



Richmond City Council

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OFFICE OF THE CITY AUDITOR

REPORT # 2011-12

AUDIT

Of the

**Richmond City Department of Parks, Recreation
and Community Facilities**

Capital Improvement Projects

OFFICIAL GOVERNMENT REPORT

Richmond City Council

OFFICE OF THE CITY AUDITOR

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*Committed to increasing government efficiency, effectiveness,
and accountability on behalf of the Citizens of Richmond.*

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Executive Summary

The City Auditor's Office has completed an operational audit of the Capital Improvement Projects (CIP) for the Department of Parks, Recreation and Community Facilities (DPR) for the year ended June 30, 2010.

Conclusion:

The internal controls in certain CIP procedures were found to be adequate and functioning properly. However, there are opportunities to improve the effectiveness of this function and the efficiency of resource utilization allocated for this purpose.

The following are the salient findings of the audit:

- Adequate documentation was found for planning, awarding contracts, and monitoring and approval of payments.
- DPR does not have a formal risk assessment process. Without this, opportunities for proper capital maintenance and deferring expensive replacements may be lost.
- DPR does not have proper and complete evidence of construction inspections. Currently, it is difficult to determine if detailed inspections are being performed in a timely manner for CIP.

- The primary duties of the Architect/Planner are substantially duplicated with other DPR staff. It is possible to eliminate this position and save \$83,000 without an adverse impact on the function. The department has not concurred with this recommendation.
- In FY 2008, the costs of project administration exceeded the actual costs of construction. This represents gross inefficiency and a need for improved supervision. DPR has not concurred with the recommendation to consolidate this function with a similar function in the Department of Public Works (DPW) to improve oversight. The recommendation is consistent with the recent City Administration's initiative to improve efficiency and effectiveness by consolidating like functions existing in different departments/ organizations.

The department has not concurred with two (50%) of the four total recommendations made in the report. Not implementing the remaining two recommendations represents lost opportunities for improved operation and cost savings.

The City Auditor's Office appreciates the cooperation of the DPR staff. Written responses are included at the end of the report. Please contact me for questions and comments on this report.



Umesh Dalal, CPA, CIA, CIG
City Auditor

#	<i>COMPREHENSIVE LIST OF RECOMMENDATIONS</i>	<i>PAGE</i>
1	Create a list of all major assets and perform formal, periodic risk assessments to help determine what CIP are necessary.	9
2	Establish and implement a formal documentation process to accurately record periodic inspections of CIP. This process should outline the following: <ul style="list-style-type: none">• the frequency of inspections• a checklist that details what should be inspected• documented management approval that certifies the inspection was performed and all items requiring inspection were reviewed.	9
3	Eliminate the Architect/Planner position and redistribute the responsibilities to the Superintendent, the Construction Inspector, and the Administrative Program Support Specialist until Recommendation #4 can be implemented.	9
4	Consolidate all CIP under DPW and prepare a Service Level Agreement DPW and DPR to ensure that DPR's CIP needs are properly addressed. Require DPW to consider DPR personnel for the transferred function.	10

Introduction and Background

Introduction

The City Auditor's Office has completed an operational audit of the Capital Improvement Projects (CIP) for the Department of Parks, Recreation and Community Facilities (DPR). This audit covers the 12 month period that ended June 30, 2010.

Objectives

The objectives of this audit were to:

- Determine if projects were properly planned, budgeted, and approved;
- Verify that vendor contracts were competitively awarded in accordance with City procurement policies;
- Verify that vendor performance was properly monitored by DPR management;
- Verify that payments to vendors were in accordance with contractual terms and conditions; and
- Determine if expenditures incurred by DPR staff for in-house CIP were properly supported and approved by DPR management.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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. Auditors believe that the work performed and evidence obtained provides a reasonable basis for their findings and conclusions based on our audit objectives.

Methodology

To complete this audit, the auditor performed the following procedures:

- Conducted a risk assessment;
- Interviewed relevant City employees;
- Reviewed procurement policies and procedures;
- Reviewed contracts and vendor files;
- Reviewed relevant documentation; and
- Performed other audit procedures, as deemed necessary.

***Management
Responsibility***

The management of the City of Richmond is responsible for ensuring resources are managed properly and used in compliance with laws and regulations, City programs are achieving their objectives, and services are being provided efficiently, economically and effectively.

