

Audit Follow-Up

As of September 30, 2013



**T. Bert Fletcher, CPA, CGMA
City Auditor**

Second Progress Audit of Gaines Street Revitalization

(Report #1319 issued June 14, 2013)

Report #1408

January 17, 2014

Summary

Applicable City departments have completed seven of the eight action plan steps established to address issues identified in audit report #1319, Second Progress Audit of Gaines Street Revitalization, that were due for completion as of September 30, 2013. Actions have been initiated to resolve the remaining action plan step due as of that date.

In audit report #1319, we noted that the City continued to make significant progress in converting Gaines Street and the surrounding area to the envisioned urban corridor. For the two-year period covered by the audit, we reported that reconstruction and reconfiguration of two of the three roadway segments had been completed or substantially completed. We also noted that two more City owned properties were sold for redevelopment purposes and several new redevelopments had been started and/or completed. We reported environmental assessments and remediation activities continued and the general public and affected parties (businesses) were kept informed and involved.

We reported remaining project funds were likely adequate to ensure project completion. We also reported that, except for a few instances, expenditures of City funds and related activities were appropriate and reasonable.

Remaining actions to complete the vision were reported as:

- Further redevelopment of existing properties.
- Final design and reconstruction/reconfiguration of the last roadway segment.
- Installation of new utilities in connection with the remaining roadway reconstruction and subsequent property redevelopments.

- Construction of two bicycle boulevards; one north of Gaines Street and the other one south of Gaines Street.
- Completion of final actions relating to environmental assessments and necessary remediation.

As reported, the various City departments involved with the overall revitalization, in conjunction with the CRA, appeared committed to completing the envisioned revitalization.

Twelve action plan steps were established to address the few issues identified during the audit. Eight of those 12 steps were due for completion as of September 30, 2013. This follow-up audit addressed the status of those eight steps. We determined City management and staff successfully completed seven of those eight action plan steps and initiated actions to resolve the remaining step. Actions taken to address those eight steps included:

- Public Works established a new standard operating procedure for accurate coding of project charges and held staff meetings to address and emphasize proper and accurate coding of those charges; notwithstanding these actions and improvements, our follow-up review showed some subsequent expenditures again were not coded to the most appropriate category. *(step in progress)*
- Underground Utilities made adjustments to transfer charges of \$100,277 from the City's water fund to the sewer fund to correct the inequitable allocation of charges identified in the audit. *(step completed)*
- The appropriate available methodology is now used by Underground Utilities to provide for equitable allocation of construction costs between funding sources. *(step completed)*

- Risk Management ensures required insurance coverages are provided before contracts are executed. *(step completed)*
- Public Works implemented a new standard operating procedure to ensure change orders are now prepared and presented for timely execution; outstanding pending changes that affect the contract price are not unnecessarily delayed in order to bundle changes into a single change order. *(step completed)*
- Underground Utilities revised its processes to ensure change orders are prepared, approved, and executed for any authorized work that increases or decreases the contract price. *(step completed)*
- Public Works established a standard operating procedure requiring reviews of contractor pay requests to ensure quantities of materials and services billed agree with quantities of materials and services provided. *(step completed)*
- The Property Management Division is properly notifying nearby property owners of planned sales of City owned property in accordance with the provisions of City Commission Real Estate Policy 136. *(step completed)*

We commend City management and staff for the timely efforts to complete the action plan steps. We appreciate the cooperation and assistance provided by applicable City departments during this follow-up engagement.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Report #1319

The scope of report #1319 included activities and events pertaining to the Gaines Street Revitalization Project that occurred since the initial progress audit

(report #1111, issued June 2, 2011). Activity within several City departments was addressed in our review.

The objectives were to:

- Determine and disclose significant events occurring since the initial progress audit.
- Determine and disclose the current status of the project, including the remaining steps and actions necessary to successfully complete the project.
- Determine and disclose the current funding established for the project and the current status of that funding.
- Determine if the City continued to perform due diligence in identifying and addressing environmental contamination in City owned properties within and adjacent to the corridor.
- Determine if the City continued to involve and inform the public as to the project and its status.
- Determine if project activities/expenditures since the initial progress audit were proper and appropriate; in compliance with governing laws, rules, policies, and good business practices; and properly recorded and supported.

For the first five objectives we reviewed activities and events occurring from June 2011 (issuance of initial progress audit report) through April 2013. For the sixth (last) objective, we addressed activities/expenditures occurring from the end of our audit fieldwork in the initial progress audit (fall 2010) through October 2012. Various audit procedures were conducted to meet the stated audit objectives.

