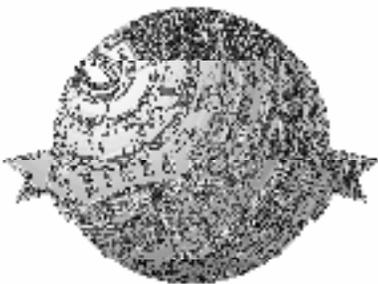
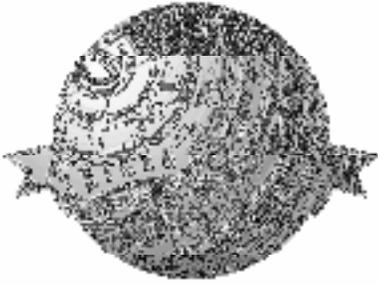


SPECIAL AUDIT
OF THE
CITY ARCHITECTURAL CONTRACT
BALLOON FIESTA PARK AND MUSEUM
CITYWIDE
REPORT NO. 07-113



City of Albuquerque
Office of Internal Audit and Investigations



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

January 30, 2008

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Special Audit
City Architectural Contract – Balloon Fiesta Park and Museum
07-113

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a special citywide audit of the City of Albuquerque's (City) Architectural Contract for the Balloon Fiesta Park and Museum (project) with Design Collaborative Southwest Inc. (DCSW). The audit was the result of a request by Council on April 18, 2007.

The City awarded DCSW the contract to provide architectural/engineering (A/E) services for the project's master plan on December 15, 1995 for a fee of \$460,500. During 2000, DCSW assigned their responsibilities for the Balloon Fiesta Park to the engineering firm Bohannon Houston, Inc. (BHI). DCSW began working solely on the Museum.

The Museum sits on the southern edge of the 358-acre Balloon Fiesta Park and is the City's newest museum. The Anderson-Abruzzo Albuquerque International Balloon Museum highlights the history, science, sport, art and culture of ballooning. The museum opened its doors in October 2005.

Through seven supplemental agreements and 87 additional service agreements (ASAs), DCSW's contract value increased approximately \$6.3 million. The City has compensated DCSW approximately \$6.7 million for the project. The following services were provided by DCSW:

- Master plan
- Design services
- Coordination and installation of exhibits

- Construction management
- Reimbursable items

According to the Department of Municipal Development (DMD) the City has appropriated approximately \$60 million for the project including:

- General Obligation Bonds – \$20,800,000
- Grants – \$19,700,000
- Quality of Life Tax – \$15,000,000
- Open Space Quarter Cent Tax – \$1,800,000
- Water and Waste Water Enterprise Funds – \$997,000
- Miscellaneous Sources – \$1,370,000

The primary City departments involved in this project were DMD, the Parks and Recreation Department (PRD) and the Cultural Services Department (CSD).

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Was the awarding of the A/E contract in compliance with City policies and procedures?
- Were the supplemental and additional service agreements with DCSW and BHI in accordance with City policies and procedures?
- What funding sources were used to pay for the Balloon Fiesta Park and Museum project?
- Did DCSW provide services in accordance with the terms and conditions of the agreements with the City?
- Were the billing and payment processes in compliance with City policies and procedures?

SCOPE

Our audit did not include an examination of all functions and activities related to the DCSW contract. Our scope included:

- The original request for proposal for A/E services that was dated April 1995.
- The signed contract dated December 15, 1995.
- The seven supplemental agreements to the DCSW contract dated November 1997 through July 2006.

- The 87 ASAs dated January 1996 through July 2005 for DCSW and the 45 ASAs for BHI dated December 2000 through January 2007.
- All payment applications for DCSW from February 1996 through December 2005 and all payment applications for BHI from October 2000 through March 2007.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, December 26, 2007 and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards.

