City of Detroit

OFFICE OF THE AUDITOR GENERAL

Audit of the Detroit Building Authority

May 2005

City of Detroit

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MEMORANDUM

DATE: July 15, 2005

TO: Honorable City Council
Mayor Kwame M. Kilpatrick

FROM: Joseph L. Harris
Auditor General

RE: Audit of the Detroit Building Authority

CC: Ms. Ayanna Benson, Director

Attached for your review is the result of our audit of the Detroit Building Authority (DBA).

This report contains our audit purpose, scope, objectives, and methodology; background; our audit findings and recommendations; our construction contract assessment; the status of prior audit findings; and the agency's response.

We would like to acknowledge the assistance we received from the DBA's management and employees and from the DBA's contractors.

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* Finding appeared in the prior audit report dated September 11, 1998.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

The audit of the Detroit Building Authority (DBA) was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of internal control procedures for cash receipts, voucher disbursements, fixed assets, inventory, and imprest cash.

The OAG also performed an evaluation of the effectiveness of the DBA's procedures for construction contracts.

Audit Scope

The OAG performed an assessment of the DBA's internal control procedures for cash receipts, voucher disbursements, fixed assets, inventory, and petty cash. We also performed an assessment of the DBA's internal control processes for contract policies and procedures, charges billed, and change orders. We determined that there were certain weaknesses in the system of controls and in DBA's policies and procedures for the administration of construction contracts. Our review focused on weaknesses discovered during the internal control review, and on the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

Audit Objectives

Our audit objectives were:

- To evaluate the adequacy of the DBA's internal controls over the major financial reporting processes;
- To determine whether the DBA implemented the prior audit recommendations or otherwise resolved the findings;
- To evaluate contract compliance and control procedures over DBA's construction contracts; and
- To assess the billing and payment accuracy of DBA's construction contracts.

Audit Methodology

To accomplish the audit objectives, our audit work included the following:

- Review of City ordinances and other pertinent information relating to the DBA;
- Interviews with DBA personnel;
- Observations and testing of internal control processes and procedures for cash receipts, voucher disbursements, fixed assets, inventory, and imprest cash;
- Examination of a sample of transactions that we considered satisfactory to achieve our objective;
- Review and evaluation of contract terms;
- Examination of quantities billed to quantities installed on a test basis;

- Review of applications for and approval of payments to ensure contract compliance; and
- Testing and evaluation of significant change orders.

BACKGROUND

The DBA was incorporated in 1974 under provision of Act No. 31, Public Acts of Michigan of 1948 (First Extra Session) as amended for the purposes of acquiring, improving, operating and maintaining buildings and other structures for the use of any legitimate public purpose of the City. A five-member Board of Commissioners governs the DBA. The Board is composed of the Mayor, who serves as chair, two members selected by the Mayor (one of whom is approved by City Council), and two members selected by the City Council.

The DBA functions to assist City departments in carrying out their capital improvement programs. Funds for capital projects are made available from the requesting City department's capital improvement budgets as a result of bond sales, capital grants or general funds. City-funded projects require City Council to appropriate the funds. This is done either during the annual budget process or by a request letter submitted to the Council. Bond-funded projects require coordination between bond counsel, the City's Debt Management Division, bond trustees, and DBA staff.

The DBA's role is to encumber the funds for capital projects through contract of lease agreements with the City departments. The contract of lease is drafted by the DBA's counsel, executed by the City department's director or designate, and submitted to the Mayor's Office for approval. After the Budget Department, Finance Department, and the Law Department have approved it, the contract is presented to City Council for approval.

The City Council approves all contract of lease agreements between the DBA and the requesting City department. The DBA's Board of Commissioners approves all contracts between the DBA and vendors selected as subcontractors.

The DBA is a separate and distinct agency from the City with separate legal counsel. Therefore, the DBA is not bound by City ordinances. The DBA does, however, require subcontractors to be in compliance with the City's Human Rights Ordinances.

The responsibilities of the DBA include the following:

- Administering capital projects from start to completion by encumbering project funds via a contract of lease;
- Distributing bid documents and requests for proposals;
- Issuing contract awards;
- Securing required Human Rights Clearances;
- Preparing and executing all contract documents;
- Reviewing and approving contract invoices;
- Monitoring design development and all aspects of construction and inspection for each capital project managed by the DBA;
- Issuing payments to contractors and vendors;

- Billing City departments; and
- Closing projects when construction is completed.