Report #1408

This is our first follow-up on action plan steps identified in audit report #1319. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion as of September 30, 2013. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

The current Gaines Street Revitalization Project evolved out of various preliminary studies and visions dating back to the early 1990s. The project is resulting in the corridor's transition from an obsolete industrial area to a livable downtown urban area with

revitalized properties, businesses, and residences that preserve historical resources and enhance opportunities for racial and economic diversity. Accomplishing this revitalization is requiring a multi-year and multi-task approach. Various City departments and related entities are participating in the project. As the project has developed and evolved, flexibility has been of paramount importance in regard to designing, planning, and performing/completing tasks.

The primary tasks performed or being performed to meet the stated objectives included:

- Establishing new development and use requirements.
- Fostering desired redevelopment.
- Reconstructing and reconfiguring the corridor.

Funding for the project has come from the City and Leon County's respective shares of sales tax extension revenues, State of Florida (for roadway transfers), City utility revenues and bond proceeds, Federal grants (for environmental assessment and remediation), and the Community Redevelopment Agency (CRA). Those funds have and are being used for:

- Reconfiguration of the roadway.
- Acquisition of preferred properties within or adjacent to the corridor (to be subsequently enhanced/improved and sold for desirable redevelopment).
- Improvements/enhancements to other City-owned properties within or adjacent to the corridor also being considered for desirable redevelopment.
- Installation of new and reconfigured utility infrastructure and services.
- Environmental assessment and remediation activities within and adjacent to the corridor.
- Grants and loans to private entities and promotional events and activities for the purpose of enhancing redevelopment.

Of the \$51.3 million budgeted for the Gaines Street revitalization through 62 financial projects, a total of \$42.6 million had been expended by the City and the CRA as of October 2012. Of that total amount expended, \$15.6 million was expended during the two-year period covered by our second progress audit (report #1319).

Previous Conditions and Current Status

In audit report #1319, we noted that the City continued to make significant progress in converting Gaines Street and the surrounding area to the envisioned urban corridor. For the two-year period covered by the audit, we reported that reconstruction and reconfiguration of two of the three roadway segments had been completed or substantially completed. We also noted that two more City owned properties were sold for redevelopment purposes and several new redevelopments had been started and/or completed. We reported environmental assessments and remediation activities continued and the general public and affected parties (businesses) were kept informed and involved.

We reported remaining project funds were likely adequate to ensure project completion. We also reported that, except for a few instances, expenditures of City funds and related activities were appropriate and reasonable.

Remaining actions to complete the vision were reported as:

- Further redevelopment of existing properties.
- Final design and reconstruction/reconfiguration of the last roadway segment.
- Installation of new utilities in connection with the remaining roadway reconstruction and subsequent property redevelopments.
- Construction of two bicycle boulevards; one north of Gaines Street and the other one south of Gaines Street.
- Completion of final actions relating to environmental assessments and necessary remediation.

As reported, the various City departments involved with the overall revitalization, in conjunction with the CRA, appeared committed to completing the envisioned revitalization.

The few issues identified during the audit for which recommendations were made included:

- Project costs were not always coded to the most appropriate category within the City's financial system.

- Construction costs in one instance were not equitably allocated between the established funding sources.
- One contractor did not maintain insurance coverage in the required amount during the initial part of the contract.
- Change orders for certain construction contracts were not always timely prepared and executed.
- A “final” change order for a separate construction contract was not executed for additional work performed outside the contract and to reflect final changes in quantities of materials and services.
- There was a lack of clarity regarding the method for determining when liquidated damages should be assessed contractors that do not complete construction work in a timely manner; also, adequate documentation was not always prepared to clearly justify those instances where such damages are not assessed when contractors do not meet contractually-prescribed work completion dates.
- Overpayments and unsupported costs totaling \$1,971 were identified in regard to one contract for environmental assessment services.
- Some vendor invoices were not timely paid.
- Established policy was not followed as to notifying all nearby property owners when a City owned property was sold to a private developer.

Twelve action plan steps were developed to address the identified issues. Of those 12 action plan steps, eight were due for completion as of September 30, 2013. As shown in Table 1 below, seven steps have been completed and actions have been initiated, but not completed, for the remaining step.

