



# Private Developer Funds



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**August 18, 2022**

# Private Developer Funds Audit

## Executive Summary

### Objective

This audit was conducted to determine whether adequate controls exist to ensure developer contributions are collected, funds are spent as intended and unused funds are returned timely.

### Background

Funding from Private Developers must be received prior to CDOT's initiation of work.

Developer contributions are based on cost estimates prepared by CDOT for the design and installation of traffic signal improvements including vehicle and pedestrian signals, vehicle detection, signal controllers and pavement markings.

As of February 2022, there were 93 active projects with account balances totaling \$2,571,860.

### Conclusion

The Charlotte Department of Transportation (CDOT) can strengthen internal controls to ensure developer contributions are collected, funds are spent as intended and unused funds are returned timely.

### Highlights

*CDOT can strengthen internal controls to ensure project cost ledgers are accurate.*

- CDOT should develop a reconciliation process that ensures all costs are recorded accurately in Munis and consider future system integration to automate the recording of costs captured in Cityworks.

*Accountability and transparency can be improved when expenditures on developer projects exceed contributions.*

- CDOT requested additional funds from developers when costs exceeded the initial contribution for only two out of 11 applicable projects.
- CDOT should define the required supporting documentation when project costs exceed contributions

*Project estimates are not developed with a level of detail to facilitate a comparison of estimated to actual costs.*

- CDOT policies and procedures should be updated to require project monitoring, including how monitoring will be completed, where documentation will be retained and how often monitoring will occur.

*CDOT has not established a control to ensure developer's refunds are processed timely.*

- For three of the six applicable projects in the audit sample, CDOT has not returned unused funds to the developer.
- CDOT should design a control that would ensure unused funds are returned within a reasonable time frame.

### Actions Planned

CDOT is committed to creating a Developer Funded Project Procedure Manual that incorporates all of the tasks associated with managing a developer project throughout its life-cycle. Specific details regarding these tasks are included in CDOT's responses.

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## Objective

This audit was conducted to determine whether adequate controls exist to ensure all developer contributions due are collected, funds are spent as intended, and any unused funds are returned timely.

## Background

During FY2022 audit planning, CDOT Leadership met with Internal Audit staff to discuss potential audit topics. Developer funded projects was one of the areas recommended by CDOT Leadership. Per CDOT, staff had recently made improvements to the contract language for developer agreements, and implemented strategies to proactively report cash flow, and process billing packets to close out projects in a timely manner. The basis of the recommendation was to evaluate areas of project management that may need improvement.

Private Developer Funds are needed when a developer is required, through the city rezoning process, to make traffic signal improvements. Funding contributions from Private Developers must be received prior to Charlotte Department of Transportation's (CDOT) initiation of work.

Developer contributions are based on cost estimates prepared by CDOT. Any funding contributed by the developer(s) for a signal project that is unused by the city will be refunded to the developer(s) after project completion. The design and installation of traffic signal improvements include, but are not limited to, vehicle and pedestrian signals; inductive and/or video vehicle detection; signal controllers; fiber optic cable necessary for interconnecting signals in a computer coordinated system; pavement markings; and associated design, easement, construction and inspection costs. CDOT will install and operate these signals as part of the existing signal systems in the area.

As of February 2022, there were 93 active private developer projects with balances totaling approximately \$2.6 million.

Active Projects As of February 2022			
Year	# of Projects	Budget	Balance
2016	6	\$1,051,845	\$111,004
2017	5	535,105	33,925
2018	7	490,982	47,134
2019	22	2,694,200	700,145
2020	14	1,288,048	539,203
2021	39	1,891,729	1,140,449
	<u>93</u>	<u>\$7,951,909</u>	<u>\$2,571,860</u>

## Findings and Recommendations

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### *1. CDOT can strengthen internal controls to ensure project cost ledgers are accurate.*

The City of Charlotte Financial Internal Control Policy requires all financial transactions and other significant activities be properly documented, recorded, and classified (labor, equipment, etc.) in Munis, the city's financial system. Project ledgers that reflect the actual costs incurred based on the project scope will assist CDOT in evaluating future project estimates and perform more accurate job cost forecasting.

