

Audit Follow-up

As of September 30, 2013



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City Auditor

Aviation Capital Projects **(Report #1308 issued March 21, 2013)**

Report #1409

January 23, 2014

Summary

The Aviation Department and the Accounting Services Division within the Department of Management and Administration (DMA) completed five of the six action plan steps established to address issues identified in audit report #1308, Aviation Capital Projects, that were due for completion as of September 30, 2013. Actions have been initiated to complete the remaining step due as of that date.

In audit report #1308 we determined that, overall, the Aviation Department properly and adequately managed and administered aviation capital projects. Specifically, we found (1) the reported status of capital projects was reasonable; (2) contracts for selected capital projects were competitively awarded and executed in accordance with controlling policies, procedures, regulations, and good business practices; (3) selected capital project activities (primarily disbursements) were authorized, appropriate, timely, supported, accounted for, and in compliance with controlling policies, procedures, regulations, and contractual terms; and (4) contract activities were properly and adequately monitored by Aviation Department staff. We also identified issues that were indicative of the need for further improvements and enhancements.

Of the eight action plan steps developed to address those issues, six were due for completion as of September 30, 2013. A summary of those six action plan steps and their current status as determined by our follow-up engagement is as follows:

- Aviation management will reduce retainage withheld on non-federally funded construction contract payments from 10 percent to five percent when contractual work is at (or above) 50 percent completion. **(Step Completed)**
- Aviation management will document its justification for assessing or not assessing liquidated damages in those instances where contracted work is not completed by the contractually-established due dates. **(Action Step Initiated But Not Completed)**
- Accounting Services will capitalize the two closed projects identified in audit report #1308 as not having been capitalized. **(Step Completed)**
- Aviation management will develop and implement internal procedures to timely and properly notify Accounting Services of aviation capital projects that should be capitalized. **(Step Completed)**
- Accounting Services will periodically identify completed capital projects within the City's PeopleSoft Financial Systems

and, for those projects flagged to be capitalized, ensure the administering departments have provided appropriate information to allow capitalization of the applicable assets (costs) in the City's fixed asset records. **(Step Completed)**

- DMA (Accounting Services) will revise language in Administrative Policy and Procedure (APP) 662 to clarify that City departments are responsible for timely notification to Accounting Services upon completion of a capital project. The revision will specify the information that should be provided, along with the notification, to allow proper capitalization in the City's fixed asset records. **(Step Completed)**

Table 3 in this report provides details on those six steps and completed actions as determined by our follow-up process.

We appreciate the cooperation and assistance provided by Aviation Department and Accounting Services staff during this follow-up audit.

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.

Original Report #1308

The scope of report #1308 included a review of the status and activity of selected Aviation Department capital projects. Reviewed activity included (but was not limited to) selection of vendors, award and execution of contracts, and disbursements of funds during the four-year period fiscal year (FY) 2009 through FY 2012.

The objectives were to determine (1) the reasonableness of the reported status of open (active) capital projects; (2) whether contracts for selected capital projects were competitively awarded and executed in accordance with controlling policies, procedures, regulations, and good business practices; (3) whether selected capital project activities (primarily disbursements) were authorized, appropriate, timely, adequately supported, accounted for, and in compliance with controlling policies, procedures, regulations, and contractual terms; (4) whether Aviation Department staff properly and adequately monitored capital project activities; and (5) whether completed capital projects were properly and timely capitalized in the City's fixed asset records.

To complete those stated objectives we interviewed knowledgeable staff and obtained and analyzed various records and reports relating to Aviation Department capital projects. We sampled active and closed capital projects. For sampled projects we reviewed selection of vendors, execution of contracts, disbursement of funds, and Aviation Department monitoring and oversight activities. We also observed work-in-progress as well as completed activities.

Report #1409

This is our first follow-up on action plan steps identified in audit report #1308. The purpose of this follow-up is to report on the progress and

status of the 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

Pursuant to City Commission Policy 218, "Capital Projects Management," the Aviation Department is responsible for facilitation and oversight of capital projects established to benefit the City-owned airport. Those responsibilities include, but are not limited to, establishing design and construction schedules, budget oversight, and ensuring all aspects of their projects comply with applicable City, State, and Federal policies and requirements.

City Commission Policy 218 defines a capital project as a project that is at least \$50,000 in scope, has a life span of over five years, and is construction related or otherwise results in improving the City's infrastructure. As shown in Table 1, we identified 47 active capital projects pertaining to the City's airport as of the start of our initial audit in January 2012. Approximately \$81 million was appropriated and budgeted for those 47 projects, of which approximately \$38 million had been expended as of that date.

**Table 1
Aviation Active Capital Project Activity
Summary
As of Mid-January 2012**

Total Active Projects:	47
Projects Funding Status	Total
Appropriated (Budgeted)	\$80,995,873
Expended	\$38,037,362
Encumbered (See Note 1)	\$16,377,375
Appropriated Balance not yet expended or encumbered	\$26,581,136
Note 1 – Encumbrances represent amounts committed for goods and services not yet received.	