**Table 1
Action Plan Steps from Audit Report #1319
Due as of September 30, 2013, and Current Status**

Action Plan Steps Due as of September 30, 2013	Current Status
Enhance accountability through proper coding of project expenditures.	
<ul style="list-style-type: none"> • Efforts will be enhanced to ensure project charges are coded to the most appropriate expenditure category. <i>(Public Works)</i> 	<ul style="list-style-type: none"> ❖ In the initial audit, we reported that some charges were not always coded to the most appropriate expenditure category within the PeopleSoft Financials System. As reported, recording expenditures to incorrect or less appropriate categories within the accounting system reduces the usefulness of that system for the purposes of managerial review and analysis. In response to this issue, Public Works management met with applicable administrative staff in July 2013 and discussed and emphasized the importance of coding expenditures accurately and correctly. Standard operating procedures were also revised to include a requirement for ensuring proper coding of project expenditures. Notwithstanding these actions and improvements, our follow up review showed some subsequent expenditures again were not coded to the most appropriate category. For example, expenditures for architectural services were coded as “construction services” when “architect services” was the more appropriate category. In another instance, expenditures for environmental consulting services were coded as “unclassified contractual

	<p>services” when “environmental contractual services” was the more appropriate category. In response to these follow up findings, Public Works management held a second meeting with applicable administrative staff in November 2013 to again discuss and address the importance of ensuring expenditures are coded to the most appropriate category. We will again follow up on this matter in our next follow-up engagement.</p>
<ul style="list-style-type: none"> • Adjustments will be made to transfer charges of \$100,277 from the City’s water fund to the sewer fund as correction of the inequitable allocation of charges as identified in the audit. (<i>Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ In the initial audit, we noted for one contract that, because staff did not designate the appropriate method for allocating payments when creating the purchase requisition/order within the PeopleSoft Financials System, the system defaulted to a method which charged all payments for that contract to one established funding source until that source was depleted, and then charged the remaining payments to the next funding source established for that contract. As a result, payments for that contract were not properly allocated as designated by knowledgeable engineering staff administering the applicable project. Because of that improper allocation, charges in the amount of \$100,277 that should have been paid from the City’s sewer fund were instead paid from the City’s water fund. Underground Utilities subsequently made a correcting entry transferring those charges from the water fund to the sewer fund. Accordingly, this step is completed. (Also see the following action plan step.)
<ul style="list-style-type: none"> • Underground Utilities will use the appropriate available methodology to equitably allocate construction costs between funding sources. (<i>Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ In the initial audit, we noted for one contract that, because staff did not designate the appropriate method for allocating payments when creating the purchase requisition/order within the PeopleSoft Financials System, the system defaulted to a method which charged all payments for that contract to one established funding source until that source was depleted, and then charged the remaining payments to the next funding source established for that contract. As a result, payments for that contract were not properly allocated as designated by knowledgeable engineering staff administering the applicable project. Because of that improper allocation, charges in the amount of \$100,277 that should have been paid from the City’s sewer fund were instead paid from the City’s water fund. As reported in the initial audit report, Underground Utilities staff indicated they had recently become aware of this issue and had implemented actions such that the appropriate method for allocating payments between project funding sources are now properly designated when creating purchase

	<p>requisitions/orders within the procurement system. Our follow-up review confirmed those corrective actions have been taken. This step is completed. (Also see the prior action plan step.)</p>
<p>Ensure required insurance coverage is maintained.</p>	
<ul style="list-style-type: none"> • Efforts will be enhanced to ensure evidence of required insurance coverages is provided before contracts are executed. <i>(Risk Management)</i> 	<ul style="list-style-type: none"> ✓ Our review of recently executed contracts showed evidence of contractually-required insurance coverages (general liability, automobile liability, workers' compensation, and/or professional liability) was provided to the City and verified by City Risk Management staff as appropriate and adequate. Accordingly, this step is considered completed.
<p>Ensure change orders are timely executed.</p>	
<ul style="list-style-type: none"> • Anticipated and outstanding pending changes that affect the contract price will not be unnecessarily delayed in order to bundle changes into a single change order; change orders will be prepared and presented for approval as soon as practicable in an effort to ensure timely execution. <i>(Public Works)</i> 	<ul style="list-style-type: none"> ✓ In the initial audit we reported that, for two of the construction contracts, formal change orders were not always timely prepared and executed to formally modify the applicable contracts for the revised and/or additional work performed. As reported, the delays in executing change orders was attributed to staff accumulating changes and bundling those changes into single change orders. That was done, in part, to reduce the number of individual change orders. However, as also reported, that practice was not appropriate as it increased the risk the City will pay inappropriate amounts for work (i.e., in instances where the contractor invoices and is paid by the City for the additional/revised work before a change order is approved and executed). During this follow-up we found Public Works has addressed and corrected this issue. Specifically, a new standard operating procedure provides that change orders are to be prepared and presented for execution and processing as soon as practicable and that no payments are to be made for the revised and/or additional work prior to the approval of the change order. A construction contract with multiple change orders was provided by Public Works demonstrating compliance with this new procedure. Accordingly, this step is considered completed.
<ul style="list-style-type: none"> • Change orders will be prepared, approved, and executed for authorized work that increase or decrease the contract price. <i>(Underground Utilities)</i> 	<ul style="list-style-type: none"> ✓ The Underground Utilities Water Resource Engineering (WRE) Division revised the process such that change orders are always prepared, reviewed, and authorized to reflect all work modifications that impact (increase or decrease) a contract's price. An example of a final authorized change order for a recently completed water and sewer replacement contract demonstrated this revised process was implemented correctly. This action plan is considered completed.

