



**Capital Improvement Program Budget
Process Review
Audit Report A2014-02**

Issued by the
Internal Audit Office
September 23, 2014

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Capital Improvement Program Budget Process. Based on the results of the audit, six (6) findings have been identified. All (6) of these findings are considered significant.

Listed below is a summary of the findings identified in this report:

1. Engineering and Construction Management's Policies and Procedures Manual have not been finalized and require editing.
2. Riverpark Project (PPW0046020TE) was cancelled on July 12, 2011 with no documented notification to City Council.
3. Engineering & Construction Management and the Office of Management & Budget processed a budget transfer (BT 2011-1050) in the amount of \$871,596.90 without required City Council approval.
4. City Council is not being consistently informed on a quarterly basis of the CIP project budget transfers as required by FY 2013/2014 Budget Resolution Item #8.
5. Engineering & Construction Management allowed the purchase of two Ford F-250 pickups and two Bobcat utility vehicles totaling \$72,722.46 utilizing 2000 Quality of Life funding.
6. The signature/approval blocks on Change Order forms are not being completed consistently.

For a detailed explanation of each finding please refer to the appropriate numbered finding in the body of this Audit Report.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

BACKGROUND

The Capital Improvement Program (CIP) is administered by the Engineering and Construction Management Department of the City of El Paso. Engineering and Construction Management's primary responsibility is the planning, execution, and oversight of the CIP. Engineering and Construction Management administers over 300 CIP projects whose cumulative total budget nears \$760 Million.

The City's CIP includes unprecedented investments in quality of life infrastructure, complete streets, standard-setting municipal facilities, and mobility infrastructure which include the Sun Metro facilities and the El Paso International Airport.

During recent budget cycles there have been budget resolutions approved which were intended to improve efficiencies within the Capital Improvement Program. The efficiencies included increasing City Council approval thresholds regarding CIP budgets. This was done to decrease the number of CIP budget changes that would require City Council approval thus decreasing project completion times. An overview of the recently approved budget resolutions regarding the Capital Improvement Program is listed below.

Fiscal Year	Budget Resolution Item #6	Budget Resolution Item #8
2009/2010	<i>The City Manager or his/her designee is hereby authorized to make budget transfers not exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments and/or funds. Budget transfers exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments and/or between funds shall require City Council approval.</i>	<i>The City Manager is hereby authorized to establish the budget for any capital projects that are approved by the City Council.</i>
2010/2011	Same as FY 2009/2010 above.	Same as FY 2009/2010
2011/2012	Same as FY 2010/2011 above.	<i>The City Manager or his/her designee is hereby authorized to establish the budget for any capital projects within a CIP approved by the City Council and make all necessary amendments, provided that the deletion of a project or a change greater than 25% in an individual project with an approved budget of more than One Million Dollars (\$1,000,000.00) requires additional Council Approval.</i>
2012/2013	<i>The City Manager or his/her designee is hereby authorized to make budget transfers not exceeding Fifty-Thousand Dollars (\$50,000.00) between departments and/or funds, to the extent permitted by law. Budget transfers</i>	<i>The City Manager or his/her designee is hereby authorized to establish or amend the budget for any capital projects within CIP approved by the City Council, provided that the addition or deletion or a project's budget of more than One Million</i>

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

	<i>exceeding Fifty-Thousand Dollars (\$50,000.00) between departments and/or funds shall require City Council approval.</i>	<i>Dollars (\$1,000,000.00) requires additional Council approval and expenditures are in compliance with applicable laws and policies and a quarterly report is provided to Council on the budgets for capital projects that the City Manager or her designee has established, amended, added or deleted.</i>
2013/2014	Same as FY 2012/2013 above.	Same as 2012/2013 above.
2014/2015	Same as FY 2013/2014 above.	<p>#8 <i>That the City Manager or his/her designee is hereby authorized to increase or decrease the budget for any capital projects within a Capital Improvement Program (CIP) approved by the City Council, provided that the change of a project's budget of more than One Million and No/100 Dollars (\$1,000,000.00) requires additional Council approval. No project budget may be reduced to zero or deleted unless the project has been completed. Expenditures must be in compliance with applicable laws and policies and a quarterly report must be provided to Council on the budgets for capital projects that the City Manager or his/her designee has established, amended, added, or deleted.</i></p> <p>#9 <i>That the City Manager or his/her designee is hereby authorized to add to an existing Capital Improvement Program (CIP). Addition of a project to an approved CIP must meet the purpose of the proceeds from which the original CIP was funded and the addition of such project(s) cannot exceed more than Five-Hundred Thousand and No/100 Dollars (\$500,000.00) without City Council authorization. Expenditures must be in compliance with applicable laws and policies and a quarterly report must be provided to Council on the budgets for capital projects that the City Manager or his/her designee has established or added.</i></p>

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

AUDIT OBJECTIVES

The audit objective was to determine if Engineering and Construction Management for the City of El Paso is effectively administering the Capital Improvement Program. The objectives of this audit were as follows:

1. Identify CIP projects that were completed under budget, at budget, or over budget.
2. For projects completed over budget determine where the extra budget funds to complete the CIP project came from.
3. For projects completed under budget determine where the excess budget funds programed for the project were transferred to.
4. Determine if the budget transfer process was conducted per protocol, if there are proper controls in place such as proper approval, monitoring, segregation of duties, supporting documentation etc.
5. Determine the reason or cause for the budget transfers (change orders etc.).