- Cityworks project costs not accurately reflected in Munis project ledgers

CDOT uses Cityworks to manage workflows and resources (labor, materials and equipment) for signal enhancement projects. Auditors compared project costs (equipment, labor, and materials) in Cityworks to project costs entered in summary form in Munis. A sample of 25 Private Developer Fund projects were selected for review. Fifteen of the 25 (60%) projects tested had discrepancies between the total costs reported in Cityworks and the total costs posted to the project ledger in Munis. Project costs are accumulated in Cityworks throughout the duration of the project. Periodically a journal entry, summarizing the project cost accumulated in Cityworks, is made into the project ledger in Munis. At the end of the project, CDOT has not consistently ensured accumulated project costs are accurately recorded in Munis.

Work orders totaling \$182,297 did not reconcile to costs recorded in Munis. As shown on the following page, the number of projects with errors is relatively high although the total dollar value (\$40,093) of errors is immaterial when compared to total project costs.

<b>Work Order Errors Munis Compared to Cityworks</b>				
<b>Project</b>	<b># of Work Orders in Error</b>	<b>Work Order Amount</b>	<b>Munis Posting Amount</b>	<b>Variance</b>
4292000192	2	\$414	\$593	(\$179)
4292000230	2	23,694	23,768	(74)
4292000244	4	26,200	29,117	(2,917)
4292000254	1	1,898	2,334	(436)
4292000255	1	88	94	(6)
4292000271	3	9,621	600	9,021
4292000288	2	306	411	(105)
4292000292	1	18,601	17,514	1,087
4292000308	1	1,070	893	177
4292000337	1	6,536	1,965	4,570
4292000344	4	2,986	1,744	1,242
4292000358	4	39,194	28,048	11,146
4292000379	2	23,185	7,937	15,247
4292000384	2	27,926	26,008	1,917
4292000381	1	580	1,178	(598)
<b>Total</b>	<b>31</b>	<b>\$182,297</b>	<b>\$142,204</b>	<b>\$40,093</b>

The city is in the process of acquiring a new ERP system which will replace Munis. It is possible that a more automated interface can be developed between Cityworks and the selected system.

- Adjustments to Munis project ledgers

For 11 of 25 projects tested (44%), adjustments were made to project ledgers in Munis without sufficient supporting documentation to determine the cost categories affected. The lack of adjustment detail in project ledgers prohibits users/reviewers from gaining the full perspective of the adjustment. This also hinders CDOT's ability to forecast or make necessary updates to future project estimates using historical cost data. Due to the lack of documentation, auditors were not able to confirm whether adjustments were valid or communicated to developers. (See also finding #2)

- Reliability of Cityworks data

Inaccurate job costing data contributes to ineffective project management. Auditors assessed the reliability of data in Cityworks as part of this audit because the data materially supports findings, conclusions and recommendations in this audit report. The data reliability steps performed focused on the system controls surrounding the data and the completeness and accuracy of the data.

To evaluate system controls, auditors interviewed I&T Business Applications staff and reviewed Cityworks manuals and system configuration documentation. Cityworks relies heavily on manual controls such as a supervisor's review of data to ensure the accuracy

of information input into Cityworks. There is not an interface to transfer job cost data from Cityworks into project ledgers in Munis. Job cost data is manually entered into project ledgers in Munis by journal entry.

To verify that work order reports from Cityworks reflected accurate data, auditors traced material, labor, and equipment costs source documents to data in Cityworks.

