

REVIEW OF CRA CAPITAL PROJECT CONTRACTS

JANUARY 2014



**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

January 29, 2014

TO: Audit, Finance and Legislative Committee
Mayor Ed Braddy, Chair
Mayor-Commissioner Pro Tem Randy Wells, Member

FROM: Brent Godshalk, City Auditor

SUBJECT: Review of CRA Capital Project Contracts

Recommendation

The Audit, Finance and Legislative Committee recommend the City Commission:

- 1) Accept the City Auditor's report and the response from the CRA Executive Director; and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of CRA Capital Project Contracts. The primary objective of our audit was to evaluate and provide reasonable assurance that capital project contracts for CRA are adequately monitored and complied with. During our review, we interviewed key personnel, analyzed financial information and evaluated management controls. Our procedures included reviewing controls over contract awards, monitoring activities and payment processing.

Based on the results of our review, we believe the CRA has strong management controls in place that provide reasonable assurance CRA capital projects are completed in compliance with contract terms. The attached report provides three recommendations related to improving payment processing, direct and indirect expense allocation and budgeting controls, which we believe will strengthen the overall process of monitoring CRA capital project contracts.

We request that the Committee recommend the City Commission accept our report and management's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

November 19, 2013

TO: Russ Blackburn, CRA Executive Director

FROM: Brent Godshalk, City Auditor

SUBJECT: Review of CRA Capital Project Contracts

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Our recommendations for improvement have been reviewed with CRA Director Anthony Lyons and Senior Analyst Sarah Vidal-Finn. I would like to acknowledge these staff members for their participation during this review and their professional courtesy and cooperation.

Please review the attached written report, which documents our audit recommendations and provide a written response within 30 days. Our report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next meeting is currently scheduled for January 29, 2014. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process. Feel free to call me if you have any questions.

cc: Anthony Lyons, CRA Director
Sarah Vidal-Finn, Senior Analyst

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office completed a review of CRA Capital Project Contracts. The primary objective of this audit was to evaluate and provide reasonable assurance that capital project contracts for CRA are adequately monitored and complied with. Our procedures included reviewing controls over contract awards, monitoring activities and payment processing. We selected a sample of capital project contracts that were completed or near completion. We also selected projects that were high dollar projects and had significant outside contractor activity. We obtained the contracts and purchase orders and ensured that terms were identified, tracked and invoices were paid for work performed or equipment received. The scope of our review was generally for capital projects initiated during Fiscal Years 2012 and 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Based on the results of our review, we found elements of a strong internal control system in place that ensures projects are completed and in compliance with contract terms. A detailed set of policies and procedures guide CRA staff in performing their duties and provide appropriate accountability. However, opportunities exist to strengthen the monitoring of capital projects to provide greater consistency in contract compliance and ensure that invoices provide adequate support. Each of our recommendations has been discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

The Gainesville Community Redevelopment Agency (CRA) is an entity established under Section 2-406 of Article V of the Gainesville Code of Ordinances to carry out community redevelopment activities pursuant to the Community Redevelopment Act (Chapter 163, Part III, Florida Statutes). The CRA is a dependent special district and governed by the City Commission in their role as the CRA Board.

