

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Operational Audit of the Southside School Restoration Project

Report #11/12-03

June 27, 2012



Memorandum

Memorandum No: 11/12-17

Date: June 27, 2012

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO
City Auditor

Re: Audit Report #11/12-03 – Operational Audit of the Southside School Restoration Project

We have completed an operational audit of the Southside School project, as part of our FY 2011/2012 audit workplan. We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about the suitability of the design and operating effectiveness of the City's internal controls. An audit includes examining, on a test basis, evidence about the City's internal controls and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our evaluation and recommendations also rely on the internal control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO framework elements represent commonly accepted mechanisms to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

*The CAO's audit of the Southside School restoration project revealed that although the Public Works Department generally has adequately designed controls to assist the Department in completing construction projects in the division of Engineering and Architectural Services and in meeting their stated goal to, "Improve City's infrastructure and quality of life for citizens," **these controls failed to ensure the delivery of this important project in a timely and cost-efficient manner.***

We believe that the delays and cost overruns in this project can be primarily attributable to three factors:

1. The delivery method for the project was not the most suitable, given that the building is a historic landmark, staffs' lack of expertise in managing projects of this nature, and the significant likelihood for numerous unforeseen conditions during the restoration process. The use of either Construction Manager (CM) at Risk – with a Guaranteed Maximum Price, or Design Build - with a Guaranteed Maximum Price would have served to reduce

the City's exposure to costly delays and change orders. During our interviews, we noted a common thread of dissatisfaction with the performance and accountability of the architect and contractors. Selection of a different delivery method would have transferred the risk for performance to the contractor.

2. Public Works did not present monthly or quarterly reports of construction progress to the City Commission. Reports were provided on an ad hoc basis, resulting in a failure of the Commission to be kept informed of the various delays which came up during the course of the restoration. Improved oversight could have kept the project on track.
3. The City failed to budget sufficient funds for the project at the onset. This resulted in the project being broken up into several component phases, thereby adding significant delays while waiting for funds to be appropriated, RFPs to be issued and contracts drafted. Appropriate levels of funding would have allowed the project to move forward in a more seamless manner, with better coordination amongst city staff, the architect, and the contractors.

The objectives of our audit were:

1. To create a timeline identifying the various stages of the Southside School project.
2. To determine whether the City adhered to standard procurement policies when contracting for services.
3. To verify that project expenditures have been properly approved.
4. To identify causes for project delay and cost increases.
5. To determine compliance with contractual and grant agreements.
6. To verify that Public Works has adopted and implemented adequate policies and procedures with regard to project management.

Our consideration of the City's internal controls was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be considered deficiencies, significant deficiencies or material weaknesses.

We consider Finding #1 and #2 to be significant deficiencies, as defined below:

- A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis.
- A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis.

Summary of Audit Findings:

1. CAO found that the City received insurance proceeds of \$1,577,408 from Factory Mutual Insurance Company in 2008. With Commission approval, these funds were temporarily deposited into Fund 125/01/Index Code FD12501/Subobject N403; to be appropriated later

to specific projects. As of 3/8/2012 the insurance proceeds remained in the holding account and had not yet been appropriated to any projects.

2. The CAO found that while the City Commission selected Nova Southeastern University (Nova) on 3/1/2011 to operate Southside School, Nova has yet to sign an agreement. Despite the lack of a contract, Public Works began redesign and construction to meet Nova's requirements.

Summary of Audit Observations:

1. City management has not regularly provided progress/status reports to the City Commission for the Southside School project. This prevented the Commission from having timely knowledge of delays and obstacles to successful delivery of the final product.
2. Sufficient funds to complete the Southside School project were not budgeted at the inception of the restoration process in 2004, resulting in significant delays during the lifetime of the project.
3. During our review, we noted that Public Works utilized a design-bid-build delivery method for this project. During our interviews, we noted a common thread of dissatisfaction with the performance and accountability of the architect and contractors. Selection of a different delivery method could have limited the City's risk and costs.
4. During the review of change orders, the CAO found the City authorized 17 construction change orders resulting in an additional 425 days to complete the work/alterations to Southside School, at a cost of \$1,472,925.
5. The grant closeout process is not being performed in a timely manner. Failure to do so creates a misleading impression of the amount of funding available for projects.
6. While Public Works does maintain a general project flowchart, they have not developed a written procedures manual specifically related to project management.

Management's responses to the findings and recommendations are included in the report. We did not audit management's responses and accordingly, we express no opinion on them.

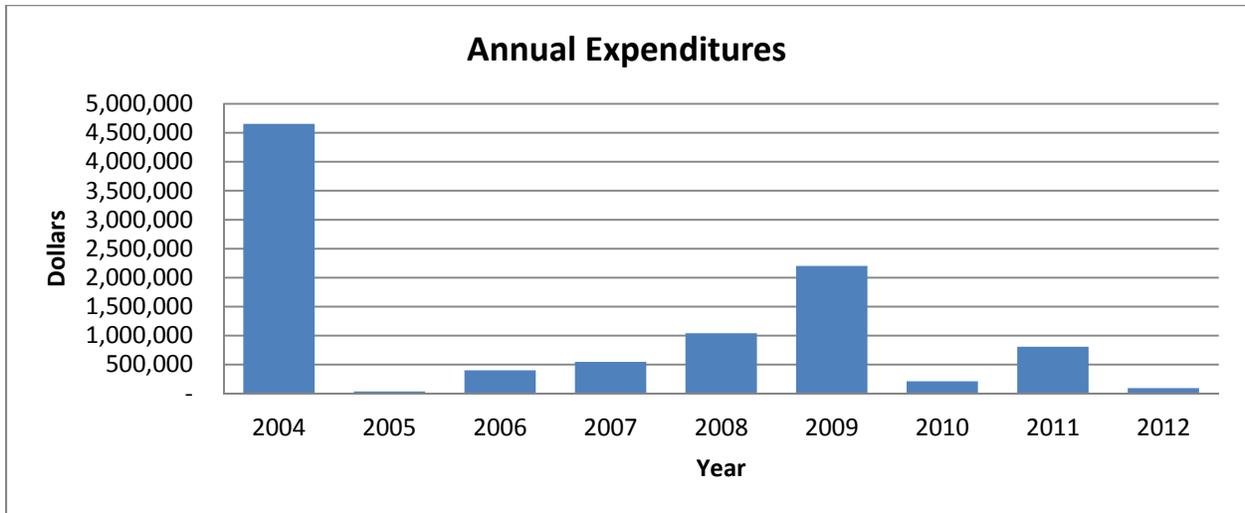
We would like to thank the staff of Public Works for their cooperation and assistance during this audit and are pleased to note that management generally concurred with our recommendations and has already begun to implement a number of them.