- The material rates entered in Cityworks were compared to the supporting purchase orders in Munis. Due to a setting in Cityworks, the cost of the most recently input item overrides the cost of existing inventory and becomes the Cityworks unit price. For example, a \$450 controller cabinet part was specifically ordered for a project which was only charged \$274 through Cityworks. According to CDOT, when materials are returned to stock, the receipt is treated as a received transaction and the unit price is changed for all subsequent issues.
- Labor rates for employees with time recorded in Cityworks from April 2019 to November 2021 were compared to the corresponding hourly rates recorded in PeopleSoft. Updates to rates in PeopleSoft (for raises, promotions, etc.) were not reflected timely in Cityworks. For example, an employee's rate was modified to \$29.16 per hour in PeopleSoft in July 2021 and to \$30.62 in September 2021. The original rate (\$28.66) was not updated in Cityworks until September 2021. In calendar year 2021, 30 of 36 employees tested had rates in Cityworks that did match the rate recorded in PeopleSoft.
- Equipment rates are calculated outside of Cityworks using a methodology developed by CDOT. The methodology used to calculate the equipment rates was reviewed for reasonableness. While the calculated rates matched those recorded in Cityworks, CDOT uses a simple average methodology rather than allocating equipment costs based on the total hours the equipment was used. For example, the simple average methodology resulted in an equipment rate of \$41 per hour for bucket trucks compared to \$25 per hour when based on total hours.

Rate information for equipment was not maintained in a manner that would facilitate accessibility for all process owners. For example, the rate calculation for a truck was stored on the local hard drive of an employee that is no longer employed with the City. Project costing calculations that are not stored in a location that is accessible to all process owners hinders the ability to verify calculations and perform cost comparisons.

While data from Cityworks was deemed to be unreliable for the purposes of this audit, the errors did not materially impact the amounts charged to developer projects.

**Recommendation 1A:** CDOT's reconciliation process should ensure that all costs (from Cityworks and other sources) are accurately recorded in the Munis Private Developer Fund project ledgers. On a monthly basis CDOT should verify:

- Costs accumulated in Cityworks reconcile with supporting entries in Munis by using project life to date reports from Cityworks
- Material rates reflect the cost of the item based on the purchase order or desired inventory accounting method
- Labor rates in Cityworks reconcile with rates documented in PeopleSoft
- Labor multipliers reflect the approved rate
- Equipment rates recorded in Cityworks reflect a reasonable allocation of total costs.

**Value Added:** Cost Savings; Efficiency

**CDOT Response:**

CDOT generally agrees with this recommendation. Please see the responses for each item below. Actions to be completed by March 31, 2023. CDOT will perform the reconciliation process on a quarterly basis. We use a quarterly schedule to reconcile other types of projects and programs since most are related to construction efforts that take months, if not years, to complete a single phase.

- **Costs accumulated in Cityworks reconcile with supporting entries in Munis by using project life to date reports from Cityworks:** In the fall of 2021, CDOT modified the Cityworks Project Billing Summary Report to include Munis project numbers and names, and the general ledger account strings. The report also includes workorder and case numbers. In addition, the Project Billing Summary Report is sent to all project managers for review prior to uploading the journal entries for the month; increasing the reliability of the project data.
- **Material rates reflect the cost of the item based on the purchase order:** CDOT will work with City I&T to create a report in Cityworks to identify where inventory prices changed as a result of returning inventory to stock. The report will become part of the monthly process to confirm the material costs prior to running the Project Billing Summary Report. Any discrepancies will be sent to the purchasing agent to perform an audit of prices and to make the necessary adjustments.
- **Labor rates in Cityworks reconcile with rates documented in PeopleSoft:** Cityworks receives a nightly upload from PeopleSoft to update labor rates for CDOT staff. In reference to the example provided on page 6, the employee received a temporary increase in pay in August 2021 from \$29.16 to \$30.62, and went back to the original rate pay rate in October 2021. It is assumed that this type of rate change may not be an “action” that is flagged to be uploaded in Cityworks. CDOT will work with City I&T to include temporary rate changes in the nightly uploads.
- **Labor multipliers reflect the approved rate:** CDOT uses the approved annual labor multiplier provided by the Office of Strategy & Budget. The multiplier is changed as soon as the new rate is communicated from Strategy and Budget; usually in August of each fiscal year. The labor rate is adjusted on the date the labor multiplier is changed in Cityworks and does not retroactively change rates back to the beginning of the fiscal year.



