



Douglas County Internal Audit

April 16, 2012

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,
Chris Rodgers and Pam Tusa

Tom Doyle, Douglas County Engineer
15505 West Maple Road
Omaha, NE 68116

Dear Commissioners and Mr. Doyle:

I have completed an audit of Douglas County road and bridge construction. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to manage County road and bridge projects focusing a large part of the audit on the financial transactions related to the projects. Generally accepted practices used for project tracking, payment authorizations, and partner billings were used as criteria to assess the controls in place. The audit revealed that, overall, controls were adequately designed and worked effectively. Opportunities to improve controls were identified and appear below.

Background

Nebraska state statute §23-1901 outlines the qualifications and duties of the County Engineer which include establishing specifications, supervising work, and inspecting materials. Chapter 39 of the statutes provide further details relating to contract specifics for bidding, submitting bonds, etc. The Douglas County Engineer is responsible for:

- Preparation of the Six-Year Highway Improvement Plan, which is a publication of proposed road improvements for Douglas County.
- Construction of roadway improvement projects as approved by the Board of Commissioners including design, advertisement, bid letting, recommendation for contract award and project construction management.

- Issuance of right-of-way permits for the following:
 - Construction of driveways, field entrances, streets, public roads on County right-of-way
 - Over-weight/over-width permits
 - County road right-of-way usage for miscellaneous purposes
- Supervision of the following Divisions:
 - The Highway & Maintenance Division
 - The Survey Division
 - The Engineering and Traffic Planning Division
 - Construction Division

The Construction Division provides construction, inspection and administration to support construction projects and was the focus of the audit.

Objective

The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to manage County road and bridge projects. Specifically, assessments and tests were conducted to determine if the procedures met the following objectives:

- Projects are identified and prioritized consistent with an overall strategic plan for construction and maintenance of roads and bridges.
- Expenditures related to projects were properly authorized by management for actual services rendered and work performed.
- Work is completed according to specifications and contract provisions.
- Projects are monitored to ensure that work is completed on time and on budget.

Scope

The policies and procedures in effect from 7/1/2011 - 2/29/ 2012 were used to assess the design of the controls. The period from 7/1/2011 - 2/17/2012, was used to test County road and bridge construction invoices. Transactions from prior periods were used where appropriate to provide a complete analysis of projects.

Methodology

The policies and procedures documented by Internal Audit were obtained by interviews and observations. This documentation was used to assess the design of the controls in place over managing construction of roads and bridges. Numerous tests were performed to see that controls identified were working as described. This included the use of an Oracle user listing to determine if there was proper segregation of duties over the financial transactions that flowed through the Engineer's office for construction projects.

The County's Oracle reporting tool was used to obtain a listing of Engineering office disbursements for the period 7/1/2011 – 2/17/2012. Thirty-one active construction projects were identified. Eight projects were judgmentally chosen for testing. These were tested to determine the following:

- The Six-Year Plan was approved by the County Board and the Metro Area Planning Agency.
- Projects tested were included in the Six-Year Plan.
- Projects were advertised and bid according to state statute and Purchasing Department policy.
- Lowest and best bids were accepted.
- The Board approved individual vendor contracts and interlocal agreements.
- Purchase orders, requisitions, and invoices were properly approved.
- There was evidence showing that there was appropriate oversight of the projects including weekly status meetings, testing results, and verification of labor and material quantities billed.
- Change orders were properly approved.
- Work was completed per the time specified in the contract.
- Partners were billed per agreements.
- The County Clerk was notified when the project was open to public use.
- The correct account coding was used.

The evidence gathering and analysis techniques during the audit included, but were not limited to:

- Interviews of Engineer Department personnel
- Review of bid publications and bidding results
- Review of vendor contracts and interlocal agreements
- Review of Oracle financial transaction reports and user listings
- Review of invoices, requisitions, and purchase orders
- Review of project summary reports
- Review of partner billings
- Review of construction testing results and project status meeting minutes
- Review of material and quantity verification documentation
- Observation of construction sites

The issues identified by the audit appear in the Findings section below.