AUDIT SCOPE

The scope of this audit was limited to completed CIP projects for Fiscal Year 2013-2014.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Engineering & Construction Management Department management and staff.
- Conducted interviews with the Office of Management & Budget management and staff.
- Conducted a review of the Capital Improvement Program Policies and Procedures.
- Conducted a review and analysis of Capital Improvement Program Change Orders.
- Calculated average percentage Change Orders impact original contract prices.
- Conducted a review and analysis of CIP project budgets.
- Conducted a review and analysis of CIP project budget transfers.
- Conducted a review of how CIP projects are monitored.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a "Significant Finding" is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a "Regular Finding".

Finding 1

Internal Control Awareness

A strong system of internal controls requires that policies and procedures are written to document routine or repetitive activity followed by an organization. The development and use of policies and procedures are an integral part of a successful quality system as it provides individuals with the information and guidance to perform a job properly.

Engineering & Construction Management provided a manual in *Draft* form titled "Construction Project Accounting" dated January 15, 2014. The Policies and Procedures Manual was not final and required editing.

- At the time of review Section 5 listed in the Table of Contents did not coincide with Section 5 of the manual.
- There was no reference made to Construction Manager at Risk type projects.

Recommendation

Engineering & Construction Management should finalize the Policies and Procedures Manual for the Capital Improvement Program function of their department. Once final, the manual should be distributed to CIP staff.

Management's Response

ECM has been working to take inventory of all of its accounting processes and documenting them has been ongoing. The procedures will be finalized, approved by the City Engineer, and distributed to staff.

Responsible Party

Cecilia Bertolli, Administrative Services Manager

Implementation Date

December 31, 2014

City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02

Finding 2

Budget Transfer Process

FY 2010/2011 Budget Resolution Item #6 states: "The City Manager or his/her designee is hereby authorized to make budget transfers not exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments and/or funds. Budget transfers exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments and/or between funds shall require City Council approval".

Riverpark Project (PPW0046020TE) was cancelled on July 12, 2011 (FY 2010/2011) with no documented notification to City Council.

- The project had an original budget of \$496,000.00 and was part of the 2000 Quality of Life projects.
- On July 12, 2011, at the request of Engineering & Construction Management, OMB approved and processed the transfer of the Riverpark Project's remaining budget balance.
- The remaining budget balance of \$484,121.32 was reprogrammed to the Northeast Regional Park project as part of Budget Transfer BT 2011-1050.

Recommendation

Engineering & Construction Management should obtain City Council approval regarding Budget Transfers and project cancellations. Maintain all supporting documentation.

Management's Response

The Riverpark project was no longer feasible after the flooding of 2006 and was considered for reprogramming. The International Boundary and Water Commission did not recommend that we proceed given the potential for levee flooding and the maintenance of the park that would follow such flooding. The funds were used toward the funding of the NE Regional Parking Lot expansion and design of the skate park. Personnel involved in the decision are no longer employed with the City and documentation could not be provided of the discussions leading to the reprogramming or evidence of communications to council directly or through the Bond Advisory Committee regarding the cancellation of the Riverpark project. ECM will ensure that such project cancellations will be communicated to council through the quarterly CIP update. A project file is created for each project with a permanent retention period however a file is not created or maintained for projects that are cancelled.

Furthermore, when re-programming capital budgets, the Office of Management and Budget request documentation that includes approvals through the proper channels, including City Council when necessary. A full checks and balances method will be utilized for all future reprogramming to ensure City Council are informed, approve if necessary, and that management operates with full authority.

Responsible Party

Irene Ramirez, Interim City Engineer

Implementation Date

September 30, 2014

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

Finding 3

Budget Transfer Process

Fiscal Year 2010/2011 Budget Resolution Item #6 states: "The City Manager or his/her designee is hereby authorized to make budget transfers not exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments and/or funds. Budget Transfers exceeding Twenty-Five Thousand Dollars (\$25,000.00) between departments or funds shall require City Council approval".

Fiscal Year 2010/2011 Budget Resolution Item #8 states: The City Manager is authorized to establish the budget for any capital projects that are approved by the City Council.