- **Equipment rates recorded in Cityworks reflect a reasonable allocation of total costs:** CDOT determined that the methodology used to calculate the equipment rates are reasonable.

**Recommendation 1B:** CDOT should inquire with City I&T regarding Cityworks ability to interface with any new ERP system under consideration to mitigate the risk of transaction errors that are occurring due to the manual nature of entering accumulated costs from Cityworks to Munis.

**Value Added:** Cost Savings; Efficiency

**CDOT Response:** CDOT agrees with this recommendation and is participating in the evaluation of a new ERP system for the City. Two CDOT staff members are on the General Fund Project Management Team. They are providing feedback on several project management functions, including the ability for the ERP system to interface with other city applications like Cityworks.

## ***2. Accountability and transparency can be improved when expenditures on developer projects exceed contributions.***

Signal Improvement Agreements state, “Should the cost of materials increase or CDOT incur unanticipated and/or additional costs associated with final design and construction of the Signal Improvements, the developer is responsible for those additional costs.” For the 25 projects tested, CDOT requested additional funds from developers when costs exceeded the initial contribution for only two out of 11 applicable projects. Although it appeared that CDOT missed opportunities to request additional funds from developers, CDOT provided various reasons that expenditures can exceed contributions but no additional funds from the developer are warranted, as shown in the following table.

Projects Where Expenditures Exceeded Contributions					
Description	Revised Estimate	Additional Funds Requested?	Total Expenses	Adjustments	CDOT Explanation
Providence Rd & I-485	\$26,000	N	\$42,058	(16,534)	B
Providence Rd & I-485				476	C
Park & Marsh	\$22,000	N/A?	\$24,147	(2,147)	A
Fairview Rd & Barclay Downs	\$30,400	Y	\$30,400	-	N/A
New Bern & South Blvd	\$20,000	N/A?	\$25,493	(5,493)	A
Steel Croft & Steele Creek Rd	\$69,582	N	\$78,046	(8,464)	B
Church St & West Hill	\$153,588	Y	\$153,588	-	N/A
Choate Circle & Smith Rd	\$31,000	N/A?	\$33,914	(2,914)	A
Pineville Matthews & Riverdy	\$73,000	N	\$107,040	(36,855)	B
Pineville Matthews & Riverdy				2,815	C
Marvin Rd & Ardrey Kell Rd	\$18,500	N	\$21,817	(3,317)	C
Wilkinson & Old Dowd Rd	\$12,500	N/A?	\$29,212	(16,712)	A
Prosperity Church Rd & Ridge	\$45,600	N/A	\$45,749	\$ (157)	C
<b>Total</b>	<b>\$502,170</b>		<b>\$591,464</b>	<b>\$ (89,302)</b>	

A - Additional work performed, not responsibility of developer  
B - Project funded by another project from same developer  
C - Transfers to/(from) major project

While CDOT's explanations appear reasonable, supporting documentation was not sufficient to confirm the validity of the explanations provided. CDOT notes that for several projects (projects labeled "A"), additional work was performed and charged to the project ledger that was not the responsibility of the developer. For example, on the Wilkinson and Old Dowd Rd project, extra work was performed to install an ADA compliant pedestrian ramp. However, documentation was not maintained that clearly demonstrated the costs associated with the additional work. (See also Finding 3).

On other projects (projects labeled "B"), CDOT noted that funds were transferred to/from other projects being completed for the same developer. CDOT did not include documentation with the transfer that indicated the developer was notified and approved the transfers between projects. CDOT's explanation for one transfer (\$36,855 for the Pineville Matthews and Riverdy project) indicates that the project supplying the additional funding was not related.

