

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	October 12, 2016
Department:	Engineering
Subject:	Central Mesa Light Rail Project Cost Recovery
Lead Auditor:	Tami Steadman

OBJECTIVE

The objective of this review was to determine whether the Engineering Department effectively implemented the action plans presented in response to our March 2015 Central Mesa Light Rail Project Cost Recovery audit report.

SCOPE & METHODOLOGY

To accomplish our objective, we reviewed departmental procedures, interviewed staff, and analyzed project financial activity from inception through June 2016.

BACKGROUND

In March 2015, we issued a report on our audit of Central Mesa Light Rail Project Cost Recovery. The objective of that audit was to determine whether all reimbursable light rail project costs are being captured and recovered in accordance with applicable agreements. The audit report included six Corrective Action Plans (CAPs) with recommendations and responses from management.

CONCLUSION

Three of the six corrective action plans were successfully implemented. Below is a summarized listing of the recommendations and their implementation status at the time of this follow-up review. A complete list of the original corrective action plans, recommendations, and responses, along with detailed information regarding their implementation status, is presented in the attached Appendix.

- 1. Recommendation:** Develop written procedures for how to correctly calculate and obtain reimbursement for eligible project costs.

Status: Not Effectively Implemented. Written procedures were created, but did not include the controls necessary to ensure that all eligible costs were accurately calculated and submitted for reimbursement.

- 2. Recommendation:** Reconcile previous reimbursement requests to system reports and recalculate payroll and indirect costs. Submit any previously omitted costs for reimbursement.

Status: Not Effectively Implemented. Payroll and indirect costs were recalculated and submitted for reimbursement, but there were errors in the recalculations, so some of the costs were not recovered.

- 3. Recommendation:** Utilize the budget change process described in the Design and Construction agreement and formally request necessary budget increases as soon as possible.

Status: Implemented.

- 4. Recommendation:** Identify reimbursable fringe benefit costs for medical and dental insurance and include these costs in all future reimbursement requests. [Note: It was also recommended that other departments consider whether this issue impacts their grant-funded projects.]

Status: Not Implemented. Accounting staff developed and implemented a process to resolve this issue, and other departments made the change as soon as the solution was available. However, Engineering staff did not utilize the new reports and did not request reimbursement for these costs until after this was found during the follow-up review.

- 5. Recommendation:** Obtain a copy of the federal award document and verify which costs are eligible for reimbursement. As a standard practice when the City participates in federally funded projects, even when not the designated grantee, staff should obtain a copy of the award document and use it to inform the process of accounting for project costs.

Status: Implemented.

- 6. Recommendation:** Document all modifications and changes agreed to by the City of Mesa and METRO in signed amendments to the Design and Construction Agreement.

Status: Implemented.

NEW RECOMMENDATIONS & RESPONSES

Management should continue to work on implementing corrective actions to address the issues identified in the audit and follow-up review. While the Central Mesa Extension project is essentially complete, with relatively few unrecovered costs remaining, the Gilbert Road Extension project is in the early phases. To ensure that all eligible costs incurred on this current project are recovered, it is imperative that reliable processes and controls are in place and operating effectively. Our updated recommendations, along with management's responses, are listed below. As a second follow-up review, we plan to review the Gilbert Road Extension project reimbursement processes in approximately 9 months.

- 1. Recommendation:** Staff should revise the procedures for calculating and submitting reimbursable project costs, and should implement better internal controls to ensure accuracy and completeness. Unnecessary manual steps should be eliminated; Advantage and KRONOS reports should be fully utilized; and, when spreadsheets are used to calculate reimbursements, formula cells should be locked, to reduce the risk of errors.

Management Response: [Agree.](#)

Implementation Plan: [Immediate implementation of updated light rail process.](#)

Individual or Position Responsible: [Senior Fiscal Analyst](#)

Estimated Completion Date: [11/1/2016](#)

2. **Recommendation:** Management should implement effective review processes, including but not limited to the following: 1) Reimbursement requests should be carefully reviewed for accuracy and completeness, prior to submission, using system-generated, project-specific financial reports. This review should also include checking for spreadsheet errors, particularly for calculated line items, such as indirect cost allocations. 2) Periodically, total reimbursements received should be reconciled to inception-to-date Advantage project reports, to ensure costs are not overlooked due to timing differences or other factors.

Management Response: [Agree.](#)

Implementation Plan: [Immediate implementation of updated process addresses the issues noted in recommendation 2.](#)

Individual or Position Responsible: [Senior Fiscal Analyst](#)

Estimated Completion Date: [11/1/2016](#)

APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)