Attachment(s)

cc: Lee R. Feldman, City Manager
Harry A. Stewart, City Attorney
Jonda K. Joseph, City Clerk
Stanley D. Hawthorne, Assistant City Manager
Susanne M. Torriente, Assistant City Manager
Albert Carbon, Director of Public Works

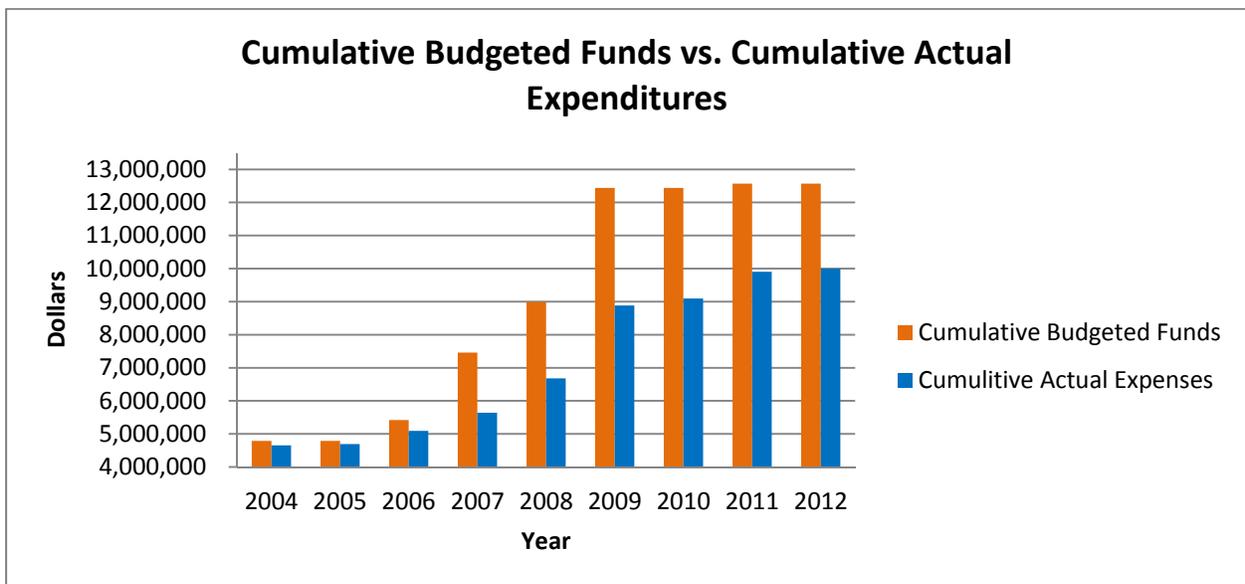
Below are several charts to demonstrate expenditure totals, cumulative budgeted funds vs. cumulative actual expenditures, city funds vs. non-city funds, and tables identifying project expenditures by vendors and a timeline of activities/actions (prepared by Public Works).

Chart 1: Expenditure Totals



This Annual Expenditures chart reflects total expenditures by year during the life of the project. Specifically, 2004 represents the purchase of the facility and years 2008 and 2009 indicate a majority of work having been paid.

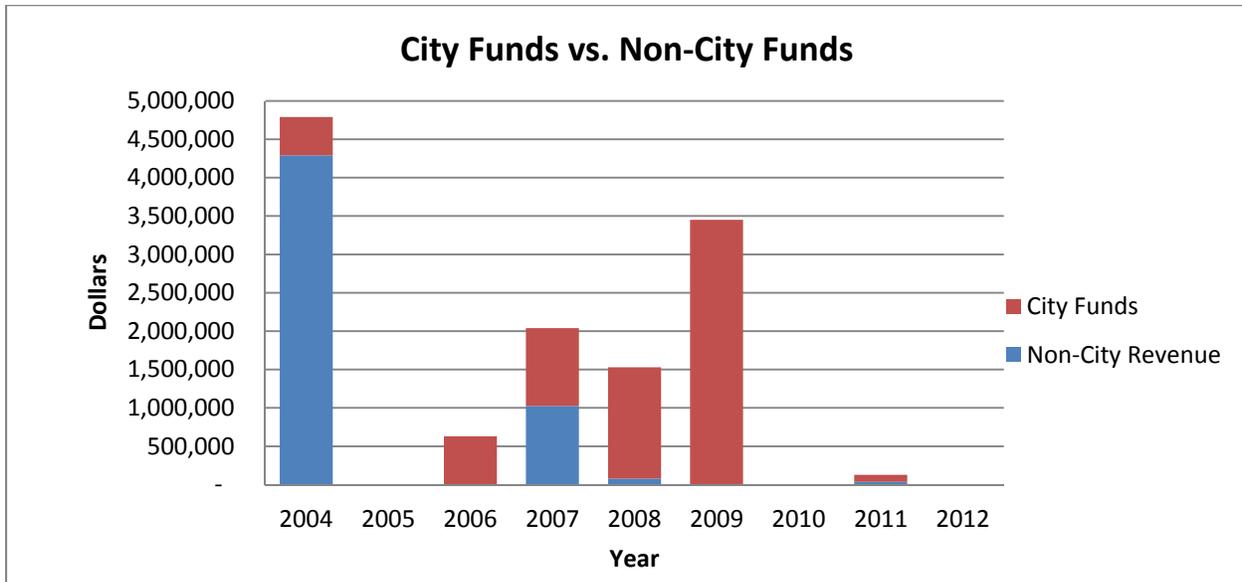
Chart 2: Cumulative Budgeted Funds versus Cumulative Actual Expenditures



The Cumulative Budgeted Funds vs. Cumulative Actual Expenditures chart demonstrates the phasing approach of budgeted funds available, such that budgeted funds must increase and be approved year to year to stay ahead of the expected expenditures to be incurred, as compared to

budgeting funds at the beginning of the project, a leading approach, and having expenditures increase over the life of the project to meet the available budgeted funds, in which the funds would have been approved and provided at inception.

