



Bond Program Management Audit

ASSURANCE • INSIGHT • OBJECTIVITY

Final Report

Audit Plan Code: 19-01.02

Our audit found instances where Jacobs did not comply with the contract in the area of staff qualification reviews. In addition, we noted District management (i) did not obtain sufficient approvals in the area of change order management and (ii) used Jacobs' client survey process instead of creating their own performance review process to evaluate Jacobs' performance.



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Abbreviations

CAP	Corrective Action Plan
CCL	Construction Cost Limitation
CD	Construction Document
CRF	Change Request Form
CRR	Constructability Review Reports
DSFO	Deputy Superintendent Finance and Operations
EPISD	El Paso Independent School District
RFQ	Request for Qualifications



Executive Summary

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We have completed the Bond Program Management Audit. The objective of the audit was to determine whether (i) change order management, (ii) key reports, (iii) program manager's performance reviews, and (iv) staff qualification reviews were performed in accordance with the Bond Program Management Services Request for Qualifications (RFQ) No. 17-001 Agreement/Contract and District policy.

The Executive Summary provides, on a summarized basis, the findings discussed throughout the body of the detailed Internal Audit Report that follows. The Internal Audit Report includes background information, detailed findings, observations, recommendations and management's response.

Summary of Results

1. Board approval was not obtained for five additional services authorizations that led to increases in professional services contract fees over the \$100,000 cap set in Board Policy CV(Local). However, all nine additional services authorizations for professional services we tested were approved by the Executive Director of Planning and Innovative Schools Construction.
2. The District used the "Client Survey Rating Sheets" and client survey process owned and managed by Jacobs to evaluate Jacobs' performance for years 2017 and 2018 instead of creating a District-managed performance review process with District-defined criteria. In addition, "Client Survey Rating Sheets" for the years stated above were not finalized until April 30, 2019.
3. Advance written agreements were not obtained from the District, as required by the contract, before Jacobs made changes in key personnel working on the 2016 Bond Program. However, according to the Deputy Superintendent of Finance and Operations (DSFO), District leadership did have discussions, meetings, and interviews regarding the two changes in Jacobs' lead Program Manager/Program Director position.
4. Jacobs did not report employee background checks had been completed to the Procurement Department before commencing work on the 2016 Bond Program as required by the contract. However, according to Jacobs' Human Resources Department, the results of completed background checks were on file for the 10 employees in our sample. In early February 2019, Jacobs subsequently reported to the Procurement Department that the background checks had been completed.

Management's Corrective Action Plan

District management and leadership submitted a Corrective Action Plan (CAP) outlining the activities to be implemented. All eight (8) recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report. Internal Audit will conduct follow-up reviews to validate CAP activities have been implemented.

Conclusion

Our audit found instances where Jacobs did not comply with the contract in the area of staff qualification reviews. In addition, we noted District management (i) did not obtain sufficient approvals in the area of change order management and (ii) used Jacobs' client survey process instead of creating their own performance review process to evaluate Jacobs' performance.

In the case of Jacobs,

- There is a risk the qualifications of the current program managers might not be what the District needs or expects to manage a bond with the size and complexity of the 2016 Bond Program due to Jacobs not obtaining the District's written approval prior to assigning staff to work on the 2016 bond program as required.

In the case of EPISD,

- Not obtaining approval for additional professional services from the Board of Trustees may have resulted in incurred costs unaligned with Board expectations, and
- There is a risk the performance reviews of Jacobs conducted by the District are not aligned with the District's expectations outlined in the contract due to the District not defining their own performance criteria.

The recommendations made in this report, if implemented, will help strengthen the District's oversight and approval functions related to the management of the 2016 Bond Program.



Internal Audit Report

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Background

On November 8, 2016, El Paso voters approved a \$668.7 million bond program for the modernization and right-sizing of the District. On January 18, 2017, the District entered into a \$15,700,000 contract with Jacobs Project Management Co. (hereinafter referred to as Jacobs/Program Manager) to provide bond program management services. These services have a duration of 47-months, with the start date of January 18, 2017 and a completion date of December 18, 2020. On May 14, 2019, the Board of Trustees approved Addendum No. 4 to the Bond Program Management Services contract to extend it for one year.