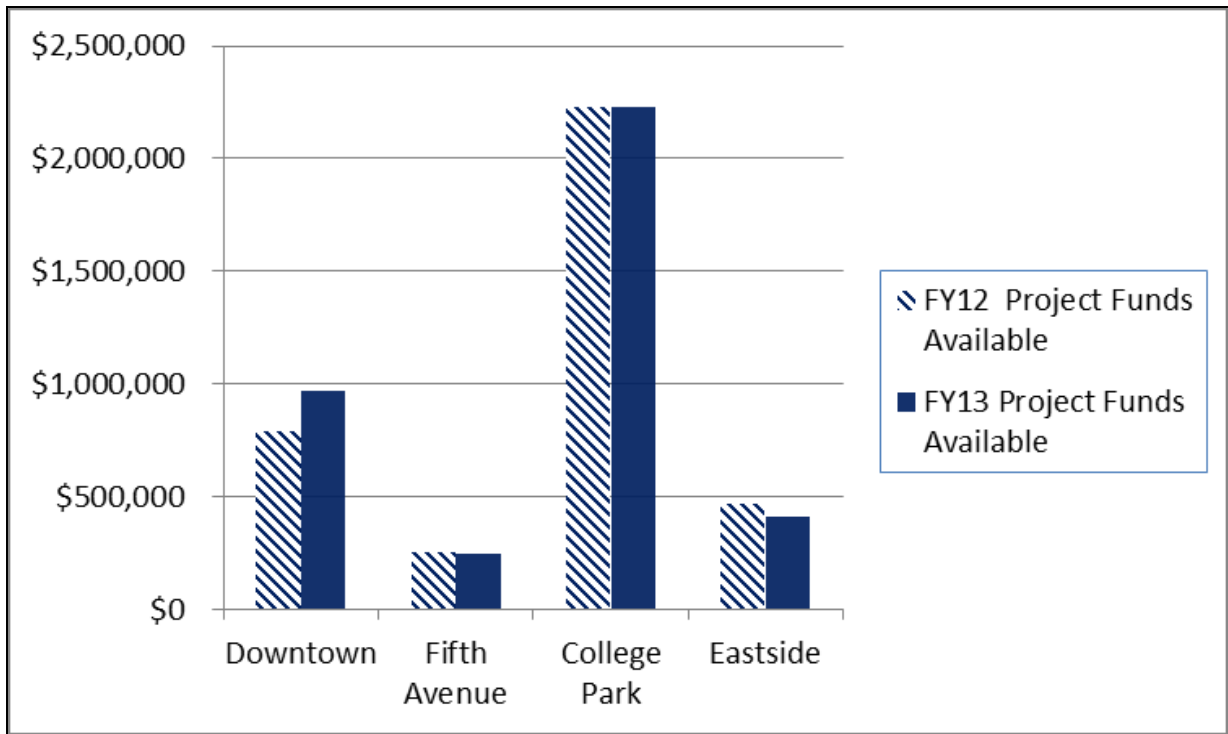
A CRA is created when the governing body finds one or more areas within the City with conditions that have the need to restore blighted areas to economic viability. The CRA leverages growth in assessed property values (Tax Increment Financing Funds) to reinvest within CRA boundaries. Gainesville has four redevelopment areas measuring approximately 5.12 square miles or approximately 8% of the City's total area and includes:

- Downtown
- Fifth Avenue / Pleasant Street
- College Park / University Heights
- Eastside

Under the direction of the CRA Board, four volunteer advisory committees, made up of private citizens, help provide insight as the CRA works to improve the quality of life and economic vitality in each district.

Tax Increment Financing Funds (TIF's) account for certain property tax increments and interest earned on such funds, which are to be used for specific projects involving each of the four redevelopment districts. For Fiscal Years 2012 and 2013, CRA budgeted projects totaled \$3.7 and \$3.8 million dollars, respectively. **Figure 1** below provides a summary of funds budgeted for capital projects in each district after payroll, operating expenses and debt service.

**Figure 1
Funds Available for Capital Projects**



Following is a listing of some of the significant capital projects completed in recent years by the CRA or that are currently in progress:

Downtown

- Power District Master Planning and Redevelopment
- Depot Building Historic Rehabilitation
- Depot Park Master Planning and Redevelopment
- Downtown Plaza Improvements
- Porter's Connections (SW 5th Avenue)
- Porter's Neighborhood Block Party

Fifth Avenue/Pleasant Street

- Seminary Lane Redevelopment
- A. Quinn Jones Museum
- 5th Avenue Corridor Connections (NW 8th Street and NW 3rd Avenue Sidewalks)
- Fifth Avenue/Pleasant Street Arts Festival

College Park / University Heights

South Main Street

Innovation Square Roadways (SW 3rd Avenue and SW 9th Street)

Innovation Square Parking Analysis and Strategy

NW 1st Avenue Redevelopment

NW 5th Avenue (1300-2100 BLK)

Eastside

Cotton Club/Perryman's Grocery Revitalization & Farmer's Market

Hawthorne Road Corridor Infrastructure Assessment

Kennedy Homes Master Planning and Redevelopment

GTEC Area Redevelopment

Citizen's Field Youth Triathlon

Habitat for Humanity Neighborhood Revitalization Initiative

District-wide Programs

Transformational Incentives Program

Redevelopment Incentives Program

Economic Development Finance Programs

Façade Grant Programs

Paint Programs

ISSUE #1

Improving Payment Processing and Expense Monitoring

Discussion

Our review indicates that elements of a strong system of internal control are in place. Detailed policies and procedures guide CRA staff in performing their duties and provide appropriate accountability. Current payment processing procedures require payments be (1) correct, proper, accurate and comply with contractual terms and conditions; (2) properly processed in accordance with policies and procedures; and (3) properly and timely recorded and capitalized in the CRA accounting records.

