

Final Audit Follow-Up

As of March 31, 2014



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City Auditor

Second Progress Audit of Gaines Street Revitalization

(Report #1319 issued June 14, 2013)

Report #1416

May 20, 2014

Summary

Applicable City departments have completed each of the 12 action plan steps established to address issues identified in audit report #1319, Second Progress Audit of Gaines Street Revitalization.

In audit report #1319, we noted that the City continued to make significant progress in converting Gaines Street and the surrounding area to the envisioned urban corridor. For the two-year period covered by the audit, we reported that reconstruction and reconfiguration of two of the three roadway segments had been completed or substantially completed. We also noted that two more City-owned properties were sold for redevelopment purposes and several new redevelopments had been started and/or completed. We reported environmental assessments and remediation activities continued and the general public and affected parties (businesses) were kept informed and involved.

We reported remaining project funds were likely adequate to ensure project completion. We also reported that, except for a few instances, expenditures of City funds and related activities were appropriate and reasonable.

Remaining actions to complete the vision were reported as:

- Further redevelopment of existing properties.
- Final design and reconstruction/reconfiguration of the last roadway segment.
- Installation of new utilities in connection with the remaining roadway reconstruction and subsequent property redevelopments.
- Construction of two bicycle boulevards; one

north of Gaines Street and the other one south of Gaines Street.

- Completion of final actions relating to environmental assessments and necessary remediation.

As reported, the various City departments involved with the overall revitalization, in conjunction with the CRA, appeared committed to completing the envisioned revitalization.

Twelve action plan steps were established to address the few issues identified during the audit. All 12 steps have now been completed. Seven of those action plan steps were completed in the period addressed by our initial follow-up engagement (*see report #1408, dated January 17, 2014*), and the remaining five steps were completed during the period covered by this second and final follow-up engagement (*see Table 1 in this report*). Actions taken to address the five remaining steps included:

- Public Works took appropriate measures to ensure proper and accurate coding of project charges.
- Public Works and Underground Utilities, with assistance from the City Attorney's Office, revised standard construction contract language to provide a more appropriate "completion date" for purposes of determining when and if liquidated damages should be assessed when a contractor does not finish the construction in a timely manner.
- Public Works and Underground Utilities instituted processes to better document justification for not assessing liquidated damages in those instances where contractors do not complete required construction work by the contractually established completion date and

the City determines it appropriate to not assess liquidated damages.

- The Environmental Policy and Energy Resources Department (EPER) enhanced reviews of vendor invoices to ensure services and fees billed the City are in accordance with applicable task orders/contracts and that adequate support is provided by contractors to support amounts billed.
- EPER and the City’s Accounts Payable Division implemented internal procedures and/or made appropriate efforts to ensure timely payment of vendor invoices.

Those completed actions are more fully described in Table 1 within this report.

We commend City management and staff for the timely efforts to complete the action plan steps. We appreciate the cooperation and assistance provided by applicable City departments during this follow-up engagement.

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.

Report #1319

The scope of report #1319 included activities and events pertaining to the Gaines Street Revitalization Project that occurred since the initial progress audit (report #1111, issued June 2, 2011). Activity within several City departments was addressed in our review.

The objectives were to:

- Determine and disclose significant events occurring since the initial progress audit.

- Determine and disclose the current status of the project, including the remaining steps and actions necessary to successfully complete the project.
- Determine and disclose the current funding established for the project and the current status of that funding.
- Determine if the City continued to perform due diligence in identifying and addressing environmental contamination in City owned properties within and adjacent to the corridor.
- Determine if the City continued to involve and inform the public as to the project and its status.
- Determine if project activities/expenditures since the initial progress audit were proper and appropriate; in compliance with governing laws, rules, policies, and good business practices; and properly recorded and supported.

For the first five objectives we reviewed activities and events occurring from June 2011 (issuance of initial progress audit report) through April 2013. For the sixth (last) objective, we addressed activities/expenditures occurring from the end of our audit fieldwork in the initial progress audit (fall 2010) through October 2012. Various audit procedures were conducted to meet the stated audit objectives.

