



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Department of Design
and Construction's Oversight of Turner/STV
Joint Venture's Construction Management
Contract for the New Police Academy

FM14-056A

August 21, 2014

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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NEW YORK, NY 10007

SCOTT M. STRINGER
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August 21, 2014

To the Residents of the City of New York:

My office has audited the New York City Department of Design and Construction (DDC) to determine whether DDC maintained adequate controls over the payments made to Turner/STV Joint Venture (Turner/STV) for construction management services. We audit agencies such as DDC as a means of ensuring that they properly utilize City resources and provide the necessary oversight of private entities that enter into contracts with the City to provide goods and services.

The audit found that DDC needs to enhance its controls over its contract payment approval process to ensure that contract expenditures made on a time and material basis are accurate and properly supported. Turner/STV employees' timesheets lacked sufficient detail to allow verification of actual work hours and the specific work performed. A review of daily construction site sign-in/out sheets at the worksite revealed discrepancies between the sign-in/out information and the information on employees' timesheets. Based on our review of the invoices for two payments totaling \$2,467,181 submitted to DDC, we determined that DDC paid Turner/STV in excess of 2,855 hours of work totaling \$310,692 (12.6 percent of dollars reviewed) that were not substantiated by the daily construction site sign-in/out sheets.

The audit recommends that DDC should seek reimbursement for the \$310,692 in questionable hours where project documentation does not justify payment; reconcile previous Turner/STV timesheets to the daily site sign-in/out sheets to identify any additional potential overpayments; enhance internal controls to ensure that services billed on an hourly rate are supported and validated; and include language in all future contracts that would require timesheets to include a detailed description of work performed and time spent on each task.

The results of the audit have been discussed with DDC officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Department of Design and Construction's Oversight of Turner/STV Joint Venture's Construction Management Contract for the New Police Academy

FM14-056A

INTRODUCTION

Background

On August 28, 2009, the Department of Design and Construction (DDC) awarded a contract to Turner/STV Joint Venture (Turner/STV) to construct a new police academy in College Point, Queens, for a total cost of \$656.1 million. The academy design includes instructional spaces, a library, administrative offices, fitness training facilities, a central mechanical plant, an outdoor track and multiple parking lots. Based on the contract, roughly \$570 million of the total contract amount is for the direct cost of construction and \$86.7 million is for the provision of construction management services. These services include inspection, supervision, management, coordination, and administration of the project. Staffing expenses account for \$67.7 million of the construction management cost.

The focus of this audit is the \$67.7 million in construction management costs which, under the contract, are to be paid on a time and material basis.¹ As of July 2013, Turner/STV has been paid approximately \$37.7 million of the \$67.7 million for construction management services. The \$570 million construction portion of the contract, which represents subcontractor costs to be billed by Turner/STV on a percentage of completion basis, was not reviewed in connection with this audit.

Objective

The objective of this audit was to determine whether DDC maintained adequate controls over the payments made to Turner/STV for construction management services.

¹ Time and materials is a contract payment structure based on (1) actual cost of direct labor, usually specified at hourly rates (2) actual cost of materials and equipment usage, and (3) agreed upon fixed add-on to cover the contractor's overhead and profit.

Scope and Methodology Statement

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was November 2009 to July 2013. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DDC officials during and at the conclusion of this audit. A preliminary draft report was sent to DDC officials and discussed at an exit conference held on May 20, 2014. On June 12, 2014, we submitted a draft report to DDC officials with a request for comments. We received a written response from DDC officials on June 26, 2014.

In their response, DDC officials strongly disagreed with the audit's finding and recommendations. Specifically, they maintained that "the basic premise of this audit is based on assumptions made by the auditors that are not supported by the facts."

DDC stated that "the auditors were incorrect in describing a 'sign-in/out sheet' as a method for maintaining and eventually paying for the consultant's (Turner/STV) staff time. This so-called 'sign-in/out sheet' is in reality a security scanner system that was implemented at the Police Academy to prevent unauthorized individuals from entering the facility." DDC further states that, "the auditors only included in their calculation for incorrect billing, the hours that were short as per the security scanner system but they did not include the numerous hours worked past an eight hour day as per the scanner."

DDC's attempt to undermine the audit conclusion failed to address a salient finding of the audit—DDC does not have adequate procedures to verify the accuracy of Turner/STV invoices. Because of the weaknesses found in DDC's payment approval process, the auditors used the sign-in/out sheet generated from the electronic system as an alternative independent confirmation to substantiate the reliability of the amount on Turner/STV's invoices. When performing this comparison, the auditors found a number of discrepancies in amounts billed. While the system may have shown extra hours worked, these extra hours were not reflected on the timesheets approved by Turner/STV's supervisor and DDC's project manager. Our audit responsibility was to substantiate that the amounts approved by DDC were accurate and justified.