METHODOLOGY

OIAI:

- Reviewed contracts and documentation.
- Selected a statistical sample of payments to DCSW and reviewed for accuracy.
- Reviewed all additional service agreements to the DCSW contract.
- Examined all ASAs with BHI for the project.
- Interviewed DCSW personnel, City personnel directly involved in the project and other City employees who were deemed necessary.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. DMD SHOULD RETAIN THE DOCUMENTATION REQUIRED BY THE CITY'S SAC RULES AND REGULATIONS POLICY.

DCSW was awarded the A/E contract for the project on December 15, 1995. The evaluation process for awarding the contract was completed by a Selection Advisory Committee (SAC). The City has a SAC Rules and Regulations policy which details the procedures to be performed for the selection of professional service contracts. These service contracts relate to architectural, engineering, landscape architectural, and other related professional services firms. DMD did not retain the documentation from the SAC meetings.

The New Mexico State Retention Policy states that all other documents, which include the evaluation documentation, should be retained for two years after the close of the fiscal year in which the project is completed. The project was ongoing as of the end of OIAI's fieldwork. DMD believed the recommendation for awarding the contract that was sent to Council met the document retention requirement.

OIAI was unable to perform test work to determine if procedures were followed in awarding the contract to DCSW.

RECOMMENDATION

DMD should retain the documentation required by the City's SAC rules and regulations policy.

RESPONSE FROM DMD

“DMD concurs with recommendation.

“The City, after discussing the concerns with OIAI, has updated its SAC records retention policies effective January 23, 2008.”

2. DMD SHOULD EVALUATE THE SCOPE OF ADDITIONAL WORK TO BE PERFORMED AND IMPLEMENT THE PROPER AGREEMENTS.

Four of the 87 ASAs (5%) for DCSW were not considered part of the original contract's scope. According to DMD's procedures, supplemental agreements are used instead of ASAs when the original scope of the contract is changed. DMD did not follow this procedure.

When ASAs are used, they are initiated by the project manager and reviewed by DMD's construction in process official, DMD fiscal employees and the department director completing the project. If a supplemental agreement is used then the process is reviewed by the same employees above; however, the agreement is also extensively reviewed by DMD's attorney. These ASAs should have been supplemental agreements and reviewed more extensively.

RECOMMENDATION

DMD should evaluate the scope of additional work to be performed and implement the proper agreements.

RESPONSE FROM DMD

“DMD concurs with recommendation.

“The City has reviewed these 4 ASAs and believes that two (ASA54-1999 and ASA70-2000) were correctly executed as ASAs but admits the documentation included language that implies the ASAs should have been supplements. The City agrees that the ASA62-1999 and the ASA66-2000 should have been supplements. The City will scrutinize the ASA/supplement documentation to ensure that the appropriate contract modification is used and that the documentation uses the correct terminology.”

3. DMD SHOULD REQUEST REPAYMENT FOR THE \$1,115 OVERCHARGED BY DCSW.

DCSW and BHI were authorized to bill the City a 10% administrative fee of \$134,959 and \$32,131 respectively, for *normal* civil engineering and landscape architectural consultant services performed by third party consultants. The contract documentation states:

Services of professional consultants engaged for *other than normal* [italics added] civil engineering or landscape architectural services at a multiple of 1.1 times the amount billed to the Architect for such services.

The contract terms were not clearly written to disclose the intended purpose of the administrative fee. The City could have paid administrative fees for *normal* services. The City recognized this language was unclear and subsequently changed the language in its contracts.

One out of 87 ASAs (1%) authorized DCSW to be paid \$1,115 for services provided by DCSW. DCSW cannot be a third party consultant to itself. A thorough review was not done by the project manager, which approved DCSW’s administration fee for services provided by DCSW.

RECOMMENDATION

DMD should request repayment for the \$1,115 overcharged by DCSW.

RESPONSE FROM DMD

“DMD has reviewed ASA76-2000 and concurs with the recommendation.

“Accordingly, the City has requested repayment of \$1,115 from the successor of DCSW.”