CDOT also noted that developers may not be charged when actual staff time exceeds budgeted amounts. This occurred on the Marvin Rd and Ardrey Kell Rd project. Transfer documentation explained that staff time was not being charged to the developer. However, the documentation did not fully justify why the developer should not be responsible for the staff charges which were required to complete the project.

Without proper documentation and accountability, there is a risk that CDOT project managers will not require developers to contribute additional funds for valid project costs.

**Recommendation 2:** CDOT should implement a process that defines the required supporting documentation when project costs exceed contributions. At a minimum the requirements should include:

- Identification of specific costs for additional work
- Communication with developers regarding moving project funds between active projects
- Formal requests made to the developer for additional funds to cover project overruns.
- Explanation and approval for waived charges (including staff time)

**Value Added:** Compliance; Cost Savings; Efficiency; Risk Reduction

**CDOT Response:** CDOT agrees with this recommendation and is committed to implementing a process that requires documentation to support the adjustment of project developer funds, and providing justification for not charging additional staffing charges. These tasks will be included in the Developer Funded Project Procedure Manual, to be completed by June 30, 2023. In addition, please see the responses below for the four bulleted items.

- **Identification of specific costs for additional work:** CDOT created a “cost comparison” summary spreadsheet to proactively identify project overruns.
- **Communication with developers regarding moving project funds between active projects:** If a developer requests to move funds between their projects they will need to provide written justification and receive approval from CDOT management, all of which will be documented in each project file.
- **Formal requests made to the developer for additional funds to cover project overruns:** CDOT plans to establish procedures to provide form letters or emails to developers to communicate the reason for project overruns, establish additional contribution due dates, and explain the implications for non-payment. CDOT will also work with the City Attorney’s Office to ensure contract language reflects these changes. CDOT will work with developers to explore adding requirements for any work “CDOT performs” in a signal agreement over the sum of \$100,000 be bonded at a figure of 50% of the agreement price to cover cost overruns. This is necessary in the event the developer has sold the property or is otherwise unreachable or unwilling to fulfill agreement upon acceptance and billing. This will help to protect taxpayer investment since all parties acknowledge significant time can pass from agreement date to completion date due to developers’ timelines.
- **Explanation and approval for waived charges (including staff time):** CDOT plans to establish procedures to educate staff on how to record staff time to the appropriate projects, and require staff to work with their immediate supervisor to determine if staff time should be waived when a project is formally “CLOSED”.

### 3. *Project estimates are not developed with a level of detail to facilitate estimate to actual comparisons.*

CDOT has not documented the periodic performance of estimate to actual cost comparisons for the projects in the sample. Comparisons of actual costs to detailed estimates facilitate the identification of deviations from the project plan. When performed throughout the life cycle of the project, CDOT will have enough time to obtain additional funds from the developer if necessary.

Figure 1 is an example of the cost estimate for the New Bern and South Blvd. project (4292000271). Cost categories are broad and do not identify the equipment, labor and materials estimated for each phase of the project.

Description	Unit Cost	Units	Estimated Cost
<b>New Traffic Signal Installation</b>			
Three Approaches	\$45,000	0.0	\$0
Four Approaches	\$60,000	0.0	\$0
<b>Revision to Existing Signal</b>			
Approach	\$10,000	1.0	\$10,000
Loops per Approach	\$1,000	1.0	\$1,000
Relocate Fiber	\$1,000	1.0	\$1,000
<b>Installation of controller base</b>	\$1,000	0.0	\$0
<b>Pedestrian Signal</b>	\$1,500	2.0	\$3,000
<b>Design/Approach</b>	\$2,000	1.0	\$2,000
<b>Construction Admin/Approach</b>	\$3,000	1.0	\$3,000
Cost Estimate Good for 6 - Months			
6/12/2016			
<b>Total Estimate</b>			<b>\$20,000</b>

Details provided by CDOT noted that this project did not include two new four-section head signals with flashing yellow arrows on the South Blvd left turns. These items were added by CDOT Signal Systems Review. The estimate was not updated to reflect that the developer would not be responsible for the additional work. The subsequent adjustment to the project ledger did not clearly document the revision to the project plan.

