



Audit Report Number 2006-07

City of Richmond
Audit of the Coliseum Interior Renovations
Contract

Contract term: October 2003 through June 2004
(Finalized in May 2005)

Prepared by
CITY AUDITOR
Richmond, Virginia

Submitted to
The Honorable Members of City Council
November 16, 2005

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The Honorable Members of City Council
Richmond City Audit Committee
City of Richmond, Virginia 23219

City Auditor's Report

SCOPE

We audited the construction contract to renovate the interior of the Richmond Coliseum. Our audit period followed the duration of the contract starting October 13, 2003 through May 2005. We reviewed the books and records of Procurement Services, the Office of Minority Business Enterprise, and the Department of Parks, Recreation, and Community Facilities. We have reviewed and evaluated the Department's administration of the contract and reviewed the systems of internal controls for the same period to the extent considered necessary.

OBJECTIVES

Our audit objectives were to:

- ❑ To ensure that the contract was properly secured in accordance with Procurement policies and procedures;
- ❑ Determine if the Minority Business Enterprise conclusions were properly documented and consistent with the verification procedures;
- ❑ Determine if the user agency and evaluation committee performed an adequate review to ascertain competence of potential contractors selected for prequalification purposes. (Department of Parks, Recreation, and Community Facilities); and
- ❑ Determine if there was adequate project administration (Department of Parks, Recreation and Community Facilities).

We also identified opportunities for improvement in the internal control structure of the participating agencies. Our testing did not indicate any internal control weaknesses that would allow material misstatement in the records processed and maintained by the City to go undetected.

METHODOLOGY

We conducted our audit in accordance with Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States. During the course of our work, we reviewed supporting documents, evaluated management controls, attended construction meetings and conducted other appropriate tests. We believe that our audit provides a reasonable basis for our conclusions regarding the internal control structure and our recommendations.

CONCLUSIONS

- The contract was not procured in accordance with City Policies. One contractor was allowed to bid even though this vendor was not pre-qualified. Procurement was directed by the former administration to add this contractor to the list. We have not added a recommendation for the non-compliance since there is a new administration in the City of Richmond. However, we addressed this with the Chief Administrative Officer (CAO). The CAO has indicated that the current administration intends to abide by existing Procurement Policy.
- On-going Minority Business Enterprise (MBE) monitoring was sufficient. However, during the Audit of the contract to re clad City Hall, it was observed that the process to verify and document MBE conclusions during the initial phases of City contracts was not fully developed. The City Hall Recladding Audit will address this and provide details of the MBE Office's progress to enhance their procedures. The City Hall Recladding Audit report is expected to be issued by the end of this calendar year.
- The evaluation committee properly reviewed potential candidates for competence.
- The Department of Parks, Recreation and Community Facilities (PRCF) staff and the Department of Public Works (DPW) project manager performed adequate project administration. However, PRCF and Procurement Services did not always approve change orders timely. ¹ We have included a recommendation for the Department of Parks, Recreation, and Community Facilities regarding the observations made during this audit.
- During this audit, we also monitored the contractor's billing timeliness. The contractor did not submit invoices to the City in a timely and regular manner. 50% of the monthly project invoices/pay requests were submitted between 2 and 7 weeks after month-end. The Auditor's Office deemed a submission untimely if it was received by the City more than two weeks after month-end.

¹ We have addressed the weakness in the overall change order process during the audit of the City Hall Recladding project. We have obtained Procurement's action plan to enhance the process.

The management of the City of Richmond, Virginia, is responsible for maintaining financial records. It is also responsible for establishing and maintaining a system of internal accounting control and management control. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

We discussed the attached comments and recommendations with management throughout the audit and formally on November 3, 2005; we have included management responses from the responsible officials.

We would like to thank the departmental management and staff for their cooperation and assistance during this audit. We would also like to thank the contractor and the architectural firm for their assistance during the audit.

This report is intended for the members of the Richmond City Council, the City Audit Committee, the City and departmental management of the City; it is a matter of public record.

Respectfully submitted,

Randi L. Ricco-Clifford, CPA, CIA
Interim City Auditor

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Auditor IV

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Auditor III

August 15, 2005

Executive Summary

Background

The Richmond Coliseum Interior Renovations consisted of twelve new luxury suites, a new passenger elevator, new club lounge, full service kitchen, and renovation of existing and construction of new restrooms. The renovations also included new concourse finishes, signage, lighting, and a new press box and ticket booth. The contract term was October 13, 2003 through June 29, 2004. However, the project was finished in May 2005. The original authorized limit for the renovations was \$3,401,855.

The total dollar amount spent on the renovations was \$3,896,654. This included four change orders that totaled \$494,799. The change orders included owner's requested changes/improvements of \$199,711, which accounted for 40% of the change order totals. Unforeseen conditions accounted for 35% of the change order totals. Architectural, electrical, mechanical, and other design changes accounted for the remaining change order costs.