Chart 3: City Funds versus Non-City Funds Allocated to the Project



The City Funds vs. Non-City Funds Chart indicates all project revenues by source, with City funds highlighted in red and non-city funds highlighted in blue. It was noted that in the first year of the project the majority of funds spent were non-city funds, which were used for the purchase of the property. Significant allocation of City funds did not occur until the 2007-2009 timeframe, several years after the acquisition of the property. Non-City funds budgeted for the project account for approximately \$5.4M and City funds account for approximately \$7.1M of the total budgeted amount for the project of approximately \$12.5M.

The Project Expenditures by Vendor, Table 1, lists vendors in order of value of All Years Total. A line is drawn at selection 16, indicating a threshold of expenditures greater than \$10,000 which are deemed to be more significant.

As Table 1 indicates, the City has actual expenditures to date of approximately \$10M for the restoration of Southside School. In 2012, an additional \$800k was appropriated to the project. The current remaining amount encumbered for the school restoration project is approximately \$2.3M. As such, adding the \$10M already spent, plus the \$2.3M encumbered, and the additional \$800k appropriated in 2012, results in the present estimated cost of \$13.1M for Southside School.

The Southside Project Timeline, Table 2, is the final schedule of actions and activities, as prepared by the Public Works Department.

Table 1: Project Expenditures by Vendor

Selection	Vendor Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	All Years Total
1	LANDMARK TITLE SERVICES INC	2,678,277									2,678,277
2	MISC EXPENDITURES	1,940,195		400	909	68,838	318,457	4,897	1,548	538	2,335,783
3	TRINTEC CONSTRUCTION INC					681,250	717,065	28,347			1,426,662
4	R J HEISENBOTTLE ARCHITECTS P.A.			377,931	141,923	87,658	153,790	61,299	51,155	93,830	967,586
5	MAN-CON INC						647,147	116,098			763,245
6	WEST CONSTRUCTION SERVICE								752,130		752,130
7	PALM CITY MILLWORK INC				337,480						337,480
8	AMERICAN PARK & PLAY INC						206,933				206,933
9	PARK STRUCTURES INC, PS COMMERCIAL PLAY					172,762					172,762
10	SYNTHETIC TURF INTERNATIONAL LLC						105,245				105,245
11	CREATIVE WINDOWS & DOORS INC				54,553	13,200					67,753
12	EVANS ENVIRONMENTAL & GEOSCIENCES	23,505	917		2,270	8,656					35,348
13	STONER AND ASSOCIATES INC			21,490			4,135				25,625
14	MIAMI WRECKING COMPANY		21,656								21,656
15	FOUR STAR PROPERTY SERVICES						13,495	1,759			15,254
16	NODARSE & ASSOCIATES INC				8,970	228	2,489	108	1,075	155	13,025
17	KEITH AND SCHNARS PA	9,720									9,720
18	A R T ENVIRONMENTAL INC		9,402								9,402
19	REP SERVICES INC						8,963				8,963
20	BECKER HOLDING CORPORATION					6,825					6,825
21	GARDENING ANGEL NURSERY INC						6,770				6,770
22	TENEX ENTERPRISES INC						6,120				6,120
23	CITY OF FORT LAUDERDALE						4,900				4,900
24	ARCHAEOLOGICAL & HISTORICAL CONSERVA		2,900								2,900
25	PACK-M VENTURES LLC						2,799				2,799
26	SOUTHERN PARK AND PLAY SYSTEMS INC						2,497				2,497
27	MCLAUGHLIN ENGINEERING CO	2,250									2,250
28	WILLIAMS EARTH SCIENCES			1,730		13	39				1,782
29	MARIAN FARMS INC						1,370				1,370
30	ENVIRONMENTAL ARCHAEOLOGICAL SOLUTION LLC								1,260		1,260
31	WORTECH ASSOCIATES INC		975								975
32	MCCARTNEY CONSTRUCTION SERVICES INC	800									800
33	AMPROS TROPHY KINGS						783				783
34	SUNBELT RENTALS INC						746				746
35	BROWARD COUNTY BOARD OF CTY COMM					575				132	707
36	SUN SENTINEL		163		284			259			706
37	FIRST AMERICAN TITLE INSURANCE CO	125									125
38	FEDERAL EXPRESS CORPORATION							6			6
39	BROWARD COUNTY HEALTH DEPARTMENT					585	(585)				-
	Totals	4,654,872	36,012	401,551	546,389	1,040,590	2,203,158	212,773	807,168	94,654	9,997,168