Report #1416

This is our second and final follow-up on action plan steps identified in audit report #1319. The purpose of this follow-up is to report on the progress and status of 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

The current Gaines Street Revitalization Project evolved out of various preliminary studies and visions dating back to the early 1990s. The project is resulting in the corridor’s transition from an obsolete industrial area to a livable downtown urban area with revitalized properties, businesses, and residences that preserve historical resources and enhance opportunities for racial and economic

diversity. Accomplishing this revitalization is requiring a multi-year and multi-task approach. Various City departments and related entities are participating in the project. As the project has developed and evolved, flexibility has been of paramount importance in regard to designing, planning, and performing/completing tasks.

The primary tasks performed or being performed to meet the stated objectives included:

- Establishing new development and use requirements.
- Fostering desired redevelopment.
- Reconstructing and reconfiguring the corridor.

Funding for the project has come from the City and Leon County's respective shares of sales tax extension revenues, State of Florida (for roadway transfers), City utility revenues and bond proceeds, Federal grants (for environmental assessment and remediation), and the Community Redevelopment Agency (CRA). Those funds have and are being used for:

- Reconfiguration of the roadway.
- Acquisition of preferred properties within or adjacent to the corridor (to be subsequently enhanced/improved and sold for desirable redevelopment).
- Improvements/enhancements to other City-owned properties within or adjacent to the corridor also being considered for desirable redevelopment.
- Installation of new and reconfigured utility infrastructure and services.
- Environmental assessment and remediation activities within and adjacent to the corridor.
- Grants and loans to private entities and promotional events and activities for the purpose of enhancing redevelopment.

Of the \$51.3 million budgeted for the Gaines Street revitalization through 62 financial projects, a total of \$42.6 million had been expended by the City and the CRA as of October 2012. Of that total amount expended, \$15.6 million was expended during the two-year period covered by our second progress audit (report #1319).

Previous Conditions and Current Status

In audit report #1319, we noted that the City continued to make significant progress in converting Gaines Street and the surrounding area to the envisioned urban corridor. For the two-year period covered by the audit, we reported that reconstruction and reconfiguration of two of the three roadway segments had been completed or substantially completed. We also noted that two more City-owned properties were sold for redevelopment purposes and several new redevelopments had been started and/or completed. We reported environmental assessments and remediation activities continued and the general public and affected parties (businesses) were kept informed and involved.

We reported remaining project funds were likely adequate to ensure project completion. We also reported that, except for a few instances, expenditures of City funds and related activities were appropriate and reasonable.

Remaining actions to complete the vision were reported as:

- Further redevelopment of existing properties.
- Final design and reconstruction/reconfiguration of the last roadway segment.
- Installation of new utilities in connection with the remaining roadway reconstruction and subsequent property redevelopments.
- Construction of two bicycle boulevards; one north of Gaines Street and the other one south of Gaines Street.
- Completion of final actions relating to environmental assessments and necessary remediation.

As reported, the various City departments involved with the overall revitalization, in conjunction with the CRA, appeared committed to completing the envisioned revitalization.

The few issues identified during the audit for which recommendations were made included:

- Project costs were not always coded to the most appropriate category within the City’s financial system.
- Construction costs in one instance were not equitably allocated between the established funding sources.
- One contractor did not maintain insurance coverage in the required amount during the initial part of the contract.
- Change orders for certain construction contracts were not always timely prepared and executed.
- A “final” change order for a separate construction contract was not executed for additional work performed outside the contract and to reflect final changes in quantities of materials and services.
- There was a lack of clarity regarding the method for determining when liquidated damages should be assessed contractors that do not complete construction work in a timely manner;

also, adequate documentation was not always prepared to clearly justify those instances where such damages are not assessed when contractors do not meet contractually-prescribed work completion dates.

- Overpayments and unsupported costs totaling \$1,971 were identified in regard to one contract for environmental assessment services.
- Some vendor invoices were not timely paid.
- Established policy was not followed as to notifying all nearby property owners when a City owned property was sold to a private developer.