**Recommendation 3A:** CDOT should design a project estimate template that improves the ability for project managers to make estimate to actual comparisons in a manner that is documented throughout the project's life cycle. The project estimate should distinguish between components of the project that will be reimbursed by the developer and those components that will be allocated to other CDOT projects/programs.

**Value Added:** Compliance; Cost Savings; Efficiency; Risk Reduction

**CDOT Response:** CDOT agrees with this recommendation and is committed to making the following changes by June 30, 2023:

1. Create a template that provides an initial estimate of the project and the revised estimate based on detailed plans. This template will reflect the actual costs as individual tasks are completed throughout the life-cycle of the project. Since there are three separate systems that contain the information with no interfaces, and there are 100+ developer projects at any given time, CDOT will work with I&T to find more streamlined method for Cityworks to consolidate information. The I&T Cityworks lead staff member retired, so we will work with I&T to establish a new contact and potential timeline to complete this task.
2. CDOT Finance Team will create separate project numbers/ledgers for city improvements that coincide with developer projects located at the same intersection. All costs associated with city transactions will remain separate from developer transactions.
3. Educate project managers on the use of separate project numbers for City improvements for an intersection that is not the responsibility of the developer. The CDOT Finance Team and the division leadership will work together to create these project ledgers in a timely manner and immediately communicate the project name and number information to project managers.

**Recommendation 3B:** CDOT policies and procedures should be updated to require project monitoring that includes the following:

- How the periodic estimate comparisons should be documented
- Where the documentation should be stored
- How often the monitoring should take place
- How the results of the monitoring will be reported to management

**Value Added:** Compliance; Cost Savings; Efficiency; Risk Reduction

**CDOT Response:** CDOT agrees with this recommendation and is committed to creating a Developer Funded Project Procedure Manual that identifies a set of tasks to successfully manage the implementation of these types of projects, align and assign staff to take on the responsibility of these tasks, and outline the reporting necessary to provide relevant information to make sound and timely decisions. In addition, please see the responses below for the four bulleted items.

- **How the periodic estimate comparisons should be documented:** Please see our response for 3A above.
- **Where the documentation should be stored:** CDOT staff stores all developer project documentation on the City's Shared Drive.
- **How often the monitoring should take place:** Projects will be monitored each month. See response in next bullet point.
- **How the results of the monitoring will be reported to management:** Project managers meet monthly with division leadership and the CDOT Finance Team to

review all developer projects. These meetings focus on funding issues, delays or other concerns.

CDOT will include the process and procedures for the above four items in the Developer Funded Project Procedure Manual by June 30, 2023.

#### ***4. CDOT has not established a control to ensure developers' refunds are processed timely.***

Thirteen of 25 projects tested that are closed, or noted as complete by CDOT, did not have a Certificate of Occupancy in the file of record. As stated in the Signal Improvement Agreement, the Certificate of Occupancy is the benchmark for determining the timing of returning unused funds to the developer. Without it, CDOT cannot measure its compliance with the terms of the Signal Improvement Agreement.

For three of the six applicable projects in the audit sample, CDOT has not returned unused funds to the developer. The Signal Improvement Agreement states the City will return any unused funds to the developer within 180 days of the issuance of the Certificate of Occupancy. CDOT does not have a control in place to ensure the Certificate of Occupancy is either obtained or the date of the certificate is recorded.