Table 2

SOUTHSIDE PROJECT TIMELINE		
Date	Item	Description
May 7, 1996	Memo 96-442	Resolution 96-65 - City Commission Resolution - Local Historic Landmark Designation
February 3, 2004	Conference	South Side School Acquisition Update
March 2, 2004	Conference	Master Site Plan and Project Projected Cost Presentation
March 16, 2004	Memo 04-434	Resolution 04-60 Option Agreement for Purchase & Sale and Grant Award Agreement - Broward County School Board & Florida Communities Trust Bond Funds
March 16, 2004	Friday Memo 04-470	Resolution 04-61 to Approve Execution of Purchase of South Side North
March 16, 2004	Friday Memo 04-436	Resolution 04-57 to Approve Florida Communities Trust Management and Project Plan Resolution 04-58 Authorizing Interlocal Agreement and other Documents with Broward County related to the Purchase of South Side School Property and Accepting \$2,350,000 in funding from Broward County
June 15, 2004		South Side School Building and Adjacent 3.6 Acres Purchased
November 1, 2004		Exterior ancillary buildings demolished.
March 15, 2005	CAR 05-0275	Southside School Restoration and Proposed Interior Demolition and Planned Renovation
April 8, 2005	Friday Memo 05-217	Grant Award - \$175,000 - Children's Service Council of Broward County Florence C. Hardy Park "Inclusive" Playground
May 10, 2005	CAR 05-0471	Resolution 05-86 - Grant Application and Acceptance Florida Cultural Facilities - \$1,500,000. Project funding of \$500,000 each year over a three year period. (Only 1 year was funded by State)
June 21, 2005	Friends of South Side Meeting	Procurement Director outlines the requirements of Florida Consultants Competitive Negotiation Act and its time requirements. Friends of South Side express desire to hire architect directly and vote to raise \$100,000 toward this purpose.
July 19, 2005	CAR 05-0787	Resolution 05-124 - Grant Agreement Acceptance - Children's Service Council - \$175,000 - Inclusive Playground Florence C. Hardy Park - City Grant Match \$371,712 (Equipment)
July 27, 2005	Friends of South Side Meeting	No money has been raised, but \$20,000 matching funds has been pledged by DDA. A deadline of 45 days is established to raise fund, or City is to utilize CCNA to engage architect.
September 7, 2005	CAR 05-0922	Task Order - \$20,975 - Stoner & Associates Inc. - Topographic/ Boundary Surveys
September 20, 2005	CAR 05-1040	Southside Cultural Center Project Update - Programs and Interior Renovations
September 28, 2005	Friday Memo 05-398	Architectural Service (RFQ) Consultant/Selection and Negotiation Committee Designation Southside School Restoration Project
October 12, 2005		CCNA Evaluation committee reviews submissions and selects top three ranked firms to participate in interview process.
October 24, 2005		Hurricane Wilma strikes Fort Lauderdale causing damage to windows, roof and structure of South Side School
November 7, 2005		CCNA Evaluation committee interviews three firms and ranks R.J. Heisenbottle at number 1.
December 6, 2005	CAR 05-1317	Commission approval to negotiate contract with R.J. Heisenbottle Architects, P.A. - South Side School
December 6, 2005	CAR 05-1154	Proposed Five Year Capital Improvement Plan (CIP Plan) - Southside \$1,790,000
December 20, 2005	CAR 05-1452	Motion to Approve 2006-2010 Five-Year Capital Improvement Plan
December 2005 thru February 23, 2006		City Attorneys Office drafts new standard consultants agreement.
March 7, 2006	CAR 06-0323	Approval - R.J. Heisenbottle Architects, P.A. Contract - \$610,059 + reimbursement not to exceed \$30,000
March 16, 2006	Letter	Children's Services Council - Extension Request - Inclusive Playground Agreement (Florence C. Hardy Park). Extension through March 31, 2007.
March 23, 2006		Initial meeting was held with Heisenbottle to review project scope and program. Initial schedule was presented indicating project going out to bid by mid-December.

Table 2

SOUTHSIDE PROJECT TIMELINE		
Date	Item	Description
March 29, 2006	Email	Email string noting frustration with lack of funds due to decision by Finance not to issue bonds or facilitate funding in some other manner.
April 1, 2006		Southside School open house, picnic and fund raiser held at property. Limited tours of the building were made available
April 12, 2006		Heisenbottle presents schematic plans to staff. Albert stresses importance of completing exterior portions of the project due to grant agency imposed deadlines.
April 25, 2006	Email	Staff comments on schematic plans emailed to Heisenbottle for implementation into drawings.
May 3, 2006		Preliminary structural evaluation determines that extensive structural strengthening of the building must be performed. This work must be completed prior to installing new windows and doors.
May 5, 2006	Email	Email describing lack of funding to book Heisenbottle PO even though item was approved by City Commission
May 23, 2006	Report	Cost Estimate from Faithful + Gould \$7,807,030 based on schematic plans
May 24, 2006	Friends of South Side Meeting	Heisenbottle presents updated schematic plans to Friends of Southside
June 4, 2006		Heisenbottle submits updated schedule showing project going out to bid October 2006
June 11, 2006	Report	Limited Building Material Visual Assessment Report - EE&G. Report notes existing damage and accumulated mold growth.
July 6, 2006		Heisenbottle presents proposal to bifurcate the design and to complete the exterior separately with bids going out within 60 days of approval.
July 24, 2006	Letter	Heisenbottle submits new proposal for design limited to exterior walls, windows and doors with bids going out within 30 days of approval.
August 1, 2006		Decision to proceed with exterior window and door work separate from full project due to shortage of funds.
August 23, 2006	Plans	Bidding plans submitted for Project #10777A - Bid Package No. 1 South Side School Restoration - Exterior Walls, Windows and Doors
September 6, 2006	CAR 06-1197	Task Order - \$42,985 - R.J. Heisenbottle Architects, P.A. - Additional Design Services
September 6, 2006	CAR 06-1195	Resolution 06-148 - Grant Acceptance - National Boundless Playgrounds - \$100,000
September 11, 2006	Letter	Official Listing of Southside School in the National Register of Historic Places on July 19, 2006
September 15, 2006		Received plans for bidding for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
September 18, 2006	HPB	Historic Preservation Board Case 17-H-06 COA Hearing- COA approved for selective demolition and exterior alterations.
October 9, 2006	Bid Tab	Single non-responsive bid was received for exterior windows and doors.
October 17, 2006	CC Walk-on	City Commission approved rejection of single non-responsive exterior window and door bid.
October 25, 2006	Bid Tab	Bids were received for purchase of exterior windows and doors.
October 31, 2006		Received plans for bidding for Project #10777 - Bid Package No. 3 South Side School Restoration and Hardy Park Redevelopment
November 7, 2006	CAR 06-1578	Purchase - Windows and Doors - Southside School - Palm City Millwork, Inc - \$337,480 & Creative Windows and Doors, Inc - \$54,552.99 and transfer of funds-\$400,000 from Fund 328 to P10777.328-6599 and \$72,000 from Fund 344 to P10777.340-6599
November 8, 2006	Letter	Broward County - Request One Year Extension to Timeline - to allow for completion of exterior improvements - to December 31, 2007

