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**Hardy Street Single Family
Infill Development Project
Audit**

April 28, 2017



**City of Fort Worth
Department of Internal Audit**

200 Texas Street

Fort Worth, Texas 76102

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The Hardy Street Single Family Infill Development Project Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2016 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine whether:

- expenditures charged against the Community Development Block Grant were eligible, allocable, and reasonable; and,
- the contractor complied with applicable federal regulations and City contract terms.

Audit Scope

Our audit included a review of activity for the period March 2013 (contract award) through June 2015 (project completion).

Opportunity for Improvement

Require properly-maintained inspector logs

Executive Summary

As part of our FY2016 Annual Audit Plan, the Department of Internal Audit conducted an audit of the Hardy Street Single Family Infill Development Project. The project was funded by the Housing and Urban Development's Community Development Block Grant program (CDBG).

On March 5, 2013, the City executed a \$579,393.50 contract with McClendon Construction Company, Inc. to complete a portion of the infill development project in 180 days. Inspection reports provided by the Transportation and Public Works Department indicate that the work (limited to the construction of infrastructure, which included storm drains, water lines, sanitary sewer connections, street lighting, a neighborhood street, etc.) began on March 15, 2013. However, in September 2014, a \$9,774.20 change order was executed to increase the final contract amount to \$589,167.70 and to increase the number of days from 180 to 425.

The City of Fort Worth (CFW) paid McClendon \$589,167.70. A total of 13 payment requests were processed, including the final retainage payment. The last periodic payment was made on October 14, 2014 and the full retainage payment was made on June 23, 2015. Based on our review of the 13 payments, expenditures were adequately supported with itemized invoices, City inspection reports, etc. The Department of Internal Audit, therefore, concluded that infrastructure costs charged against the grant were eligible, allocable and reasonable, and that the McClendon Construction Company complied with applicable federal regulations.

We did, however, conclude that the project was not completed timely. For example, a notice of project completion supports the City's acceptance of the constructed infrastructure on June 8, 2015. The notice of project completion was, therefore, 636 days beyond the number specified within the initial contract and 391 days beyond that specified in the amended contract. It should be noted that while the actual contract only references "days", General Conditions that support the contract specify that "days" are considered calendar days. A calendar day is defined as a day consisting of 24 hours measured from midnight to the next midnight. Additionally, although the last invoice showed that work was last performed as of September 2014, 237 calendar days lapsed between the payment for that particular invoice (before retainage) and the June 8th notice of completion date.

We also concluded that daily inspector logs were incomplete. Since the Department of Internal Audit was unable to place reliance on the inspector's log, we were unable to determine whether project delays were due primarily to the City, the vendor, or both. We were, therefore, unable to conclude as to whether liquidated damages were applicable.

These findings are discussed in further detail with the [Detailed Audit Finding](#) section of this report.

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Background

The City of Fort Worth receives an annual allocation of federal grant funds from the United States Department of Housing and Urban Development (HUD) for Community Development Block Grant (CDBG) programs. These programs are administered by the City's Neighborhood Services Department.

CDBG is a flexible program that provides communities with resources to address a wide range of unique community development needs. CDBG funds must be used for activities that benefit low and moderate income families and must meet one of the following national objectives:

- benefit low and moderate income persons;
- prevention, or elimination of slums or blight; or
- address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

Mayor and Council communications indicate that the City Council authorized a total of \$1,658,724.00 in CDBG funds for the Hardy Street Single Family Infill Development Project. Although the development was to provide up to 21 lots for the construction of quality, affordable, accessible single-family houses for sale to low-to-moderate income households in the Diamond-Hill Jarvis neighborhood, McClendon's portion of the project was limited to the construction of storm drains, water lines, sanitary sewer connections, street lighting, a neighborhood street, etc. that was required to make the property ready for future home construction. The Diamond-Hill Jarvis neighborhood is located in a CDBG-qualified census tract within the City of Fort Worth Council District 2.

On March 5, 2013, the City executed a \$579,393.50 contract with McClendon Construction Company Inc. to complete infrastructure construction. The contract included provisions for liquidated damages if the project was not completed on time. A \$9,774.20 change order was executed in September 2014, increasing the final contract amount to \$589,167.70 and increasing the number of contract days from 180 to 425.



Objectives

The objectives of this audit were to determine whether:

- expenditures charged against the Community Development Block Grant were eligible, allocable, and reasonable; and,
- the contractor complied with applicable federal regulations and City contract terms.

Scope

The scope of this audit included a review of activity for the period March 2013 through acceptance of the project as complete in June 2015.

Our audit did not include a review of home construction, which was to commence upon completion of infrastructure work performed by McClendon Construction Company, Inc.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- reviewed the executed contract between the City of Fort Worth and McClendon Construction Company, Inc.;
- reviewed applicable federal regulations;
- interviewed Neighborhood Services Department staff;
- interviewed Transportation and Public Works (TPW) staff;
- reviewed payment requests and related inspection reports;
- verified City payments to McClendon Construction Company, Inc.;
- reviewed financial and program monitoring reports for the project; and,
- conducted site visits.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.

