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# CITY OF CORAL GABLES, FLORIDA

## Internal Audit of Citywide Right of Way Improvements Contract

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# EXECUTIVE SUMMARY

## Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to the Citywide Right of Way Improvements contract (the “contract”) between the City of Coral Gables (the “City”) and Metro Express, Inc (the “Contractor”). The objective of the procedures was to test if the Contractor is performing its work in compliance with selected provisions of the contract. Crowe reviewed policies, procedures, the contract, conducted interviews with personnel, and recalculated payments.

## Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating.

Process	Observation #	Opportunity for Improvement	Risk Rating**
Invoicing	1	The City should ensure that the Contractor has requested issuance of the certificate of substantial completion before the final payment is made to the Contractor.	Moderate
Policies and Procedures	2	The City should have formal written policies and procedures.	Moderate
Inspection	3	The City should check that a daily log is kept on the project site at all times.	Moderate

\*\*For explanation of *Risk Rating* determination, refer to page 5.

# INTRODUCTION

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## ***Background***

The City of Coral Gables (the City) has entered into a contract with Metro Express, Inc (the “Contractor”) where the City has requested the Contractor to provide construction services related to the Citywide Right of Way Improvements.

## ***Objective and Scope***

The objective of the procedures performed was to evaluate and test the design and effectiveness of selected internal controls, and to see if policies and procedures were being properly followed. In summary, this internal audit evaluated the following:

- Assess if the internal controls surrounding oversight of the contract and payment of invoices are designed effectively.
- Determine if the City is making payments in accordance with the provisions as outlined in the contract.
- Determine if there are any improvements to be implemented in order to ensure accurate reporting between the Contractor and the City.

The detailed procedures performed can be found starting on page 6 of the report.

Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management’s intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors.

Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

# INTRODUCTION

## *Risk Management*

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:



# PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<b><u>General Operations</u></b>	
1) Review the policies and procedures in place surrounding the Citywide Right of Way Improvements contract with Metro Express.	<p>Crowe requested formal policies and procedures surrounding the Citywide Right of Way Improvements contract with Metro Express. Although policies and procedures are followed, they are not formally documented.</p> <p><b>Refer to opportunity for improvement 2.</b></p>
2) Gain an understanding, through communications with management and key personnel, of the internal operations and document internal controls over key procedures.	<p>Crowe performed interviews and discussions over the course of the audit. Interviews were held with key personnel within the City.</p> <p>Our understanding of policies and procedures were reviewed and tested throughout all aspects of the audit.</p>
3) To determine if payments of invoices were accurate, Crowe performed the following: <ul style="list-style-type: none"> <li>a) Obtained a list of completed projects.</li> <li>b) For the 15 payments selected, Crowe tested if:               <ul style="list-style-type: none"> <li>i) Payments agreed to the amounts listed in the itemized application for payment.</li> <li>ii) A certificate of substantial completion has been issued by the engineer.</li> <li>iii) The contractor's superintendent maintains a log detailing day to day project updates.</li> </ul> </li> </ul>	<p>During our testing we noted that the certificate of substantial completion could not be provided.</p> <p><b>Refer to opportunity for improvement 1.</b></p> <p>During our testing we noted that the contractor daily logs could not be provided.</p> <p><b>Refer to opportunity for improvement 3.</b></p>

# OBSERVATIONS AND RECOMMENDATIONS

## **1. OPPORTUNITY FOR IMPROVEMENT – Invoicing: MODERATE RISK**

A certificate of substantial completion should be issued prior to a project being completed. This certificate is required before the Contractor can submit their application for final payment. However, for the fifteen completed projects selected for testing, no certificates of substantial completion were provided.

**Recommendation:** We recommend that the City ensure that the certificate of substantial completion is issued before paying the final invoice related to the project. Although the project manager inspects the active project sites before payment, per the contract section 6.1.3, a certificate of substantial completion should be issued by the engineer.

**Management Response/Action Plan:** The Public Works Department will review existing Standard Operating Procedures (SOP) and develop updates as needed to ensure certificates of substantial completion are issued for each project prior to paying the final invoice. The updates to the SOPs will assign this responsibility to the City Project Manager overseeing the project and meetings will be held with the inspectors to ensure they have a full understanding of this requirement.

## **2. OPPORTUNITY FOR IMPROVEMENT – Documentation of Formal Policies and Procedures: MODERATE RISK**

During our interviews with the Public Works Divisions that work with Metro Express, it was discovered that there were limited formal written policies and procedures in place at the Divisions for monitoring the Right of Way Improvements contract.

**Recommendation:** We recommend that the City update/develop comprehensive policies and procedures for the Right of Way Improvement operations to provide clear responsibility for the operational monitoring aspects of the Right of Way Improvements contract.

**Management Response/Action Plan:** The Public Works Department will review existing Standard Operating Procedures (SOP) and develop updates as needed that outline the required procedures for operational oversight and documenting of improvements in the the public right-of-way. Once the updates to the SOPs are completed, Project Managers will meet with the inspectors to ensure they have a full understanding of the requirements.

## **3. OPPORTUNITY FOR IMPROVEMENT – Documentation of Project(s) Site(s) Progress: MODERATE RISK**

Per section 9.3 of the contract with Metro Express, a daily log should be kept by the Contractor's superintendent on all project(s) site(s) and include information about when work commenced, weather conditions, materials, labor, personnel and equipment used, among other items. The daily log shall be kept on the project(s) site(s) and shall be available at all times for inspection and copying by the City and project manager. For the fifteen completed projects selected for testing, no daily logs could be provided.

## OBSERVATIONS AND RECOMMENDATIONS

From our interviews with the Public Works Divisions that work with Metro Express, to verify that progress has been made before approving payment of invoices a City employee performs daily walkthroughs at each project site to check on the progress made and pictures are taken at the project sites and uploaded to the City's system. For the fifteen completed projects selected for testing, four did not have any pictures that could be provided.

**Recommendation:** We recommend that the City work with the contractor to ensure that the daily logs are completed and available in accordance with the contract provision. We also recommend that the Divisions review the contractor provided daily logs or ensure that a City employee completes a daily walkthrough and that pictures are taken at the job site and saved in order to document progress made on the projects.

**Management Response/Action Plan:** The Public Works Department will review existing Standard Operating Procedures (SOP) and develop updates as needed to clarify the requirement that Metro Express develop and maintain a daily log on all projects as outlined in their contract. Updates that address this finding will be coordinated with the SOP updates from finding No. 2 above which will outline the policies and procedures for monitoring construction improvements in the Right of Way. Furthermore, SOP update will include a requirement that the daily log be reviewed, walkthroughs be performed, and pictures taken before the approval of monthly pay applications. The updates to the SOP will assign this responsibility to the City Project Manager overseeing the project and meetings will be held with the inspectors to ensure they have a full understanding of these requirements.