However, we noted several instances of duplicate invoices and questioned costs during payment processing and believe opportunities exist to strengthen the monitoring of capital projects, provide greater consistency in contract compliance and ensure that invoices provide adequate support. Although amounts noted are not material, improvements in payment processing controls can be achieved.

- 1) Three invoices totaling \$385 were submitted for duplicate payments during the period May 2012 to August 2012.
- 2) Payment of \$127 for equipment was coded as a “UF Vet School” project. The contractor indicates the invoice was mislabeled.
- 3) Payments of \$22,843 for liability insurance were processed without adequate invoices. The contractor produced the invoices during the audit.
- 4) Payment of \$2,078 for golf cart parts and repairs. The contractor charged the full cost of eight (8) tires, four (4) batteries, one (1) seat kit and four (4) hours labor to a CRA project explaining the cart was necessary to travel between construction sites. We disagree with the contractor’s assertion to directly charge and hold CRA responsible for having these “vital” parts available and believe these costs are considered normal repair and upkeep to a contractor owned vehicle.

We believe that improved attention to invoice details would prevent and detect duplicate payments and project miscoding. Although the contractor was able to produce the liability insurance invoices, the complete package of policies and paid invoices should have been requested upon initial payment. We also believe that staff should be alert to items not normally reimbursed on construction projects such as vehicle batteries and tires. Although transportation is contemplated in the professional services agreement, no documentation was provided to prove the need on this project.

Conclusion

Although CRA contract managers made reasonable efforts and amounts noted are not material, oversight improvements can be achieved in reviewing invoice details and project allocations. Ineffective controls over payment processing and reviewing invoices increases the risk of overpayment to vendors.

Recommendation

We recommend controls over payment processing and monitoring project expenses be improved to reduce the risk of duplicate invoices and better match invoices to projects.

Management's Response

Transportation costs are contemplated in the Construction Manager's Agreement for Professional Services, Article 4. "Compensation of Construction Manager" Sections 4.2.2 Staffing Costs and 4.2.3 General Condition Costs. Transportation and vehicles are included in the very definition of the "Work" performed under the construction management contract. Per the Agreement the Owner and Contractor decide what is necessary to carry out the "Work."

As a matter of standard operating procedure, all construction pay applications are first reviewed and signed off on by the Professional Engineer or Architect on the project. The pay applications are then forwarded for review by the CRA Project Manager. The final CRA review is completed by the Senior Account Clerk before being submitted for payment. Before payment is released, there are also final reviews of each pay application by the City Property Control Specialist and City Accounts Payable.

CRA Management believes that strong internal controls over payment processing and monitoring are in place. However, CRA Management will discuss these findings with its five Construction Manager firms and CRA Staff in an effort to remind and encourage all parties involved to strive for improvement in monitoring invoices submitted on capital projects.

ISSUE #2

Improving Process of Allocating and Documenting Direct and Indirect Costs

Discussion

CRA's are guided by Florida Statute 163, Part III, Community Redevelopment Act. Section 163.387(8) requires annual audits of CRA redevelopment trust fund using generally accepted accounting principles, including the following principles:

- Demonstrate evidence that funds were expended only for allowable purposes and pay only for activities directly related to the CRA business;
- Funds be allocated on the basis of a beneficial or causal relationship between the expenses incurred;
- Salaries and benefits partially paid from CRA funds are commensurate with the percentage of time spent on CRA-related activities;
- Sufficient documentation providing a basis for salary expenditures charged to the CRA would include items such as timesheets, position descriptions or other cost accumulation records;
- Allocation methods used must be systematic and rational; and
- CRA payments based on budget estimates should be measured with actual time spent by City employees on CRA activities or other reasonable methodology employed to determine whether or not the City's effort was at least to the extent the CRA paid.

Direct costs are specifically associated and identified to a particular project, program or activity and include salaries or wages, materials and supplies, equipment and travel expenses. Indirect costs are incurred for common or joint purposes and not readily identified and include interdepartmental services provided by one department to another within the governmental unit such as payroll and purchasing.

Inquiries with CRA staff indicated concerns over the cost of both direct and indirect costs charged to the CRA by General Government departments and the lack of documentation available to support those charges. Charges include direct salary (Clerk and Attorney) and indirect costs for support services (i.e., Purchasing, Payroll, etc.).