Findings

Unbilled Revenue

Criteria: Partners responsible for sharing construction costs with the County should be billed as soon as they become liable for the amounts.

Condition: Per the interlocal agreement for project 2901, C-28(435), the County's SID partners were to provide fifty percent of their share of the contract amount upon acceptance of the contract. The construction bid was accepted 7/13/10. The billings to the SID's did not occur until 1/14/11. The amount of the billings at that time totaled \$395,767. (It was noted that SID 404 made an initial payment of \$101,061 in October of 2009.) Additional amounts were due the

County after the initial SID billing payments were depleted. There have been no additional amounts billed to date. The total amount of the receivable due based upon subsequent construction invoices is \$770,095.

Effect: The County financial data did not accurately reflect revenue and receivable amounts due. The County has lost interest revenue that could have been earned on amounts that should have been billed and collected. Internal Audit acknowledges that at the present time the lost interest is negligible. However, future interest rates could be significantly higher resulting in considerably more interest revenue being lost if partners are not billed in a prompt manner.

Cause: There were no systematic controls in place to ensure that billings to construction partners occurred in a timely fashion.

Recommendation: Modify the project summary spreadsheets to include a field that will automatically calculate the appropriate amounts to invoice partners based upon the contract language. There should also be fields for the invoice dates, amounts paid and dates paid. The project summary spreadsheets should be reviewed by Construction management each month and the summary should bear evidence of the review. Unbilled amounts should be investigated and any issues that come to light should be resolved in a timely manner.

Management Response: We have discussed our current method of exchanging the proper percentages for billing partners, which in this case obviously failed.

I met with the Administrative Assistant who handles most of our finances and we will develop a review process along the lines you recommend. We have discussed it and she understands what we need. We will be developing a more complete spread sheet for current projects.

Federal Aid Projects are currently full federal oversight, which means we are billed for our estimated share of the project up front and they handle all the billing. Then when the project is completed and fully reviewed, we either get a refund or an invoice for the balance.

Year-End Accruals

Criteria: Year-end financial statements should accurately reflect all earned revenues and associated receivables.

Condition: There were no receivables set up for project 2901, C-28(435), for the amounts due from the SID's at year-end 2011.

Effect: There was approximately \$507,000 of unbilled revenue not included in the County's financial statements for year-end 2011.

Cause: The Engineer's Office Administrative Assistant was not aware that there was a need to calculate an accrual for unbilled revenues associated with construction completed as of the fiscal year-end. The need to accrue for the unbilled items was not clearly communicated to the Administrative Assistant.

Recommendation: Include an item in the year-end Revenue Questionnaire for County Departments that clearly describes the need for all County departments to calculate an appropriate accrual for amounts that are due the County for unbilled revenue. Provide clear examples of activities that would necessitate the need to provide for accrued revenue. Ensure that Accounting personnel are aware of possible items that could result in accrued revenue. Accounting personnel should verify the accrual amounts provided and contact the departments to affirm that accruals are not necessary if accruals are not provided or are zero.

Management Response: Each year, prior to sending to county offices/departments, the County Clerk/Comptroller's office provides a draft copy of the year-end Revenue Questionnaire to the internal and external auditors for review and comment on possible revision. We will continue to request that input, and we will add the item mentioned in this recommendation asking all county departments to calculate an appropriate accrual for amounts that are due the county for unbilled revenue as described above. As a proactive measure, we will also communicate with offices and departments in early June to remind them to enter their AR invoices into Oracle so they can be accounted for as receivables prior to year end.

Outstanding Accounts

Criteria: Management should communicate clear and consistent policies for handling past-due accounts. Personnel should follow the policies.