Developer Projects With Refunds					
Project	Estimate	Refund Amount	Last Expenditure Date	Refund Calculation Date	Refund Paid Date
4292000192	\$95,269	\$19,424	12/31/2017	5/9/2018	5/11/2018
4292000230	\$70,929	\$2,210	10/20/2016	N/A	N/A
4292000241	\$101,247	\$37,872	3/16/2017	N/A	N/A
4292000244	\$238,500	\$17,135	6/30/2017	9/18/2017	9/19/2017
4292000304	\$29,000	\$3,903	11/19/2020	2/24/2021	3/15/2021
4292000344	\$65,000	\$1,229	2/24/2021	N/A	N/A

According to CDOT, staffing resources, the volume of developer projects and lags in receiving invoices from third parties have contributed to the delay in providing refunds to developers.

**Recommendation 4:** CDOT should design a control that would ensure unused funds are returned within a reasonable time frame.

**Value Added:** Compliance; Risk Reduction

**CDOT Response:** CDOT agrees with this recommendation and proposes the following controls to meet the goal of issuing unused funds to developers within a reasonable amount of time:

- Remove references to "Certificate of Occupancy" from signal agreements.

- Align agreement with terms like “Signal Acceptance” or “Final Acceptance.” These terms shall refer to the completion of all phases included in the agreement, unless otherwise specified in such agreement.
- CDOT will amend its agreement language to reflect the return of any unused funds be issued to the developer within 60 days of the issuance of the final billing package.
- Reference “Signal Acceptance” or “Final Acceptance” as day 0 for timeline. “Signal Acceptance” or “Final Acceptance” should consider that all Cityworks Work Orders are closed out and paid and all contractor invoices are paid. CDOT will continue good faith efforts to receive and pay these invoices in a timely manner.
- Per CDOT response for Recommendation 1B, work with I&T to better integrate personnel charges and ERP system.

Actions to be completed by June 30, 2023.

**5. Private Developer Fund project ledgers remain active in Munis after CDOT has determined the project is completed.**

The Capital Asset Policy (FIN 23) states “Departments will review all open capital projects for closing semi-annually, at a minimum, or as requested by Finance. Departments will notify Finance immediately when any project is ready to be closed on the project ledger.”

CDOT determined that nine of the 25 projects tested are complete but as of March 31, 2022, the projects had an “active” status in Munis.

**Completed CDOT Projects with Active Status in Munis  
As of March 31, 2022**

Project	Last Expenditure Date	Capitalization Form Date	Transactions Recorded after Date of Capitalization Form?	Resolution Per Finance
4292000344	2/24/2021	5/17/2021	Y	To be closed FY23
4292000261	5/21/2021	5/17/2021	Y	Closed 4/24/2022
4292000337	9/30/2021	5/17/2021	Y	To be closed FY23
4292000271	6/30/2021	5/17/2021	Y	To be closed FY23
4292000304	11/19/2020	5/14/2021	N	Closed 4/24/2022
4292000292	10/29/2020	5/14/2021	N	Closed 4/24/2022
4292000192	12/31/2017	Undated	N	Closed 4/24/2022
4292000230	10/20/2016	Undated	N	Active
4292000241	3/16/2017	6/25/2020	N	Active



Subsequent to audit fieldwork, four of the projects listed above were closed in Munis. Three will be closed in FY 2023 because immaterial transactions occurred in FY 2022. The remaining two projects are active and waiting for refunds to be processed (see finding #4) before closure can occur. According to Finance personnel, project ledgers cannot be closed if current year transactions exist. As noted earlier, the City has an ERP replacement project – it's possible that a future system will allow projects to be closed during a fiscal year in which transactions were recorded.

Consistent internal guidance does not exist to ensure Private Developer Funds projects are closed once CDOT has determined the work on the project is complete, the project is in service, all costs have been posted to the project ledger or unused funds have been returned to the developer. CDOT utilizes a monthly project tracking sheet to notate each active project's ledger and progress feedback from the project managers. It does not track when a project should be closed which would prompt the responsible staff member to initiate project closure steps. Project ledgers that remain open create an opportunity for additional costs to post erroneously resulting in an incorrect valuation for the capitalization of the project.