Table 2

SOUTHSIDE PROJECT TIMELINE		
Date	Item	Description
November 17, 2006		Received updated plans for bidding for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
November 20, 2006	Sun-Sentinel	Solicited bids for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
December 7, 2006	Email	Email noting lack of funds for project currently out to bid
December 11, 2006		No bids submitted for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
December 15, 2006	Report	Cost Estimate from Faithful + Gould \$9,099890 based on 100% Construction Document plans
February 6, 2007	CAR 06-1575	Proposed Five Year Capital Improvement Plan (CIP Plan) - Southside \$1,379,000
February 20, 2007	CAR 07-0290	Resolution 07-23 Adopting the Five Year Capital Improvement Plan for 2007-2011
February 21, 2007	Sun-Sentinel	Solicited new bids for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
March 19, 2007	Letter	Children's Services Council - Extension Request - Inclusive Playground Agreement (Florence C. Hardy Park) Extension through September 2008
March 21, 2007	Bid Tab	Received three bids for Project #10777A - Bid Package No. 2 South Side School Restoration - Exterior Walls, Windows and Doors
April 17, 2007	CAR 07-0556	Contract Award - Trintec Construction, Inc. - Exterior Walls - \$392,415
May 1, 2007	CAR 07-0659	DEFERRED-Amend Operating Budget/Approval to Purchase-Equipment/Surfacing/Restroom - Hardy Park
May 15, 2007	CAR 07-0733	Grant Application - \$350,000 - Florida Division of Historical Resources
May 15, 2007	CAR 07-0792	DEFERRED-Amend Operating Budget/Approval to Purchase-Equipment/Surfacing/Restroom - Hardy Park
May 31, 2007	Letter	Grant Award - \$78,375 - Broward County Historic Preservation Challenge Grant
June 1, 2007		Richard Perlmutter, Heisenbottle project manager for project leaves firm and is replaced by Andre Mantalvan.
July 10, 2007	CAR 07-0875	First Reading - Motion to Approve purchase and installation of two boundless playground units and safety surfacing not to exceed \$487,000 and amend operating budget. Exhibit 1 described funding shortfall and plan for moving forward.
July 17, 2007	CAR 07-1163	Second Reading - Approve ordinance amending fiscal year 2006-2007 final operating budget, by appropriating \$175,000 for installation of two Boundless Playground Units
September 18, 2007	CAR 07-1506	Motion to approve purchase and installation of boundless playground units and safety surfacing for Florence C. Hardy Park from American Park & Play, Inc. and Park Structures, Inc., in the total amount of \$487,000.
September 18, 2007	CAR 07-1422	Change order #1 was approved to demolish and replace existing roofing system only (plumbing, stucco, and structural modifications were excluded from the scope) \$320,020.00 and 120 Days
December 4, 2007	CAR 07-1636	Approve Resolution authorizing Task Order with RJ Heisenbottle Architects - Southside School Project 10777 - \$79,164 together with appropriation of budgeted funds in the amount of \$244,794
March 4, 2008	CAR 08-0347	Conference Agenda - Southside School Project Status - Funding needs shown
May 20, 2008	CAR 08-0693	Change order #2 was approved to restore original uniform exterior finish to the building, provide ADA access, secure engineering drawings to shore 2nd floor \$119,220.70 and 20 Days
June 14, 2008	City Manager approval	Change order #3 was approved, accounting change \$0 and 0 Days
July 1, 2008	CAR 08-0935	Item Tabled by City Commission
July 1, 2008	CAR 08-0955	Item Tabled by City Commission
July 15, 2008	CAR 08-1059	Conference Agenda - Southside School Project Status
July 15, 2008	CAR 08-1040	Amend operating budget-appropriation \$400,000-additional funding
July 15, 2008	CAR 08-1038	Change Order 4 - Trintec Construction, Inc. - Structural Modifications - \$293,436.56 and 45 days
July 15, 2008	CAR 08-1034	Contract Award - Man-Con Inc. - Utility Construction - \$746,620.28

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SOUTHSIDE PROJECT TIMELINE		
Date	Item	Description
October 7, 2008	CAR 08-1431	Change Order 6 - Trintec Construction, Inc. - Plumbing Revisions - \$58,897 and 21 days
November 18, 2008	CAR 08-1720	Change Order 7 - Trintec Construction, Inc. - Structural Work for New Roof - \$374,129.38 and 132 days
January 10, 2009		Grand Opening and Ribbon Cutting Ceremony - Florence C. Hardy Park Boundless Playground
February 17, 2009	CAR 09-0161	Expression of appreciation by Friends of South Side
May 19, 2009	CAR 09-0658	Change Order 10 - Trintec Construction, Inc. - Structural Work for New Roof - \$59,306.10
September 15, 2009	CAR 09-1250	Change Order 2 (FINAL) - Man-Con, Incorporated - Sanitary Sewer and Water Main Improvements - Transfer Funds - \$8,926.12
September 15, 2009		DEFERRED-Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
October 6, 2009		DEFERRED-Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
October 20, 2009		DEFERRED-Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
November 3, 2009		DEFERRED-Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
November 17, 2009		DEFERRED-Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
December 1, 2009	CAR 09-1234	Task Order 3 - R.J. Heisenbottle Architects, P.A. - Additional Design Services - \$111,920.22
June 24, 2010	Sun-Sentinel	Invitation to Bid advertised - Southside School Bid Package #3
August 18, 2010		Bids Received - Southside School Bid Package #3
September 7, 2010	CAR 10-1200	Contract Award - West Construction, Inc. - Interior Work - \$2,739,000
September 7, 2010	CAR 10-1123	Conference Agenda - Operation of Southside School - Nova Southeastern University, Inc.
December 21, 2010	CAR 10-1833	Conference Agenda - Operation of Southside School - Nova Southeastern University, Inc.
January 19, 2011	CAR 11-0105	Conference Agenda - Operation of Southside School - Nova Southeastern University, Inc.
February 15, 2011	CAR 11-0155	Conference Agenda - Operation of Southside School - Nova Southeastern University, Inc.
February 1, 2011	CAR 10-1804	Change Order 2 - Sun-Up Enterprises, Inc. - ADA Modifications, Parking Lot Repairs and Construction - \$12,240
March 1, 2011	CAR 11-0323	Change Order 1 - West Construction, Inc. - Deduct and Add Items - \$37,337
March 1, 2011	CAR 11-0289	Operation of Southside School - Nova Southeastern University, Inc.
March 9, 2011	Construction Delay	Exterior work on hold pending separate permit review including HPB
April 4, 2011	HPB	Historic Preservation Board COA Hearing- Item Deferred
May 2, 2011	HPB	Historic Preservation Board COA Hearing- Item Deferred
May 5, 2011	Plans	Revised construction documents received from RJ Heisenbottle (NOVA revisions)
May 5, 2011	Report	Ground Penetrating Radar findings report - No burials detected.
May 25, 2011	FCT Approval	Letter of approval from Florida Communities Trust
June 3, 2011	SHPO Approval	Letter of approval from State Historic Preservation Office
June 11, 2011	HPB	Historic Preservation Board COA Hearing- COA approved for dumpster enclosure, chiller, transformer & parking
July 12, 2011	HPB	Historic Preservation Board COA Hearing- COA approved for restroom and pavilions, playground and walkways
June 21, 2011	CAR 11-0885	Change Order 2 - West Construction, Inc. - Add Items - \$65,000
July 6, 2011	CAR 11-1064	Change Order 3 - West Construction, Inc. - Add Items - \$85,713.37
July 22, 2011	Report	EE&G issues Mold Remediation Assessment
July 29, 2011	Change Order Request	Change Order Request from West Construction totaling \$107,890.40 for floor removal and replacement
August 1, 2011	HPB	Historic Preservation Board COA Hearing- COA approved for playground shade sails
August 4, 2011	Change Order Request	Change Order Request from West Construction totaling \$426,469.73
August 4, 2011	Change Order Request	Change Order Request from West Construction totaling \$194,150.13 for electrical conduit installation
August 4, 2011	Meeting	Site Meeting to review Window Issues
August 23, 2011	CAR 11-1262	Purchase Order - Mold Remediation - Decon Environmental & Engineering, Inc. - \$90,914.15
September 14, 2011	Test	Water Intrusion testing on recaulked window assembly
September 20, 2011	CAR 11-1349	Final Payment and Termination of Agreement - R.J. Heisenbottle Architects, P.A. - \$90,000

