



# City of Galveston

## City Auditor's Office

Audit Plan  
March 29, 2021  
CMS2021.5

### **45<sup>th</sup> Street Capital Improvement Project Examination of the Staff Report**

#### **Why We Did This Memo**

On January 28, 2021 the Mayor and City Council approved an amendment to the City Auditor Office's 2021 Audit Plan to include the 45<sup>th</sup> Street Project Staff Reports.

#### **What We Did**

The City Auditor's Office calculated the 45<sup>th</sup> Street Project Fund Impact Source Section on the Staff Report for any inaccuracies. Then the City Auditor's Office compared the accounting system, the FY 2020 4<sup>th</sup> Quarterly Budget Status Report (Quarterly Report) and the 2020 Annual Comprehensive Financial Report (ACFR) for any variances.

#### **What We Found**

The 45<sup>th</sup> Street Project had Staff Reports that did not add up to the change order amounts. This has no impact on the projects construction, funding or expenditures. The Staff Reports are unaudited financial information.

The comparison with the accounting system and Quarterly Report had a few reconciliation items including: retainage, management cost, vendor payment and a credit. The retainage and management cost were entered after the budget status report was published. All of these cleared in the 1<sup>st</sup> Quarterly Report of FY2021. The vendor payment and credit were not picked up on the original report run from the accounting system. The report was ran again with different parameters and included these two items. These will clear on the 2<sup>nd</sup> Quarterly Report of FY2021. This has no impact on the projects construction, funding or expenditures. The Quarterly Budget Status Report is unaudited financial information.

The ACFR is not a good resource for information on a specific CIP Project. The 45<sup>th</sup> Street Project and most CIP projects are split between several Fund Types including: Governmental, Business-type and other Combined Utility System Projects in the ACFR.



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#### **End Results**

Dan Buckley, Deputy City Manager worked with the City Auditor's Office to update the current staff report. We included an excel spreadsheet to prevent any calculation errors and a detailed explanation on each section of the Report. On February 12, 2021, Mr. Buckley directed staff to use the Staff Report format and form.

The Quarterly Reports are done by the Finance and Budget Department. This report has the most up to date information about each project. To ensure all expenditures for each project are reflected on the Quarterly report Debbi Pierce, Budget Manager and the City Auditor's Office collaborated on establishing a Standard Operating Procedure. The SOP has detailed instructions on running reports, entering expenditures and a control to double check the Quarterly Report numbers against the accounting system.

#### **Director of Finance Comment**

This review of the Budget Office's development of the Capital Improvement Plan Status Update section of the quarterly report was helpful to the Finance Department. It resulted in the development of a new report from the City's twenty-seven-year-old accounting system that summarizes inception-to-date funding and expenditure information for individual capital projects. That provided an additional tool to go with inquiry screens for multiyear financial information one project and funding source at a time. Working with the City Auditor's office, we also modified our process for developing the Quarterly CIP Status Report using the new report and committed the specific steps in the process itself to a Standard Operating Procedure. This will make it easier to review and verify the funding section of Staff Reports submitted by operating departments for placement on the agenda.



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### **City Manager's Comment**

This review led to needed changes in the format of City Staff reports used for presentations and action items needing Council Action. The incorporation of a table to ensure mathematical errors did not perpetuate in multiple staff reports was a necessary change.

Additionally, the need to maintain inception to date financial summaries for all capital projects that details funding from all sources adds to the transparency the City has attempted to achieve under its current leadership. Each time Council see's an action item that relates to a capital project, staff should and will going forward provide more detail as it relates to prior and prospective funding.

Reviews and recommendations from the Auditor are helpful and assist staff in their efforts to ensure true transparency. The process as currently structured provides the Auditor full access and visibility into operational and accounting activities. This is not only an appropriate check and balance, but also assists in improving processes.

The new staff reporting platform is being implemented and will continue to be improved through the normal course of business.

### **City Auditor's Office – How Will the Contract Monitoring System (CMS) Improve Our Accountability and Transparency**

CMS will involve documenting certain key contract characteristics at the date of inception and during the performance of a contract using the City Auditor's Office for verification. This would be the preference rather than waiting until the contract and its deliverables (goods and/or services) is fully completed. The documenting of these contract characteristics will be on a central online repository system for the viewing of Council, and ultimately the public, for more up-front verification of contract accountability and transparency. Think of this method as an attempt to positively answer all public scrutiny questions concerning a contract and prove Council's and the City Executive Management's meticulous responsibility to the public.



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An example of the CMS page that would have been included in the online repository for the particular contract mentioned in this report, the 45<sup>th</sup> Street Capital Improvement Project, would have encompassed characteristics such as:

1. Justification of the Procurement Method.
  2. Completed Conflict of Interest Questionnaires by City Employees.
  3. List of Key Individuals for Vendors.
  4. Financial Summaries and Budget Authorizations.
  5. The "S" Curve Graph.
  6. Internal Calendar of Events.
  7. Contract Overrun Reports.
1. Justification of the Procurement Method entails a review of all major contract procurement records by The City Auditor's Office to ensure fairness and transparency of the contract award. This step would also help to prevent undetected component, separate, and sequential purchases as outlined in Section 252 of the Texas Local Government Code.
  2. Completed Conflict of Interest Questionnaires by City Employees would require all city employees associated with vendors receiving contract awards to fill out a conflict of interest questionnaire. Friendships can become conflicts of interest and the City Auditor's Office should be performing an analysis on such potential conflicts per contract award.
  3. A List of Key Individuals for Vendors will identify all stakeholders in businesses that receive contract awards. This is important so as not to allow a group of stakeholders to use different company names and dominate the contract awards of the city. Thus, in some circumstances, the potential of receiving more city contracts than the summation of the collected companies' capacity may allow.
  4. Financial Summaries and Budget Authorizations refers to the City Auditor's Office reconciling the periodic contract payments with a percentage of completion analysis (provided by qualified engineers) at the beginning of the project. This step also attests to the appropriate contract budget increases and decreases without the commingling of other non-associated budgets.



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5. The "S" Curve graph represents how activities ramp up and tail off during a project. This basic chart typically uses additional data representing actual expenditures, purchase order commitments, and a continuously computed estimate of total cost at contract completion. The "S" Curve graph requires a complete project management plan to be in writing before the start of the project.
6. An Internal Calendar of Events is a form of communication to Council and the Public on the Project Team's original plan for reaching milestones to ensure the progress of the project. The Internal Calendar of Events describes the activities of the project schedule, originally planned starting dates, and actual dates of completion for the contract. The City Auditor's Office should constantly update and verify The Internal Calendar of Events as a means of third-party approval to Council and the public.
7. The two most common types of contract overruns are cost overruns and completion delay. The detailed reasons for these overruns are sometimes unforeseeable and almost never documented in full. Therefore, Executive Management faces the blunt of public scrutiny with the real reasons for the overruns going forever unnoticed. The City Auditor's Office through the CMS program will investigate contract overruns as soon as they arise and document the real reasons from the ground level. Based upon the Contract Overrun Reports we hope to aide management in predicting future contract goals and risks much like an independent third party.

The contract in this report, the 45th Street Capital Improvement Project, qualifies as a construction project for the CMS Program. The CMS Program will analyze each city contract based upon the attributes of the contract. For example, lease contracts, supplies contracts, or professional services contracts will all use distinct characteristics to analyze these different types of contracts within the CMS online repository. The CMS Program will serve as one of the City's most dynamic instruments in gaining public trust and demonstrating accountability and transparency.