Source: Audit Report #1308

Of the approximately \$38 million already expended on the 47 projects, \$23,873,310 was spent during the period FY 2009 through FY 2012 (i.e., as of January 2012) as shown in Table 2.

**Table 2
Aviation Capital Project Expenditure Summary
FY 2009 through Mid-January 2012**

Fiscal Year	Amount
2009	\$3,725,282
2010	\$9,046,862
2011	\$8,812,772
2012 – as of January 2012	\$2,288,394
Total	\$23,873,310

Source: Audit Report #1308

In addition to the 47 open (i.e., still active) capital projects as of January 2012, we identified 56 aviation capital projects that were closed (e.g., completed) during the period FY 2009 through mid-January 2012. Amounts expended on those 56 projects totaled \$18.3 million.

**Previous Conditions and
Current Status**

In report #1308, we found that, overall, Aviation Department capital projects were generally properly managed and administered. Controls implemented provided reasonable assurance that (1) the status of aviation capital projects was properly reflected in the City's records; (2) contracts for selected capital projects were competitively awarded and executed in accordance with controlling policies, procedures, regulations, and good business practices; (3) selected capital project activities (primarily disbursements) were authorized, appropriate, timely, supported, accounted for, and in compliance with controlling policies, procedures, regulations, and contractual terms; and (4) contract activities were properly and adequately

monitored by Aviation Department staff. Issues were identified that indicated the need for enhancements and improvements. Recommendations provided to management to address those issues included:

- Ensuring retainage withheld on non-federally funded construction contracts is in accordance with State statutes.
- Documenting of record department justification for not assessing liquidated damages when contracted construction work is not completed by contractually established due dates.
- Enhancing current procedures to require debarment/suspension certifications from entities awarded aviation capital project

contracts that are funded, in whole or in part, by Federal grant funds.

- Enhancing procedures to ensure the proper capitalization of all applicable completed aviation capital projects in the City’s fixed asset records.

Management developed eight action plan steps to address the identified issues and audit recommendations. Six of those action plan steps were due for completion as of September 30, 2013. As shown below in Table 3, the Aviation Department and DMA staff have successfully completed or resolved five of the six action plan steps due for completion. As also shown in Table 3, actions have been initiated to complete the remaining step.

**Table 3
Action Plan Steps from Audit Report #1308
Due as of September 30, 2013, and Current Status**

Action Plan Steps Due as of September 30, 2013	Current Status
Ensure retainage withheld on payments is in accordance with State Statutes.	
<ul style="list-style-type: none"> • Aviation management will reduce retainage withheld on non-federally funded construction contract payments from 10 percent to five percent when contractual work is at (or above) 50 percent completion. <i>[Report #1308 Action Plan Step B.1]</i> 	<p>✓ Completed – In our initial audit, we identified an instance where the Aviation Department did not reduce retainage withheld on construction contractual payments from 10 percent to five percent in accordance with State of Florida statutory requirements. The applicable statutes, which apply to non-federally funded projects, require that the rate of percentage withheld for retainage be reduced from 10 percent to no more than five percent after the contract work is 50 percent completed. We recommended the Aviation Department revise processes to ensure compliance with the noted statutory provisions. During our follow-up, we found the Aviation Department commenced reducing retainage withheld on non-federally funded construction contract payments from 10 percent to five percent after the work reaches 50 percent completion. Additionally,</p>

	<p>the Aviation Department indicated they will be documenting procedures to ensure retainage for all future projects is consistently applied. Accordingly, this issue is considered resolved.</p>
<p>Ensure work is timely completed.</p>	
<ul style="list-style-type: none"> • Aviation management will document its justification for assessing or not assessing liquidated damages in those instances where contracted work is not completed by the contractually-established due dates. <i>[Report #1308 Action Plan Step C.1]</i> 	<ul style="list-style-type: none"> ➤ Action step initiated but not completed - In our initial audit, we identified two instances where the Aviation Department did not assess liquidated damages as allowed by the contractual agreements for the applicable construction projects. In both instances the related construction work had not been completed within the contractually-prescribed periods. In response to our inquiry, Aviation Department staff indicated that liquidated damages were not charged because the delay in completion of contractual work was not attributable to the contractor. To clearly demonstrate and justify managerial decisions, we recommended the Aviation Department document its decisions to charge or not charge liquidated damages in future instances where construction work is not completed by contractually-established due dates. During our follow-up, the Aviation Department indicated that operating procedures had been established for documenting decisions to charge or not to charge liquidated damages in instances where work is completed beyond the contractual established due date. However, those procedures were not formalized (documented). Also, during the period covering our follow-up review, there was no contractual work completed for which liquidated damages were assessable. Accordingly, we will follow-up on the status of this action plan step again in our subsequent follow-up engagement.

