

Final Audit Follow-up

As of March 31, 2014



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City Auditor**

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

Report #1419

June 18, 2014

Summary

All eight action plan steps established to address issues identified in audit report #1308 have been successfully completed. Five of the action plan steps were completed during the prior follow-up period and the remaining three steps were completed during this follow-up period.

In audit report #1308 (issued March 21, 2013), we determined the Aviation Department properly and adequately managed and administered aviation capital projects. Specifically, we found:

- The reported status of capital projects was reasonable.
- Contracts for selected capital projects were competitively awarded and executed in accordance with applicable policies, procedures, regulations, and good business practices.
- Selected capital project activities (primarily disbursements) were authorized, appropriate, timely, supported, accounted for, and in compliance with applicable policies, procedures, regulations, and contractual terms.
- Contract activities were properly and adequately monitored by Aviation Department staff.

We also identified issues that were indicative of

the need for improvements and/or enhancements. Those issues included:

- Retainage should be withheld on non-federally funded construction projects in amounts provided by State statutes.
- The Aviation Department should document justification for not assessing liquidated damages when project construction work is not completed by contractually-established due dates.
- Current procedures should be enhanced to require debarment/suspension certifications from entities awarded capital project contracts that are funded, in whole or in part, by Federal grant funds.
- Procedures should be enhanced to ensure the proper capitalization of completed aviation capital projects in the City's fixed asset records.

A total of eight action plan steps were developed to address those identified issues. We reported in our prior follow-up report (Report #1409) that five of the eight action plan steps were completed. During this follow-up, for the period ending March 31, 2014, we determined the Aviation Department and Procurement Services have successfully completed the remaining three action plan steps. Specifically, we found:

- Procurement Services now requires contracting entities for projects involving

Federal funds to certify they are not currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation by any Federal department or agency. **(Step Completed)**

- Procurement Services staff now uses a Federal government website (www.sam.gov) to verify and ensure that prospective vendors (and their subcontractors) are not debarred or suspended by any Federal agencies. **(Step Completed)**
- The Aviation Department has formalized an internal operating procedure and established a monitoring record to document justification for assessing or not assessing liquidated damages in instances where contracted work is not completed by the contractually-established due dates. **(Step Completed)**

Table 3 in this report provides additional details on actions taken to complete those three action plan steps.

We appreciate the cooperation and assistance provided by the Aviation Department and Procurement Services 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 period October 2009 through mid-January 2012.

The objectives were to determine whether:

- The reported status of open (active) capital projects was reasonable.
- Contracts for selected capital projects were competitively awarded and executed in accordance with applicable policies, procedures, regulations, and good business practices.
- Selected capital project activities (primarily disbursements) were authorized, appropriate, timely, adequately supported, accounted for, and in compliance with applicable policies, procedures, regulations, and contractual terms.
- Aviation Department staff properly and adequately monitored capital project activities.
- 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 vendor selection,

contract execution, disbursement of funds, and Aviation Department monitoring and oversight activities. We also observed work-in-progress as well as completed activities.

Report #1419

This is our second and final 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 March 31, 2014. 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 aviation capital projects comply with applicable City, State, and Federal laws, 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. We identified 47 active capital projects pertaining to the City’s airport as of January 2012. As shown in Table 1, approximately \$81 million had been appropriated and budgeted for those 47 projects, of which approximately \$38 million had been expended.

**Table 1
Capital Project Funding Summary
(47 Active Projects)
As of Mid-January 2012**

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

As shown in Table 2, of the approximately \$38 million expended on the 47 projects, \$23,873,310 was during the period October 2009 through mid-January 2012.

**Table 2
Capital Project Expenditure Summary
(47 Active Projects)
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 mid-January 2012, we identified 56 aviation capital projects that were closed (e.g., completed) during the period October 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. Internal controls in place provided reasonable assurance that:

- The status of aviation capital projects was properly reflected in the City’s records.
- Contracts for selected capital projects were competitively awarded and executed in accordance with controlling policies, procedures, regulations, and good business practices.
- Selected capital project activities (primarily disbursements) were authorized, appropriate, timely, supported, accounted for, and in compliance with controlling policies,

- procedures, regulations, and contractual terms.
- Contract activities were properly and adequately monitored by Aviation Department staff.

Issues were identified that indicated the need for enhancements and improvements. Audit recommendation were made to address those issues.

Management developed eight action plan steps to address the identified issues and audit recommendations. We reported five of those eight action plan steps were completed and resolved in the prior follow-up audit (Report #1409). As shown below in Table 3, the Aviation Department and Procurement Services staff have successfully completed and resolved the remaining three action plan steps due as of March 31, 2014.