The DBA no longer administers the Special Areas Maintenance Program (SAM). The Program supplied contractors who performed landscape, mechanical, electrical, structural, and general maintenance in 35 commercial areas throughout the City. As of fiscal year 2004-2005, the business owners will provide the services formerly provided by the SAM Program.

The DBA maintains an independent financial system and issues separate financial statements in accordance with legal requirements. Revenues and expenditures of the DBA are presented in the Comprehensive Annual Financial Report (CAFR) of the City of Detroit as part of the Special Revenue Funds.

FINDINGS AND RECOMMENDATIONS

Based on our audit, we found that the DBA's internal controls over major financial reporting processes were adequate with the following exceptions, which we reported as findings. Findings marked with an asterisk (*) indicate that the finding and related recommendation appeared in the previous Auditor General's report. The date shown in the parenthesis identifies the audit report in which the recommendation, or part thereof, previously appeared.

1. Close Construction Projects When Completed

The DBA does not close construction in progress and return the asset to the City in a timely manner, once the project is completed. As a result, the DBA incorrectly reported at least $19.9 million as construction in progress to the City's Finance Division for the fiscal year ending June 30, 2003. Our review found the following:

- For the fiscal year ended June 30, 2003 the DBA reported $340.0 million as construction in progress.
- Of the $340.0 in construction in progress, 46 projects totaling $69.1 million had no construction activity for the entire fiscal year ending June 30, 2003. 35 of these projects, totaling $25.1 million, had no construction activity for both fiscal years 2002 and 2003.
- The DBA could not readily determine whether the capital projects identified as having no activity should be open or closed. [1]

We determined the status of these projects by contacting the requesting City departments and found the following:

- 8 projects totaling $7.5 million were still active.
- 21 projects totaling $19.9 million were completed and should have been removed from the DBA's construction in progress records and the assets returned to the City[2].
- Neither the DBA nor the City departments could verify the status of 17 projects totaling $41.7 million[3].

The DBA maintains oversight responsibility over all aspects of construction for each capital project and is in the best position to indicate when a project is completed. According to Section 5 of the contract of lease agreement, the DBA shoulders the responsibility of determining the completion date and returning leasehold interest in the project and project site back to the City, once the work is completed.

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[1] The City's Finance Department, is working with the DBA, in an on going effort, to identify completed capital projects which remain on the DBA's records as construction in progress. As of May 2005, the DBA has closed 60 construction projects totaling approximately $148.3 million in construction in progress.

[2] As of May 2005, the DBA closed 15 of these projects totaling $13.3 million. Six projects totaling $6.6 million remain on the DBA's records as construction in progress. None of the six projects have had any construction in progress activity during fiscal years 2002, 2003, or 2004.

[3] As of May 2005, the DBA closed 8 of these projects totaling $36.0 million. Nine projects totaling $5.7 million remain on the DBA's records as construction in progress. Six of the nine projects have not had any construction in progress activity during fiscal years 2002, 2003, or 2004.

Due to the inability of the DBA to determine the completion status of projects and return completed projects back to the City, there is a risk that both the City's CAFR and the DBA's financial statements are misstated. The possibility exists that both the DBA and the City Finance Department will include the same capital assets in their financial statements.

The DBA stated that determining whether a project is completed is the responsibility of the City agencies. The DBA also stated that projects are not closed out because agencies do not inform the DBA when a project is completed, or because agencies want to keep the project open in order to use any remaining funds.

Recommendation
We recommend the DBA establish construction in progress procedures which require the DBA to:

- Effectively monitor construction in progress on a continuing basis;
- Accurately identify and close out all capital projects that are completed; and
- Promptly return completed assets back to the City.

2. Establish a Formal Procurement Policy

The DBA is inconsistently applying its procurement practices. We reviewed the DBA's procurement practices and found the following:

- The DBA awarded contracts to vendors without utilizing a competitive bidding process. These vendors were neither identified as emergency nor sole source. We reviewed the DBA's selection process for ten contracts awarded to subcontractors for City capital projects. Of the ten contracts reviewed, two contracts were awarded without utilizing a competitive bidding process.
- The DBA awarded subcontracts, and in some instances received subcontractor services, prior to City Council's approval of the contract of lease.
- The DBA used contract of lease agreements to complete projects, which were outside the established purposes of the DBA. Our review found the DBA used contract of lease agreements with the Public Lighting Department to facilitate the contractual services of emergency cable splicers totaling $201,300, and the contractual services of a vendor to paint a section of the City's light poles totaling $100,000.

