



# CITY OF SAN ANTONIO

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October 23, 2012

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**Elisa Chan**  
Councilwoman, District 9

**Carlton Soules**  
Councilman, District 10

SUBJECT: Follow-up Audit Report of Public Works Department, Advanced Transportation District Fund

Mayor and Council Members:

We are pleased to send you the follow-up audit report of Public Works Department, Advanced Transportation District Fund. This audit began in June 2012 and concluded with an exit meeting with department management in August 2012. Management's verbatim response is included in **Appendix C** of the report. The Public Works Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Kevin W. Barthold".

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

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Follow-up Audit of Public Works Department

Advanced Transportation District Fund

Project No. AU12-018F04

October 23, 2012

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Public Works Department Advanced Transportation District Fund audit report dated August 2, 2010. The original report contained five recommendations which were all accepted by management. Our audit objective follows:

**Has Public Works management effectively implemented actions to address the prior audit recommendations?**

We determined that Public Works has implemented two of the five recommendations in the aforementioned report. The audit team reviewed management actions for all five audit recommendations made in the original report with results noted in **Table 1** below. (See **Appendix A** on page 4 for a detailed summary.)

**Table 1 Recommendation Status Summary**

<b>Recommendation Status</b>	<b>Number of Recommendations</b>
Implemented	2
In Process	0
Not Implemented	3
<b>Total Recommendations Reviewed</b>	<b>5</b>

Public Works has not implemented the following recommendations:

- Work with Finance to ensure ATD projects that meet the City's capitalization threshold are capitalized in the City's accounting system in accordance with the City's Fixed Asset Policy and Procedures Manual.
- Comply with the City's AD 8.7 Financial Management of Capital Assets and Tracked Property and the Fixed Asset Policy and Procedures Manual in managing ATD assets.
- Obtain and comply with the City's Contracting Policy and Procedures Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.

Public Works Department Management's verbatim response is in **Appendix C** on page 6.

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## Background

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In August 2010, the Office of the City Auditor completed an audit of the Advanced Transportation District (ATD) Fund. The objective of that audit was as follows:

**Is the usage of Advanced Transportation District Funds in compliance with state and local requirements?**

The Office of the City Auditor issued a report that found the usage of ATD funds to be compliant with requirements; however, it identified the need for increased controls surrounding ATD funds in the areas of accounting, asset management, records management, and the procurement process.

## Audit Scope and Methodology

The audit scope was limited to recommendations made in the original report. The audit methodology consisted of reviewing the City's Administrative Directive (AD) 8.7 Financial Management of Capital Assets and Tracked Property and AD 8.9 Financial Management of Capital Projects. We also reviewed AD 1.6 Purchasing Procedures and the City's Contracting Policy and Procedures Manual (revised 2007), Procurement Policy and Procedures Manual (revised 2011), and the Fixed Asset Policy and Procedures Manual. We interviewed relevant management and staff of the Public Works and Finance Departments regarding their procedures related to capital assets.

We utilized the Finance Department's FY 2009, 2010, and 2011 Capital Assets lists for ATD projects. We performed testwork on capital projects in the SharePoint system and purchase orders for goods or services in SAP.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We performed our testing during July and August 2012, and the scope of our testing covered the period of October 2010 to September 2011.

## Prior Recommendations and Audit Results

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### 1. Accounting for Infrastructure Assets

The Public Works Director should work with Finance to ensure ATD projects that meet the City's capitalization threshold are capitalized in the City's accounting system in accordance with the City's Fixed Asset Policy and Procedures Manual.

#### **Status: Not Implemented**

Public Works did not properly monitor to ensure that ATD projects were appropriately capitalized. Although Public Works reviewed all ATD projects from FY 2006 to FY 2011 and provided the information to Finance, Public Works did not follow up to ensure that the projects were capitalized correctly. Of the 90 projects tested, 25 capital projects were not capitalized (valued at approximately \$4.8 million). Further, 12 of the 90 projects were capitalized inappropriately (valued at approximately \$1.3 million). Of the 12 projects, 5 were capitalized twice in consecutive years, and 7 were non-capital projects.

Finance is making the necessary adjustments to ensure accurate reporting of capital assets in the City's financial statements.

### 2. Establishing Cost Elements for ATD Projects

The Public Works Director should establish individual WBS elements (similar to a cost element) for ATD projects in the City's accounting system in compliance with the City's AD 8.9 Financial Management for Capital Projects.

#### **Status: Implemented**

Public Works segregated the project expenditures into individual WBS elements in SAP for all sidewalk and intersection projects. According to Public Works, these are the projects mostly likely to exceed the \$100,000 capitalization threshold.

### 3. Asset Management

Public Works Director should comply with the City's AD 8.7 Financial Management of Capital Assets and Tracked Property and the Fixed Asset Policy and Procedures Manual in managing ATD assets.

**Status: Not implemented**

The Public Works Department has not added to its asset inventory list or tagged new assets purchased with ATD funds since the prior audit. Also, the department did not conduct an annual review of the asset inventory list in FY 2011.

