



Audit of Capital Construction Projects

November 20, 2024

Mark S. Swann, City Auditor

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Executive Summary

Objective and Scope

The objective of this audit was to determine the following for the construction of Vickery Park Branch Library and Fire Station 46:

- If controls are implemented to ensure fiscal management and administrative oversight for individual major construction projects.
- If costs charged to the construction projects were supported, reviewed, and approved.
- If costs are closed out and capitalized in the City's fixed asset records.
- How project funding levels were set and whether the funding was adequate.

The scope was for the period of the construction contracts.

Recommendations

Management should:

- Review and evaluate procedures.
- Make revisions as needed to improve project closeout.
- Have consistent management of construction projects.
- Continue working to resolve known project challenges.

Background

The 2017 Bond Program includes more than \$1 billion for priority City projects, including new facility construction and improvements to City streets and other infrastructure. The Office of Bond and Construction Management was formed in 2017 to help oversee the facility construction projects and bond program delivery and developed new procedures for project oversight in 2019.

This audit focused on two completed projects:

- Dallas Public Library's Vickery Park Branch Library budgeted at \$7.79 million and completed in 2020.
- Dallas Fire-Rescue's Fire Station 46 Replacement budgeted at \$7.525 million and completed in 2023.

Observed Conditions

Controls are in place to ensure fiscal management and administrative oversight for individual major construction projects, though the procedures and related controls do not always provide sufficient detail or reflect current practices.

Review of costs for the projects were supported, reviewed, and approved and costs were closed out and capitalized in the City's fixed asset records.

Both projects were delivered for under the estimated budgets. After the projects were completed, the finished buildings had challenges that impacted the final quality and operations of the buildings. Efforts are under way to address those challenges.

Objectives and Conclusions

1. Are controls implemented to ensure fiscal management and administrative oversight for individual major construction projects?

Generally, yes. The fiscal management and administrative oversight controls are in place. While both Dallas Public Library and Dallas Fire-Rescue are satisfied with the finished buildings and consider them among the best of their facilities, both have challenges that impacted the operational use and satisfaction of the final facilities. The Office of Bond and Construction Management's procedures have challenges that may impact consistent oversight of construction projects. (See [Observation A](#) and [Observation B](#).)

2. Are costs charged to the construction projects supported, reviewed, and approved?

Yes. The payments were supported, reviewed, and approved.

3. Are costs closed out and capitalized in the City's fixed asset records?

Yes. The costs were closed out and capitalized.

4. How were project funding levels set, and was the funding adequate?

The project funding levels were based on initial project estimates and revised to reduce the costs by about \$1 million each. Amounts were reduced as part of efforts to complete as many projects as possible with limited funds, though there is no specific documentation available to show why each project's amount was reduced.

While change orders or contract amendments were used for both projects to add features or functionality, their overall cost was limited to about 5 percent of the construction award. The final records show both projects were completed for less than the funded amount.

Audit Results

Both *City Council Resolution 88-3428* and Administrative Directive 4-09, *Internal Control* prescribe policy for the City to establish and maintain an internal control system. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A: Challenges After Final Construction

The two completed buildings were generally in great working condition and were considered among the City's best of their type. However, there were challenges following the final building construction and project closeout that can limit the effectiveness or safety and security of the facilities during the reviews. Those were:

Fire Station 46:

- The air conditioning unit operated in a manner that made key rooms too cold and humid for comfort, including the sleeping quarters.
- The employee parking lot gate access has been broken since the warranty period and was currently not usable and half of the gate has been moved to a ditch next to the building.
- The apparatus garage floor coating can lead to limited traction for vehicles and personnel on site when there is wet weather or condensation.

Vickery Park Branch Library:

- Surveillance cameras required by the construction contract were installed and initially worked, according to Dallas Public Library management, but went out of service and were not working for many months.
- The public art project for this facility was not installed. The project remains active and is scheduled for completion in November 2026.

Note – All items were identified during site visits in October 2023 except the Fire Station 46 employee gate which was identified during a site visit in July 2024.