Jacobs' Role

As stated in contract section 2.3.2, "In general, the Program Manager shall have primary management responsibility for Projects assigned to it and more specifically shall coordinate all such Project matters with a goal to attain the completion of Projects on time and within budget." Additionally, per Article IV in the contract, "the Program Manager will undertake many of the daily and routine functions that might otherwise be performed by District staff." Jacobs' staff is led by the lead Program Manager (title later changed to Program Director). Three different individuals have served in the Jacobs lead Program Manager/Director position since the beginning of the 2016 Bond Program.

El Paso Independent School District's (EPISD) Role

As stated in the contract, "the District intends to manage the Program utilizing a limited number of internal facilities management staff, primarily intended to perform policy, oversight and approval functions." In order to provide oversight and approval, the District assigned the Executive Director of Planning and Innovative Schools Construction to oversee the 2016 Bond Program. According to his/her job description, this position's major responsibility was to "manage the District's bond program in accordance with public approval."

The Executive Director of Planning and Innovative Schools Construction reported functionally to the Deputy Superintendent Finance and Operations (DSFO) from September 2016 until s/he resigned in November 2018. The DSFO assumed the role of managing the District's 2016 Bond Program after his/her departure. The Executive Director of Planning and Innovative Schools Construction position was filled in June 2019.

The Bond Program Management Audit was approved by the Board of Trustees as part of the 2018-2019 Internal Audit Plan.

Objective and Scope

The objective of the audit was to determine whether (i) change order management, (ii) key reports, (iii) program manager's performance reviews, and (iv) staff qualification reviews were performed in accordance with the Bond Program Management Services RFQ No. 17-001 Agreement/Contract and District policy.

The scope covers the period from January 18, 2017 (date entered into Service Agreement with Jacobs Project Management) to December 14, 2018.

Methodology

To achieve our audit objectives, we:

- Reviewed the contract for Bond Program Management Services RFQ No. 17-001 entered into by the District on January 18, 2017, including the Amended Agreement for Bond Program Management Services entered into on May 3, 2018.
- Researched relevant Texas Education Code, Board policies, and Procurement Department's manual/guidelines.
- Performed a walkthrough with Jacobs to understand the change order process and controls in place in the design phase.
- Conducted meetings with District personnel to understand their review process over key reports, program manager's performance, and staff qualifications.
- Obtained, reviewed, and analyzed documentary evidence provided for the scope period from Jacobs and the District's Finance and Facilities Departments.
- Consulted with District's Legal Counsel and Procurement Departments regarding related policies.

Inherent Limitations

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent.

Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that procedures and internal controls are followed and adhered to in accordance with federal, state, local policies and guidelines. During our audit, we encountered the following limitations:

- The Executive Director of Planning and Innovative Schools Construction (hereinafter referred to as Executive Director) for EPISD, resigned on November 2018, a few weeks before sending our engagement letter on December 21, 2018. His/her major responsibility was to "manage the District's bond program in accordance with public approval." As such, s/he was not available for us to interview or to confirm related information as part of this audit. However, we interviewed and requested information from the Deputy Superintendent Finance and Operations (DSFO) to whom the position reports to.
- There had been two changes in Jacobs' lead Program Manager position prior to the beginning of our audit. The first change occurred at the end of May/early June 2017 and the second change occurred in November 2018. As such, only the current lead Program Manager, now known as Program Director, was available for us to interview or confirm related information as part of this audit.

Acknowledgement

We would like to acknowledge and thank the Deputy Superintendent of Finance and Operations, the Jacobs Program Director, and their staff for their cooperation and assistance during the audit.

