



## **Corrective Action Plan Follow-up Review: Bond Construction Costs Audit: Crockett Elementary School Renovations**

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### **Final Follow-up Report**

**Audit Plan Code: 21-06**

Our follow-up review found that management implemented a corrective action plan with 10 CAP activities (nine original activities and one new activity) to address the findings and recommendations in the original audit report. The three (3) CAP activities not implemented called for consulting with the Board of Trustees.

The CAP activities implemented were sufficient to address the findings in the original audit report. As such, this report represents the close-out of this CAP.



# Contents

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## Follow-Up Review

Background .....	1
Objective and Scope .....	1
Methodology .....	1
Inherent Limitations .....	2
Summary of Results .....	2
Original Recommendations and Status of CAP Activities .....	2
Exhibit A – Summary of Original Audit Results .....	7

## Abbreviations

CAP	Corrective Action Plan
CO	Change Orders
IIA	Institute of Internal Auditors
GC	General Contractor
EDFC	Executive Director of Facilities and Construction
DFC	Director of Facilities and Construction



# Follow-up Review

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## Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, Performance Standard 2500 - Monitoring Progress, require we "...establish and maintain a system to monitor the disposition of results communicated to management." Internal Audit has established the Corrective Action Plan (CAP) process to meet this requirement. The process includes monitoring and reporting whether management has implemented corrective actions to address audit findings, observations, and recommendations.

Internal Audit issued the Bond Construction Costs Audit: Crockett Elementary School Renovations Report to District management and administration on February 19, 2020. We performed the original audit as part of the Board approved 2019-2020 Internal Audit Plan. The objective and scope of the original audit was to determine whether:

1. Construction costs, including changes in work, paid between May 15, 2018, and November 1, 2019, were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreement.
2. Required documentation was submitted, and timelines were met for Substantial and Final Completion as established in the General Construction Agreement.

In summary the original audit identified instances where management approved and paid change orders that had unallowable costs. We also found that change orders were not approved as required by Board policy, and the General Construction Agreement. In addition, Substantial Completion was executed without some of the required documentation and Final Completion was not executed within the timeframes established in the General Construction Agreement.

The original audit report included 10 findings, one (1) observation, and eight (8) recommendations. For reference, a summary of original audit report findings is provided on **Exhibit A**. District management and administration agreed with our recommendations and developed a corrective action plan (CAP) with twelve (12) activities.

## Objective and Scope

The objective and scope of this follow-up review was to determine whether management implemented the twelve (12) CAP activities or took other actions to address the ten (10) findings, one (1) observation and eight (8) recommendations outlined in the Bond Construction Costs Audit: Crockett Elementary School Renovations Report.

## Methodology

To achieve our follow-up review objective, we:

- Held meetings and communicated with persons responsible for carrying out the CAP activities.
- Reviewed supporting documentation maintained by management as evidence of completion of the CAP activities provided to Internal Audit.



## Inherent Limitations

This was a limited scope follow-up review covering only the actions taken by administration to address the original audit findings and recommendations stated in the Objective and Scope section of this report. No representations of assurance are made to other areas or periods not covered by this follow-up review.

## Summary of Results

CAP Activities	Implemented	Overall CAP Status
13	10	Closed

Our follow-up review found that management implemented a corrective action plan with 10 CAP activities (nine original activities and one new activity) to address the findings and recommendations in the original audit report. The three (3) CAP activities not implemented called for consulting with the Board of Trustees (BOT).

One of the activities was not implemented as management decided to adhere to current policy requirements instead of consulting with the BOT for a possible increase in the change order approval threshold. A second activity was approved by the Superintendent to be closed as not implemented as management felt the BOT feedback on quarterly reports from Facilities has been positive. For the remaining activity not implemented, management created a separate activity to implement procedures that will reduce the risk of splitting change orders in the future instead of consulting with the BOT on whether procedures should be implemented.

The CAP activities implemented were sufficient to address the findings in the original audit report. As such, this report represents the close-out of this CAP.

## Original Recommendations and Status of CAP Activities

The original recommendations, the person(s) responsible, and the status of the CAP activities are outlined below:

We recommend Facilities and Construction staff develop controls in the form of written procedures and training for the construction management processes. The procedures should be (1) reviewed on a regular basis and updated as needed; (2) used for training purposes, and (3) distributed to stakeholders.

