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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of the Public Works Department  
Capital Project Overhead Cost Allocation Model

Project No. AU21-025

December 2, 2021

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Public Works Department (PWD), specifically the Capital Project Overhead Cost Allocation Model. The audit objectives, conclusions, and recommendations follow:

**Determine if Capital Project overhead rates are allocated in accordance with accounting guidelines and Federal regulations.**

We determined that overhead rates are accurate and in compliance with accounting guidelines and Federal regulations.

PWD utilizes the Cost Allocation Manual to communicate key internal policies and procedures to its staff. PWD staff responsible for applying the indirect cost rate are trained and knowledgeable in the identification of those areas subject to overhead costs. Additionally, PWD staff successfully applies the appropriate rates, and all requested internal support was reviewed and approved by management and reconciled with the City's financial accounting system, SAP.

We make no recommendations regarding overhead rates; consequently, no management responses are required. Management's acknowledgement of these results is in Appendix B on page 5.

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## Background

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The mission of the Public Works Department (PWD) is to utilize innovation and dedication to build and maintain San Antonio's infrastructure. PWD is broken into two main components. The first is Operations, which includes the Streets, Storm Water and Traffic Management Divisions responsible for managing the day-to-day work of maintaining the City's infrastructure such as street maintenance, pothole repairs, traffic signal and sign maintenance, ensuring proper storm water conveyance, street markings and signage. The second is Capital, which includes Project Delivery responsible for managing the majority of projects under the City's Capital Improvement Program to include the General Obligation Bond Programs.

To assist PWD's ability to focus on their core business operations, the Support Services Division exists to complete those tasks indirectly related to capital projects. Examples of such support services are Contract Services, Fiscal and Budget Management, the management of capital project software, and Compliance.

While budgets are pre-determined for all associated department costs, actual costs for managing Capital Improvement Program projects are charged to a project based on actual time worked by the direct employee plus the indirect cost (overhead) rate applied against the employee's direct costs. These costs (either direct or indirect) are categorized as Capital Administrative Charges and are covered by the Capital Management Services Fund, an internal service fund. The City utilizes a third party, MGT, Inc. to develop the indirect cost rate. This methodology is approved by the City's cognizant agency, the Department of Housing and Urban Development.

Since FY 2018, within the Capital Management Services Fund, an average of \$21 million has been allocated to Capital Administrative Charges.

## Audit Scope and Methodology

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The audit scope included fiscal years 2018 through June 2021.

We interviewed PWD staff and performed walkthroughs to gain an understanding of implemented controls and overhead accounting practices.

Testing criteria included adherence to City Administrative Directives such as A.D. 8.10 Financial Management of Grants; the application of internal policies and procedures as stated within PWD's Cost Allocation Manual; compliance with required Federal regulations as stated in OMB Circular 87; and the contractual agreement with third party, MGT.

Areas tested included the appropriate documentation and routine multi-level review of stated internal policies/procedures, journal entries, and overhead rates.

We reviewed 25 randomly selected capital projects and tested three separate monthly journal entries for each project. The audit team ensured the appropriate indirect rate was applied for the selected month and that the calculations for overhead costs were accurate. Additionally, the audit team ensured internal accounting records reconciled with the City's financial accounting system, SAP.

Furthermore, key internal policies and procedures were reviewed for appropriateness and to ensure they are periodically evaluated by management.

We relied on computer-processed data in the City's financial accounting system, SAP, to validate the indirect cost journal entry support provided by PWD. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included the reconciliation of PWD's indirect cost journal entry support to the actual journal entry data seen within SAP. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results and Recommendations

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Public Works manages overhead costs in accordance with accounting guidelines and Federal regulations.

PWD utilizes the Cost Allocation Manual to communicate key internal policies and procedures to its staff. The latest update contains a matrix that clearly documents routine review and managerial approval.

PWD staff responsible for applying the indirect cost rate are thoroughly trained and knowledgeable in the identification of those areas subject to overhead costs.

Additionally, PWD staff successfully applies the appropriate rates, and all requested internal support was reviewed and approved by management and reconciled with the City's financial accounting system, SAP.

There are no findings. Consequently, we make no recommendations to Public Works Management.

## **Appendix A – Staff Acknowledgement**

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Gabriel Trevino, CISA, Audit Manager  
Denise Trejo, Auditor in Charge

## Appendix B – Management Response

  
**CITY OF SAN ANTONIO**  
SAN ANTONIO TEXAS 78283-3966

November 10, 2021

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
San Antonio, Texas

RE: Management's Acknowledgement of its Review of the Public Works Department Overhead Cost Allocation

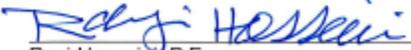
The Public Works Department has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

The Public Works Department:

Fully Agrees

Does Not Agree (provide detailed comments)

Sincerely,

 Razi Hosseini, P.E. Director Public Works	<u>11/10/2021</u> Date
 Roderick Sanchez Assistant City Manager City Manager's Office	<u>11/15/2021</u> Date