Twelve action plan steps were developed to address the identified issues. As shown in Table 1 below, all 12 steps have been completed.

**Table 1
Action Plan Steps from Audit Report #1319
Due as of March 31, 2014, and Current Status**

Action Plan Steps Due as of March 31, 2014	Current Status
Enhance accountability through proper coding of project expenditures.	
<ul style="list-style-type: none"> • Efforts will be enhanced to ensure project charges are coded to the most appropriate expenditure category. <i>(Public Works)</i> 	<ul style="list-style-type: none"> ✓ In the initial audit, we reported that some charges were not always coded to the most appropriate expenditure category within the PeopleSoft Financials System. As reported, recording expenditures to incorrect or less appropriate categories within the accounting system reduces the usefulness of that system for the purposes of managerial review and analysis. In response to this issue, Public Works management met with applicable administrative staff in July 2013, and again in November 2013, to discuss and emphasize the importance of coding expenditures accurately and correctly. Standard operating procedures were also revised to include a requirement for ensuring proper coding of project expenditures. Our review of recent charges showed that Public Works staff is, for the most part, properly preparing purchase requisitions and orders within the PeopleSoft Financials System to ensure charges are coded to the most appropriate expenditure category. Accordingly, this step is considered completed.

<ul style="list-style-type: none"> Adjustments will be made to transfer charges of \$100,277 from the City’s water fund to the sewer fund as correction of the inequitable allocation of charges as identified in the audit. (<i>Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Underground Utilities will use the appropriate available methodology to equitably allocate construction costs between funding sources. (<i>Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<p>Ensure required insurance coverage is maintained.</p>	
<ul style="list-style-type: none"> Efforts will be enhanced to ensure evidence of required insurance coverages is provided before contracts are executed. (<i>Risk Management</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<p>Ensure change orders are timely executed.</p>	
<ul style="list-style-type: none"> Anticipated and outstanding pending changes that affect the contract price will not be unnecessarily delayed in order to bundle changes into a single change order; change orders will be prepared and presented for approval as soon as practicable in an effort to ensure timely execution. (<i>Public Works</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Change orders will be prepared, approved, and executed for authorized work that increase or decrease the contract price. (<i>Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<p>Ensure liquidated damages are properly assessed upon appropriate circumstances.</p>	
<ul style="list-style-type: none"> With the assistance of the City Attorney’s Office, contract language will be reviewed to determine if a more reasonable “required completion date” should be used in determination of whether liquidated damages should be assessed. (<i>Public Works and Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ In the initial audit we recommended consideration be given to identifying a more appropriate date for determining when contractual work is “completed” for purposes of determining if liquidated damages should be assessed. As reported in the initial audit, for purposes of determining if liquidated damages were assessable, current contracts defined the “completion” date as the date after the work was “substantially completed,” all required inspections had been performed by City staff and related issues resolved, and the contractor had submitted the final pay request. That defined date was not always reasonable for purposes of determining if liquidated damages should be assessed because “completion” depended to some extent on City staff, and because submitting the final pay request was not always directly related to actual completion of the constructed asset/infrastructure. As recommended, applicable City staff in Public Works and Underground Utilities, with assistance from the City Attorney’s Office, met and defined a more reasonable date to use in construction contracts for purposes of determining when and if liquidated