4. DMD SHOULD REQUEST REPAYMENT OF \$2,370 FROM DCSW FOR AN OVERPAYMENT ERROR.

DMD overpaid DCSW \$2,370 for an ASA dated August 1997. The overpayment occurred because DMD did not enter a cost reduction in the capital project tracking system (CPTS). The CPTS is DMD’s computer system for tracking the costs of capital projects. DMD’s operating procedures require that each ASA be recorded in CPTS once the ASA is approved.

If DMD does not enter all project transactions, the CPTS system will not reflect accurate accounting information and the City could overpay for services. DMD stated that an error was made and they did not post the ASA.

RECOMMENDATION

DMD should request repayment of \$2,370 from DCSW for the overpayment error.

RESPONSE FROM DMD

“DMD has reviewed ASA8-1997 and concurs with the recommendation.

“Accordingly, the City has requested repayment of \$2,370 from the successor of DCSW.”

5. DMD SHOULD OBTAIN COST ESTIMATES FOR ALL ASAs AND DOCUMENT DIFFERENCES WITH THE FINAL APPROVED COSTS.

Per the contract, DCSW and BHI were allowed to hire third party consultants, as needed, to complete the project. Five of 87 ASAs (6%) for DCSW and 19 of 45 ASAs (42%) for BHI did not contain a cost estimate prepared by the third party consultants. DMD’s operating procedures require each ASA to have a cost estimate as part of the proposal by each consultant. DMD stated that there had been several people reviewing the files and the cost estimates may have been misplaced.

Eleven of 87 DCSW (13%) and five of 45 BHI ASAs (11%) had cost estimates that varied from the City’s approved cost. There was no documentation of the reasons for the variances. One of the project managers did not know that she should have documented the reason for the variance.

The project manager is required to review each proposal for accuracy and negotiate the cost if necessary.

Since there were missing cost estimates, OIAI was unable to determine if the City approved a fair price for the work that was to be performed. DMD did not have documentation to verify why cost estimates varied from final approved amounts. If cost estimates are not reviewed, the City may overpay or underpay for the services received.

RECOMMENDATION

DMD should obtain cost estimates for all work to be performed through ASAs. DMD should also document the reason for any differences in price between the cost estimate and the final approved cost.

RESPONSE FROM DMD

“DMD concurs with this recommendation and has implemented additional procedures as of January 23, 2008, to ensure cost estimates are obtained for all ASAs.”

6. DMD SHOULD OBTAIN THE DEPARTMENT DIRECTOR’S SIGNATURE ON ALL ASAs AND THE CAO’S SIGNATURE ON ASAs GREATER THAN \$25,000.

One of 28 ASAs for DCSW (4%) and two of 16 ASAs (13%) for BHI were missing the Chief Administrative Officer’s (CAO) required signature. Two of the 87 ASAs (2%) for DCSW were missing the department director’s signature.

Administrative Instruction 3-1.1A requires the CAO sign ASAs that are greater than \$25,000. The department director’s signature is required on any document relating to the receiving of construction good and services.

DMD did not know why the required signatures were missing. The ASAs were not approved properly and should not have been processed until all the required signatures were obtained. If ASAs are processed before being approved, the City might pay for unauthorized services.

RECOMMENDATION

DMD should obtain the department director’s signature on all ASAs and the CAO’s signature on ASAs greater than \$25,000.

RESPONSE FROM DMD

“DMD concurs with this recommendation and has implemented additional procedures as of January 17, 2008, to ensure appropriate signatures are obtained.”

CONCLUSION

DMD should follow City and department policies and enforce contract requirements to manage projects more effectively. OIAI believes the above recommendations will overall strengthen the controls of DMD’s project management.

We appreciate the assistance and cooperation of DMD, PRD, and CSD personnel during the audit.

Principal Auditor

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

Chairperson, Accountability in Government
Oversight Committee