Table 2

SOUTHSIDE PROJECT TIMELINE		
Date	Item	Description
February 2, 2012	Meeting	Meeting with City and West Construction to discuss financial issues
February 29, 2012	Email	Decision made to terminate West Contract
March 2, 2012	Letter	Letter from Mark Friedman to West Construction giving 10-day notice to take corrective action
March 7, 2012	Letter	Letter from Loren Law Firm to Mark Friedman in response to City's letter of March 2
March 14, 2012	Letter	Letter from Carrie Sarver to West Construction notifying contractor to cease work
March 16, 2012	Email	City crews are directed to begin window repair and caulking
March 22, 2012	Broward County Court Records	Complaint filed with Broward County Court Case 12008336 West Construction, Inc. Vs. City of Fort Lauderdale claiming breach of contract
April 11, 2012		Window repairs and recaulking are completed.
April 17, 2012	CAR 12-0710	Contract Termination - West Construction, Inc.

CITY OF FORT LAUDERDALE
CITY AUDITOR
Audit of Southside School Restoration Project

PURPOSE

The CAO conducted an operational audit of Southside School restoration project. Operational audits examine the use of resources to determine if those resources are being used in the most effective and efficient manner to fulfill the City's objectives. An operational audit includes elements of financial audits, compliance audits, information system audits and internal control reviews.

EXECUTIVE SUMMARY

The CAO has completed an operational audit of the Southside School restoration project, encompassing the creation of a timeline identifying the various stages of the project, determining whether the City adhered to standard procurement policies when contracting for services, verifying project expenditures have been properly approved, identifying causes for project delay and cost increases, determining compliance with contract and grant agreements, and verifying that Public Works has adopted and implemented adequate policies and procedures. An operational audit of this nature evaluates internal controls designed and implemented by management to provide assurance that the organization's operational goals and objectives will be achieved.

*The CAO's audit of the Southside School restoration project revealed that although the Public Works Department generally has adequately designed controls to assist the Department in completing construction projects in the division of Engineering and Architectural Services and in meeting their stated goal to, "Improve City's infrastructure and quality of life for citizens," **these controls failed to ensure the delivery of this important project in a timely and cost-efficient manner.***

As listed and discussed in more detail in the report, the CAO found a number of opportunities for improvement that would assist the Department in strengthening internal controls, enhancing efficiency and effectiveness, and improving communications.

We have identified both Audit Findings and Audit Observations during the course of the audit of the Southside School restoration project. An Audit Finding results from a failure to comply with policies and procedures, rules, regulations, contracts, and fundamental internal control practices. Audit Observations represent an opportunity to improve on the design or functionality of an existing control.

AUDIT FINDINGS

- F1. CAO found that the City received insurance proceeds of \$1,577,408 from Factory Mutual Insurance Company in 2008. With Commission approval, these funds were temporarily deposited into Fund 125/01/Index Code FD12501/Subobject N403; to be appropriated later to specific projects. As of 3/8/2012 the insurance proceeds remained in the holding account and had not yet been appropriated to any projects.

- F2. The CAO found that while the City Commission selected Nova Southeastern University (Nova) on 3/1/2011 to operate Southside School, Nova has yet to sign an agreement. Despite the lack of a contract, Public Works began redesign and construction to meet Nova's requirements.

AUDIT OBSERVATIONS

- O1. City management has not regularly provided progress/status reports to the City Commission for the Southside School project. This prevented the Commission from having timely knowledge of delays and obstacles to successful delivery of the final product.

- O2. Sufficient funds to complete the Southside School project were not budgeted at the inception of the restoration process in 2004, resulting in significant delays during the lifetime of the project.

- O3. During our review, we noted that Public Works utilized a design-bid-build delivery method for this project. During our interviews, we noted a common thread of dissatisfaction with the performance and accountability of the architect and contractors. Selection of a different delivery method could have limited the City's risk and costs.

- O4. During the review of change orders, the CAO found the City authorized 17 construction change orders resulting in an additional 425 days to complete the work/alterations to Southside School, at a cost of \$1,472,925.

- O5. The grant closeout process is not being performed in a timely manner. Failure to do so creates a misleading impression of the amount of funding available for projects.

- O6. While Public Works does maintain a general project flowchart, they have not developed a written procedures manual specifically related to project management.