Background

DPR owns, operates, and manages over 180 City parks, recreation areas, and other facilities. Capital improvements projects cost more than \$25,000, and have an expected useful life greater than the life-span of any debt used to fund the project. Capital projects are considered to be a long-term investment, are non-recurring, and are designed to either provide new facilities for public use or to improve DPR's current facilities and infrastructure.

Each year several members of the DPR's management personnel, the Architect/Planner and Construction Inspector discuss specific projects to be requested for CIP funding. They consider the needs of City Administration and City Council, as well as input from citizens and other staff, while developing their proposed list of projects. Once the list is developed, an estimated budget is determined for each project. DPR

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receives the funding for CIP upon City Council's approval of the final list authorized by DPR's Director and the City Administration.

DPR's budgeted and actual CIP expenditures were \$3.9 million for the nine major CIP in fiscal year 2010. This amount exceeded the corresponding budget of approximately \$3.7 million.

Observations and Recommendations

Internal Controls

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance.

Based on the results and findings of the audit methodology employed, auditors concluded that internal controls in certain CIP procedures were generally adequate. However, some opportunities exist to enhance current controls.

What is working well?

Adequate documentation was found for planning, awarding contracts, monitoring and approval of payments.

Planning, Budgeting and Approval of CIP

The auditor's review of the contract files for the CIP completed in fiscal year 2010 indicated that pertinent details were properly documented. Specifically, the person(s) requesting the projects, the scope and purpose of the projects, and the approval of the projects were all properly documented.

Contract Award Process

The City has established policies and procedures to ensure proper procurement of goods and services. These policies and procedures include several requirements for construction contracts such as:

- Public advertising (Invitation for Bids);
- Submission of at least three bids; and

- Analysis of bids received through a selection process.

The auditor reviewed the procurement for each of the CIP completed in fiscal year 2010 and noted that DPR complied with the City's procurement policies and procedures.

Monitoring of Contractor Payments

The auditor reviewed supporting documentation for all payments made to contractors. All of the payments tested were properly approved by management, were accurate and in accordance with contract terms and conditions.

Approval of In-house CIP Expenditures

The auditor reviewed supporting documentation for a sample of 30 expenditures incurred by DPR staff for in-house CIP. All of the expenditures tested were properly supported and approved by management.

What are opportunities for improvement?

Without a risk assessment, opportunities for proper capital maintenance and deferring expensive replacements may be lost.

Lack of Periodic Risk Assessment

Ideally, if DPR was aware of the conditions of each of their major assets, they could adequately determine major repair and replacement needs. This knowledge, along with anticipated equipment upgrades and improvements/new construction of facilities can be helpful to determine total CIP funding.

However, DPR does not have a current, comprehensive list or evaluation of the condition of their assets. Therefore, they are not in a

position to adequately perform a formal, periodic risk assessment to help them determine their CIP needs.

The auditor noted that DPR staff use their “historical knowledge” and their judgment to determine CIP to be accomplished during a budget cycle. This is not a scientific method. Without a systematic, documented analysis, there is a potential for disregarding assets in need of major repairs. This situation may force DPR to replace the asset if it becomes unusable due to a lack of repairs. It appears that having a strategic plan in place, along with performing a periodic risk assessment, would allow DPR to better manage and fund their CIP.

The Department needs to accumulate relevant information to perform a risk assessment.

Insufficient Monitoring of Contract Activity

DPR employs a Construction Inspector who performs periodic inspections of the work performed by contractors. The auditor noted that the Inspector did not have proper documentation of inspections or his observations. Without formal documentation, it is difficult to determine if detailed inspections are being performed in a timely manner for CIP. The risk of not performing inspections may lead to substandard construction or construction that does not adhere to project specifications. In either case, the City could suffer financial losses.

DPR does not have proper and complete evidence of construction inspections.

Duplication of Efforts

DPR employs two individuals, an Architect/Planner and a Construction Inspector, to administer their CIP process. The Superintendent of Citywide Maintenance supervises these two employees. As illustrated in the table below, the auditor found duplication of efforts for all of the primary duties performed by the Architect/Planner.

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There is a significant amount of duplication of efforts for the Architect/Planner's duties.

