

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Class B Roads - Projects

November 06, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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November 06, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Class B Roads - Projects

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Class B Roads - Projects in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Class B Roads - Projects and the cooperation from Scott Baird, Amy McCormick, Andrea Pullos, Grover Marsh, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Class B Roads - Projects during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Scott Baird, Director of Engineering and Flood Control
Amy McCormick, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Class B Roads - Projects. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

A contractor was not assessed liquidated damages for completing a project past the deadline. Management should assess these fees or modify contract terms to allow for variances in completion time. Documentation on file presented conflicting information on the length of the project, and did not provide reasoning for not assessing liquidated damages.

Findings and Recommendations

Finding # 1 - A contractor was not assessed a late fee for completing a project beyond the contracted deadline.

Risk Level: Low

Standard contract language for Class B Road construction projects states:

“Contractor agrees to pay the following sums to the County as liquidated damages and not as a penalty: Late contract time completion: \$500 per day.”

A contractor completed a project in 118 days, instead of the 110 days specified in the contract. No liquidated damages were assessed for late completion. The contract stated: “Contract time will end 90 calendar days after date of the Notice to Proceed...” A change order added an additional 20 days to this contract, making 110 days total. The Notice to Proceed provided a start date of September 19, 2011. The Certificate of Completion provided an ending date of April 30, 2012, considerably more than the 110 days specified. The inspector's log had 118 consecutively numbered pages, one page for each day worked. Our office used this more conservative number due to management stating that the project had to be stopped for winter weather and restarted again in the spring.

Management stated that in general they were reluctant to assess liquidated damages against contractors due to a desire to maintain goodwill. In this particular project, they stated that the contractor may not have always assigned sufficient workers to the job. Various other factors, including weather, can impact completion time.

When terms for liquidated damages are ignored, the County loses revenue, and contractors may view these terms as irrelevant, thereby allowing them to complete projects beyond contractual deadlines.

Recommendation

We recommend that liquidated damages be assessed for late project completion, or that the contract be modified to allow for variances in completion time.

We recommend that a documented explanation be provided when not assessing liquidated damages for late project completion and that documented start dates be consistent.

Additional Information

Background

Class B Roads are defined as County-owned roads within unincorporated areas. The State allocates a portion of the gas tax to the County for Class B road construction and maintenance. The County divides the Class B Roads fund into two functional areas: "Projects" and "Maintenance." Projects relate to newly built roads, sidewalks, culverts, and other related construction. Road construction is limited to repaving and widening of existing roads, and does not include construction of roads within new subdivisions, for which developers are responsible. The Engineering and Flood Control Division administers the Class B Roads "Projects" fund.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending August 31, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



Ben McAdams
Salt Lake County Mayor

Russ Wall
Public Works and Regional
Development Department
Director

Patrick W. Leary
Township Executive

**ENGINEERING AND
FLOOD CONTROL
DIVISION**

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5 November 2013

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2001 South State Street, N3300
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RE: Response to Recommendations from an Audit of the Key
Controls of Class B Roads – Projects

Dear Mr. Hawkins:

This letter is in response to the recent audit performed on our Class B Roads Fund by Larry Decker. Mr. Decker was professional and courteous and we enjoyed working with him.

There were two recommendations given from the audit and they are addressed below:

1. "We recommend that liquidated damages be assessed for late project completion, or that the contract be modified to allow for variances in completion time."

Project schedules are important to us and we recognize the need to keep projects within the scheduled time frame for purposes of public safety and to ensure the most efficient use of public funds. We are also aware that most projects have some variability and some unexpected challenges and sometimes the project calendar needs to be adjusted. Some valid reasons to adjust project time include:

- a. Weather delays.
- b. Unanticipated problems such as utility conflicts that were not identified in the design phase.
- c. The engineer or project manager simply miscalculates the amount of time needed to complete the project.

Our preference is to have liquidated damages in the contract as a tool available in case we need to use it, but to give the project engineer flexibility on whether liquidated damages should be assessed for projects that go past the contract time. When there is a change order on the project that adjusts the project

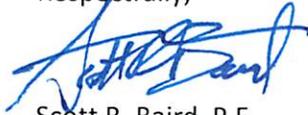
cost, an extension of the project schedule can be included in the change order if it is justified. If there is not a change order that requires an adjustment to cost, but there is a need to give the contractor extra time, the project engineer may give the contractor the needed time at his or her discretion without assessing liquidated damages.

2. "We recommend that a documented explanation be provided when not assessing liquidated damages for late project completion and that documentation start dates be consistent."

At the end of each project, a letter is written to the Mayor recommending acceptance of the project. We feel that this letter is the appropriate time to state and document the project completion time and whether liquidated damages were assessed. Including these details in this letter creates the recommended formal documentation without creating a separate document. This is what we will implement at close-out of future projects.

Please let me know if there is anything else needed from our office as part of this audit.

Respectfully,



Scott R. Baird, P.E.
Division Director

Cc: Patrick Leary