

CITY AUDITOR'S OFFICE



**AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION**

Report PW008-2021-03

November 16, 2020

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES	1
SCOPE AND METHODOLOGY	2
FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	3
1. Contracted Amounts Differ from Approved Funding	6
2. Outdated Policies and Procedures	7
MANAGEMENT RESPONSE	9

AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION
Report PW008-2021-03

BACKGROUND

The City Engineering Division of the Department of Public Works is responsible for the oversight of major capital improvement projects within the city. The division oversees design services, construction management, special improvements, and more for city facilities.

The City Engineering Division manages most high-value capital improvement projects. Prior to the beginning of each new fiscal year, Public Works prepares the Five Year Capital Improvement Plan for the city of Las Vegas. The plan details the capital improvement projects Public Works is currently working on and projects that will start during the next 5 years. The plan is presented to the City Council for review and acceptance. For the fiscal year ended June 2019, total funding approved for capital projects was approximately \$143 million. Project funds come from several sources including the city's general fund and from outside sources such as the Regional Transportation Commission (RTC).

Project consultants (such as architects and engineers) are selected by a special committee and a consultant contract is created and approved by Public Works management, the city's purchasing division (Purchasing), and/or the City Council. Additionally, contractors are hired via bidding or request for proposal per Nevada Revised Statutes (NRS) and must also be authorized by Public Works management, Purchasing, and/or the City Council. Any project scope changes to the consultant or construction contract that go beyond the contingency amounts listed in the original contracts require an amendment (for consultant contracts) and/or change order (for construction contracts) and also require appropriate approval.

The City Engineering Division project managers are responsible for overseeing project costs, schedules, contract compliance, and ensuring proper payment is made to all project consultants and contractors.

OBJECTIVES

Our objectives in completing this audit were as follows:

1. To determine whether capital project funds are being properly budgeted for and approved.
2. To evaluate the adequacy of management controls over capital project consultants including determining whether:
 - Capital project consultants are being selected in accordance with Public Works policy
 - Funding for these consultants is being appropriately approved and allocated
 - Consultant contracts are being appropriately drafted and any changes to these contracts are authorized

3. To evaluate the adequacy of the management controls over capital project bids including determining whether:
 - Bids were within previously approved budgeted amounts
 - Bids were in compliance with all related regulations and city policies and procedures
 - Bids selected were appropriately authorized and approved
4. To evaluate the adequacy of the management controls over capital project construction contracts including determining whether:
 - Contracts are awarded to the appropriate bidder
 - Contracts do not exceed bid proposals
 - Change orders are appropriately reviewed, authorized, and documented
5. To evaluate the adequacy of the management controls over capital project payments including determining whether:
 - Payments are valid
 - Payments are properly reviewed and authorized
 - Payments are appropriately deducted from the correct project accounts
6. To evaluate the adequacy of Public Works' documented capital projects policies and procedures.

SCOPE AND METHODOLOGY

The scope of the audit was limited to transactions and activity that occurred during fiscal year 2019. The following criteria was used when selecting which capital projects to review:

- Overseen by the City Engineering Division
- Project costs exceeded \$1 million
- Projects which were officially closed out during fiscal year 2019, wherein construction was completed, final payments were made, and all contractually required closeout documents were received

A total of 14 capital projects were identified that fit the criteria above. Two of our six audit objectives were applied to all 14 of these projects, while the other four objectives were applied to a sample of 4 of the projects as outlined in the report. The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit. The audit methodology included:

- Conducting interviews with Public Works management and staff
- Reviewing relevant regulations, Public Works standards, and city policies
- Analysis and detail testing of available data

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The last fieldwork date of this audit was September 4, 2020.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The results of our audit procedures to each of our audit objectives are found below:

Objective 1:

To determine whether capital project funds are being properly budgeted for and approved.

Conclusion:

During fiscal year 2019, there were a total of 14 capital improvement projects of \$1 million or greater that were closed out. We randomly selected 4 of these 14 projects for testing and verified whether the projects were appropriately budgeted for and funded. We also verified whether the selected projects were reviewed and authorized by the appropriate committees and by City Council as required. No findings were noted.