Ensure proper and timely disbursement of City funds.	
<ul style="list-style-type: none"> • Reviews of contractor pay requests will be enhanced to ensure quantities of materials and services billed agree with quantities of materials and services provided. <i>(Public Works)</i> 	<ul style="list-style-type: none"> ✓ In the initial audit, we reported the material quantities and services billed by a contractor on a final pay request for a construction contract did not match the actual material quantities and services as verified by Public Works inspection staff and as reflected on the final change order. As reported, the differences offset each other such that there was no over or under payment in regard to the total contractually agreed compensation, as amended by approved and executed change orders. Public Works management acknowledged that review of the final pay request should have detected the differences and that, without correcting adjustments by the contractor, the final pay request should not have been accepted and approved for payment. In response to this issue, Public Works established a standard operating procedure requiring all pay requests to be reviewed to verify all billed quantities of materials and services agree with actual quantities of materials and services provided and/or installed by the contractor. Our review of a subsequent construction contract and related final pay request during this follow-up review showed this procedure is being followed. Accordingly, this step is considered completed.
Ensure real estate dispositions are executed in accordance with City policy.	
<ul style="list-style-type: none"> • In future sales of City properties, nearby property owners will be properly notified in accordance with the provisions of City Commission Real Estate Policy 136. <i>(Property Management Division)</i> 	<ul style="list-style-type: none"> ✓ In accordance with City Commission Real Estate Policy 136, the Property Management Division has taken steps to ensure nearby property owners are properly notified when consideration is being given to sale of City owned property. For example, evidence was provided showing nearby property owners were notified in October 2013 of the proposed sale of three City owned parcels within or adjacent to the Gaines Street corridor. Those notifications provided the nearby property owners the opportunity to comment and/or express concerns regarding the proposed sale and use of the subject property. Accordingly, this step is completed.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and completed or otherwise resolved.
- ❖ Actions initiated but not completed.

Conclusion

Table 1 above shows seven of the eight action plan steps established to address issues identified in our initial audit and due for completion as of September 30, 2013, have been completed and/or resolved. Actions have been initiated but not completed for the remaining step. That step pertains to the proper coding of project expenditures within the City’s financial system. We commend applicable City departments for their timely corrective actions.

Remaining actions due to be completed in future periods include:

- Revising standard contract language to ascertain if a more reasonable “required completion date” should be used in determination of whether liquidated damages should be assessed on construction contracts; and better documenting justifications for not assessing liquidated damages when required work is not timely completed (*two steps*).
- Enhancing reviews of vendor invoices to ensure amounts are billed in accordance with task orders and contracts, and adequate support is provided by contractors to support amounts billed (*one step*).
- Ensuring timely payment of vendor invoices (*one step*).

We will address the status of those remaining actions in our subsequent follow-up engagement.

We appreciate the assistance and cooperation from the various City departments during this audit follow-up.

Appointed Official’s Response

City Manager:

I wish to thank the City Auditor’s Office for their analysis of Management’s actions taken in follow up to the Second Audit of the Gaines Street Revitalization. I am pleased that we were able to complete all but one of the action steps identified in the initial audit and that we are making substantial progress on the remaining one. I would also like to extend my sincere thanks to all the departments for their full cooperation with the Auditor’s Office on this review.

Copies of this audit follow-up #1408 or audit report #1319 may be obtained from the City Auditor’s website (<http://talgov.com/auditing>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit follow-up conducted by:
T. Bert Fletcher, CPA, CGMA, City Auditor