DDC further stated that it "believes the auditors' conclusions and audit report paints an inaccurate and misleading picture which violates "Government Auditing Standards (Sections A7.02a, A7.02b & A7.02c)."

DDC's claim that the auditors violated Government Auditing Standards is totally without merit. In fact, Generally Accepted Government Auditing Standards allow auditors to use their professional judgment which may include using an alternative method to test the accuracy of reported information.

The full text of the DDC response is included as an addendum to this report.

FINDING AND RECOMMENDATIONS

DDC needs to enhance its controls over the payment approval process to ensure that contract expenditures made on a time and material basis are accurate and properly supported. DDC did not review the daily construction site sign-in/out sheets to validate Turner/STV employees' timesheets. In addition, Turner/STV employees' timesheets lacked sufficient detail to allow verification of actual work hours and the specific work performed. Based on our review of the invoices for Payment 30 (June 25 to July 27, 2012) and Payment 39 (March 17 to April 26, 2013) totaling \$2,467,181 submitted to DDC, we determined that DDC paid Turner/STV in excess of 2,855 hours of work totaling \$310,692 (12.6 percent of dollars reviewed) that were not substantiated by the daily construction site sign-in/out sheets.²

Internal Control Weaknesses in DDC's Payment Approval Process

DDC did not have adequate internal control procedures to properly verify that construction management service invoices submitted on a time and material basis by Turner/STV were accurate. DDC's review of Turner/STV construction management service invoices consisted of verifying only that the hourly rates charged for each employee were accurate and that hours charged for each employee were reasonable (for example, not paid in excess of 40 hours per week). DDC did not review Turner/STV's daily construction site sign-in/out sheets to validate Turner/STV employees' timesheets. In addition, DDC did not require Turner/STV employees to include detailed information on their timesheets. Without a description of the tasks performed, DDC could not verify actual hours worked on specific days.

We compared a sample of the hours that Turner/STV billed DDC to the hours recorded on the employees' daily site sign-in/out sheets and found that DDC paid \$80,705 for 735 hours that were not substantiated by the sign-in/out sheets. For example, our review of Payment 39 found that Turner/STV billed one employee working 20 eight-hour days for a total of 160 hours, but the daily site sign-in/out sheets only supported 148 hours and 48 minutes. This resulted in an overpayment for 11 hours and 12 minutes, totaling \$1,158. Specifically, the sign-in/out sheets indicated that this employee was only present on the job site for seven hours and 26 minutes on April 1, 2013; five hours and 41 minutes on April 10, 2013; five hours and 13 minutes on April 11, 2013; and two hours and 28 minutes on April 22, 2013. Nonetheless, this employee recorded that she worked eight hours each day. For the remaining days of the month, we also observed that the sign-in/out sheets indicated the employee was present on the job site for more than eight hours per day. However, those extra hours were not reflected on the timesheet approved by the supervisor and DDC's project manager. Consequently, we could not validate this additional time as billable construction management service.

In another example, an employee's daily site sign-in/out sheets indicated that the employee left early on 16 of the 20 work days in a month. These early departures ranged from 14 minutes to three hours and 42 minutes. The employee's arrival and/or departure times were not recorded on the sign-in/out sheets for the remaining four days. Turner/STV, however, billed the City and was paid based on the employee working a full eight-hour day for the 20 work days in the month. This resulted in an overpayment of \$1,411 (for early departure) and a questionable payment of \$4,061 (for missing arrival and/or departure times).

² Turner/STV received \$1,119,512 and \$1,347,669, respectively, for Payment 30 and Payment 39.

In addition, Turner/STV was paid \$229,987 for 2,120 hours where employees' daily site sign-in/out sheets lacked either time in, time out or in some cases, both. For example, we reviewed Payment 39 and found that Turner/STV billed for one employee working 20 days during the month. According to the daily site sign-in/out sheets, five of the 20 days were missing a sign-out time, but the employee's timesheet showed Turner/STV billed three eight-hour work days and two six-hour work days for a total of 36 hours during those five days. On a separate occasion, this employee did not sign in or out, but his timesheet reported eight hours worked for that day. Consequently, the employee was paid \$6,346 for hours not supported by the sign-in/out sheets, making those payments questionable.