Objective 2:

To evaluate the adequacy of management controls over capital project consultants including determining whether:

- Capital project consultants are being selected in accordance with Public Works policy
- Funding for these consultants is being appropriately approved and allocated
- Consultant contracts are being appropriately drafted and any changes to these contracts are authorized

Conclusion:

For all 14 projects, we verified whether all consultants for the projects were selected and approved in accordance with Public Works policy. We also verified whether funding for the consultant contracts were approved in accordance with Public Works policy. For any contract amendments that were required, we verified whether proper documentation for the amendment was available and whether the amendments were appropriately approved. Our review found one exception and we determined that additional controls are needed to ensure contracted amounts with consultants agree to management or City Council approved amounts. (See finding #1)

AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION
PW008-2021-03
November 16, 2020

Objective 3:

To evaluate the adequacy of the management controls over capital project bids including determining whether:

- Bids were within previously approved budgeted amounts
- Bids were in compliance with all related regulations and city policies and procedures
- Bids selected were appropriately authorized and approved

Conclusion:

For the four projects selected, we verified whether all construction bids were completed in compliance with Nevada Public Works regulations, bids were within budgeted amounts, and that the winning bids were appropriately selected and approved. No findings were noted.

Objective 4:

To evaluate the adequacy of the management controls over capital project construction contracts including determining whether:

- Contracts are awarded to the appropriate bidder
- Contracts do not exceed bid proposals
- Change orders are appropriately reviewed, authorized, and documented

Conclusion:

For all 14 projects, we verified whether all construction contracts were properly authorized and awarded to the winning bidder and contracts did not exceed approved bid amounts. Our review found one exception and we determined that additional controls are needed to ensure contracted construction amounts agree to management or City Council approved amounts. (See finding #1) We also reviewed a random sample of four change orders for the 4 selected projects noted in Objective 1. For each change order selected, we verified whether the correct documentation was created and provided for approval of the change order. No findings were noted.

Objective 5:

To evaluate the adequacy of the management controls over capital project payments including determining whether:

- Payments are valid
- Payments are properly reviewed and authorized
- Payments are appropriately deducted from the correct project accounts

AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION
PW008-2021-03
November 16, 2020

Conclusion:

For the four projects selected, we obtained all project invoices and randomly selected a total of four to review for each project. We verified whether the invoices were reviewed by the appropriate personnel and were appropriately authorized for payment. Additionally, we verified whether the payment was in compliance with contract provisions. We then verified whether payments were deducted from the correct project funds and whether in total, payments did not exceed the total authorized contract amounts. No findings were noted.

Objective 6:

To evaluate the adequacy of Public Works' documented capital projects policies and procedures.

Conclusion:

We obtained and reviewed all Public Works capital project management policies and procedures listed and maintained on the Public Works Capital Management Documents and Information webpage. We noted that the policies and procedures on the webpage had not been updated in years. (See finding #2)

Further information on these areas is contained in the sections below. While other issues were identified and discussed with management, they were not deemed appropriate for reporting purposes.

Contributors to this report included:

Radford K. Snelding, CPA, CIA, CFE
City Auditor

Bryan L. Smith, CPA, CFE
Internal Audit Section Manager

Nancy Cardoza
Senior Internal Auditor

1. Contracted Amounts Differ from Approved Funding.

Criteria

Contractual amounts must agree with amounts approved by the authorized approving authority to ensure appropriate use of funds.

Condition

Consultant contracts for capital projects that are over \$50,000 require City Council approval. Additionally, construction contracts for capital projects over \$1,000,000 also require City Council approval. Project managers draft up contracts and send them to Purchasing. Purchasing prepares the agenda item for the next City Council meeting to obtain approval. Two of the fourteen capital projects reviewed for the audit contained a contract that did not correctly reflect the amounts that were approved and awarded to the selected firms by City Council. One project's contracted amount was approved by City Council but was understated by \$2,000 while the second was overstated by \$3,000.

Cause

Per inquiry of Public Works management, a discrepancy occurred during the process from when the project contract was drafted to when the agenda item was created for the City Council meeting, wherein a final review was not conducted by either Purchasing or Public Works to ensure the Council agenda item amount agreed with the contract draft amount.