Crucial to management's control process are clear and concise procurement polices and procedures and a system to ensure that they are followed. A key control in the procurement process is competitive bidding. Competitive bidding helps to ensure that a fair market price is paid for goods and services and should include the following:

- Preparation of a request for proposal (RFP);
- Advertisement of the RFP;
- Receipt and tabulation of RFP responses;
- Evaluation of responses, which should include the DBA and City department personnel; and
- Determination of the lowest responsible bid.

Also essential to DBA's procurement process control environment is the adherence to existing DBA guidelines, which govern the contract of lease agreement. According to the DBA's Articles of Incorporation, Article III, Section 5, "The Authority's power to enter into any contract of lease is subject to prior approval of such contract of lease by a majority of the member elect of the Common Council of the City after a public hearing." Furthermore, according to the Michigan Act under which the DBA was established, the purpose of the DBA is to acquire, improve, operate, and maintain buildings and other structures.

The lack of formal procurement policies, including competitive bidding, increases the risk that improper or fraudulent practices will occur. Moreover, the DBA could be spending more on project costs than would otherwise be necessary had a competitive bidding process been used. Furthermore, securing subcontractors prior to an approved contract of lease, and utilizing a contract of lease for projects that are not in accordance with the DBA's established purpose of "brick and mortar" negate City Council's oversight of the procurement process, and increase the risk of abuse, such as improper favoritism and collusion.

The DBA indicated that it was an independent entity and therefore was not mandated to adhere to the City's procurement ordinances, which includes a competitive bidding process. However, although exempt from the City's procurement policies, the DBA stated it routinely selects contractors pursuant to a competitive bidding process or a request for proposal with bids being awarded to the lowest responsible bidder.

Recommendations

We recommend that the DBA establish a formal procurement policy, which includes the following:

- Competitive bidding requirements on all contracts;
- Documentation and verification requirements;
- Conflict of interest policies; and
- Policies outlining when exceptions to competitive bidding are allowed (i.e., emergency, sole source, or professional services).

We also recommend the procurement policy include language which mandates the DBA's strict adhere to its Articles of Incorporation, Article III, Section 5 which states that the Authority's power to enter into a contract of lease agreement is subject to prior approval by a majority of the City Council after a public hearing.

In addition, we recommend the DBA establish specific project criteria for contract of lease agreements, which are in accordance with the DBA's established purpose as discussed above. We also recommend the project criteria be reviewed and approved by the City Council.

Finally, we recommend the DBA establish a system to monitor the effectiveness of its procurement process.

3. Reconcile Trust Fund Accounts Monthly

The DBA does not reconcile its Trust Fund accounts timely. Our review found that the DBA's Parking and Arena, and Madison Center Trust Fund accounts are reconciled annually instead of on a monthly basis.

The DBA's accounting procedures manual requires that, on a monthly basis, the DBA analyze trust fund account transactions, reconcile accounts to the DBA's general ledger, and resolved any discrepancies.

Failure to reconcile trust accounts monthly increases the DBA's risk of misappropriation of the funds or undetected errors.

Recommendation
We recommend the DBA reconcile its trust fund accounts monthly in accordance with the DBA's accounting procedures manual.

4. Reimburse the City for Outstanding Payroll and Telephone Charges

The DBA owes the City approximately $805,600 in unreimbursed payroll and telephone charges. During our review we found the DBA has outstanding payroll charges totaling $800,000 and telephone charges totaling $5,600. These past due charges are for fiscal years 2000 through 2002.

Timely payments between the DBA and other governmental entities assure continuity of services to meet contractual demands. Good governmental accounting practices include the timely payment of obligations.

According to the DBA staff, the DBA experienced a shortage in revenue funding during those periods that prevented the timely reimbursements of payrolls to the City.

Recommendation
We recommend the DBA take steps to reimburse the City for its outstanding payroll and telephone charges.

*5. Obtain Property Tax Clearances for all Contractors

(September 11, 1998) The DBA does not consistently obtain property tax clearances for vendors who are subcontractors for City projects. We reviewed eight vendors who were awarded DBA subcontracts. Of the eight vendors selected, four did not have property tax clearances readily available in the DBA records.

The DBA adheres to the City's Human Rights Ordinances. One of these is Finance Directive No. 28, which requires prospective contractors with a Detroit business address to be cleared of owing City personal property tax, real property tax and any receivables, prior to being awarded a City contract.