**4. Issuance of Purchase Orders**

Public Works Director should comply with the City's Procurement Policy and Procedures Manual when creating purchase orders. If reasonable cost estimates are not available, Public Works should follow a process similar to that for creating purchase orders under an Indefinite Delivery Indefinite Quantity Contract.

**Status: Implemented**

Public Works complied with the City's Procurement Policy when creating purchaser orders. For all of the 25 items selected for testwork, the department created the purchase order prior to the expenditure.

**5. Incomplete Contract Files**

Public Works Director should obtain and comply with the City's Contracting Policy and Process Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.

**Status: Not Implemented**

According to Public Works, a copy of the City's Contracting Policies and Procedures Manual was provided to employees; however, management was unable to provide evidence of any formal communication of City's policy.

Public Works did create a position tasked with maintaining the files in the SharePoint system; however, this position was vacant at the time of the audit. Testwork showed that Public Works has made some improvement in record retention, but not to the extent needed to ensure compliance with City policy.

## Appendix A – Recommendation Status Summary

No.	Original Report Recommendation	Current Status
1	The Public Works Director should work with Finance to ensure ATD projects that meet the City’s capitalization threshold are capitalized in the City’s accounting system in accordance with the City’s Fixed Asset Policy and Procedures Manual.	Not Implemented
2	The Public Works Director should establish individual WBS elements (similar to a cost element) for ATD projects in the City’s accounting system in compliance with the City’s Administrative Directive 8.9 – Financial Management for Capital Projects.	Implemented
3	The Public Works Director should comply with the City’s Fixed Asset Policy and Procedures Manual in managing ATD assets.	Not Implemented
4	The Public Works Director should comply with the City’s Procurement Policy and Procedures Manual when creating purchase orders. If reasonable cost estimates are not available, Public Works should follow a process similar to that for creating purchase orders under an Indefinite Delivery Indefinite Quantity Contract.	Implemented
5	The Public Works Director should obtain and comply with the City’s Contracting Policy and Process Manual in maintaining contract files for ATD projects. Also, train department employees to use SharePoint as the electronic filing system for ATD contracts.	Not Implemented

## **Appendix B – Staff Acknowledgement**

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Brian K. Williams, MBA, CIA, CFE, CRMA, CGAP, Audit Manager  
Arlena Sones, CPA, CIA, CGAP, Auditor in Charge

## Appendix C – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

Date: October 5, 2012

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

RE: Management's Acknowledgement of the Public Works Department, ATD Fund Follow-Up Audit

- Fully Agree (provide detailed comments)
- Agree Except For (provide detailed comments)
- Do Not Agree (provide detailed comments)

Below are our comments to the subject report.

#### #1 Accounting for Infrastructure Assets

##### **Background**

The City implemented the process of capitalizing projects for governmental funds with the adoption of GASB Statement No. 34 in FY2002. Prior to the adoption, the City was required to only capitalize projects recorded in the enterprise and internal service funds. The process and accounting of expending funds for capital outlay on a cash flow, budget basis as recorded in the fund schedules have not changed and have been properly reported. However, when the City implemented GASB Statement No. 34 it was required for financial reporting purposes to adjust those capital outlays from expenditures into capital assets on the City's Balance Sheet, thereby capitalizing assets that meet thresholds established by the City.

In FY2006, as part of the City's external audit, the auditors noted several projects that had not been properly capitalized. As a result, adjustments were required by the City's auditors to capitalize \$446M in assets that were completed and in service. The auditors additionally issued a finding in the City's Management Letter to the Audit Committee ("Management Letter") on the proper capitalization of City assets. The City has made significant improvements to its processes since FY2006 with Finance developing and training City personnel on Administrative Directive 8.9, Financial Management of Capital Projects and Administrative Directive 8.7, Financial Management of Capital Assets as well as Finance performing additional internal reviews on the construction in process asset listing used to capitalize the City's projects for financial reporting at year-end.

While the City has made significant improvements to managing its capital assets, improvements are still necessary as indicated in the City's most recent Management Letter. Starting with FY2012 financial close, Finance in coordination with City departments, will be meeting quarterly with departments who have capital projects to determine whether they meet the definition or threshold to be capitalized, have been placed in service, or are still under construction. These quarterly meetings in addition to further refining the Administrative Directives and working with departments, to include the directors, to ensure proper monthly reporting of completed assets should assist in the City eliminating future adjustments related to capital assets.