Effect

- Potential for overfunding or underfunding of capital projects
- Potential for project delays

Recommendation

- 1.1 Public Works Management should review their contract review and approval process and implement additional controls that would ensure that contract agenda items noting the amounts approved by City Council agree with the amounts recorded in the project contracts.

2. Outdated Policies and Procedures

Criteria

City policy regarding maintenance of department policies:

- **Adding, Revising and Deleting Policies/Procedures - CM601**

“The originating Department is responsible for...

2. Writing and updating citywide policies/procedures, department policies/procedures, and SOPs/work rules relevant to their department functions and scope of work;

5. Ensuring that all department policies/procedures and SOPs/work rules have a commencement and expiration date that does not exceed five years”

Condition

During the course of our audit, we reviewed the Public Works capital projects management policies and procedures maintained on the Public Works Capital Management Documents and Information webpage. We noted that most of the policies and procedures had not been updated in many years and in compliance with city policy. See the table below for a sample of policies and procedures that have not been updated recently:

Policy/Procedure Title	Last Update
Purchase Requisition Procedure for Professional Service Agreements	11/5/2001
Which Written Authorization to Use when modifying the Contract Documents	12/20/2005
Changes in project scope and use of the construction contract contingency	11/9/2009
Change Orders & Construction Change Directives	5/31/2011
Contract Signature Authority	11/10/2011
Consultant Agreement Added Funding	2/27/2012
Adding to the Construction P.O. Contingency	2/27/2012
Consultant Agreement Additional Service Authorization	2/28/2012
Adding Project Funds	2/28/2012
Bid Evaluation Form	4/10/2014
Capital Project Approvals Required	6/9/2015

The above table also included policies and procedures that contained outdated references to state regulations and the city municipal code.

AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION
PW008-2021-03
November 16, 2020

Cause

Public Works management has not reviewed and updated their documented policies and procedures to ensure they reflect current practices and state and city regulations.

Effect

- Non-compliance with city policy CM601
- Possible non-compliance with NRS regulations and the city of Las Vegas municipal code

Recommendation

- 2.1 Public Works Management should update its policies and procedures and document and implement a process to periodically review and update them to ensure they reflect new Public Works regulations and standards that are released.

MANAGEMENT RESPONSE

1. Contracted Amounts Differ from Approved Funding

- 1.1 Public Works Management should review their contract review and approval process and implement additional controls that would ensure that contract agenda items noting the amounts approved by City Council agree with the amounts recorded in the project contracts.

Management Action Plan:

On April 22, 2019, the City Engineer added review of agenda items prior to Council Briefings as a standing item on the City Engineer's weekly Program Manager's Meeting. This item was added to discuss any idiosyncrasies with particular projects, as well as a final check of the Wards identified on the Agenda items. Since Purchasing & Contracts prepares all contracted related agenda items, PW only reviewed these agenda items to be familiar with what was being presented to council in the event questions arose. In response to preliminary findings of this audit, this review was expanded on February 10, 2020, to include verification of the requested contract value against the agenda item.

Estimated Date of Completion: We consider this item complete as we have already implemented the new process.

2. Outdated Policies and Procedures

- 2.1 Public Works Management should update its policies and procedures and document and implement a process to periodically review and update them to ensure they reflect new Public Works regulations and standards that are released.

Management Action Plan:

Public Works uses an intranet page referred to as the "Public Works Capital Management Documents and Information" page, to disseminate contract and process related information to all PW staff. The key components of this page are routinely updated by PW staff, as needed. However, in early 2019 the PW Management team recognized that a large portion of the reference material on the site had not been updated or reviewed in many years. On March 21, 2019, a reoccurring meeting with representatives from Engineering, Architecture, and PW Quality Assurance was established to systematically go through the website's contents. The focus of this effort is the review of forms and reference materials for accuracy and completeness, and removal of material no longer valid or necessary. However, if the information was still valid and applicable no changes were

AUDIT OF DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS ADMINISTRATION
PW008-2021-03
November 16, 2020

made. Based on these audit findings, the on-going effort will continue; however, a review date will be incorporated into forms and documents.

Estimated Date of Completion: June 30, 2021