

INTERNAL AUDIT DEPARTMENT

INTEROFFICE MEMORANDUM

Date: July 15, 2009

To: Honorable Mayor Ronald Jones

Members of the City Council Members of the Audit Committee

cc: Claire Bausch, Director of Libraries

Gene Saulters, Facilities Services Manager

From: Craig Hametner, City Auditor

Subject: Construction Contract Audit – Follow-up

This is a follow-up of the Construction Contract Audit issued on March 20, 2008.

In the original memo, we noted the following issues:

- Insurance, warranties, workmanship bonds, maintenance agreements, and final certifications were not received at the end of the project.
- Supporting documents for invoices did not always indicate the client.
- The hourly rate for the architect's "Additional Services" was not stated in the contract.

The following are the recommendations with responses that were noted with the follow-up results:

1. Insurance, warranties, workmanship bonds, maintenance agreements, and final certifications were not received at the end of the project.

Recommendation was:

A. Facilities Management should create a document turnover checklist for all building projects and receive those documents with the Certificate of Substantial Completion. The checklist should show what documents were received, who received them, and an explanation of any expected documents that were not received. The check list should be added to all project manuals for construction projects.

For this project, Library Management should still receive the following items from the architect or a written explanation of why it is missing. All construction documents should be kept in Facilities Management. Copies should also be kept by the Library.

- B. Complete punch lists
- C. HVAC test and balance report

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- **D.** Final Inspections
- E. Warranties for all work done
- **F.** Final release of liens from all sub-contractors
- **G.** Operations and maintenance manuals
- **H.** As-built drawings

Response was: The Library agrees, the stated documents have been requested from the contractor through the architect to be delivered to the proper entities, the Library and Facilities Management.

Facilities Management agrees that creating a checklist of documents to be received with the Certificate of Substantial Completion will strengthen internal controls. A checklist of items needed for both the "Substantial Completion" and "Final Completion" phases of a project is being developed and will be ready for use by March 1, 2008 for all upgrade and minor renovation projects.

Facilities Management will work to ensure that the turnover documents are received at the earlier date, where feasible. However, it is a standard industry-wide practice for the contractor to deliver some closeout documents prior to Final Completion of a project rather than at Substantial Completion.

Follow-up:

A. Internal Audit was unable to obtain a document turnover checklist but according to Facilities Management they are in the process of developing one.

Recommendation was Not Implemented.

B & D. Internal Audit obtained the Certificate of Substantial Completion which included all the punch lists for the North Garland Branch Library Renovation Project. Facilities Management stated that upon finalization of the project, the Architect, Project Manager, and Assistant Director of the Library walked through the library to ensure items on the punch list were completed. They checked off each item on the punch list and a few items had a circle in place of a check mark. Library Management stated that the circles meant it was a non-issue and irrelevant to the project. Internal Audit suggested they sign and date each punch list and add a legend to the bottom of the page explaining the meaning of a circle so there would be no misunderstandings of the marks. According to Facilities Management, the punch list is the final inspection document.

Recommendation was Partially Implemented.

C. Facilities Management stated there was no need for a HVAC test and balance report because the air conditioner was not replaced at the North Garland Library. The only time you need this type of report is when the air conditioner is being replaced.

Recommendation was Not Applicable.

E. All renovations were under warranty with the contractor for a year after the North Garland Library Renovation Project was completed. Internal Audit obtained the warranty certificate from the contractor.

Recommendation was Fully Implemented.

F. The general contractor for the North Garland Library Renovation Project was responsible for collecting all lien waivers from each sub-contractor. Internal Audit obtained the Contractor's Affidavit of Release of Liens showing that the contractor had been paid in full and all work had been bonded by the Insurance Company.

Recommendation was Fully Implemented.

G. According to Facilities Management, the contractor keeps all operation and maintenance manuals for a year after completion of project in case a subcontractor needs to be notified of the warranty repair. However, Facilities still has not received copies of the operation and maintenance manuals from the contractor even though it has been more than a year since the completion of the project. Facilities Management and the Architect failed to follow up with the contractor to obtain these documents.

Recommendation was Not Implemented.

H. The North Garland Library Renovation Project did not require any As-built drawings. According to Facilities Management the only time an "As-built" drawing is needed if there are structural or mechanical changes. Mechanical changes include electric, sewer, plumbing, etc. Library Management stated that HVAC and "As-Built" drawings were not applicable to the North Garland Library Renovation Project since no structural or mechanical changes were made.

Recommendation was Not Applicable.

2. Supporting documents for invoices did not always indicate the client.

Recommendation was: Library management should re-compute each amount billed on invoices before payment and ensure that what is paid is accurate, adequately identified, and supported.

Response was: The Library agrees with the finding. Procedures will be implemented with future projects to assure adequate checks are in place to verify accuracy of billing charges. (Cooperating with Facilities Management, two persons will review all billed charges for accuracy, one Library Administrative person and one Facilities Management person will review billing prior to paying invoices).

Follow-up: Our review of invoices related to the South Garland Library renovation revealed no significant findings.

Recommendation was Fully Implemented.

3. The hourly rate for the architect's "Additional Services" was not stated in the contract.

Recommendation was: Library management should examine all construction contracts to be sure that they are complete prior to signing. Additionally, the City should use a contract management person for these types of contracts.

Response was: The Library agrees with the finding. Future library contracts for architectural services will utilize the AIA standard "long form" contract which includes a section addressing the architect's hourly rates for additional services. (The North Garland project used the AIA standard "short form" contract which does not include these additional hourly rate charges).

Follow-up: Internal Audit obtained the library contract for the South Garland Branch Library. The hourly rate for the architect is included in the AIA Document B141 – 1997 Part 1. There is a Part 2 in the AIA Document and it includes a description of services provided by the architect. The South Garland Branch Library utilized the AIA standard "long form" for their project.

Recommendation was Fully Implemented.