**Table 3
Action Plan Steps from Audit Report #1308
Due as of March 31, 2014, and Current Status**

Action Plan Steps Due as of March 31, 2014	Current Status
Ensure proper execution and implementation of contractual agreements.	
<ul style="list-style-type: none"> • For all contracts involving Federal funds, Procurement Services will require contracting entities to certify they are not currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating by any Federal department or agency. Entities will be required to provide the certification prior to execution of a contract with the City. 	<ul style="list-style-type: none"> ✓ <u>Completed</u> – In our initial audit, we noted two instances where contractors for Aviation Department Federally funded capital projects were not required to provide a signed certification that they (and their subcontractors) were not currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in the project by any Federal department or agency. Upon discussing this matter with Procurement Services, a determination was made that it would be more efficient for Procurement Services, on behalf of all City departments, to establish a process to help ensure compliance with Federal

	<p>rules regarding debarment and suspension for Federally funded projects.</p> <p>During this follow-up period, we determined Procurement Services implemented a process whereby additional forms are now included in bid solicitations for City projects that are funded, at least in part, by Federal monies. In those additional forms, proposers (prospective vendors) must certify they are not debarred, suspended, proposed for debarment, or declared ineligible for the award of contracts by any Federal agency. Accordingly, this action step is completed.</p>
<ul style="list-style-type: none"> For contracts involving Federal funds, Procurement Services staff will use a Federal government website to verify prospective vendors (and their subcontractors) are not debarred or suspended by any Federal agencies. 	<p>✓ <u>Completed</u> - As part of the original audit, it was recommended that Procurement Services, on behalf of all City departments, use an available Federal website to verify, prior to contract execution, that applicable entities are not included on the Federal Government’s public list of debarred or suspended entities. During this follow-up audit, we noted Procurement Services staff now uses the Federal government website (www.sam.gov) to verify prospective vendors and their subcontractors are not debarred or suspended by any Federal agencies. Accordingly, this action step is completed.</p>
<p>Ensure retainage withheld on payments is in accordance with State Statutes.</p>	
<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. 	<p>✓ <u>Completed</u> in the prior period.</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. 	<p>✓ <u>Completed</u> - In our initial audit, we identified two instances where the Aviation Department did not assess liquidated damages as provided for by the contractual agreements for the applicable construction projects. In both instances the related construction work was not completed within the contractually-prescribed time frame. In response to our inquiry, Aviation</p>

	<p>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.</p> <p>In the previous follow-up audit (Report #1409), we reported the Aviation Department had established (informal) operating procedures for documenting decisions as to whether liquidated damages would be applied in instances where work is not completed by the contractually-established completion date. We also reported there was no contractual work completed for which liquidated damages were assessable.</p> <p>During this follow-up period, there was again no contractual work completed for which assessment of liquidated damages may have been applicable. However, we found the Aviation Department has now formalized an internal operating procedure and developed a monitoring record for addressing assessment of liquidated damages in accordance with applicable contractual agreements. The Aviation Department plans to apply the operating procedure and use the monitoring record 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 dates. Based on these actions, this step is considered complete.</p>
<p>Ensure completed/closed capital projects are timely and properly capitalized.</p>	
<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. 	<p>✓ <u>Completed</u> in the prior period.</p>

<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. 	<p>✓ <u>Completed</u> in the prior period.</p>
<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. 	<p>✓ <u>Completed</u> in the prior period.</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. 	<p>✓ <u>Completed</u> in the prior period.</p>

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issues addressed and resolved.

Conclusion

This is the second and final follow-up on action plan steps identified in audit report #1308. As described above (see Table 3), all eight action plan steps established to address issues identified in the audit report have been successfully completed. Three of those action plan steps were completed during the period covered by this second follow-up audit. Those three completed actions include:

- Procurement Services now requires 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 now uses 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.
- The Aviation Department has now formalized an internal operating procedure and established a monitoring record to document justification for assessing or not assessing liquidated damages in instances where contracted work is not completed by the contractually-established due dates.

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

Appointed Official's Response

City Manager:

I am pleased that all recommendations made by the City Auditor in conjunction with their audit of the Aviation Capital Projects have been fully implemented. The completion of these action items will enhance the compliance of and accounting for aviation capital projects. The work of the City Auditor and his staff, the Department of Aviation and the Department of Management & Administration is appreciated.

Copies of this final audit follow-up #1419 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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