The Florida Auditor General issued several audit opinions concerning costs allocated to CRA Trust Funds and cited numerous CRA's for not maintaining sufficient documentation. Accordingly, our testing reviewed the appropriateness of direct and indirect costs charged to CRA funds to determine whether:

- a) Costs allocable to the CRA funds were allocated on the basis of a beneficial or causal relationship between the expenses incurred;
- b) Costs treated as indirect costs were not claimed as direct costs;
- c) Costs were accounted for consistently; and
- d) Supporting documentation was sufficient to ensure that a systematic and rational basis was used.

The following summarizes the results of our review for direct and indirect costs charged to the CRA.

Direct Costs

The CRA directly funds a portion of the salary and benefits of the Clerk of the Commission Office for services related to attending CRA meetings, handling agenda items and minutes and providing other records management services; and of the City Attorney's Office related to providing legal counsel to the CRA Board and staff and reviewing and drafting agreements, ordinances, resolutions and other legal documents for the CRA. We noted the following during our review:

1) Direct cost calculations:

The Fiscal Year 2013 budget indicates direct funding for the Clerk of the Commission and City Attorney's Office in the amounts of \$21,939 and 63,516, respectively. However, our analysis indicates that the CRA is not fully funding direct services provided. Current estimates of direct services recently provided by the Clerk indicate potential higher charges for the CRA ranging from \$7,000 to \$9,200. The City Attorney's Office is not capturing all related CRA legal costs as calculations for legal assistants and other support staff have historically been omitted.

2) Documentation:

The City Attorney's Office has a system in place for identifying actual time spent on CRA projects, however the Clerk of the Commission Office lacks a formalized internal time reporting system for documenting actual time spent on CRA projects. CRA related activities must be documented to ensure that CRA funds are expended only for authorized purposes. Activity reports should be completed periodically and approved.

Calculations of direct costs should be reviewed for accuracy and further efforts are needed to ensure proper documentation is obtained to ensure the CRA is charged appropriately and in accordance with statutory requirements and good accounting practice.

Indirect Costs

Central services are those administrative units that mainly provide services to other governmental departments and not to the general public. Examples include departments such as purchasing, payroll and data processing. The cost allocation process helps ensure that City funds and functions share indirect costs based on relative benefits received. In compliance with the US Office of Management and Budget (OMB) Circular A-87, the City prepares a "full cost allocation plan" to identify and distribute indirect services provided by central service departments. Although we found the system for allocating Citywide indirect costs reasonable and consistent as required by Federal accounting standards, we believe that amounts charged to the CRA should be reviewed and updated to ensure the indirect cost allocations remain equitable and realistic in proportion to the benefit provided. We noted the following during our review:

- 1) The fully allocated Plan is not used for budgetary purposes as Finance assesses the degree in which an indirect amount is included in the budget based on assumptions of reasonableness. The CRA is charged only a portion of the proposed allocations. During the period from FY09-FY12, the percentage ranged from 31% to 41%. Most departments or funds are charged about 80 – 90%. The current pattern of low percentages charged to CRA is a result of recent growth within the CRA that dramatically affected the gap in the indirect allocation. Finance did not believe it reasonable for the CRA to absorb all the cost in one year and developed a plan for incrementally charging the CRA 5% more each year. The rate will be adjusted to 10% in Fiscal Year 2014.

- 2) Cost allocations for several areas need review and updating. In particular, modifications to the City Attorney and Clerk of the Commission allocations are needed as CRA provides direct funding for those two departments and it appears the schedule has not been adjusted for those costs. In addition, other indirect allocations such as professional fees and building use and maintenance should be reviewed for relevancy and to ensure that CRA funds are allocated based on a beneficial or causal relationship between the expenses.

Conclusion

- 1) We believe efforts are needed to develop methodologies for calculating direct CRA cost allocations and improve supporting documentation to ensure that CRA funds are expended only for allowable purposes and activities directly related to CRA business and complying with Chapter 163, Florida Statutes. The City Attorney's internal time reporting system sufficiently documents time directly related to CRA business but improvements are needed to ensure methodologies for allocating costs are accurate. The Clerk of the Commission lacks a formalized internal reporting system to document actual time and so further efforts are needed to both measure and document staff time and develop a cost allocation methodology.
- 2) We believe that indirect amounts charged to the CRA should be reviewed and updated to ensure the indirect cost allocations remain equitable and realistic in proportion to the benefit provided. In particular, modifications to the City Attorney and Clerk of the Commission allocations are needed as CRA provides direct funding for those two departments and it appears the schedule has not been adjusted for those costs. In addition, other indirect allocations such as professional fees and building use and maintenance should be reviewed for relevancy and to ensure that CRA funds are allocated on the basis of a beneficial or causal relationship between the expenses.

