



CITY OF GARLAND, TEXAS

CONSTRUCTION CONTRACT AUDIT

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EXECUTIVE SUMMARY

OBJECTIVES:

- Determine the adequacy of the City's controls over costs and contract compliance for a specific construction contract.
- Substantiate the accuracy of accounting for and reporting project costs.
- Determine whether expenditures which exceed the base contract requirement are properly documented and approved prior to payment.

OVERALL CONCLUSION:

This audit was a review of the North Garland Branch Library renovation. Overall the project was handled well with an architectural firm being engaged to monitor and manage the construction details. We did not find any instances of fraud, waste, or abuse on the project. We did, however, find several Opportunities for Improvement.

OPPORTUNITIES FOR IMPROVEMENT:

Insurance, warranties, workmanship bonds, maintenance agreements, and final certifications were not received at the end of the project.

Recommendation: We Recommend that Facilities Management should create a document turnover checklist for all building projects and receive those documents with the Certificate of Substantial Completion. The checklist should show what documents were received, who received them, and an explanation of any expected documents that were not received. The check list should be added to all project manuals for construction projects.

Management Response:

The Library agrees, the stated documents have been requested from the contractor through the architect to be delivered to the proper entities, the Library and Facilities Management.

Facilities Management agrees that creating a checklist of documents to be received with the Certificate of Substantial Completion will strengthen internal controls. A checklist of items needed for both the "Substantial Completion" and "Final Completion" phases of a project is being developed and will be ready for use by March 1, 2008 for all upgrade and minor renovation projects.

Facilities Management will work to ensure that the turnover documents are received at the earlier date, where feasible. However, it is a standard industry-wide practice for the contractor to deliver some closeout documents prior to Final Completion of a project rather than at Substantial Completion.

Supporting documents for invoices did not always indicate the client.

Recommendation: We Recommend that Library management should re-compute each amount billed on invoices before payment and ensure that what is paid is accurate, adequately identified, and supported.

Management Response:

The Library agrees with the finding: Procedures will be implemented with future projects to assure adequate checks are in place to verify accuracy of billing charges. (Cooperating with Facilities Management, two persons will review all billed charges for accuracy, one Library Administrative person and one Facilities Management person will review billing prior to paying invoices).

The hourly rate for the architect's "Additional Services" was not stated in the contract.

Recommendation: We Recommend that Library management should examine all construction contracts to be sure that they are complete prior to signing. Additionally, the City should use a contract management person for these types of contracts.

Management Response:

The Library agrees with the finding: Future library contracts for architectural services will utilize the AIA standard "long form" contract which includes a section addressing the architect's hourly rates for additional services. (The North Garland project used the AIA standard "short form" contract which does not include these additional hourly rate charges).

*I am requiring our Project Manager for Construction Services, to review and approve all City construction contracts before they are signed by anyone in the City. – **Bill Dollar, City Manager***

Authorization

We have conducted an audit of the North Garland Branch Library renovation project. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Audit Committee of the Garland City Council.

Scope and Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that produces a reasonable basis for our findings and conclusions based on our audit objectives. These included procedures assessing management controls. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit covered the period October 23, 2006 through December 20, 2007.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

The objectives of this audit were:

- Determine the adequacy of the City's controls over costs and contract compliance for a specific construction contract.
- Substantiate the accuracy of accounting for and reporting project costs.
- Determine whether expenditures which exceed the base contract requirement are properly documented and approved prior to payment.

To adequately address the audit objectives, we:

- Reviewed the City Directives related to bids and contracts to ensure the adherence to City policy.
- Examined the contracts of the architect and contractor to determine what was agreed to and what the costs would be.
- Observed the contractors bid bonds to ensure that our project would be completed within the budgeted amount.
- Examined the change orders issued after the project had begun to find out what additional requirements and costs were added to the original plans.
- Tested the submittals for components used in the project to be sure that we received the size and quality of product we had agreed to.
- Reviewed the billing from the architect and contractor to be sure that we only paid what was agreed to.

- Reviewed payments to the architect and contractor to ensure that no overcharges or extra charges were added to the billing.
- Examined the completion documents submitted by the contractor and sub-contractors to ensure that the components and workmanship was under warranty.
- Visited to North Garland Branch Library to observe the renovations and examine the components described in the construction documents.
- Discussed the project with Library staff to get their opinion of the contractor, architect, and satisfaction with the overall project.
- Discussed the project with Facilities Management staff to find out if the renovations were acceptable from a facilities perspective.

Overall Conclusion

This audit was a review of the North Garland Branch Library renovation project. Overall the project was handled well. An architectural firm, Dewberry and Associates, was engaged to monitor and manage the construction details on behalf of the City of Garland.

We did not find any instances of fraud, waste, or abuse on this project. We did, however, find that the Library and Facilities Management needs to be stricter in dealing with architects and contractors on construction projects to prevent loss of Garland resources. Specific examples are listed in the Opportunities for Improvement along with management's responses to our audit findings.

Background

This audit is a review of the North Garland Branch Library renovation project. All funds for the project were obtained from the 2004 General Obligation Bond Fund. The City of Garland hired architects PSA-Dewberry to oversee the project at a bid price of \$50,000 and final expenses of \$59,372.69. The general contractor for the project was Stillwell Building Systems of Arlington, Texas with a bid of \$272,212 and final expenses of \$320,607. Stillwell arranged for and paid all the subcontractors. Costs exceeding the bids for both the architect and builder included six change orders issued during the project as well as additional costs for mileage, copying, shipping, and consulting fees.

City of Garland departments involved in this project were the Library, for project requirements; Purchasing, for the agreements with the architects and builders; and Facilities Management, for supplying Garland's construction representative. Budget and Finance participated in the form of funding and accounting for the project.