These concerns were often identified during the transition from construction to maintenance, and some were initially corrected, including the broken gate, but were not fully resolved and remained concerns after the one-year warranty period on projects was over and remained unresolved for months or years after the construction was complete.

City management is aware of the concerns and are working to address them as part of the ongoing operations of the facilities. For example, all but two of the library surveillance cameras were repaired and had service restored in August 2024, and the broken employee parking gate was repaired in September 2024 according to department management. The Office of Arts and

Culture is responsible for the public art project and is working with Dallas Public Library to identify a new artist for the project.

One potential cause is that these buildings are heavily reliant on major systems that are heavily used, such as: the HVAC system, the apparatus garage doors, and the employee parking security gate.

Another potential cause is that the Office of Bond and Construction Management procedures for resolving warranty items are unclear. The occupying department is responsible for communicating directly with the builder to address warranty items, but as the process is not defined in the procedures, the Office of Bond and Construction Management, and the Facilities and Real Estate Management Department may not be aware of unresolved items.

Criteria

- ❖ Contract language for Fire Station 46 and the Vickery Park Branch Library
- ❖ Dallas Public Library – *Design Concept / Theme*
- ❖ *Fire Station Building Design Standards Program*
- ❖ Standards for Internal Control in the Federal Government, *Principle 10 – Design Control Activities*

Assessed Risk Rating:

Moderate

We recommend the **Director of the Office of Bond and Construction Management**, in coordination with **other relevant department directors**, which may include the **Chief of Dallas Fire-Rescue**, the **Director of Dallas Public Library**, and the **Director of Facilities and Real Estate Management**:

A.1: Review and evaluate construction project closeout and warranty oversight practices and procedures to determine if changes are needed to identify and address challenges soon after project completion.

We recommend the **Chief of Dallas Fire-Rescue** in coordination with the **Director of Facilities and Real Estate Management**:

A.2: Review and evaluate the air conditioning, employee parking gate, and garage floor coating challenges identified in [Observation A](#), and work to resolve the impacts of these problems on the building operations and maintenance.

We recommend the **Director of Dallas Public Library** in coordination with the **Dallas Marshal:**

A.3: Review and evaluate surveillance camera challenge identified in [Observation A](#), and work to resolve the impacts of these problems on the building operations and maintenance.

We recommend the **Director of Dallas Public Library** in coordination with the **Director of the Office of Arts and Culture:**

A.4: Complete the public art project at Vickery Park Branch Library.

Observation B: Construction Management Handbook and Procedures

The *Office of Bond and Construction Management Handbook* (Handbook) defines processes for changing the cost, time, and deliverables for construction projects. In some cases, lower-level approvals required in the Handbook were not documented when a higher-level approval was documented, in part because the Handbook procedures do not match city procedures.

- The Handbook does not define acceptance of work, a critical process for ensuring the final construction project meets the City's needs. As noted above in [Observation A](#), there were challenges with elements of completed projects meeting management's expectations.
- The Handbook does not define responsibility for overseeing the warranty claims. As noted above in [Observation A](#), warranty management is a key area of operations for completed construction projects and procedures for warranty complaints are not outlined in the Handbook.
- The Handbook sets an expectation for retainage release to contractors (less than 30 days after substantial completion) that is not being met. Final retainage release occurred 300 days or more after substantial completion.
- The Office of Bond and Construction Management's informal expectation of limiting change orders or contract amendment increases in project cost to 5 percent is not included in the Handbook. If that is the department's policy to limit project increases, it should be included in the procedures.

According to draft documentation provided by Office of Bond and Construction Management representatives, efforts are under way to revise the Handbook and make updates including to responsibilities and definitions.