On July 12, 2011 (FY 2010/2011) Engineering & Construction Management and the Office of Management & Budget processed a Budget Transfer (BT 2011-1050) in the amount of \$871,596.90 without required City Council approval.

Recommendation

Engineering & Construction Management needs to implement a Budget Transfer review process to ensure Budget Transfers do not violate current Fiscal Year Budget Resolution Items #6 and #8 requirements.

Management's Response

This budget transfer was submitted to OMB in FY2011. Because the employees from both ECM and the Parks department are no longer employed with the City, documentation could not be found regarding the determination that the budget transfer would be processed without council approval. ECM has complied with the budget resolution since that incident. ECM will meet with OMB to review the budget resolution annually when changes are made to the affected paragraphs.

Furthermore, when re-programming capital budgets, the Office of Management and Budget request documentation that includes approvals through the proper channels, including City Council when necessary. A full checks and balances method will be utilized for all future reprogramming to ensure City Council are informed, approve if necessary, and that management operates with full authority.

Lastly, OMB posts quarterly reports on their website that show all budget transfers. Adherence to the budget resolution is complied with, albeit by OMB as it is our understanding they are the final authority on budget matters. ECM Department requests clarity on what department(s) are expected to produce and provide these reports.

Responsible Party

Cecilia Bertolli

Implementation Date

Meeting with OMB to review the FY15 budget resolution. September 30, 2014.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

Chief Internal Auditor's Response

The Capital Improvement Program Budget Transfer Report posted on the OMB's website is for the 2nd Quarter of FY 2013-2014 (December 2013 – March 2014) only. There is no CIP Budget Transfer Report for the 1st and 3rd Quarters of FY 2013-2014. It is recommended by the Internal Audit Office, that the Engineering and Construction Management Department take the lead in obtaining clarification from the City Manager's Office on which department will be responsible for reporting to City Council on the CIP Budgets that have been established, amended, added or deleted.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

Finding 4

Budget Transfer Process

FY 2013/2014 Budget Resolution Item #8 states: "The City Manager or his/her designee is hereby authorized to establish or amend the budget for any capital projects within a Capital Improvement Program (CIP) approved by the City Council provided that the addition or deletion of a project's budget of more than One Million Dollars (\$1,000,000.00) requires additional Council approval and expenditures are in compliance with applicable laws and policies and a quarterly report is provided to Council on the budgets for capital projects that the City Manager or her designee has established, amended, added or deleted".

City Council is not consistently being provided a Quarterly Report on the Budget Transfers for Capital Projects that have been established, amended, added or deleted as required by Item #8 of the FY 2013/2014 Budget Resolution.

Recommendation

Engineering & Construction Management should:

- Provide Management and City Council with the Quarterly Report as required in Item #8 of the FY 2013/2014 Budget Resolutions.
- Include in the Quarterly Report to Management and City Council information regarding project remaining "budget balances" on completed and cancelled projects.

Management's Response

The Office of Management and Budget tracks and compiles a list of budget transfers submitted by the Engineering and Construction Management department (ECM) however this list was not being submitted to council. A more systematic approach must be followed between ECM, OMB and Financial Services (team effort) to ensure all necessary information related to the CIP budget is provided to City Council via the City Manager, on a quarterly basis; either via a special report or presentation to City Council.

OMB posts quarterly reports on their website that show all budget transfers. Adherence to the budget resolution is complied with, albeit by OMB as it is our understanding they are the final authority on budget matters. ECM Department requests clarity on what department(s) are expected to produce and provide these reports.

Responsible Party

Leila Melendez

Implementation Date

The meeting and procedure completion by September 30, 2014. The report will be delivered to council along with the next quarterly CIP report.

Chief Internal Auditor's Response

The Capital Improvement Program Budget Transfer Report posted on the OMB's website is for the 2nd Quarter of FY 2013-2014 (December 2013 – March 2014) only. There is no CIP Budget Transfer Report for the 1st and 3rd Quarter of FY 2013-2014. It is recommended by the Internal Audit Office, that the Engineering and Construction Management Department take the lead in obtaining clarification from the City Manager's Office on which department will be responsible for reporting to City Council on the CIP Budgets that have been established, amended, added or deleted.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

Finding 5

Project Budget Monitoring

The City of El Paso Purchasing Manual dated January, 2010 Section 45.7 states the User department should identify vehicle needs in their Department Requested Capital Budget which is submitted to OMB who finalizes vehicle requests based on policy direction and available capital funds.

Engineering & Construction Management allowed two Ford F-250 pickups and two Bobcat front-end loaders totaling \$72,722.46 to be purchased for the Parks and Recreation Department. The purchase was charged to the Northeast Regional Park CIP Project PPW00460040 in April/May 2007. Purchase Order numbers 2007003780 and 2007003332 respectively were used. Engineering & Construction Management could not provide a project scope of work that authorized the purchase of the vehicles and utility vehicles for Northeast Regional Park Project. The Northeast Regional Park was funded with 2000 Quality of Life Bonds.