Management Accomplishments

The North Garland renovation phase of the 2004 bond program for library facilities improvements was completed on schedule and within the project budget. Opening day for the refurbished library saw over a thousand citizens along with several City

Councilmen and other dignitaries attend dedication ceremonies and enjoying the enhanced adult and children's service areas. Returns on investments in maintaining the City's library infrastructure can be measured somewhat by the partial year data (since reopening in late June) which indicate circulation at this facility is up 13% and visitor counts are up 8% over the same period last year.

The Facilities Management Department provides the daily and preventive maintenance and upkeep of 179 municipal facilities and structures (more than 1.3 million square feet of space), as well as in-house and outsourced custodial services for almost half of that area. In addition, Facilities Management oversees the design, construction, and renovation of City facilities. The Construction Services Coordinator position, added in 2000, oversees new construction and major remodeling projects, while minor remodeling, renovation, and relocation is coordinated by personnel from the Building Services division. Along with the renovation at the North Garland Library and remodeling at City Hall, recent high profile projects have included the Apollo Water Control Center and the newly opened Fire Administration and Training facility. Future projects will encompass downtown development, the expansion of the City Care Clinic, and the remodeling of the Water Field Operations complex. The department works diligently to meet the facility needs of City departments in a timely manner within available resources.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

1. **Insurance, warranties, workmanship bonds, maintenance agreements, and final certifications were not received at the end of the project.**

The project plan states in Section 1700 – Project Closeout Part 1.3, item A.3 “Submit specific warranties, warranties, workmanship bonds, maintenance agreements, final certifications and similar documents.” Neither the Library staff nor Facilities Management received the documents.

Receiving those documents along with the Certificate of Substantial Completion should be standard procedure for any construction project. The cost of the project includes guarantees of workmanship and resolution of defects. Without those documents, the City of Garland would pay again for project repairs should the original contractors go out of business or refuse to make corrections.

Failure to receive the turnover documents was the result of a difference of opinion on the term “project completion.” Management considers completion to be the date of substantial completion. Contractors consider completion to be the date following the one year warranty period when they are no longer obligated on the contract.

The City of Garland needs to receive the turnover documents at the earlier of the dates. Without copies of maintenance bonds and warranties during the one year warranty period, there is no way to prove that another party is obligated for repairs should something happen to the contractor.

We Recommend that Facilities Management should create a document turnover checklist for all building projects and receive those documents with the Certificate of Substantial Completion. The checklist should show what documents were received, who received them, and an explanation of any expected documents that were not received. The check list should be added to all project manuals for construction projects.

For this project, Library management should still receive the following items from the architect or a written explanation of why it is missing. All construction documents should be kept in Facilities Management. For this project, copies should also be kept by the Library.

- Completed punch lists
- HVAC test and balance report
- Final inspections
- Warranties for all work done

- Final release of liens from all sub-contractors
- Operations and maintenance manuals
- As-built drawings

Management Response:

The Library agrees, the stated documents have been requested from the contractor through the architect to be delivered to the proper entities, the Library and Facilities Management.

Facilities Management agrees that creating a checklist of documents to be received with the Certificate of Substantial Completion will strengthen internal controls. A checklist of items needed for both the “Substantial Completion” and “Final Completion” phases of a project is being developed and will be ready for use by March 1, 2008 for all upgrade and minor renovation projects.

Facilities Management will work to ensure that the turnover documents are received at the earlier date, where feasible. However, it is a standard industry-wide practice for the contractor to deliver some closeout documents prior to Final Completion of a project rather than at Substantial Completion.

2. Supporting documents for invoices did not always indicate the client.

Supporting documents did not always segregate City of Garland expenses from the expenses of other clients. Invoices showing reimbursable expenses should clearly show which expenses are related to the City of Garland. AIA Document B151, Abbreviated Standard Form of Agreement Between Owner and Architect, Article 10.2 Reimbursable Expenses, lists the items the architect can charge above the contract amount.

The architect provided supporting information, but did not separate City of Garland expenses from the expenses of other clients on every invoice. A listing of all expenses without indicating which belong to City of Garland does not provide enough information to show how the amounts were computed. The City of Garland was billed and paid shipping of \$548.54 on architect invoice #7 and \$172.85 on invoice #9 without determining that the amounts were correct. The condition exists because invoice amounts were not analyzed or questioned before payment.

We Recommend that Library management should re-compute each amount billed on invoices before payment and ensure that what is paid is accurate, adequately identified, and supported.

Management Response:

The Library agrees with the finding: Procedures will be implemented with future projects to assure adequate checks are in place to verify accuracy of billing charges.

(Cooperating with Facilities Management, two persons will review all billed charges for accuracy, one Library Administrative person and one Facilities Management person will review billing prior to paying invoices).

3. The hourly rate for the architect’s “Additional Services” was not stated in the contract.

AIA form B151, Agreement Between Owner and Architect, did not state the agreed billing rate for Additional Services. Form B151, section 11.3.2, has a place for the rate to be entered before it is signed. Readers of the contract cannot determine the rate for additional services. In this case, the \$150 per hour rate appeared on the architect’s invoice. The architect could have billed any amount they chose because no rate was entered. This situation was caused by management oversight and a lack of coordination between responsible departments.

We Recommend that Library management examine all construction contracts to be sure that they are complete prior to signing. Additionally, the City should use a contract management person for these types of contracts.

Management Response:

The Library agrees with the finding: Future library contracts for architectural services will utilize the AIA standard “long form” contract which includes a section addressing the architect’s hourly rates for additional services. (The North Garland project used the AIA standard “short form” contract which does not include these additional hourly rate charges).

*I am requiring our Project Manager for Construction Services, to review and approve all City construction contracts before they are signed by anyone in the City. – **Bill Dollar, City Manager***