## Appendix C – Management Response (continued)

### *Specific ATD Projects incorrectly capitalized or not capitalized from FY 2006-2011*

**Action Plan: COMPLETED** - Public Works reviewed all 171 ATD funded projects between FY 2006 and FY 2012. Of the 171 ATD funded projects:

- 60 projects did not meet the \$100,000 capitalization threshold and were accurately expensed
- 39 projects, completed in FY 2010 and FY 2011, met the threshold and were properly capitalized (note: FY 2010 was the first year any ATD projects were capitalized)
- 19 projects were completed in FY 2012 and have been communicated to Finance to properly capitalize as part of the FY 2012 year-end close
- 10 projects were presented to Finance as construction in progress projects. These projects are not scheduled to be complete until FY 2013
- 43 projects were not appropriately accounted for prior to FY 2012 and have been provided to Finance to adjust in the FY 2012 close
  - 30 projects that were completed between FY 2006 and FY 2011 were not capitalized
  - 6 projects were capitalized twice
  - 7 projects were capitalized but did not meet the capitalization threshold

### *FY 2012 and future years*

**Action Plan: IMPLEMENTED** - Public Works established a Standard Operating Guideline to outline the process to ensure ATD funded projects meet the requirements of AD 8.9 Financial Management of Capital Projects. This guideline outlines the following steps to be taken as part of the Quarterly Capital Project Status Report submitted to Finance:

1. Public Works will identify on its submission of the Quarterly Capital Project Status Report all ATD funded projects that were completed in the quarter and the ATD funded projects to be capitalized.
2. Finance will capitalize the ATD funded projects as reported by Public Works each quarter based on the Quarterly Capital Projects Status Report.
3. Public Works and Finance will meet quarterly, once the capitalization is completed, to ensure the accuracy of the projects capitalized.

Both Corrective Action Plans will be responsibility of Anna Resendez, Department Fiscal Administrator and have been completed and/or implemented as of October 4, 2012.

### **#3 Asset Management**

### *FY 2011 acquired Assets*

**Action Plan: COMPLETED** - Public Works identified and cataloged all assets purchased with ATD funds for FY 2011 and FY 2012. All assets were located and physically tagged, and all assets were then added to the Catalog of Assets for the ATD Fund Public Works created in FY 2010. The Catalog of Assets for the ATD Fund was provided to the Inventory Management Section of the Fiscal Division and the physical FY 2012 inventory, which was completed on October 3, 2012.

### *FY 2012 Inventory and future years*

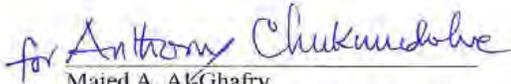
**Action Plan: IMPLEMENTED** - The Inventory Management Section has assumed responsibility of the ATD funded assets' Catalog and has completed the FY 2012 physical inventory of the ATD funded assets. The ATD funded asset inventory report was provided to the Department Fiscal Administrator and the Director. Public Works developed a Standard Operating Guideline outlining specifically how purchased assets, through ATD and other restricted funds, will be cataloged, tagged, inventoried, reported and how discrepancies will be handled.

Both Corrective Action Plans will be responsibility of Anna Resendez, Department Fiscal Administrator and have been completed and/or implemented as of October 3, 2012.

## Appendix C – Management Response (continued)

#5 Incomplete Contract Files
<p><b>Contract Policy and Process Manual Training</b> <b>Action Plan: COMPLETED</b> - Provide all Public Works staff that manages capital projects mandatory training with assistance from the Capital Improvement Management Services Department (CIMS) on establishing proper contract files as required under the City's Contract Policy and Process Manual. This training was completed on October 5, 2012.</p> <p>This mandatory training will occur twice a year, every fiscal year, with the first training session in October and the second training session in April. At the end of every quarter, the Department Fiscal Administrator will audit a sample of contract files to ensure the files are in compliance with City's Contract Policy and Process Manual. All discrepancies will be targeted areas of training during the next scheduled training session.</p> <p><b>Sharepoint Training</b> <b>Action Plan: IMPLEMENTED</b> - Public Works utilizes CIMS SharePoint site that to maintain contract files and this will remain the practice to ensure all City contracts are maintained in one central location. The Contract Coordinator is charged with creating and maintaining the project files in SharePoint. The Fiscal Manager and Fiscal Analyst will be trained on <i>October 19, 2012</i> to fulfill this responsibility until the Contract Coordinator position is filled and will serve as back-up to the Contract Coordinator.</p> <p>Public Works staff that manages capital projects also received mandatory training with assistance from the Capital Improvement Management Services Department (CIMS) on Sharepoint. This training was completed on October 5, 2012.</p> <p>Public Works, with CIMS assistance, will provide all Public Works staff that manages capital projects with mandatory training on how to properly maintain contract files in SharePoint. This mandatory training will occur twice a year, every fiscal year, with the first training session in October and the second training session in April and will be combined with the mandatory training on the Contract Policy and Process Manual.</p> <p>The Department Fiscal Administrator will audit the SharePoint site quarterly to ensure all new contracts are created and maintained in the SharePoint site. Any discrepancies will be reported the Contract Coordinator for immediate correction.</p> <p>Both Corrective Action Plans will be responsibility of Anna Resendez, Department Fiscal Administrator.</p>

Sincerely,

  
Majed A. Al-Ghafry  
Director, Department of Public Works

  
Date

  
Ed Belmares  
Assistant City Manager, City Manager's Office

  
Date