Our review of timesheets also revealed a lack of detail describing the tasks performed by each employee and employees' failure to consistently record their arrival and departure times on the daily site sign-in/out sheets. As a result, DDC had no assurance that these employees worked the hours claimed on their timesheets. If DDC had required specific tasks to be included on employees' timesheets, they would have been able to better validate the construction management services performed on a time and material basis.

Recommendations

1. DDC should seek reimbursement of \$310,692 in charges from Turner, \$80,705 for hours which the employees' daily site sign-in/out sheets indicated employees did not work and \$229,987 for questionable hours where project documentation does not justify payment.

DDC Response: "DDC disagrees with this recommendation. The security scanner system that is referred in this recommendation was not designed or intended to be billable timesheets for the consultant staff. As mentioned above, the security scanner system did not record billable hours. Billable consultant hours were recorded on timesheets approved by their supervisors and overseen by DDC staff. Also, as mentioned above, many of the Turner/STV consultants worked more than a 40 hour workweek while only billing the City for 40 hours."

2. DDC should reconcile all previous Turner/STV timesheets to the daily site sign-in/out sheets to identify potential overpayments.

DDC Response: "DDC disagrees with this recommendation. DDC believes that Turner/ STV did not overbill, that the auditors' assumptions and conclusions (as mentioned above) were invalid, and thus we will not reconcile all prior payments to the security scanner system."

3. DDC should enhance internal controls to ensure that services billed on an hourly rate are supported and validated.

DDC Response: "DDC disagrees with this recommendation. DDC believes that our current system supplies adequate controls; as stated above, the consultant timesheets are authorized and approved by Turner/ STV supervision and also overseen by DDC field staff."

4. DDC should include language in all future contracts that would require timesheets to include a detailed description of work performed and time spent on each task.

DDC Response: “DDC disagrees with this recommendation. It is industry standard that construction consultant billable hours are not broken down into each individual task that they performed. A detailed billable breakdown would be time consuming as well as add additional expense to the consultant's billable time and potentially delay the project. However it should be noted, as per industry standards, that all professional consultant field staff keep and maintain field log books that reflects in detail the construction activities of that day.”

Auditor Comment: DDC's premise for disagreeing with all four recommendations is largely based on its failure to recognize the need to institute adequate controls to validate the accuracy of Turner/STV's invoices for time and material before payments are made. As noted, because of DDC's inadequate internal controls, we used the electronic scanner system in place as an alternative method to test the accuracy of the reported information on Turner/STV's invoices. Therefore, we reiterate our finding as stated in the report and strongly recommend that DDC reconsider its position and implement the above recommendations.

DETAILED SCOPE AND METHODOLOGY

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope period of this audit was November 2009 to July 2013.

To achieve our audit objectives, we reviewed the contract between DDC and Turner/STV. To gain an understanding of the billing practices and payment approval process, we interviewed relevant personnel from both DDC and Turner/STV. We also conducted walk-through meetings with Turner/STV officials regarding billing practices and with DDC officials regarding the payment approval process. The results were documented in memoranda and flowcharts. We used *Directive 7, Audit of Requests for Payment Received under Construction, Equipment, and Construction-Related Services*, of the New York City Office of the Comptroller's *Internal Control and Accountability Directives* as audit criteria.

As of July 2013, the total expenditures for the contract were \$414,004,002. To determine the accuracy and completeness of DDC's contract ledger and paylog records, we compared the amounts paid from the contract ledger and paylog records to the New York City Financial Management System (FMS) record of payments. Our specific audit tests were related to the portion of this contract billed on a time and material basis, which was \$67,717,279 for construction management services provided by Turner/STV.

We targeted Payment 30 (June 25 to July 27, 2012) because, at the time we began the fieldwork portion of this audit, it was the highest payment month. Additionally, we selected Payment 39 (March 17 to April 26, 2013), which was the most recent payment at the time of our review.

DDC paid Turner/STV for construction management services and construction work: \$23,878,504 for Payment 30 and \$19,871,553 for Payment 39. Turner/STV received \$1,119,512 and \$1,347,669, respectively, for Payment 30 and Payment 39, for a total of \$2,467,181 for construction management services.