STATEMENT OF OBJECTIVES

Based on the CAO's analysis of risks associated with the Southside School project, the following objectives were established for the audit:

1. To create a timeline identifying the various stages of the Southside School project.
2. To determine whether the City adhered to standard procurement policies when contracting for services.
3. To verify that project expenditures have been properly approved.
4. To identify causes for project delay and cost increases.
5. To determine compliance with contractual and grant agreements.
6. To verify that Public Works has adopted and implemented adequate policies and procedures with regard to project management.

BACKGROUND

The Southside School first opened its doors in 1922 as part of an expansion of school facilities intended to serve the growing population of Fort Lauderdale that was driven by the early stirrings of the 1920's Florida Real Estate Boom. The two-story, 11,000 square foot school was built at a cost of \$16,360, excluding land costs. It closed as an elementary school in 1967 and was utilized as a school for special needs and physically challenged children. The school was closed permanently in the 1990's.

In 1996, the City designated the Southside School as a historic landmark. In 2001, the school and adjacent Hardy Park were under consideration by the Federal government as the site for a new U.S. Courthouse. In 2004, in response to strong community objections to the loss of this cultural resource, the City of Fort Lauderdale ultimately succeeded in purchasing the property by entering into an agreement with the Broward County School Board. At that time, the City's estimate for the purchase, renovation of the school, and improvements to Hardy Park was \$13,513,047. The current estimate, including spent, encumbered, and planned is \$15,677,951. This is an increase in the project's cost of \$2,164,904.

SCOPE & METHODOLOGY

The CAO conducted this audit in accordance with generally accepted government auditing standards. We reviewed the Southside School restoration project from 2004 (inception) to February 2012. Auditing methods utilized included the following:

- Reviewing various published construction and related audits.
- Interviewing all pertinent City staff (Public Works, Parks and Recreation, Finance, and Risk Management).
- Requesting and reviewing documentation related to the Southside School project.
- Conducting site inspections of the Southside School property.
- Inquiring about internal controls, policies, and procedures.

Additionally, the CAO conducted its assessment of the effectiveness of the City's internal controls using the control framework established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, whose charge was to study and report on the factors that can lead to fraudulent financial reporting. In 1992, COSO published "Internal Control-Integrated Framework", which established a framework for internal control and provided evaluation of their control systems. The five components of the COSO internal control framework are: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring.

Objective 1

Create a timeline identifying the various stages of the project.

Scope Limitation

Despite numerous requests during meetings, phone calls, and emails, a complete timeline was not provided during the performance of fieldwork. The timeline was to demonstrate and explain delays and stoppages to the Southside School project over the course of construction. Although we were able to utilize alternative audit procedures to develop our own chronology of events, the failure to produce requested documentation constitutes a scope limitation on this audit.

OBSERVATION 1.

Condition

City management has not regularly provided progress/status reports to the City Commission for the Southside School project. This prevented the Commission from having timely knowledge of delays and obstacles to successful delivery of the final product.

Criteria

Under the COSO framework *Control Activities* component 3.6 "Top-level reviews of activities", reviews of public reports by management and reviews of organization functions, operations, or procedures; as well as *Information and Communication* component 4.1 "Mechanisms that support information flow inside the organization", scheduled management presentations are fundamental elements of an effective internal control environment.

Recommendation

The CAO recommends that the City Manager provide monthly progress/status reports on the Southside School project.

Management Response

Agree

Partially Agree

Disagree

Management concurs with this recommendation with comments.

Management has updated Commission when status of the Southside School project changed. Attached is the list provided to the CAO by Management regarding the updates to Commission prior to February 2012.

In addition, Management is currently providing updates prior to each Commission meeting on the status of the Southside School project.

Objective 2

Determine whether the City adhered to standard procurement policies when contracting for services.

Conclusion

The Public Works Department is adhering to standard procurement policies when contracting for services.

Objective 3

Verify project expenditures have been properly approved.

Overall Conclusion

Project expenditures have been properly approved.

OBSERVATION 2.

Condition

Sufficient funds to complete the Southside School project were not budgeted at the inception of the restoration process in 2004, resulting in significant delays during the lifetime of the project.

Criteria

Under the COSO framework *Risk Assessment - Objectives, Risks, and Responses* component 2.1, "Entity-wide objective setting", involvement and commitment of management to objectives are fundamental elements of an effective internal control environment.

Recommendation

The CAO recommends that the City Manager coordinate with project managers to develop accurate budget estimates and ensure funding is available for project completion.

Management Response

Agree

Partially Agree

Disagree

Management concurs with this recommendation.

The City’s new Community Investment Plan (CIP) is being improved to be an expenditure plan versus a funding plan. This change will allow Management and Commission to see where funding is needed for projects design and construction. Recommendations on funding design one year and construction in following years will allow Management and Commission to develop “shovel ready” projects to expeditiously control, budget and spend our limited CIP funds.

Initial project scope and timeline changed, and due to eight years of construction cost inflation, unforeseen conditions discovered during the project, and the impact of the Nova requirements prevented accurate budgeting.

FINDING 1.

Condition

CAO found that the City received insurance proceeds of \$1,577,408 from Factory Mutual Insurance Company in 2008. With Commission approval, these funds were temporarily deposited into Fund 125/01/Index Code FD12501/Subobject N403; to be appropriated later to specific projects. As of 3/8/2012 the insurance proceeds remained in the holding account and had not yet been appropriated to any projects.

Auditor Note: The Southside School portion amounts to \$48,483, which was for roof repairs. The roof repairs have been completed; however, another funding source was used. As a result of audit work, a total balance of \$1,577,408 was discovered.

Criteria

Insurance proceeds and FEMA reimbursements should be allocated to the proper funds within a timely fashion to ensure appropriate accounting and availability of funds to complete designated projects.

Cause

Staff failed to follow through with the appropriation of the funds and allocation to specific projects.

Impact

Funds for specific projects are not being properly reimbursed.

Recommendation

The CAO recommends that the City Manager present a budget amendment to the City Commission appropriating the settlement funds received in 2008. In addition, staff needs to develop a procedure to insure all revenue received is appropriated in a timely manner for its intended use.

Management Response

Agree

Partially Agree

Disagree

Management concurs with this recommendation.

These appropriations will be part of the 2012/2013 Annual Budget adoption.

It should be noted here that \$48,483 was for Southside roof repairs. Work was completed.

Objective 4

Identify causes for project delay and cost increases.

OBSERVATION 3.