Criteria

- ❖ *Office of Bond and Construction Management Handbook* and related attachments regarding financial review
- ❖ Administrative Directive 4-05, *Contracting Standards and Procedures*
- ❖ Standards for Internal Control in the Federal Government, *Principle 12 – Implement Control Activities*

Assessed Risk Rating:

Moderate

We recommend the **Director of the Office of Bond and Construction Management:**

B.1: Ensure that the Handbook is revised to reflect current practices and align with requirements and define key terms to communicate expectations more clearly for construction project management.

Appendix A: Background and Methodology

Background

Facilities like branch libraries and fire stations help the City perform many of its critical functions the public depends on every day. The 2017 Bond Program, approved by voters in 2017, is on track to provide more than \$1 billion for construction projects, including streets, flood protection and storm drainage, and city facilities.

This audit selected a branch library and fire station project to review the administrative and financial controls over major individual capital construction projects.

The Vickery Park Branch Library project created a new library on part of a four-acre property for Dallas Public Library. The project was funded out of the \$15.59 million in the 2017 Bond Program Proposition E funds approved for Libraries.



Fire Station 46, which replaced an outdated 55-year-old fire station, came equipped with a tornado storm shelter and room for a wildfire rescue team. The project was built for Dallas Fire-Rescue and funded out of the \$32.08 million 2017 Bond Program Proposition G for Public Safety Facilities.



These projects were approved and funded in 2017 and awarded to contractors in 2019. The projects were built in part during the COVID-19 Pandemic and opened in 2021 and 2022.

The Office of Bond and Construction Management was created in 2017 to provide oversight of the City's bond programs to ensure the efficient, equitable, and transparent delivery of infrastructure improvements to the Dallas community. The Office of Bond and Construction Management staff includes project managers who oversee the construction process. They use competitive processes to hire firms to design and build new facilities and oversee the construction process, including any requests for change orders to increase the project's cost, time, or provide additional functionality.

Dallas Public Library and Dallas Fire-Rescue served as the client departments, first identifying the projects as priority needs, and monitoring construction and providing input throughout the construction process as part of biweekly meetings on the project's construction and delivery.

Other departments also play a role. The Office of Arts and Culture oversees the public art program, using 1.5 percent of the project funds to create a public art piece at each project. The City Controller's Office ensures the integrity of the City's accounting and payroll systems and provides financial, management, and accounting services support.

Methodology

The audit methodology included: (1) interviewing personnel from the Office of Bond and Construction Management, Dallas Public Library, Dallas Fire-Rescue, Office of Arts and Culture, and the City Controller's Office, and other city departments; (2) reviewing policies and procedures, the *Texas Local Government Code*, applicable Administrative Directives, and best practices; and, (3) performing various analyses, including comparing final site visits to

expectations and analyses of payment and change order approval and project close out documentation. In addition, all five components of *Standards for Internal Control in the Federal Government* were considered.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Brandon Boykin, MBA – In-Charge Auditor
Daniel Genz, CIA, CFE, CISA – Engagement Manager

Appendix B: Management's Response

Memorandum



DATE: November 14, 2024

TO: Mark S. Swann – City Auditor

SUBJECT: Response to the Audit of Capital Construction Projects

This letter acknowledges the City Manager's Office received the *Audit of Capital Construction Projects* and submitted responses to the recommendations in consultation with the Office of Bond and Construction Management, Dallas Fire-Rescue, Dallas Public Library, Facilities and Real Estate Management, Dallas Marshal's Office, and the Office of Arts and Culture.

City management recognizes the important role the Office of Bond and Construction Management plays, along with other departments, in helping ensure efficient, equitable, and transparent delivery of infrastructure improvements for the residents of the City. Management is pleased the auditors recognized the sampled projects were delivered under budget, generally in great working condition, and are considered among the City's best of their type.

We recognize large capital construction projects with complex systems are prone to challenges. City management will learn from these experiences, as we have learned from previous projects, to further enhance the existing process.

Specifically, responsible departments agree to:

- Review and evaluate current practices to determine if enhancements can be made to more effectively identify and address potential challenges after project completion;
- Review and evaluate the air conditioning, garage floor coating, and employee parking gate at Fire Station 46;
- Ensure the two (2) remaining surveillance cameras at the Vickery Park Branch Library are installed and properly working;
- Complete the public art project at Vickery Park Branch Library; and
- Continue with existing efforts to revise the Office of Bond and Construction Management's Handbook to reflect current practices and clarify responsibilities and definitions.