The specific tests described below focused on Turner/STV employees who billed on a time and material basis, totaling \$2,467,181 during the periods of June 25 through July 27, 2012, (Payment 30) and March 17 through April 26, 2013 (Payment 39). The time and material fees totaled \$37,667,752 from Payment 1 through Payment 39. For Turner/STV invoices that billed for construction management services, we reconciled the hours recorded on the invoices and timesheets to the daily site sign-in/out sheets generated from the electronic scanner system as well as the manual records used when the system becomes inoperable. To determine if the correct hourly rates were applied, we compared the employees' titles and hourly rates in the staffing summaries³ with the employees' hourly rates based on their titles on the staffing plan⁴

³ Staffing summaries are part of the supporting documents Turner/STV included in its invoice. It lists the employees' names, titles, hourly rates, total hours billed and the total amount billed for that particular period.

and payroll register. We also matched the employees in the staffing summaries to the staffing plan to ensure they were eligible for payment.

To test the internal controls of DDC's payment approval process, we reviewed our targeted payments to determine if they were properly approved, approved in a timely manner and supported by the appropriate documents. We examined timesheet approval dates from the Turner/STV project manager and the Turner/STV employees' supervisors.

We reviewed and compared the staffing summaries and timesheets of other contracts between Turner or STV and DDC to the Turner/STV staffing summaries and timesheets for the police academy contract for the periods of June 25 through July 27, 2012, and March 17 through April 26, 2013. We conducted these reviews to determine if Turner or STV personnel could have been working on other DDC job sites during the test periods.

The results of the above tests cannot be projected to the entire population. However, our results provided a reasonable basis for us to satisfy our objectives.

⁴ The staffing plan is a list of employees who are approved by DDC to work on the project. It includes the employees' names, titles, hourly rates, estimated hours and estimated costs.



DR. FENIOSKY PEÑA-MORA
Commissioner

June 26, 2014

Marjorie Landa
Deputy Comptroller for Audit
City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007

Re: Audit Report on New York City
Department of Design and Construction's Oversight of
Turner/STV Joint Venture's Construction Management
Contract for the New Police Academy in Queens
FM14-056A

Dear Deputy Comptroller Landa:

Thank you for the opportunity for DDC to respond to your draft of the above audit on the Police Academy project. Before responding to each audit finding, DDC would like to state that we believe that the basic premise of this audit is based on assumptions made by the auditors that are not supported by the facts.

The Police Academy project is an active construction project involving a construction management joint venture of two of the largest, experienced, and respected New York construction firms with more than 60 subcontractors building four buildings on one site. The contract that was audited was an active contract between DDC and Turner/STV Joint Venture's Construction Management (the "CM"). The audit was conducted on a very large and complex construction project with an estimated contract value of over \$500 million dollars with more than 60 subcontractors and even more sub-subcontractors and suppliers by a team of auditors with little or no experience in construction.

The CM contract is a professional services contract in which the CM hires subcontractors and manages the overall construction project. The CM was selected after a competitive request for proposal process was undertaken pursuant to the City's Procurement Policy Board ("PPB") rules and the CM contract was registered by the Comptroller's Office. Pursuant to the terms and conditions of the contract, the CM provides professional staff to manage and supervise the construction project, but does not provide laborers under section 220 of the New York State Labor Law. Turner/STV consultants and their assigned tasks were selected by DDC based on their qualifications and experiences and their hourly rate of pay is based on their annual salary assuming an eight hour work day and forty-hour work week. The professional consultants are salaried staff thus overtime (more than 40 hours per week) is neither paid to them by their CM nor charged to the City.





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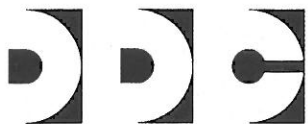
DDC believes that the auditors were incorrect in describing a “sign-in/out sheet” as a method for maintaining and eventually paying for the consultant’s (Turner/STV) staff time. This so-called “sign-in/out sheet” is in reality a security scanner system that was implemented at the Police Academy to prevent unauthorized individuals from entering the facility. The security scanner system uses WiFi technology to scan in and out the voluminous amount of construction workers, consultant staff, City employees from multiple agencies, and visitors to this huge construction site.

Due to the high security requirements of this site and the large amount of daily activity, standard physical (paper) sign-in and sign-out sheets would not be practical. The security scanner system was implemented because it would be able to meet this site’s specific needs, even though this new technology has not been widely used or widely tested at construction sites. DDC has not utilized a scanner system on any other construction project except the debris removal project at the World Trade Center after the terrorist acts of September 11, 2001. As a result, some unforeseen problems have been reported with the security scanner system at the Police Academy site. These problems include interference to the WiFi frequency from the heavy construction equipment as well as the occasional software and/or hardware failure. In addition, it has been reported that at peak volume entry and exit times, individuals are allowed to enter or leave by showing their site ID to security personnel, thus bypassing the security scanning process. These problems could account for occasions when the audit reports, that the security scanner logs, do not reflect a sign-in and sign-out for an individual or only reflect either a sign-in or a sign-out for a day but not both. The auditors refer to these occasions as questionable hours and recommend reimbursement from STV/Turner for overbilling.