Ensure completed/closed capital projects are timely and properly capitalized.	
<ul style="list-style-type: none"> Accounting Services will capitalize the two closed projects identified by this audit as not capitalized – Terminal Service Road Improvements (Project #00027) and Commercial Runway/Taxiway Erosion Control (Project #04001) projects. <i>[Report #1308 Action Plan Step D.1]</i> 	<ul style="list-style-type: none"> ✓ Completed – We reported in our initial audit that two of five reviewed closed/completed aviation capital projects were not capitalized in the City’s fixed asset records. The two projects were the Terminal Service Road Improvement Project and the Commercial Runway/Taxiway Erosion Control Project. We recommended that Accounting Services work with the Aviation Department to capitalize those two projects. During our follow-up review, we found Accounting Services has now capitalized those two closed/completed aviation capital projects. Accordingly, this issue is considered resolved.
<ul style="list-style-type: none"> Aviation management will develop and implement internal procedures to timely and properly notify Accounting Services of aviation capital projects that should be capitalized. <i>[Report #1308 Action Plan Step D.2]</i> 	<ul style="list-style-type: none"> ✓ Completed - In our initial audit, we recommended that the Aviation Department develop and implement procedures to timely and properly notify Accounting Services of completed aviation capital projects that should be capitalized. During our follow-up review, we found the Aviation Department subsequently developed a written procedure to ensure Accounting Services is timely and properly notified of completed aviation capital projects that should be capitalized. We also found that the Aviation Department is timely notifying Accounting Services of those closed/completed capital projects that need to be capitalized. Accounting Services has properly capitalized those aviation closed/completed capital projects in the City’s fixed asset records. Accordingly, this issue is considered resolved.
<ul style="list-style-type: none"> Accounting Services will periodically identify completed capital projects within the City’s PeopleSoft Financial Systems and, for those projects flagged to be capitalized, ensure the administering departments have provided appropriate information to allow capitalization of the applicable assets (costs) in the City’s fixed asset records. <i>[Report #1308 Action Plan Step D.3]</i> 	<ul style="list-style-type: none"> ✓ Completed – We recommended in our initial audit that Accounting Services periodically take steps to identify capital projects flagged as completed by staff within administering departments and, for applicable projects, ensure those departments have provided appropriate information to allow Accounting Services to capitalize the applicable assets (costs) in the City’s fixed asset records. During this follow-up review, we found

	<p>Accounting Services has worked with three City departments (Aviation, Electric Utility, and Underground Utilities) to ensure closed/completed capital projects (flagged to be capitalized) were properly capitalized in the City’s fixed asset records. Accordingly, this step is considered resolved.</p>
<ul style="list-style-type: none"> • DMA (Accounting Services) will revise language in APP 662 to clarify that City departments are responsible for timely notification to Accounting Services upon completion of a capital project. Those revisions will specify the information that should be provided, along with the notification, to allow proper capitalization in the City’s fixed asset records. [Report #1308 Action Plan Step D.4] 	<ul style="list-style-type: none"> ✓ Completed - In our initial audit we recommended that DMA revise the language for its policy, APP 662, “Property Control,” to clarify that City departments are responsible for providing timely notification and appropriate information to Accounting Services to ensure timely capitalization of completed projects. During our follow-up review, we found DMA has revised its policy language to require City departments to provide completed Fixed Asset Receipt Report (FARR) forms to Accounting Services no later than two weeks following the close of the respective capital project. According to Accounting Services staff, the FARR specifies the information needed for proper capitalization of the applicable fixed asset. Accordingly, this issue is considered resolved.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issues addressed and resolved.
- Action step initiated but not completed.

Conclusion

This is the first follow-up on action plan steps identified in audit report #1308. As described above, eight action plan steps were established to address issues identified in the audit report. Six of those action plan steps were due for completion as of September 30, 2013.

As noted in Table 3 above, the Aviation Department and Accounting Services management has successfully completed and resolved five of the six action plan steps due for completion. Actions have been initiated to complete the remaining step. That action plan step requires the Aviation Department to document its justification for assessing or not assessing liquidated damages in those instances where contracted work is not completed by the contractually-established due date.

The remaining two action plan steps due to be completed in the future relate to contracts involving Federal funds. Those steps include:

- Procurement Services will require contracting entities to certify they are not currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation by any Federal department or agency.
- Procurement Services staff will use a Federal government website to verify that prospective vendors (and their subcontractors) are not debarred or suspended by any Federal agencies when contracts involve the use of Federal funds.

We will follow up and report on Aviation Department and Procurement Services' efforts to complete those remaining action plan steps in our subsequent follow-up engagement.

We appreciate the cooperation and assistance provided by Aviation Department and Accounting Services staff during this audit follow-up engagement.

Appointed Official's Response

City Manager:

I am pleased that the recommendations made by the City Auditor in the audit of the Aviation Capital Projects have been completed or are steadily advancing toward completion. These recommendations will enhance the management of the Airport's capital projects. I would like to thank the City Auditor and his staff as well as the Department of Aviation and Department of Management & Administration for their work in improving the Airport's Capital project management processes.

Copies of this audit follow-up #1409 or audit report #1308 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).

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