Recommendation

We recommend communications be improved and CRA management work with the Clerk of the Commission, City Attorney and Budget Office in:

- a) Developing an acceptable methodology for calculating and documenting CRA direct cost allocations, including all appropriate staff devoting direct hours to CRA activities, such as Legal Assistants, Executive Assistants, etc.;
- b) Improving supporting documentation for measuring direct hours to support that CRA funds are expended for only authorized purposes;
- c) Evaluating indirect costs allocations and consider developing an interagency services agreement in which the parties acknowledge what support services the CRA would need; and
- d) Updating program funding periodically to ensure indirect costing methods and allocations remain equitable.

Management's Response

CRA Management inquiries were due to the lack of documentation provided by some departments and cost allocations for Indirect Costs that did not seem applicable. Clarification was requested through this audit process solely to ensure all Direct and Indirect Costs were justifiable and documented. The audit presented an opportunity for clarification.

In regards to the Clerk's duties, CRA Staff has assumed the majority of the Clerk's support function. The Clerk has been involved in the transfer of duties and the Direct Costs have been adjusted for the FY2014 Budget to reflect these changes. CRA Staff will meet with the City Budget & Finance staff to discuss adjusting the Indirect Costs as they relate to the reduction in Clerk Services.

In regards to the CRA Attorney's duties, the amount of direct costs for an increase in the Assistant City Attorney's time was adjusted for the FY2014 Budget. CRA Staff will follow up with the Attorney's office and the City Budget & Finance staff to refine the Indirect Cost charges and additional charges that should be passed along to the CRA for administrative support.

CRA Staff will also discuss all Indirect Costs with the City Finance & Budget Staff to ensure all Costs are being charged appropriately and are justifiable.

ISSUE #3

Improving Budget Controls

Discussion

The CRA has not historically submitted the budget in time to be included in the City Proposed Financial and Operating Plan approved by the City Commission. For example, the Fiscal Year 2013/2014 preliminary budget information was submitted on September 12, 2012 and was not incorporated into the budget document. The CRA budget consists of five funds of considerable size and detail requiring various adjustments to make a proper accounting (CRA Special Revenue Fund and four district Tax Increment Funds).

The CRA Board approved the CRA budget on September 20, 2012, the same date the City Commission adopted the Fiscal Year 2013/2014 Proposed Financial and Operating Plan. Therefore, the CRA information in the adopted City budget is a placeholder of estimated numbers defaulting mostly to prior year amounts. City Finance staff then prepare budget transaction adjustments to include what the CRA actually adopts and provide the proper Debt Service amounts. The adjusted budget amounts are then reflected in the AMS financial system and reported on the First Quarter Amendatory Report presented to the Audit, Finance & Legislative Committee in January.

Budgets are the blueprints for the orderly execution of program plans and serve as control mechanisms to match anticipated and actual revenues and expenditures. Budget control is essential for effective financial management of any organization. Current City policies and procedures provide adequate control over the budget process and ensure that budgets are prepared accurately and in a timely manner. CRA is developing policies and procedures that include controls over budget data and deadlines related to the City's Proposed Financial and Operating Plan approved in late September.

Conclusion

The CRA proposed budget as formally adopted and published by the City is not accurate when approved in September. Current conflicts in process and internal deadlines require additional time for Finance staff to later reconcile and make adjustments.

Recommendation

We recommend that CRA management continue developing and implementing procedures that address the current conflicts and prepare the budget sufficiently early enough to be included in the City Proposed Financial Operating Plan approved by City Commission in late September.

Management's Response

CRA Budget procedures have remained consistent, timely and accurate over the years with submittals of its Adopted Budget being approved in September and its Amendatory Budget being approved in March. If the information the City Budget & Finance Department provides in its Adopted Budget is incorrect, it's likely that updated budget information has not been requested before the City's submission deadline(s). CRA Staff submitted a formal Request for Legal Services on November 12, 2013 to have the CRA Attorney review City Budget Procedures, CRA Budget Procedures, the Florida Statutes that govern

CRA's and other applicable documents to determine and understand how the two budget cycles should align. Once CRA Legal provides clarity on how the City and CRA Budget procedures should align, CRA Staff will make accommodations based on the direction given. CRA Staff is also drafting its own Purchasing Procedures, which will include revised Administrative Policy and Procedures for Financial, Budget and Debt Policies. The Legal findings and the new procedures will be presented for adoption by the CRA Board in FY2014.