



Office of the City Auditor

CONSENT CALENDAR
June 20, 2000

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: AUDIT OF PUBLIC WORKS' CONSTRUCTION CONTRACTS

RECOMMENDATION:

That Council request the City Manager return to Council with a status report on the implementation of the audit recommendations by January 2001.

BACKGROUND:

In response to citizens' concerns about oversight over contractors and in the interest of examining areas of high-risk liability for the City, the City Manager requested the City Auditor perform an audit of Public Works' construction contracts. The Auditor agreed and incorporated the City Manager's request into the fiscal year 2000 audit plan. A series of audits was planned.

The purpose of this audit was to determine if the City was being appropriately billed for construction contracts; to determine if slow payment of bills was a real or perceived problem; and to determine whether this might affect who was willing to do business with the City of Berkeley. Internal controls over contract management were also reviewed.

The auditors determined through audit tests that slow payments by the City were not a problem. Public Works' established payment terms are 35 days after receipt of contractor's billing. Over 87% of the billings tested were paid within the 35 days. Based on this outcome, we concluded that late payment of bills should not have had a significant impact on contractors willing to do business with the City. Because we found no evidence of slow payments and few instances of billing errors, this report focuses primarily on the findings and recommendations related to overall internal controls.

The auditors identified several areas in which Public Works could improve their administrative controls over construction contracts.

- ✓ Documentation of quality assurance measures, particularly regarding emergency services.
- ✓ Documented assurance of review and acceptance of contractor's work.
- ✓ Adherence to City policies regarding contract amendments and change orders.
- ✓ Updating construction contracts to reflect current industry standards and laws, and to provide for quality assurance and contractor's accountability.

The City Manager has agreed to implement the audit recommendations for Public Works by September 30, 2000. The City Manager has also agreed to update the Emergency Operation Center's procedures by October 31, 2000.

FINANCIAL IMPLICATIONS:

The fiscal year 2000 Public Works' budget includes an appropriation of \$15,415,061 for street capital improvements, maintenance, and enhancements and \$36,059,994 for clean city services, clean storm water inspection and enforcement, emergency sewer reconstruction and re-routing, maintenance of streets, sewer maintenance, storm drain maintenance, urban forest, and environmental review services.

The four construction contracts audited totaled \$3,412,655 with additional costs in change orders that amounted to \$579,984 (17 %). The combined cost of these four contracts was \$3,992,639.

CONTACT PERSON:

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Approved:

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