Condition

During our review, we noted that PW utilized a design-bid-build delivery method for this project. During our interviews, we noted a common thread of dissatisfaction with the performance and accountability of the architect and contractors. Selection of a different delivery method could have transferred the risk for performance to the contractor.

Auditor Note: At this time, the City has terminated the remaining contracts with both R.J. Heisenbottle Architects, P.A. and West Construction, Inc., and is currently being sued by West Construction.

Criteria

While there is no single delivery method perfectly suited for all projects, it is the responsibility of the Owner (City) to develop evaluation procedures for identifying the appropriate methodology. Best practices suggest that the Construction Manager (CM) at Risk – with a Guaranteed Maximum Price (GMP), or Design Build - with GMP would have been the preferred delivery methods for this type of project. Some of the criteria present in this project that would suggest the use of those methods include:

- The design of the project is complex.
- The potential exists for unforeseen conditions requiring specialized expertise and collaboration with the design team.
- The project is large and expected to be completed over a long duration due to design and construction complexities.
- The project is unique to the Owner.
- The Owner has the internal resources to perform detailed reviews during negotiation of the GMP

Recommendation

The CAO recommends that the City Manager develop a framework to evaluate which project delivery method is appropriate for the various types of construction projects the City undertakes.

Management Response

Agree

Partially Agree

Disagree

Management agrees with recommendation with comment.

Management has these types of the project delivery methods already in place. The use of these delivery methods were considered but not used due to not all project funding in place at the beginning of the project.

FINDING 2.

Condition

The CAO found that while the City Commission selected Nova Southeastern University (Nova) on 3/1/2011 to operate Southside School, Nova has yet to sign an agreement. Despite the lack of a contract, Public Works began redesign and construction to meet Nova's requirements.

Criteria

- Work should not proceed in the absence of an executed contract.
- Under the COSO framework *Control Activities* component 3.1 "Responses that reduce or share specific risks", policies and procedures that address significant business control and risk management practices and standardized contracts are fundamental elements of an effective internal control environment.

Cause

In an effort to expedite the project, the Public Works Department proceeded with work before an agreement was signed with Nova Southeastern University.

Impact

Funds have been spent on project changes specific to Nova that will not be recouped. In addition, these necessary design changes added to the delay in completing the project.

Recommendation

The CAO recommends that the City Manager require the Director of Public Works to ensure that a signed and properly executed contract outlining the responsibilities of each party is in place prior to commencement of future construction projects.

Management Response

Agree

Partially Agree

Disagree

Management agrees with recommendation with comment. The City Commission approved the agreement with Nova in “substantially the form provided”. The crafted document agreed upon set very tight (and probably unrealistic) schedules for completion of the work and included language that allowed Nova to effect design changes to better accommodate the programs that they intended to operate. The agreement was approval by the Commission. Further approvals were required from Broward County and the Florida Communities Trust. A fully executed agreement could not be signed until those perfunctory approvals took place. Waiting for them would have delayed the project well beyond the dates set forth in the agreement.

The redesign to accommodate Nova had to start immediately so that work in place would not have to be removed and replaced. While meeting with Nova, West and Heisenbottle to formulated design changes, Public Works staff was in contact with the Attorney’s office and the agreement seemed to be moving along. Not until design changes were actually made and tentative costs assessed was there any indication the real potential of the agreement not being signed.

OBSERVATION 4.

Condition

During the review of change orders, the CAO found the City authorized 17 construction change orders resulting in an additional 425 days to complete the work/alterations to Southside School, at a cost of \$1,472,925.

Criteria

Under the COSO framework *Control Activities* component 3.1 "Responses that reduce or share specific risks", policies and procedures that address significant business control and risk management practices, standardized contracts, and annual and long term budgeting procedures are fundamental elements of an effective internal control environment; as well as 3.6 "Top level reviews of activities", reviews and monitoring of budgets, operating results, and organization functions, operation, or procedures are fundamental elements of an effective internal control environment.

Recommendation

The CAO recommends that the City Manager require the Director of Public Works to ensure that budgeted cost allocations more realistically reflect the cost and time to complete a project.

Management Response

Agree

Partially Agree

Disagree

Management agrees with recommendation with comment.

The majority of the change orders were issued to Trintec Construction during the exterior improvements. The changes orders added work to the contract that would have been required during future phases but were justified changes due to constructability and financial reasons.

Project funding was initially cut when the project was broken into phases. Additionally, eight years of inflation, as well as numerous and costly hidden building conditions, added to the cost increase.

Objective 5

Determine compliance with contract and grant agreements.

OBSERVATION 5.

Condition

The grant closeout process is not being performed in a timely manner. Failure to do so creates a misleading impression of the amount of funding available for projects.

Auditor Note: In reviewing the grant closeout process the CAO noted a remaining balance of \$25,000 regarding a Children's Services Council grant which expired 6/30/10. Public Works is responsible for communicating when grants expire, so that timely updating of grant budgets may be performed.

Criteria

Under the COSO framework *Control Activities* component 3.1 "Responses that reduce or share specific risks", reconciliations, comparisons, policies and procedures that address significant business control and risk management practices are fundamental elements of an effective internal control environment.

Recommendation

The CAO recommends that the City Manager develop a procedure to ensure that any remaining grant balances are closed out in a timely manner.

Management Response

Agree

Partially Agree

Disagree

Management agrees with recommendation.

Objective 6

Verify that Public Works has adopted and implemented adequate policies and procedures.

OBSERVATION 6.

Condition

While Public Works does maintain a general project flowchart, they have not developed written procedures specifically related to project management.

Criteria

Under the COSO framework *Control Activities* component 3.2 "Responses that prevent or detect the risk of intentional or unintentional errors", procedure manuals, desk manuals, and instruction books are fundamental elements of an effective internal control environment.

Recommendation

The CAO recommends that the City Manager require the Director of Public Works to develop written procedures specifically related to project management.

Management Response

Agree

Partially Agree

Disagree

Management agrees with recommendation with comment.

A complete Project Management Manual is under development. Completion is estimated in December 2012.

While PW is developing an "official" document of written Project Management procedures, the methods and procedures followed during the Southside project were generally those that were acceptable Project Management processes and procedures, universally recognized for this type of project.

Engagement Staff:

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