	Architect / Planner	Superintendent	Construction Inspector	Admin Support
Inspect contractors' work	◆		◆	
Review CIP planning documents (bids, designs, etc.)	◆	◆	◆	
Sign invoices and track CIP expenditures	◆	◆		◆
Attend CIP meetings	◆	◆	◆	

Legend: ◆ Task is routinely performed by the employee

According to the Architect/Planner, roughly 40% of his time is spent assisting with on-site inspections of contractors' work, which is the primary responsibility of the Construction Inspector. It is not clear why the City needs two inspectors for relatively small capital projects. The Architect/Planner stated that the remaining 60% of his time is spent primarily working on the remaining three tasks in the table above.

The need for two positions for this function is questionable. Only a limited number of CIP occur in a given year (for example, nine projects during FY 2010 and a lesser number in FY 2011). Also, the Administrative Program Support Specialist indicated that CIP invoices range between 15 to 20 per month. Based on audit inquiries, the

approval of the limited number of invoices does not appear to be a time consuming process.

Based on the above information, it appears that the Architect/Planner's duties are well covered by other employees. This position appears to be significantly under-utilized. In this situation, there appears to be an opportunity to eliminate this position. In addition to this cost saving of \$82,989 (includes salary and benefits of the Architect/Planner), there appears to be an opportunity for organizational realignment to provide better supervision and professional expertise for this important function as follows:

Elimination of the Architect/Planner's position will save about 83,000 without impacting the operation.

Consolidation of CIP Functions

The workload of the DPR CIP function substantially varied from year to year. In FY 2008, the costs of project administration exceeded the actual costs of construction. This represents gross inefficiency and a need for improved supervision. Handling such variation with fixed salary costs is inefficient. Consolidating the Parks CIP function in Public Works would generate efficiencies.

Recently, City Administration has demonstrated receptiveness to improve efficiency and effectiveness by consolidating like functions existing in different departments/organizations. For example, currently, several similar functions existed in the City and Richmond Public Schools that are under consideration for consolidation. Auditors noted that similar opportunity exists in DPR.

Consolidation of DPR's CIP function with the similar function in DPW will reduce costs and improve efficiencies.

Under the supervision of the City Engineer, the Department of Public works (DPW) completes 90-100 CIP per year with costs that exceed \$100 million. DPW's staff also have surveying, engineering, design,

and project management experience. In comparison, DPR completed nine CIP in fiscal year 2010 with costs less than \$4 million, and these projects are outsourced. Technical knowledge and depth of experience available to DPW could be beneficial for proper management of DPR's CIP. Transferring the responsibility of DPR's capital projects to DPW and consolidating these services could provide several benefits such as:

- reduced equipment and vendor costs
- improvement in effectiveness of personnel management
- better planning and training opportunities
- elimination of duplication; and
- consistency in services provided

Recommendations:

- 1. Create a list of all major assets and perform formal, periodic risk assessments to help determine what CIP are necessary.***
- 2. Establish and implement a formal documentation process to accurately record periodic inspections of CIP. This process should outline the following:***
 - *the frequency of inspections*
 - *a checklist that details what should be inspected*
 - *documented management approval that certifies the inspection was performed and all items requiring inspection were reviewed*
- 3. Eliminate the Architect/Planner position and redistribute the responsibilities to the Superintendent, the Construction Inspector, and the Administrative Program Support Specialist until Recommendation #4 can be implemented.***

- 4. Consolidate all CIP under DPW and prepare a Service Level Agreement between DPW and DPR to ensure that DPR's CIP needs are properly addressed. Require DPW to consider DPR personnel for the transferred function.*

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	<p><i>Consolidate all CIP under DPW and prepare a Service Level Agreement DPW and DPR to ensure that DPR's CIP needs are properly addressed. Require DPW to consider DPR personnel for the transferred function.</i></p>	No	<p>In the past, CIP projects for DPR were managed by DPW. However, DPR took back ownership of managing their own CIP projects from DPW due to reduction of DPW staff or insufficient progress. Having DPW oversee DPR capital projects was found to be ineffective and inefficient for DPR, which led to the establishment of the Architect/Planner position.</p> <p>We believe that maintaining ownership of our capital projects rather than consolidating with DPW provides the following benefits:</p> <ul style="list-style-type: none"> *the unique nature of parks and recreation projects would be better managed by DPR staff *several work processes identified as working well by the Auditor's Office in this report could be jeopardized if transferred to DPW *a lack of conclusive evidence exists that transferring CIP functions to DPW will result in cost savings or efficient management of CIP *clearly defined coordination, cooperation, communication, and approval process that currently exists with DPR staff could be difficult to achieve by DPW
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION