Final Audit Follow-Up

As of June 9, 2014

Audit of City Projects
(Report #1402 issued November 26, 2013)

Report #1421   *July 9, 2014*

Summary

The Department of Management and Administration (DMA) has completed all three action plan steps established to address issues identified in audit report #1402, Audit of City Projects.

In audit report #1402, we recommended:

1) Departments should continue to improve their review of project statuses in order to close and release unused funds of inactive projects in a timelier manner.

2) DMA Accounting Services should complete its evaluation as to whether the default settings in the PeopleSoft Financials System should be modified so each project is initially classified to result in the addition of a capital asset.

3) DMA Office of Budget and Policy (OBP) should evaluate and revise as appropriate the process used in closing projects to ensure consistent and proper information is reported to department management and project managers.

In response to our recommendations, management established three action plan steps. Our follow-up review showed those action plan steps were completed as of June 9, 2014.

Actions taken by OBP to complete its two action plan steps were:

1) OBP emailed departments on June 9, 2014, and requested the review of the status of capital and operating projects. The email provides a list of supporting information that should be provided to the applicable Assistant City Manager (ACM) to assist the ACM in making informed decisions on the status of the capital projects. The email also requires that requests to extend the life of operating projects beyond the policy-established two-year period be submitted to OBP by no later than June 30, 2014.

2) OBP reevaluated the process used to close projects and ensure consistent and appropriate project balance information is recorded and reported to assist department management and project managers in their oversight responsibilities. OBP concluded a change in the overall process was not needed and the necessary improvements would be provided through OPB management assurance of a more consistent application of existing procedures.

With respect to Accounting Services' completed action plan step, Accounting Services evaluated the default settings in the PeopleSoft Financials System and decided to not change them. The Accounting Services Manager said staff will be more diligent in their review to ensure the records going forward are more accurate as to project classifications. The consideration of the default settings followed

other corrective actions initiated by Accounting Services, which are described in report #1409 (a follow-up to our Audit of Aviation Capital Projects) and summarized in Table 1, below.

We appreciate the cooperation and assistance provided by OBP and Accounting Services during this follow-up audit.

Scope, Objectives, and Methodology

We conducted the original audit and this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Original Report #1402

The scope of our original audit, as disclosed in report #1402, was to review the status of capital and operating projects throughout the City, including the Community Redevelopment Agency (CRA), to determine whether:

1) Unused monies in projects as of April 30, 2013, that have not incurred expenses since October 1, 2009 (43 months), should be reallocated to other projects or purposes.

2) Projects were classified accurately in the City's financial system to ensure capital assets and related depreciation expenses were properly accounted for and reported in the City's financial records and reports.

We identified 62 City projects, as of April 30, 2013, in an "open" (non-closed) status that were initiated prior to fiscal year (FY) 2012, yet had no expense activity for the previous 43 months (between October 2009 and April 2013), or no expense activity since the project was opened if the project was opened after October 2009. We reviewed relevant laws, policies and procedures, and project documentation and interviewed staff for each of those projects to determine whether the projects should be closed and whether any unused available monies should be re-appropriated and/or reallocated for other projects or purposes.

Additionally, we identified projects in a "closed status" that still showed available monies remaining in the project's balance. A total of 134 such closed projects were identified. We judgmentally selected 21 of those closed projects to review and determine if the balance of available monies should be reallocated to other projects or purposes. As part of our review, we interviewed staff from applicable City departments, Department of Management and Administration (DMA) Accounting Services, and the DMA Office of Budget and Policy (OBP).

To determine if projects were classified accurately in the City's financial system, we reviewed laws, rules, accounting principles, and City policies and procedures related to asset classifications; reviewed the asset classification for each of the 62 "open" (non-closed) projects and 21 "closed" projects mentioned above, along with a judgmental sample of 10 other projects (out of a total of 186) opened during FYs 2012 and 2013; and discussed the results of our analyses with applicable City staff.

Report #1421

This is our first and final follow-up on action plan steps identified in audit report #1402. The purpose of this follow-up is to report on the progress and status of efforts to complete the

three action plan steps, each due for completion by March 31, 2014. To determine the status of the action plan steps, we interviewed staff and reviewed relevant documentation.

Background

Commission Policy 218 – Capital Projects Management Policy. This policy originally passed by the City Commission in 1991, and most recently amended in 2003, outlines how capital projects should be managed throughout the life of the projects beginning from developing budgets to reporting results. Included in the policy is an outline of management responsibilities. Specifically, Section 218.05(A)(1) states project managers are responsible for various activities "to effectively complete projects in the most timely manner." Those activities include, but are not limited to, project opening, monitoring, purchasing, and project closing. Departments and project managers can obtain information through PeopleSoft Financials System reports or queries to assist with those responsibilities. Should a project need to be extended beyond its original completion date, project extension requests are to be approved by both the appropriate Assistant City Manager and DMA.

The policy also states DMA is responsible for updating project records in the PeopleSoft Financials System at the request of project managers (Section 218.05(E)(1)). However, the policy authorizes three departments (Electric Utility, Public Works, and Underground Utilities) to update their own project records in the PeopleSoft Financials System.

At the beginning of each fiscal year, after the capital and operating budgets have been properly appropriated (adopted), OBP inputs the initial project information into the City's financial system. City departments assign a project manager to each of their approved projects. The project manager is responsible for managing the project and updating the progress of the project in the City's financial system. At the conclusion of the project, the project manager or department designee submits a request to OBP to close the project and return any unused and uncommitted available monies to the City fund(s) from which the monies for the project originated. The returned monies are available for subsequent re-appropriation and/or reallocation to other projects or uses.

Project Classifications. City projects are generally classified as either capital projects or operating projects. Capital projects are funded through the City's approved capital budget. Operating projects are funded through the City's approved operating budget.

Capital projects often involve the acquisition or construction of fixed assets that require a significant expenditure of City funds (typically over $50,000); have a life span of over five years (e.g., building); and/or are permanent in nature (e.g., street, bridge, or other infrastructure). Capital projects also include maintenance, repair, replacement, or improvement to the City's existing capital assets. For example, major overhauls of a building or road that significantly extend the life or the service capacity of those assets are generally funded through a capital project. Capital projects often result in a new or significantly improved City asset (building, road, hardware system, etc.) for which the incurred costs should be capitalized and recorded as a capital asset (or addition to an existing asset) in the City's financial records and reports.

However, in some instances capital projects do not result in a new or significantly improved City asset and, as a result, the related costs should not be capitalized (as a new asset or an addition to an existing asset) in the City's financial records and reports. Examples of the latter would be a capital

project that represented significant maintenance or repair of an existing City asset without extending that asset's useful life or service capacity.

Operating projects are non-capital projects. Social services projects are one category of operating project. Social services projects often involve loans and grants from the City to eligible or designated entities for purposes of improving the community. Examples include City programs to make housing improvements for eligible citizens. Operating projects are also created for other purposes. For example, a relatively small repair and maintenance project may be funded as an operating project instead of a capital project. Routine actions to fix or restore an item (e.g., asset or computer system) to a state in which it can continue to properly perform its required function (without increasing the overall life of the asset/system or increasing the capacity of the asset) may be funded as an operating project if City management and leaders determine it appropriate to use operating funds instead of capital funds to pay for the necessary services. Typically, operating projects do not result in a new or significantly improved asset that should be recorded in the City's financial record and reports.

As explained above, repair and maintenance projects may be established as either a capital or operating project, depending on the circumstances and the City's funding needs. Regardless of whether funded as a capital or operating project, relatively small repair and maintenance projects where only minor repair or replacement work is initially planned, may be revised as the work progresses. For example, once the repair work is initiated a determination may be made that more work and expenses are necessary. In some instances that additional work either extends the life of the asset or replaces the asset. In those instances, a new or improved asset should be capitalized and recorded in the City's financial records and reports.

Previous Conditions and Current Status

Project closure. Thirty-six (58%) of the 62 "open" (non-closed) projects with no expense activity between October 2009 and April 2013, or no expense activity since the project was opened if the project was opened after October 2009, were confirmed by our prior audit to be active projects with ongoing plans for continuation and completion. Those 36 still active projects accounted for approximately $55 million of the $57 million (96%) in total funding established (appropriated) for the 62 reviewed projects. Based on our audit, the remaining 26 projects were found to no longer be active viable projects and were therefore closed by department staff, resulting in the release/return of $2.4 million to the funds from which the project monies were originally appropriated. Of the $2.4 million released/returned, $1 million pertained to the City and $1.4 million pertained to the CRA. We concluded the funding status of City projects needed to be more closely monitored for compliance with Commission Policy 218.

Project classification. Eighty-seven of the 93 projects reviewed (94%) were correctly classified in the PeopleSoft Financials System as to whether project costs should be capitalized as a capital asset and depreciated. For the remaining six projects, the asset classification was not correctly recorded in the financial system. Each questionable classification identified during the prior audit was reevaluated and corrected by Accounting Services as appropriate. We also found Accounting Services had in process corrective actions to further improve the accuracy of project classifications, and we reported the

status of these corrective actions, which included revisions to the City's fixed asset policy and meetings between Accounting Services and City departments, would be reviewed in connection with a subsequent follow-up on our Audit of Aviation Capital Projects.