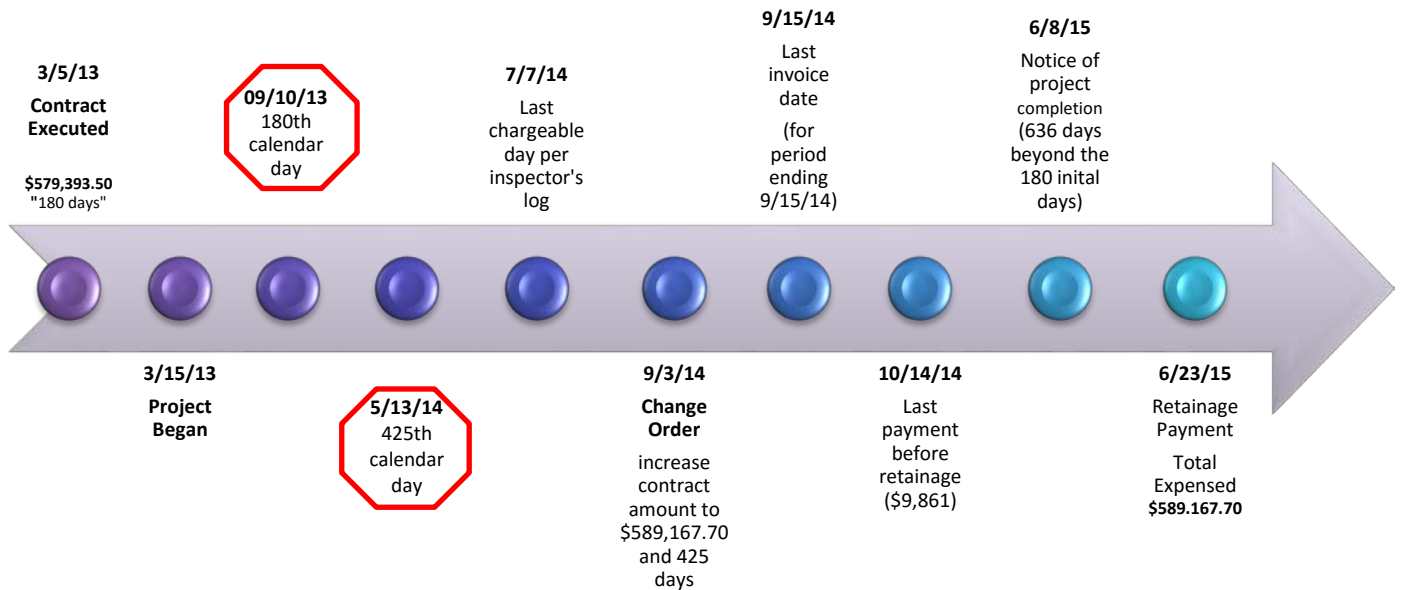
Audit Results

The Department of Internal Audit concluded that McClendon Construction Company, Inc. completed project components required by the contract, and complied with applicable federal regulations. We also concluded that costs charged against the CDBG grant were eligible, allocable and reasonable.

While McClendon Construction Company, Inc. complied with contractual and grant requirements, we identified an opportunity to improve the construction project process. The total number of days elapsed from project start to the notice of project completion was 816 days - - 636 days beyond the time specified in the initial agreement and 391 days beyond the amended contract, which included a change order to add 245 days. We, therefore, concluded that the project was not completed in a timely manner.

We also noted, during our review of the project inspection log, that the log did not coincide with payments to the contractor and did not take into account “no-work” days that resulted from inclement weather and/or utility issues. For example, the project inspection log depicts May 2, 2014 as the last day that work was performed by the contractor. However, the City paid an invoice for work ending September 15, 2014. It should be noted that project management staff approved the work included in the September 15, 2014 invoice.

The following chart depicts the timeline for completing infrastructure related to the Hardy Street Single Family Infill Development project in the Diamond-Hill Jarvis neighborhood.





Overall Evaluation

High	Medium	Low
Incomplete inspector logs		



Detailed Audit Finding

The inspector log is incomplete.

Work performed by contractors should be recorded accurately and on a consistent basis. Effective project management requires that project inspectors maintain a daily log of work performed by the contractor. The inspector's log, which is used to record contractor activity, should therefore include the number of days elapsed on the project and the number of days should be computed in a manner consistent with definitions provided in project specifications. The log should record site conditions and should be used to support liquidated damages assessed against the contractor and/or support contract delays caused by the CFW.

- TPW approved a payment estimate of \$9,861 for work ending 9/15/2014. However, the project inspection log notes 5/2/2014 as the last day worked.

Our audit results indicate that the \$9,861 was related to work authorized via a change order that was detailed on change order addition and deletion sheets dated 5/15/2014. However, the change order was not approved by the City Manager's Office until 9/3/2014. Based on documentation supporting the last periodic payment (before retainage), work described within this change order was completed prior to the change order being approved.

- The project inspection log appears to record time elapsed on the project based on calendar days, but disregards days impacted by inclement weather. The inspector's log is also unclear as to the number of days in which the project was delayed due to utility issues.

The City's failure to accurately log project activity could result in inadequate resolutions to contractual disputes and/or delays. For this project, incomplete and/or inaccurate project inspection logs do not provide the level of support required to determine whether contractual delays were caused solely by the contractor, solely by the City, or by both parties.

It should be noted that prior to invoice payment, the Neighborhood Services Department received authorization to pay, in writing, from the Inspection Supervisor and the Project Manager.

Recommendation: *The Transportation and Public Works Director should ensure that staff properly document project activity within the project inspection logs, and ensure that such information is promptly uploaded into the City's project document management system.*

Auditee Response: Concur. All inspectors will receive further training and guidance in recording daily project work activity in their logs and uploading into the City's project document management system to assure that accurate and complete information is available to document work progress. In addition to inspector training, procedures will be implemented whereby supervisors review inspection log entries and uploading as part of submitting monthly contractor pay estimates. In this manner quality control will be maintained to ensure information and work progress is accurately documented. This review effort will become part of the monthly "Statement of Contract Time" document that is currently part of the monthly contract pay estimate.



Target Date: September 1, 2017

Responsibility: TPW Assistant Director for Capital Projects



Acknowledgements

The Department of Internal Audit would like to thank the Neighborhood Services and Transportation and Public Works Departments for their cooperation and assistance during this audit.