We audited the construction phase of the contract, which included the procurement process, minority business enterprise activity and Parks, Recreation and Community Facilities' project administration.

Summary of Recommendations

In order to improve operations and better achieve the Department's objectives, we made recommendations for management's consideration. We would like to note that the Coliseum Interior Renovations Contract Audit generally encompassed the same time period as the City Hall Recladding Construction Contract Audit. As a result, several recommendations have been issued to Procurement and the Office of Minority Business Enterprise through the City Hall Recladding internal interim audit reports. Departmental management has already started implementing many of these recommendations.

Recommendations:

1. Establish written procedures for the PRCF project management environment.
2. Approve change orders timely/approve invoices timely.

FINDINGS AND RECOMMENDATIONS

1. Establish Policies and Procedures

Soon after the Coliseum interior renovations commenced, the Department of Parks, Recreation and Community Facilities' (PRCF) project manager separated from the City. Upon his separation from the City, a project manager from the Department of Public Works was assigned to the project. The replacement project manager could not locate project documents that our Office requested. Key documents, such as "notice to proceed" and notes from the pre-construction meeting could not be found.

The Department of PRCF does not have a Policies and Procedures Manual for staff to follow for specific procedures and job functions within the project management environment. Written procedures should be available to enhance the effective operation of any department. Written procedures:

- help ensure management that procedures are being carried out according to its intentions;
- provide guidance whenever a question arises concerning the appropriate way to resolve a problem;
- facilitate training of new employees, and
- ensure continuity during personnel turnover.

RECOMMENDATION

We recommend that the Department of Parks, Recreation and Community Facilities establish procedures, specific to the Department's operations. These procedures should be used as a continuing reference source of Department's methods, and to promote consistency.

MANAGEMENT RESPONSE

In accordance with Purchasing Policy No.37 the department (Project Manager-Architect I) will be responsible for administering the following activities concerning City contracts in response to your suggestion for having a P&P manual for project management:

- Understand the requirements of work statements and specifications

- Initiate post award contract meeting with vendor and appropriate City Agencies to coordinate "start-up" activities
- Coordinate the day to day delivery of the contracted goods and/or services
- Provide technical guidance to the contractor
- Maintain a file of all technical instructions that are issued
- Ensure that goods and/or services are delivered in accordance with the contract terms and conditions
- Certify that invoices are billed and paid in accordance with contract costs, terms and conditions
- Ensure that the contract amount is not exceeded without the proper authorization of Procurement Services
- Ensure that the contract terms and conditions are not extended, increased, decreased or modified in any way without the approval of Procurement Services
- Monitor vendor/contractor performance and report appropriately to Procurement Services; initiate vendor complaint, if required
- Assist Procurement Services and the Office of the City Attorney in the resolution of performance and other contract-related issues
- MOST IMPORTANT: Keep Procurement Services informed of significant events involving the contract

2. Approve Change Orders/Approve Pay Requests Timely

The Department of Parks, Recreation and Community Facilities' response rate to approve two out of four change orders took over a month to approve. PRCF delayed change orders number 3 and 4, by 52 days and 46 days, respectively. Change orders should be viewed as invoices for payment. As such, they should be approved timely. According to the Prompt Payment Act, every agency of local government that acquires goods or services, or conducts any other type of contractual business with a nongovernmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date shall be either:

- The date on which payment is due under the terms of the contract for the provision of the goods or services; or
- If a date is not established by contract, no more than forty-five days after goods or services are received or not more than forty-five days after the invoice is received, whichever is later. As such, PRCF should adhere to the Prompt Payment Act. Prompt approval of change orders should be performed within a reasonable time period to avoid delays in the construction schedule, which can result in liquidated damages to the City.

In addition to the change orders delays, the Department of PRCF delayed two out of twelve pay requests as follows:

PAY REQUEST NUMBER	NUMBER OF DAYS DELAYED BY PRCF	OVERALL TURNAROUND FOR PAYMENT
9	28 days	41 days
12	30 days	34 days

Such delays could impact not only the contractor's ability to close out the project, but it could also impact the contractor's ability to pay the subcontractors. In the construction environment, payments should be made timely to avoid delays. Due to the nature of the project, Audit deemed timely as less than 30 days from the date of submission.

RECOMMENDATION

We recommend that the Department of Parks, Recreation, and Community Facilities management ensure change orders and pay requests are processed timely, in accordance with the Prompt Payment Act.

MANAGEMENT RESPONSE

I concur with your audit that change orders and pay requests took too long to process for approval. The department is now under new management and we will adhere to the Purchasing Policy No. 37 to make payments and change orders within the time period. This is effective immediately.

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