The auditors also reviewed daily security scanner hours that were shorter than what was billed. The auditors made the assumption that once one of our Turner/STV consultants left the construction site, his or her work day ended. Consultants can leave the construction site and still perform work activities directly related to the Police Academy project, such as attending off-site meetings (either at DDC or their home base office). Thus the security scanner system can only record the time a consultant left the construction site and it does not reflect any additional work related hours outside the site.

The audit implies that the Turner/STV staff were overstating and overbilling their hours. It is clear that nothing could be further from the truth. If you use the security scanner system as your basis for billable hours (and DDC does not believe you should or can because that service was not contracted from or used by the security firm responsible for only securing the site) then the auditors should have been at least consistent and reported all hours logged through the security scanner system for the consultant staff. Upon reviewing the security scanner system logs it appears that many of the consultants worked more than an 8 hour day or a 40 hour week – while only billing the City for an 8 hour day or 40 hour week. This review also reflects some consultants working as long as a 12 hour day (while only billing the City for the contractual 8 hour day), however if this same consultant worked (as per security scanner) 7 & $\frac{3}{4}$ hours the following day the auditors would contend that the City was overbilled by 15 minutes for that week and that this overbilling should be reimbursed from Turner/STV (even though his total actual hours worked greatly exceeded 40 hours for that week and the CM only billed the City for 40 hours). Thus the auditors only included in their calculation for incorrect billing the hours that were short as per the security scanner





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system but they did not include the numerous hours worked past an 8 hour day as per the scanner. DDC believes that auditing assumptions not consistently applied invalidates the auditors' calculations.

DDC believes that the auditors' conclusions and audit report paints an inaccurate and misleading picture which violates Government Auditing Standards (Sections A7.02a, A7.02b & A7.02c). DDC strives to identify areas requiring improvements to our systems, in an effort to increase our efficiency and controls and to meet the high standards that the citizens of NY come to expect from our agency. However, DDC feels that this audit report does not identify any problematic agency practices requiring corrective action.

Recommendation # 1

"DDC should seek reimbursement of \$310,692 in charges from Turner, \$80,705 for hours which the employees' daily site sign-in/out sheets indicated employees did not work and \$229,987 for questionable hours where project documentation does not justify payment."

DDC's Response to Recommendation # 1

DDC disagrees with this recommendation. The security scanner system that is referred in this recommendation was not designed or intended to be billable timesheets for the consultant staff. As mentioned above, the security scanner system did not record billable hours. Billable consultant hours were recorded on timesheets approved by their supervisors and overseen by DDC staff. Also, as mentioned above, many of the Turner/STV consultants worked more than a 40 hour workweek while only billing the City for 40 hours.

Recommendation # 2

"DDC should reconcile all previous Turner/STV timesheets to the daily site sign-in/out sheets to identify potential overpayment."

DDC Response to Recommendation #2

DDC disagrees with this recommendation. DDC believes that Turner/STV did not overbill, that the auditors' assumptions and conclusions (as mentioned above) were invalid, and thus we will not reconcile all prior payments to the security scanner system.

Recommendation # 3

"DDC should enhance internal controls to ensure that services billed on an hourly rate are supported and validated."

DDC Response to Recommendation #3

DDC disagrees with this recommendation. DDC believes that our current system supplies adequate controls; as stated above, the consultant timesheets are authorized and approved by Turner/STV supervision and also overseen by DDC field staff.





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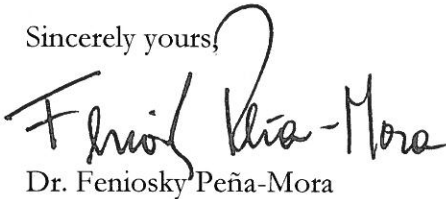
Recommendation # 4

“DDC should include language in all future contracts that would require timesheets to include a detailed description of work performed and time spent on each task.”

DDC Response to Recommendation # 4

DDC disagrees with this recommendation. It is industry standard that construction consultant billable hours are not broken down into each individual task that they performed. A detailed billable breakdown would be time consuming as well as add additional expense to the consultant's billable time and potentially delay the project. However it should be noted, as per industry standards, that all professional consultant field staff keep and maintain field log books that reflects in detail the construction activities of that day.

Sincerely yours,



Dr. Feniosky Peña-Mora