	<p>damages should be assessed. The completion date is now defined as the date the contractor has completed all work in a satisfactory manner, successfully passed all required testing, submitted acceptable as-built record drawings (engineering documents depicting the specifications and locations of infrastructure assets and related components), and submitted all other records as required by the contract specifications. This newly defined completion date does not require the contractor to submit the final pay request (and related documents and assertions/certifications) before the work is considered completed for purposes of determining if liquidated damages should be assessed. We agree this is a more appropriate date for determining when and if liquidated damages should be assessed. Public Works and Underground Utilities indicated this new contract language will be used in contracts executed prospectively (after March 31, 2014). Accordingly, this step is considered completed.</p>
<ul style="list-style-type: none"> • Justification for not assessing liquidated damages will be documented in those instances where contractors do not complete required work by the contractually designed completion date and the City determines it appropriate to not charge liquidated damages (delays attributable to the City and not the contractor and/or other legitimate reasons). (<i>Public Works and Underground Utilities</i>) 	<ul style="list-style-type: none"> ✓ In the initial audit we recommended applicable City departments better document and justify in City records the reasons why liquidated damages are not assessed contractors when “work” is not completed by the deadlines established by applicable contracts. Our follow-up engagement showed the applicable departments (Underground Utilities Water Resources Engineering Division and Public Works) have taken corrective action. Both departments have instituted processes to either (1) formally extend the deadline through the change order process or (2) document through a formal memorandum to City records the justification and reasoning when the contractor is unable to complete the work by the initial deadline due to circumstances not attributable to the contractor. Examples of such documented justifications prepared since the initial audit were provided by the Underground Utilities Water Resources Engineering Division. Public Works indicated that, to date, such circumstances have not occurred to which such documented justifications or change orders would be necessary. Based on these actions, this step is considered completed.
<p>Ensure proper and timely disbursement of City funds.</p>	
<ul style="list-style-type: none"> • Reviews of contractor pay requests will be enhanced to ensure quantities of materials and services billed agree with quantities of materials and services provided. (<i>Public Works</i>) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> • Reviews of vendor invoices will be enhanced to ensure services and fees billed are in accordance 	<ul style="list-style-type: none"> ✓ In the initial audit we identified and reported overpayments of \$1,971 for environmental

<p>with applicable task orders/contracts and adequate support is provided by the contractor to support amounts billed. (EPER)</p>	<p>assessment services that, while not material to total payments tested, demonstrated the need for enhanced reviews of vendor invoices by EPER staff. We also reported that discussions with EPER staff and our review of more recent payments during the initial audit showed that EPER had enhanced their reviews of vendor invoices to ensure subsequent payments were properly supported and appropriate in amount. During this follow-up engagement, our review of more recent payments showed EPER staff has continued to properly and adequately review vendor invoices for environmental assessment services to ensure proper and correct payments. Additionally, EPER established a new written procedure that, among other things, provides for applicable EPER project staff to review invoices for accuracy and deliverables. Based on these findings and actions, this step is considered completed.</p>
<ul style="list-style-type: none"> • Efforts will be enhanced to ensure timely payment of vendor invoices. (EPER and Accounts Payable) 	<ul style="list-style-type: none"> ✓ In the initial audit we identified four instances where vendors were not timely paid in accordance with State statutes and City Policy. Three of the four instances were attributable to delays in EPER’s review and processing of invoices prior to submission to the City’s Accounts Payable Division for further processing and payment. The fourth instance was attributable to Accounts Payable staff’s delay in processing after receipt of the invoice from EPER. In response to this issue, City EPER staff developed an internal procedure to help ensure timely payment of vendors. Also, City Accounts Payable management indicated efforts were made to further ensure timely payment of vendors. Our follow-up review showed applicable invoices subsequently submitted by EPER vendors have been timely processed and paid. Accordingly, this step is considered completed.
<p>Ensure real estate dispositions are executed in accordance with City policy.</p>	
<ul style="list-style-type: none"> • In future sales of City properties, nearby property owners will be properly notified in accordance with the provisions of City Commission Real Estate Policy 136. (Property Management Division) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and completed or otherwise resolved.

Conclusion

Table 1 above shows each of the 12 action plan steps established to address issues identified in our initial audit have been completed and/or resolved. We commend applicable City departments for their timely corrective actions.

We appreciate the assistance and cooperation from the various City departments during this audit follow-up.

Appointed Official's Response

City Manager:

I wish to thank the City Auditor's Office for their analysis of Management's actions taken in executing the Gaines Street Revitalization. I am pleased that we were able to complete all action steps identified in the initial audit. I would also like to extend my sincere thanks to all the departments for their full cooperation with the Auditor's Office on this review.

Copies of this final audit follow-up #1416 or audit report #1319 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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