**Recommendation 5:** CDOT should update their project monitoring process to include the documented review of open Private Developer Fund projects. The review should identify projects eligible for closure in Munis in accordance with the Capital Asset Procedure Guide.

**Value Added:** Compliance; Cost Savings; Efficiency; Risk Reduction

**CDOT Response:** CDOT agrees with this recommendation and is committed to making the following changes:

1. Notify City Finance when a project is officially "CLOSED". Specific details to establish a procedure will be worked out with City Finance by September 30, 2022.
2. Create and define the different statuses of developer funded projects based on common bodies of work consistent with these types of projects. In addition, provide a date of when the status changed, and include these details for each project on the Developer Agreements Monthly Report. CDOT recently made these changes.
3. Identify the staff member(s) responsible for completing the action items for each project. CDOT recently made this change.
4. CDOT is participating in the evaluation of a new ERP system for the City. Two CDOT staff members are on the General Fund Project Management Team. They are providing feedback on several project management functions, including the ability for departments to close projects at any time during the fiscal year.



## Conclusion

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CDOT can strengthen internal controls to ensure developer contributions are collected, funds are spent as intended and unused funds are returned timely.

## Distribution of Report

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This report is intended for the use of the City Manager's Office, City Council, and CDOT. Following issuance, audit reports are sent to City Council and subsequently posted to the [Internal Audit website](#).

## Scope, Methodology, and Compliance

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### Scope

This audit will focus on signal installation, signal modification and signal inspection projects initiated between 2015 and 2021.

### Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed CDOT and Information and Technology (I&T) staff,
- Reviewed executed Signal Installation Agreements,
- Reviewed CDOT Traffic Signal Cost Estimates,
- Reviewed Private Developer Fund project ledgers,
- Reviewed contractor invoices, and
- Reviewed current CDOT policies and procedures.

To address the accuracy of funds spent on Private Developer Fund projects, auditors assessed the reliability of data in Cityworks. Cityworks is a software local governments and utility agencies use to support the lifecycle of infrastructure projects. Cityworks has 15 different configurations for use across various departments within the City of Charlotte. CDOT uses Cityworks to manage Private Developer Fund projects by scheduling equipment, labor, and materials through the work order module. Determinations made regarding the reliability of Cityworks data is limited to the segment of Cityworks configured for CDOT's use of Private Developer Funds.

Auditors assessed the reliability of Cityworks data by (1) performing tests of system controls and data, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing staff knowledgeable about the data. Auditors determined that Cityworks data was not sufficiently reliable for the purpose of this audit. Details of Cityworks testing are discussed in Finding 1.

Auditors assessed the reliability of PeopleSoft data by (1) performing electronic tests of controls and data, and (2) reviewing existing information about the data and the system that produced them. Auditors determined that this data was sufficiently reliable for the purposes of this audit.

A sample of 25 Private Developer Fund projects were selected for review. These projects were judgmentally selected based on project status in Munis, dollar value and project funding year. Judgmental sampling was used to select projects that would allow auditors to review processes for project funding, accumulation of job cost, returning unused funds and project closing procedures.

### Compliance

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.

Government auditing standards require that we determine which internal controls are material to the audit objective and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of CDOT's processes related to Private Developer Fund projects and the associated internal controls; assessed the internal control risks; and determined the following internal control components were significant:

- Control Environment – The set of standards, processes and structures that provide the basis for carrying out internal controls.
- Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks.
- Monitoring Activities – The activities management establishes and operates to assess the quality of performance over time.

The internal control deficiencies that are significant within the context of the audit objective are discussed in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix A.

## Appendix A

### The Five Components and 17 Principles of Internal Control

#### Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

#### Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

#### Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

#### Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

#### Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.