1

- 1.1 The written procedures should, at a minimum, define the following:
  - Expectations for District Facilities and Construction staff in understanding and monitoring construction contract requirements,
  - Process for timely identification of salvage items (see Recommendation #8),
  - Process for reviewing and approving change orders (see Recommendation #2),
  - Process for ensuring complete and accurate supporting documentation for salvaging items, change orders, Substantial Completion, and Final Acceptance,
  - Controls to ensure contract requirements are met when executing Substantial Completion, and
  - Controls to ensure contract requirements are met when executing Final Acceptance.

- 1.2 The written procedures should also include the following:

- Identify the individuals (by position) responsible for maintaining, updating, and distributing the procedure,
- Identify who is responsible, accountable, consulted, and/or informed for each task/process,
- Clear objective(s), requirements, and detailed instruction on how to perform the tasks,
- Clearly define when the tasks need to take place,
- Define references to relevant forms, documents, and reference material, and
- Define records retention and document update requirements.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity two (2).

**Person Responsible:** Executive Director for Facilities and Construction

**Status:** Implemented

## 2

- 2.1 We recommend Facilities and Construction staff develop standard operating procedures for the Change Order Process. At a minimum these procedures should outline:
  - Who is authorized to approve a change to the work, the contract sum, or the project time,
  - Who is responsible of reviewing change orders,
  - When and if it is and it is not appropriate to divide requests for changes in work into various change orders,
  - Controls to ensure compliance with change order approval and change order reporting requirements outlined in Board Policy,
  - Timeframe for approving change orders, and
  - Consequences for the GC beginning the work before written approval is granted by Facilities and Construction staff and/or Board.
- 2.2 Facilities and Construction Staff should develop a checklist for staff to use when reviewing change orders. At a minimum, the checklist should include the review of:
  - Accuracy in description of work request and additional days approved in EPISD form versus GC change order request and subcontractor proposal,
  - Subcontractor invoice itemization, and
  - Allowable v. unallowable charges i.e. labor burden, mark-up on bond and insurance fees.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities three (3) and four (4).

**Person Responsible:** Executive Director for Facilities and Construction

**Status:** Implemented

## 3

We recommend Facilities and Construction staff review the labor burden costs with the GC to come to an understanding on how the District will recover the overcharges of \$7,349.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity five (5).

**Person Responsible:** Executive Director for Facilities and Construction

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**Status:** Implemented

4

We recommend Facilities and Construction staff review the markup costs associated with insurance and bond fees with the GC to come to an understanding on how the District will recover the overcharges of \$748.

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**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity six (6).

**Person Responsible:** Executive Director for Facilities and Construction

**Status:** Implemented

5

Administration should develop and implement a process to reconcile change order cost proposals against actual work performed. The reconciliation should include an analysis of scope of work, days used, and materials used. This review should be completed before retainage is paid.

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**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity one (1).

**Person Responsible:** Executive Director for Facilities and Construction

**Status:** Implemented

6

6.1 The Board of Trustees should determine whether the \$50,000 change order approval threshold, as stated in CV(Local), is concurrent with the Board's risk appetite or if it needs to be increased. Internal Audit reviewed policies from other school districts in Texas and although all have varying thresholds, EPISD is one of the most conservative.

6.2 The Board of Trustees should determine whether the information provided in the quarterly reports meets their needs. For example, consider if the quarterly report should include change order date and be presented on a cumulative basis rather than by quarter.

6.3 The Board of Trustees should consider defining when changes in work need to be compiled into one change order. For example, determining whether changes in work identified in the same day/week need to be in one change order v. multiple change orders.

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**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities seven (7), eight (8), and nine (9) as follows:.

**Activity 7:** Consult with the Board of Trustees to determine whether the \$50,000 change order approval threshold as stated in CV (Local) is aligned with the Board's risk appetite or if it needs to be increased. Internal Audit reviewed policies from other school districts in Texas and found that EPISD has one of the most conservative.

**Person Responsible:** Chief Quality Officer

**Status:** Not Implemented - According to administration, recommending changes to the change order approval threshold "would be disruptive at this stage of the bond program." Not implementing this activity would not pose a high risk as the threshold outlined in Board policy is

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conservative compared to other school districts in Texas. As such, the activity was closed as not implemented.

**Activity 8:** Consult with the Board of Trustees to determine if the information provided in the quarterly reports meets their needs.