Project reports. During the prior audit, we noticed several closed projects still had a balance of available (unused) funds showing in the PeopleSoft Financials System. We judgmentally selected 21 of the 134 closed projects that had a recorded balance of unused monies remaining on the project to determine if those unused monies could be re-appropriated and/or reallocated to other projects or purposes.

Our review of the 21 projects disclosed certain City project reports incorrectly showed a balance of unused (available) monies. In response to our inquiry, Accounting Services determined the reported balances for those and all other closed projects with remaining balances (total of 134) were not accurate and the monies were not actually available. The incorrect reporting was attributable to DMA Office of Budget and Policy (OBP) staff not being consistent in their project closing procedures. OBP management agreed the current process needed review and revision so information in the financial system is consistently recorded to ensure project balances are accurate and can be utilized effectively by departments.

In report #1402, we provided recommendations to City management regarding areas in the City projects process that needed to be addressed. Management's Action Plan consisted of three action plan steps, with all initially being due for completion by March 31, 2014. As shown in Table 1 below, the three action steps had been completed as of June 9, 2014.

Table 1
Action Plan Steps from Audit Report #1402
Due as of March 31, 2014, and Current Status

Action Plan Steps Due as of March 31, 2014	Current Status
A. Objective 1: Timely close and reallocate funds on applicable inactive projects.	
• OBP will send a memorandum to departments requesting they provide adequate documentation during OBP's annual review process substantiating why projects with no recent expense activity should remain open. *[Report #1402, Action Plan Step A.1]*	✓ **Completed.** OBP emailed departments on June 9, 2014, and requested the review of the status of capital and operating projects that have past or are nearing their end dates. The email includes a worksheet showing, for each project, scheduling and budget information and current year and total expenses to date, if any. The email also provides a list of supporting information departments should provide to the applicable Assistant City Manager (ACM) to assist the ACM in making informed decisions on the scheduling and cost of the capital projects. Further, the email requires that requests to extend the life of operating projects beyond the policy-established two-year period be submitted to OBP by no later than June 30, 2014.

• OBP will reevaluate the process used in closing projects to ensure consistent and appropriate project balance information is recorded and reported to assist department management and project managers in their oversight responsibilities. *[Report #1402, Action Plan Step A.2]*	✓ **Completed.** After reevaluating the current reports and the process for closing projects in the PeopleSoft Financials System, OBP has determined a change in the overall process is not needed. Alternatively, OBP management will ensure all OBP staff more consistently apply existing procedures.
B. Objective 2: Determine whether projects are classified accurately.	
• Accounting Services will complete its evaluation as to whether it would be beneficial to modify the default settings in the PeopleSoft Financials System so projects are initially classified to result in the addition of a capital asset. *[Report #1402, Action Plan Step B.1]*	✓ **Completed.** Accounting Services evaluated the default settings in the PeopleSoft Financials System and decided to not change them. Currently, projects set up in the system are not automatically marked as a capital project (i.e., classified to result in the addition of a capital asset). The Accounting Services Manager said staff are to review the classification of all projects regardless of the default settings, so changing the default settings will not improve or enhance the Accounting Services review already required. The Accounting Services Manager also said staff will be more diligent in their review to ensure the records going forward are more accurate as to project classifications.
	The consideration of the default settings followed other corrective actions initiated by Accounting Services and described in report #1409 (a follow-up to our Audit of Aviation Capital Projects). Those other actions included a revision of Administrative Policy and Procedure 662, City of Tallahassee Policy on Property Control, such that it now requires departments to submit a form to Accounting Services specifying the information needed for proper classification of fixed assets no later than two weeks following the close of a project. Another corrective action discussed in report #1409 involved Accounting Services' work with selected departments to ensure closed/completed capital projects were properly capitalized in the City's fixed asset records.

Table Legend:

• Issue to be addressed from the original audit.	✓ Issue addressed and resolved.

Conclusion

Table 1 above shows all three of the action plan steps have been completed as of June 9, 2014.

We appreciate the cooperation and assistance provided by OBP and Accounting Services during this follow-up audit.

Appointed Official's Response

City Manager:

The City Auditor's Office has completed their audit of capital and operating projects. This audit involves multiple departments across the City of Tallahassee. I am pleased to see that the final follow-up indicates that the Department of Management and Administration (DMA) has completed all three (3) action steps established to address issues identified in the audit report. Additionally, I am extremely pleased to see that action plans recommended by the original audit have been addressed by staff in a timely manner. I would like to thank the City Auditor and all of the departments for their work and follow-up on this audit.