Response to the Audit of Capital Construction Projects
November 12, 2024
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Service First, NOW!



Kimberly Bizer Tobert
City Manager (I)

- C: Jack Ireland, Chief Financial Officer
- Dev Rastogi, Assistant City Manager
- Dominique Artis, Chief of Public Safety (I)
- M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
- Donzell Gipson, Assistant City Manager (I)
- Jennifer Nicewander, Director, Office of Bond and Construction Management
- Justin Ball, Fire Chief (I), Dallas Fire-Rescue
- Marshal Pughes, City Marshal, City Marshal's Office
- Heather Lowe, Director (I), Dallas Public Library
- Martine E. Phillippe, Director, Office of Arts and Culture
- John Johnson, Director, Facilities and Real Estate Management

Assessed Risk Rating	Recommendations	Concurrence and Action Plans		Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the Director of Bond and Construction Management , in coordination with other relevant department directors , which may include the Chief of Dallas Fire-Rescue , the Director of Dallas Public Library , and the Director of Facilities and Real Estate Management :				
	A.1: Review and evaluate construction project closeout and warranty oversight practices and procedures to determine if changes are needed to identify and address challenges soon after project completion.	Agree	In coordination with other relevant departments, the Office of Bond and Construction Management will review and evaluate current practices to determine whether enhancements can be made to more effectively identify and address potential challenges after project completion.	6/30/2025	12/31/2025
Moderate	We recommend the Chief of Dallas Fire-Rescue in coordination with the Director of Facilities and Real Estate Management :				
	A.2: Review and evaluate the air conditioning, employee parking gate, and garage floor coating challenges identified in Observation A , and work to resolve the impacts of these problems on the building operations and maintenance.	Agree	Dallas Fire-Rescue (DFR) has reviewed and evaluated the air conditioning, garage floor coating, and employee parking gate. A contract engineer determined the air conditioning system is operating within the set capacity range, and DFR confirmed that the garage floor coating was built to specifications. In addition, the employee parking gate was repaired and is fully functional, implementing this audit recommendation.	10/25/2024	12/31/2024

Assessed Risk Rating	Recommendations	Concurrence and Action Plans		Implementation Date	Follow-Up/Maturity Date
			Similar to all the other 58 stations (some very old and having critical improvement needs), any of Fire Station 46's ongoing needs (including the AC temperature setting and garage flooring) will be monitored and addressed accordingly, considering the available budget and priorities.		
Moderate	We recommend the Director of Dallas Public Library in coordination with the Dallas Marshal:				
	A.3 Review and evaluate surveillance camera challenge identified in Observation A , and work to resolve the impacts of these problems on the building operations and maintenance.	Agree	The Dallas Public Library coordinated with the Dallas Marshal's Office to ensure camera issues were quickly resolved. Two Vickery Park Branch Library cameras remain in process, with an estimated completion date later this year.	12/31/2024	3/31/2025
Moderate	We recommend the Director of Dallas Public Library in coordination with the Director of the Office of Arts and Culture:				
	A.4 Complete the public art project at Vickery Park Branch Library.	Agree	Dallas Public Library and the Office of Arts and Culture continue to progress in completing the public art project. The Office of Arts and Culture anticipates initiating the solicitation process in the coming weeks.	12/31/2026	12/31/2026

Assessed Risk Rating	Recommendations	Concurrence and Action Plans		Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the Director of Bond and Construction Management:				
	B.1: Ensure that the Handbook is revised to reflect current practices and align with requirements and define key terms to communicate expectations more clearly for construction project management.	Agree	The Office of Bond and Construction Management will continue with existing efforts to revise the Handbook to reflect current practices and clarify responsibilities and definitions.	3/31/2025	9/30/2025