The practice of awarding contracts to businesses without property tax clearances lessens the City's opportunity to collect any unpaid taxes, which might be owed by such a business.

Recommendation
We again recommend the DBA institute procedures to ensure no contract is awarded to a subcontractor who has not been cleared of owing City taxes or receivables, as required by Finance Directive No. 28.

6. Strengthen Review of Construction Costs

The DBA does not consistently reconcile expenditures submitted by the construction managers to the actual costs incurred. We performed a review of the DBA's processes for reconciling charges billed and found the following:

- Neither the DBA nor the owning City department, Recreation, reconciled the contractors' cost detail report for the Hart Plaza project, which was completed in 2002. As a result, the contractor overcharged the DBA $145,666.
- Labor and general conditions costs for the Emergency Services Center project, which is ongoing, are billed to the DBA as a percent of the total contract instead of at the actual cost. As a result, the contractor had overcharged the DBA approximately $44,000 through April 30, 2004.

Essential to DBA's project management should be procedures which compare budgeted to actual construction expenditures and a process to reconcile any deviations.

The lack of consistency in DBA's review and reconciliation of budgeted to actual project expenditures enhances the risk of construction overcharges, and lessens the DBA's ability to detect and mitigate potential cost overruns.

Recommendations
We recommend the DBA's project managers review the charges in the job cost details, to prevent unreasonable charges.

In addition, we recommend that the DBA require the project construction managers include a copy of their job cost details with the application for payment; and that the DBA accounting staff review the details to ensure that the billed amount is close to the cost incurred, and no serious overcharges occur during the project.

We further recommend the DBA's construction in progress accounts be reconciled to the payments made by the City's Finance Department to provide assurance that the projects are properly accounted for.

Finally, we recommend the construction projects be audited at closeout, to ensure all charges are proper pursuant to the contract terms, and that the City has not been overcharged.

CONSTRUCTION CONTRACT ASSESSEMENT

We assessed a sample of the DBA's construction contract and determined that overall; the contract is sound. However, to enhance the contract, we recommend strengthening the contract language in the following areas:

- The current contract has no incentives for the construction manager to complete the contract for less than the guaranteed maximum.

  We recommend the DBA offer the construction manager a shared saving percentage for contracts completed at a cost below the maximum.

- The contract allows reimbursement for items that should be considered overhead. The current contract allows for the reimbursement of the construction manager's accountants, purchasing, secretarial, and other support services performed at the construction manager's home office. As the work performed on the project by these individuals is minimal, the DBA cannot control these individuals and has no way of knowing whether the time charged is legitimate.

  We recommend that home office support expenditures, included in the construction manager's fee, be considered overhead,

- The current contract allows the construction manager to charge taxes, worker's compensation, and fringe benefits at a 60% markup. However, the actual rates range from just under 20% for salary personnel and non-union tradesmen to 40% for some union trade workers.

  We recommend the DBA revise its current contract language to reflect reimbursement for the actual cost of employee payroll taxes.

- The construction manager is allowed to purchase and charge to the project any tools or equipment necessary to complete the job. The DBA does not have a mechanism in place to identify tools purchased and charged to the job for which it should receive a credit for the fair market value of the tools kept by the contractor at the end of the project.

  We recommend the DBA's contract indicate that small tools costing under $750 be considered a consumable and as overhead, and that any tool or equipment costing over $750 be rented to the job at no greater than 75% of its value as established by industry standards.

- The DBA's contract lacks a comprehensive right to audit clause.

  We recommend that the DBA extend the right to audit clause to specifically define:

  - Records that are auditable;
  - Reasonable access to contractor's facilities in order to audit;
  - Compliance with the right to audit clause by payees hired by subcontractors; and
  - The length of time the DBA is able to audit.

STATUS OF PRIOR AUDIT FINDING

Our previous report on the Detroit Building Authority dated September 11, 1998 contained the following recommendation:

> The Detroit Building Authority should assign an employee not involved in cash handling and cash record keeping the responsibility of performing monthly bank reconciliations.

This recommendation has been implemented. The Detroit Building Authority has assigned the required number of employees to appropriately segregate the cash function.

CITY OF DETROIT
DBA
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ATTACHMENT A

July 13, 2005

Joseph L. Harris, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

RE: Detroit Building Authority Audit Responses

Dear Mr. Harris:

The following presents the Detroit Building Authority's response for the indicated findings and related recommendations in the Audit of the Detroit Building Authority dated May 2005, as prepared by the Office of the Auditor General.