**Person Responsible:** Chief Quality Officer

**Status:** Not Implemented - According to administration they did not consult with the Board to determine if the information in the quarterly reports from the Facilities Department met their needs as they have received positive feedback from the Board on the two previous quarterly reports. Also, administration determined the Board would inform them if the information presented did not meet their needs. Since the Superintendent agreed with administration's recommendation, the activity was closed as not implemented.

**Activity 9:** Consult with the Board of Trustees to consider defining when changes in work identified in the same day/week need to be in one change order versus multiple change orders.

**Person Responsible:** Chief Quality Officer

**Status:** Not Implemented - In lieu of consulting with the Board on whether administration needs to define when changes in work identified in the same day/week need to be in one change order versus multiple change orders, administration agreed to develop procedures that will reduce the risk of splitting change orders. As such, the original activity was closed as not implemented and a separate activity (9a) was implemented to require this procedure.

**Activity 9a:** Administration will develop procedures that define when changes in work identified in the same day/week need to be in one change order versus multiple change orders.

**Person Responsible:** Chief Quality Officer

**Status:** Implemented

## 7

7.1 We recommend the Superintendent provide a written response to approve or deny administration's request to delegate authority to the EDFC.

7.2 Based on the Superintendent's written response, the individual who has been given the delegation of authority should be the one who signs and approves change orders below the \$50,000 approval threshold as stated in CV(Local).

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**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 10 and 11.

**Person(s) Responsible:** Deputy Superintendent for Finance and Operations, Executive Director for Facilities and Construction, and Chief Quality Officer.

**Status:** Implemented.

## 8

We recommend the Facilities and Construction department implement a process to ensure all items that could be salvaged by the District are identified during the planning or design phase of the construction project. The process should include expectations and timelines for communicating and coordinating with Maintenance and campus administration. This process should be part of the item salvaging process stated in Recommendation #1.

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**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity 12.

**Person Responsible:** Executive Director for Facilities and Construction.

**Status:** Implemented.



## Exhibit A – Summary of Original Audit Results

Finding	Summary Finding
1	Two (2) change orders, that had a cost greater than \$50,000, were split into three (3) and four (4) change orders. Splitting change orders is a red flag that someone may be trying to circumvent change order approval controls. Per CV(Local), "Change orders for an adjustment of cost greater than or equal to \$50,000 shall require Board approval".
2	We identified an instance where the general contractor initiated work prior to having District administration's written approval. In addition, the Executive Director of Facilities and Construction (EDFC) requested Board of Trustees (Board) approval for change order (CO) #1A related to work that had been previously initiated and, in some instances, completed by the general contractor.
3	Management did not obtain Board approval for 30 contract time extension days because they split the days from CO #6 (originally for 36 days) into two change orders. In addition, requests for contract time extensions submitted to the Board: <ul style="list-style-type: none"> <li>• Were not timely because management had a practice of accumulating contract time extension days.</li> <li>• Did not disclose all general condition costs associated with the extensions</li> </ul>
4	The Facilities and Construction Department has insufficient controls to ensure all items that could be salvaged by the District are identified during the planning or design phase of the construction project. Insufficient controls resulted in undue costs of \$6,600 to repurchase (through CO#1) 33 evaporative coolers the District previously owned.
5	The general contractor and some subcontractors inappropriately charged, and the District overpaid \$7,349.24 in labor burden charges.
6	The general contractor inappropriately charged, and the District overpaid \$748.28 in profit markup on fees related to General Liability, Builders Risk, and the Payment and Performance Bond.
7	The subcontractor cost proposals were not itemized in 13 out of 15 change orders (in our sample) as required by the contract. Approving change orders without itemized supporting documentation increases the risk inflated or undue costs may go undetected
8	The description in CO#2 form did not correlate with the backup documentation from the Architect and the general contractor. Information on approved change order form should agree with supporting documentation from GC and the Architect as it reduces the risk of duplicate or unnecessary work being performed and approved.
9	An administrator, who did not have delegation of authority from the Superintendent, approved 29 change orders for the Crockett ES Construction Renovations Project.
10	Not all contract requirements were met at the time substantial completion was executed on August 30, 2019 and the timeline for final completion was not in accordance with the contract. In addition, the EDFC, the GC, and the Architect signed the Certificate of Final Acceptance prior to fully executing final completion of the Crockett ES Renovations Construction project.



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