Recommendation

Engineering & Construction Management should monitor CIP Project's budgets/expenses to avoid having non-project expenses charged to CIP Projects.

If vehicles are required to support a CIP project, Engineering & Construction Management should ensure the vehicles are identified and listed in the project scope of work when approved by City Council.

Management's Response

The vehicles were purchased by General Services at the request of the Parks Department. ECM will reiterate to user departments that expenditures outside of the original scope of the project are not allowed, unless expressly authorized by City Council.

ECM will work with Financial Services to put in place PeopleSoft system controls which ensure transactions related to CIP Projects are approved only by ECM and not by anyone other than CIP authorized staff.

Responsible Party

Irene Ramirez, Interim City Engineer

Implementation Date

September 30, 2014

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

Finding 6

Change Order and Construction Quantity Notice Process

The Change Order and Construction Quantity Notice Process require three forms. They are as follows:

1. The "Request for PO Increase/Decrease" form has three signature blocks which requires Project Manager, Engineering Manager, and Contract Compliance signatures.
2. The Change Order and Construction Quantity Notice form Page 1 requires two signatures from the Contractor and the City of El Paso's City Engineer.
3. The Change Order and Construction Quantity Notice form Page 2 requires three signatures from the Project Manager, Engineering Division Manager and Financing Department (If Required).

The signature blocks on the Request for PO Increase/Decrease, Change Order and Construction Quantity Notice forms are not being completed consistently. Each form requires approvals via signature as listed above. Within the 10 CIP Projects tested, 22 Change Orders and Construction Quantity Notices were reviewed.

- 15 Construction Change Orders (CO's)
- 6 Construction Quantity Notices (CQN's)
- 1 Scope Change Order

Test results listed below;

Number of CO's and CQN's not signed / approved by required personnel.	Request for PO Increase / Decrease			CO or CQN Page 1		CO or CQN Page 2		
	Project Manager	Engineering Manager	Contract Compliance	Contractor	City of El Paso	Project Manager Recommends Approval	Engineering Div. Manager Recommends Approval	Financing Department Approval (If Required)
	8 of 22 or 36.36%	7 of 22 or 31.82%	12 of 22 or 54.55%	No Errors	No Errors	2 of 22 or 9.09%	No Errors	22 of 22 or 100.00%

Recommendation

Engineering & Construction Management should review Change Order and Construction Quantity Notice forms to ensure proper approvals and signatures have been obtained.

Management's Response

The change order forms were outdated and have signature lines no longer necessary. The form and related procedure will be updated and circulated to staff.

Responsible Party

Javier Reyes, Engineering Division Manager

Implementation Date

October 31, 2014

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded work on the audit objectives of the Capital Improvement Program Audit. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude whether Engineering and Construction Management met the objectives of this audit. Based on our audit work, we have determined the following:

Engineering and Construction Management is meeting their objectives in the following areas:

- They were successful in ensuring that nine of ten CIP projects we reviewed were completed under budget and one was completed with a budget balance of zero.
- Texas Local Government Code Chapter 252 states Change Orders may not increase the original contract price more than 25%. The 22 change orders reviewed increased the original contract price an average of 6.65%.

Based on our review we have determined that Engineering and Construction Management is not meeting the objectives of the audit in the following areas:

Engineering and Construction Management is not:

1. Operating with updated comprehensive Policies and Procedures Manual.
2. Ensuring that City Council is consistently provided with an accurate comprehensive CIP Quarterly Report regarding budget transfers on capital projects that have been established, amended, added or deleted.
3. Obtaining City Council approval for project cancellation or budget transfers to ensure they are in compliance with the current Fiscal Year Budget Resolutions.
4. Monitoring project expenses thoroughly. The purchase of vehicles and equipment was included in the Northeast Regional Park CIP Project.
5. Completing Change Order and Construction Quantity Notice forms accurately specifically regarding signature blocks.

Implementation of the recommendations contained in this Audit Report should assist the Engineering and Construction Management Department in improving the Capital Improvement Program's budget process. There has been constant change in the Capital Improvement Program in recent years. The CIP program continues to grow and develop outstanding facilities. The management of the Engineering & Construction Management Department has been receptive in addressing the findings identified in this Audit Report.

The City Manager has made a commitment to address the findings identified in this audit. The City Manager has created a Capital Improvement Program Team that will work on improving planning and communication on all Capital Improvement Projects. This Capital Improvement Project Team should assist in improving the CIP Program.

**City of El Paso
Internal Audit Office
Capital Improvement Program Budget Process Review Audit A2014-02**

We wish to thank the Engineering and Construction Management Department's management and staff for their assistance and numerous courtesies extended during the completion of this audit.



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