Finding No. 1. Close Construction Projects When Completed

The DBA does not close construction in progress and return the asset to the City in a timely manner, once the project is completed. As a result, the DBA incorrectly reported at least $19.9 million as construction in progress to the City's Finance Division for the fiscal year ending June 30, 2003.

Department's Response:

The DBA determines when the original work is complete and the status of the budget to the original funding. However, the departments may determine if there is a savings from the original work scope, which will allow additional work, thus using the remaining funds. In some cases, this determination is made right away and work continues quickly. In other cases, there may be a lag in the decision process to meet the needs of the department. Such as, waiting for the next fiscal year to add funds to a remaining balance in order to complete additional work.

The GASB 34 requirements became effective during the fiscal year 2001-2002. Prior to this requirement it was apparent that project closure was not a priority since these assets did not have to be capitalized. The construction work in process on the DBA's Audited Financial Statements for the fiscal year ended June 30, 2002 was $406,637,169 and some of the projects carried on the DBA's books were dated prior to the calendar year 1987.

The current accounting staff at the DBA came on board at the beginning of the fiscal year 2002-2003. Since this time staff has worked with the City's Finance Department and the departments for which it manages construction projects to ensure that all projects to be closed, are closed in accordance with the GASB 34 requirements. As mentioned in your footnotes, as of May 2005 the DBA closed 60 projects totaling more than $148.3 million.

The DBA routinely reviews all project general ledger account balances for accuracy and makes adjustments when necessary. All City departments with projects we manage have been notified of the GASB 34 requirements. All projects that have been placed in service or are 90% complete will be closed and transferred back to the City as applicable.

Finding No. 2. Establish a Formal Procurement Policy

The DBA is inconsistently applying its procurement practices.

Department's Response:

The Detroit Building Authority (the "DBA") was created on October 30, 1973 with the adoption of its Articles of Incorporation by the Detroit City Council. As stipulated under the Articles of Incorporation, DBA contracts are awarded only after the City Council approves a Contact of Lease that authorizes funding for the work to be performed by the DBA and its contractors. The DBA, to the extent possible, utilize a competitive bid process to award contacts to the most competitive contractors at the most competitive prices. We include the following as part of our formal procurement process:

- RFP (Request for Proposal)
- RFQ (Request for Qualification)
- Evaluation of Proposals, which include DBA and City Department Personnel
- Award contracts based on the lowest responsible bid

The DBA has an exemplary record of efficiency in timely completing projects that are important to the City. The DBA has utilized an excellent representation of minority, and Detroit headquartered based businesses. Moreover, the DBA under the Articles of Incorporation, is not required to utilize the City of Detroit's purchasing requirements and procedures.

The DBA does not initiate any City project, until requested to do so by a City Department. There have been some instances where the DBA has been requested to get started on a project due to either an emergency situation or the immediate start of a project is critical to an important event. Only under these types of circumstances, have services begun while the Contract of Lease is going through the City Council approval process. The DBA will do everything in its power to avoid repeating this situation in the future.

The DBA was requested by the Public Lighting Department, to facilitate a Contract of Lease for Emergency Cable Splicers. Again, under the Articles of Incorporation, this project was an eligible activity within the established purposes of the DBA. However, the project was cancelled.

The City Council appointees to the Commission of the DBA, have both served on the commission for more than fifteen (15) years. These Commissioners, along with other members of the Commission, carefully review the competitive process that is followed by the DBA staff before they approve any DBA contract. There have been no substantial changes in the last 15 years in the competitive process the DBA has followed to award contracts to the most competitive contractors at the most competitive prices. The DBA will continue to following the process which has been established to provide extraordinary care that is routinely taken to assure the citizens of Detroit that the DBA is awarding its contracts to the best qualified contractors at the most competitive prices.

Finding No. 3. Reconcile Trust Fund Accounts Monthly

The DBA does not reconcile its Trust Fund accounts timely. Our review found that the DBA's Parking and Arena, and Madison Center Trust accounts are reconciled annually instead of on a monthly basis.

Department's Response:

Historically, the external auditors made an annual journal entry for the Trust Fund accounts. While journal entries are not yet made on a monthly basis, the DBA reconciles the trust accounts on a monthly basis. One annual journal entry will be made for the fiscal year ended June 30, 2005 and we will begin to make monthly entries in the fiscal year 2005-2006.

