desires to own the rights to Instruments of Service on future projects.</p> <p>At management’s discretion, the auditor recommends pursuing one of two options:</p> <ul style="list-style-type: none"> • Seek ownership of instruments of service on new projects to avoid future costs- contract language should stipulate that the City owns the documents, which may be purchased from the Architect. <p>Or</p> <ul style="list-style-type: none"> • Include cost of instruments of service in cost negotiations- if Architect wishes to own the rights, the City should negotiate a lower price for losing those rights. <p>Further, to ensure the originality of the building design, consider including a provision in the contract where the Architect must warrant the originality of the design.</p> | Medium | | X | <p>Will review on project by project basis.</p> <p>Auditor Comment: Management has indicated “do not concur”, but the response appears to indicate otherwise as management states that this recommendation will be considered on a project by project basis.</p> | N/A |
| <p>10. Ensure that amendments to contracts are properly introduced to and approved by the City Commission.</p> <p>The Fourth Amendment to the Architect’s contract should be scheduled to re-appear before the City Commission at a future meeting so that approval of the Amendment can be appropriately documented in the record of official proceedings.</p> | Medium | | X | <p>On May 3, 2010, staff went before the City Commission seeking approval of a do not exceed amount of \$1,133,000.00, in changes, to be executed by the City Manager to complete the police headquarter’s [sic] construction project. The referenced amendment was part of the overall request for the do not exceed funding to complete the project. The amendment was executed by the Mayor. As stated perviously [sic], the actual total of changes was under \$1,000,000.00 as compared to the approved \$1,133,000.00.</p> <p>Auditor Comment: While the auditor believes that management may have intended to request and obtain approval for the Fourth Amendment to the Architect’s contract during the May 3, 2010 City Commission meeting, it was not actually formally communicated to the City Commission at that time. The auditor encourages management to present the Fourth Amendment to the City Commission for formal approval at an upcoming meeting and inclusion in official meeting minutes.</p> | N/A |

APPENDIX

Audit Rating System

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives were met.

Red- A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow- A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to a higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green- A green control rating indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.