Condition: Three SID partners for project 3739, C-28(498)A, were billed a total of \$292,792 on 9/26/11. One of the partners did not pay their bill until 2/16/12 while another did not pay their billed amount until 3/14/12. The third SID has not paid their bill as of the publication date of this report. The past-due amount is of \$65,065. Second notices were sent to all the SID's on 1/5/12, but the Administrative Assistant did not notify the County Attorney of the past-due amounts as per County policy.

Effect: Not involving County Attorney personnel may have prolonged the past-due periods longer than necessary.

Cause: The Engineer's Administrative Assistant was not aware that the County Attorney should be contacted to provide assistance in collecting past-due accounts. This requirement was not communicated to the Administrative Assistant.

Recommendation: Communicate to all County Departments the policies and procedures for dealing with past-due accounts. County Fiscal and Engineering management should ensure that past-due amounts are being handled appropriately.

Management Response: As part of its comprehensive accounts receivable processing policy, the County has implemented a procedure for handling past-due accounts and determining if a reserve amount for uncollected receivables is necessary and also a methodology for writing-off bad debts. These procedures should be followed in dealing with all past due accounts. A copy of this accounts receivable policy, which was approved by the Board of County Commissioners on November 3, 2009, will be sent to the appropriate people in the County Engineer's Office. This policy requires that the County Attorney review and approve of any account receivable write-

downs of past due accounts. The policy and procedures also specify that all invoices over 120 days past due will be reviewed by the Finance Director, County Attorney and the applicable department representatives to determine the appropriate action. The County Attorney will communicate in a timely manner all account write-downs of past-due accounts that it approves.

Project Management

Criteria: Maintaining a clear set of written policies and procedures for project management helps to provide and maintain high quality standards for projects through operational consistency, clear documentation requirements, and a means to measure the degree of success in achieving project goals.

Condition: There were no written policies and procedures for project management. Internal Audit noted that the Engineering Department follows a stringent set of required procedures for larger projects funded through the Federal Government. These along with large state-funded projects are normally managed by an engineering construction consultant. A lack of written policies and procedures is most pertinent to smaller projects managed internally although it does apply in some respects to the larger projects as well.

Effect: There was no standardized methodology used to ensure that all aspects of the various projects were handled in a consistent manner. Late partner billings and scattered and duplicated project documentation are indications of a lack of standardization.

Cause: The Engineer's Department has in the past attempted to prepare written project management policies and procedures, but it has not been a priority to complete them.

Recommendation: Prepare written project management policies and procedures. The policies and procedures should be written to achieve the following objectives:

- Appropriate governance and monitoring controls are established.
- Appropriate authorization and acceptance is established and documented throughout the life of a project.
- Stakeholder communication is inclusive.
- Standards provide for clear and easily obtainable documentation.
- Post implementation reviews are conducted and actively used to document and explain successes and missed expectations for quality and time and budget resources.

Management Response: All Federal Aid projects are covered by the Local Project Agency Manual. This is a 500 page document that addresses and documents every movement involved with a project that has federal money. This is their version of Project Management, which we follow to the letter. This manual came out while we were starting to develop our own project management system. All the changes, classes and testing necessitated our project being set aside.

We are currently reviving our own partially developed system which we plan to complete. We are planning to set it up for use on line with controlled permissions to certain individuals that are responsible for a given area of a project or have project oversight. We plan on including links

to test results, billings and meeting notes. Basically, it should be a series of checklists referencing responsible individuals with links to the related documents.

Audit Standards

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with Tom McDonald, Manager of Engineer Maintenance and Construction.

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Internal Audit appreciates the excellent cooperation provided by the Engineer Department's management and its staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

- cc: Paul Tomoser
- Joni Davis
- Trent Demulling
- Donald Stephens
- Tom Cavanaugh
- Tom McDonald
- Kathleen Kelley
- Joe Lorenz
- Patrick Bloomingdale
- Kathleen Hall
- Jerry Prazan
- Mark Rhine