Finding No. 4. Reimburse the City for Outstanding Payroll and Telephone Charges

The DBA owes the City approximately $805,600 in unreimbursed payroll and telephone charges. During our review we found the DBA has outstanding payroll charges totaling $800,000 and telephone charges totaling $5,600. These past due charges are for fiscal years 2000 through 2002.

Department's Response:

The DBA has made some successful attempts at collecting revenues that are due from prior fiscal years. We reimbursed the City approximately $359,000 towards the outstanding payroll charges for the fiscal years 2000 and 2002. As we collect revenues, we will reimburse the City for the remaining payrolls while still keeping current with our present payroll expenditures.

The DBA has received several invoices in the past for telephone charges identified as belonging to various City Departments. We called some of the telephone numbers listed

on the invoices and were connected to the Detroit Public Library, Detroit Waste Water, the Housing Department, etc. The DBA does and will pay its telephone charges, which can in fact be identified as the DBA's.

Finding No. 5. Obtain Property Tax Clearances for all Contractors

The DBA does not consistently obtain property tax clearances for vendors who are receiving subcontracts for City projects.

Department's Response:

The DBA effective August 2003 has instituted the following procedure for all Human Rights Clearances:

All DBA contracts are approved by the DBA Board of Commissioners. Upon Board approval the DBA formally request the following:

Human Rights Department

- Executive Order No. 22 (for any construction project $100,000.00 or more)
- Affirmative Action (all projects construction or professional services)

Finance Department – Income Tax Section

- Income Tax Clearances

Finance Department – Tax Section

- Property Tax Clearances

Verifies using DRMS Software

- Sales Tax

Finding No. 6. Strengthen Review of Construction Costs

The DBA does not consistently reconcile expenditures submitted by the construction managers to the actual costs incurred.

Department's Response

Labor and general conditions costs for the Emergency Services Center-Southwest project are billed as actual cost for this project. The DBA added additional general conditions to this project such as heating for the winter months and security to deter the vandalism that was on going. These additions to the general conditions will affect the billed percentage.

Since October 2003 the Detroit Building Authority has been a participating member of the "Construction Owners Association of America" or COAA.

COAA was formed in 1994 to strengthen the owner's interest in construction nationwide and to act as the focal point. COAA is made up of Public Entities, Universities, Construction Lawyers, Design Professionals, Suppliers, and Construction Companies. By being a member of this organization the DBA has improved its delivery systems and used better systems such as Guaranteed Maximum Price or GMP to better serve our clients.

The DBA is constantly evolving our professional services, construction management, and general construction contracts thru the COAA's owner's contract program, being utilized nationwide, and with our attorneys Lewis & Munday, PC.

Through the COAA membership the DBA has improved on our management of the design and construction process and knowledge of an industry whose technology evolves and changes continuously.

Due to the limited resources, of the DBA and the requesting departments, it is not possible to audit projects at this time.

The DBA project managers review charges in the job cost details in a general manner. This review is not an audited review of the job cost details. An audited review of the job cost details is not practical with the number of projects and limited time available to the DBA project manager.

An estimate is made of the job cost details, at the beginning of each project, to determine a fair amount for general conditions. This allows the project manager to manage construction and not be lost in small details. The estimate of the job cost details, are fair to the DBA and the construction manager. In some months the amount charged to the DBA is less than the amount spent by the construction manager and in some months the amount charged to the DBA is greater than the amount spent by the construction manager. For example, in the early months of a project the construction manager is busy setting up for the job and expending larger sums; in the later months of a project the construction manager may reduce staff because the volume of work is reduced.

The DBA accounting staff has a process in place to review amounts billed by contractors and reconcile the billed to-date amounts to the contract award and award balance. This process helps to ensure invoices submitted by contractors do not exceed the total contract award. All DBA payments are made on a one to one match of payments made by the City's Finance Department.

Construction Contract Assessment

There is an incentive for construction managers to complete the contracts for less than the guaranteed maximum. The incentive is recommendations for addition/new work.

However, participation in a shared saving percentage sounds good and we would be in favor of it but the reality of the process is that city departments will want to utilize all

remaining funds to complete additional work scope. Therefore, the DBA or the construction manager would never qualify for the shared saving percentage.

If you have additional questions or concerns, please do not hesitate to contact me at 224-7242.

Sincerely,

Elizabeth A. Benson

Elizabeth A. Benson
Director

cc: Christine L. Beatty
Reuben A. Munday