 = Implemented  = In Progress  = Not Implemented

2015 Recommendations		Implementation Status
CAP#1: Inadequate Processes and Lack of Written Procedures		
<p>Recommendation 1-1: Staff should prepare formal written procedures for calculating reimbursable project costs and submitting reimbursement requests to METRO. The procedures should include sufficient details and internal controls to minimize the risk that errors, omissions, or inconsistencies could occur and not be detected. In the future, administrative procedures should be created for each unique project or agreement, incorporating the specific requirements applicable to that arrangement.</p> <p>Management Response 1-1: Engineering will develop processes and procedures and to improve internal controls.</p>	<p>Not Effectively Implemented Written procedures have been developed. However, these procedures have not significantly improved internal controls, as they include unnecessary manual entry into error-prone spreadsheets and do not include a process to periodically reconcile with Advantage financial project reports.</p>	
CAP#2: Unrecovered Costs		
<p>Recommendation 2-1: Staff should reconcile previous reimbursement requests to City financial reports and to recalculated payroll and indirect cost amounts. Reimbursement should then be requested for all previously omitted costs.</p> <p>Management Response 2-1: Engineering fiscal staff will pursue reimbursement for the remaining portion (approximately \$160,000) from Valley METRO.</p>	<p>Not Effectively Implemented Engineering fiscal staff did recalculate payroll and indirect overhead amounts, however, the recalculations were not accurate.</p>	
<p>Recommendation 2-2: Controls should be implemented to ensure errors and omissions are detected and corrected prior to submitting additional reimbursement requests.</p> <p>Management Response 2-2: Engineering staff has identified the issues associated with reimbursement cost recovery. Going forward, staff will develop a process to ensure that errors and omissions are detected and corrected prior to submitting additional reimbursement requests.</p>	<p>Not Effectively Implemented The review process was not effective, as it did not identify errors and omissions. More diligent review of cost reimbursement requests is necessary.</p>	
CAP#3: Budget Increases Not Requested		
<p>Recommendation 3-1: The City should follow the budget change process described in the Design and Construction Agreement and formally request budget increases as soon as possible.</p>	<p>Implemented The department requested and received an Admin budget increase for this project, and the budget is reviewed</p>	

APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)

 = Implemented  = In Progress **X** = Not Implemented

2015 Recommendations	Implementation Status	
<p>Management Response 3-1: Develop an internal process to monitor and manage the project budget on a monthly basis in order to identify budget shortfalls and/or discrepancies.</p>	<p>regularly by the project team. However, it should be noted that no additional controls have been implemented to ensure that future budget changes will be formally executed in accordance with the terms of the respective agreements.</p>	
CAP#4: Uncaptured and Unrecovered Fringe Benefit Costs		
<p>Recommendation 4-1: Staff should determine whether medical and dental premium costs associated with this project can be identified and documented adequately to request reimbursement from METRO for the remainder of the project.</p> <p>Management Response 4-1: The Engineering Department agrees that the medical and dental costs associated with the project need to be identified and documented adequately in order to request reimbursement from Valley METRO. However, this is a system issue that has City-wide implications. As a result, Engineering met with Financial Services to request help in resolving the issue. Financial Services will work on a solution.</p>	<p>Not Implemented Financial Services implemented a process to resolve this issue. However, Engineering did not utilize the new reports and did not request reimbursement for these costs. In our opinion, this can be attributed to the inadequate processes referred to under CAP#1. Specifically, using manual processes to gather data, instead of relying on system-generated financial reports, resulted in the failure to capture these costs. <i>[Note: After this was discovered during the follow-up review, Engineering obtained the information and submitted a request for reimbursement of a portion of these costs.]</i></p>	X
<p>Recommendation 4-2: Staff responsible for tracking costs on other City projects for reimbursement purposes should be informed of this issue; and these costs, if eligible, should be identified and recovered whenever possible/practicable.</p>	<p>Implemented Other City departments are now including these eligible costs in their reimbursement requests.</p>	

APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)

 = Implemented

 = In Progress

 = Not Implemented

2015 Recommendations		Implementation Status
CAP#5: Federal Award Document not on File		
<p>Recommendation 5-1: The Engineering department should obtain a copy of the federal award document and verify which costs are eligible for reimbursement. If necessary, reimbursable payroll and indirect overhead costs should be recalculated.</p> <p>Management Response 5-1: The Project Management team will ensure that a copy of the agreements will be made available and accessible in the project file. The Project Management team will review the agreements and ensure that the City is adhering to the criteria identified in the agreements.</p>	<p>Implemented A copy of the award document was obtained and is in the project file.</p>	
<p>Recommendation 5-2: In the future, when receiving federal grant funding, whether directly or indirectly, staff should obtain and review a copy of the award document, and should use it to inform the process of accounting for project costs.</p> <p>Management Response 5-2: Going forward, the Project Management team will ensure that a copy of the agreements will be made available and accessible in the project file. The Project Management team will modify the agreement process to include Engineering fiscal staff.</p>	<p>Implemented The file structure on Engineering's project network drive now includes a sub-folder for Agreements in each main project folder.</p>	
CAP#6: Oral Amendments to the Design and Construction Agreement		
<p>Recommendation 6-1: All changes agreed to verbally by the City of Mesa and Valley Metro Rail, Inc. should be documented as amendments to the Design and Construction Agreement and signed by both parties.</p> <p>Management Response 6-1: The Engineering Deputy Engineer will review the Design and Construction agreement and document the items that were verbally agreed to deviate from the agreement. These items will be presented to METRO for their review and concurrence.</p> <p>Future material changes to this and other agreements with METRO will be properly documented by amendment when necessary.</p>	<p>Implemented A document listing changes to the Design and Construction agreement was signed by both parties.</p>	