Results

Our audit found instances where Jacobs did not comply with the contract in the area of staff qualifications reviews. In addition, District management (i) did not obtain sufficient approvals in the area of change order management and (ii) used Jacobs' client survey process instead of creating their own performance review process to evaluate Jacobs' performance.

Finding 1

Board approval was not obtained for five out of nine additional services authorizations tested that led to increases in professional services contract fees over the \$100,000 cap set in Board Policy CV(Local). However, all nine additional services authorizations for professional services were approved by the Executive Director.

Since the Executive Director left the District prior to the beginning of this engagement, we are unable to determine the reason(s) why s/he did not submit authorizations for professional services for the Board's approval.

There is a risk these additional professional services may not be aligned with Board expectations and budget allocations for each individual project.

According to:

- The General Services Agreement for Architect Services Exhibit B, additional services are required to be authorized and approved in writing by the Executive Director prior to the additional services being rendered.
- Board Policy CV(Local), "The Superintendent or designee shall be authorized to enter into such professional service agreements when the fee is valued at less than \$100,000... Board approval shall be required for fees of \$100,000 or more."

We tested additional services authorizations based on our understanding of Board Policy CV(Local) and the General Services Agreement for Architect Services:

- The Executive Director has authority to approve additional services up to \$99,999 above the fee in the Board-approved General Services Agreement for Architect Services.
- When fees for additional services for each professional services contract reach \$100,000 or more, they should be re-submitted to the Board for approval.

Finding 2

Instead of creating a District-managed performance review process with District-defined criteria, the District used the "Client Survey Rating Sheets" and client survey process owned and managed by Jacobs. Jacobs' survey rating sheets and process were used to evaluate Jacobs' performance for years 2017 and 2018. In addition, "Client Survey Rating Sheets" for the years stated above were not finalized until April 30, 2019.

There is a risk the performance reviews of Jacobs are not fully aligned with (i) the District's definition of basic performance criteria as noted in the contract and (ii) the District's criteria in regards to timeliness and budgets set for each project.

2.1 According to the Jacobs' Program Director, the purpose of their internal client survey process documented using "Client Survey Rating Sheets" is to obtain client feedback to improve their own internal controls and processes.

Additionally, since survey results are for Jacobs' internal purposes, they are not meant to be shared outside of the participants or for public distribution.

2.2 According to the DSFO, the performance criteria used in these client surveys were not defined with input from the District's 2016 Bond Program stakeholders.

2.3 Jacobs' personnel surveyed both the former Executive Director of Planning and Innovative Schools Construction and the DSFO on (i) August 3, 2017 and (ii) March 26, 2018. Surveys composite ratings were 93.33% and 95%. Jacobs' surveyors captured the aforementioned employees' verbal comments/input and generated two Jacobs Client Survey Rating Sheets.

2.3.1 Both "Client Survey Rating Sheets" were not finalized and/or submitted by Jacobs to the DSFO until April 30, 2019. They were approved in writing by the DSFO on the same date.

2.3.2 The "Client Survey Rating Sheets" do not have a signature field where the surveyors can sign and acknowledge the information captured in the survey.

2.3.3 No evidence was submitted on whether an action plan to address deficiencies and/or make improvements was generated as a result of these surveys. According to best practices, action plans are normally part of an effective performance review process.

2.3.4 Ratings in the surveys were not supported by facts, figures, or other measurable criteria.

According to the contract:

- Section 2.11.1: "The Program Manager will have one or more reviews annually of the Program Manager's performance by the District with the intent of recognizing exceptional performance or correcting deficient performance."
- Section 2.11.2: "The District may, at its discretion, conduct performance reviews at more frequent intervals."
- Section 2.11.3: "Performance reviews for the Program Manager will address: basic performance criteria that includes the standard of care described in Article II as well as delivery of Projects as scheduled and within approved budgets; Program Manager's Attachment A personnel and subconsultants performance; and effectiveness of cost savings measures and cost analyses provided by the Program Manager."

Finding 3

Advance written agreements were not obtained from the District before Jacobs made changes in key personnel working on the 2016 Bond Program as required by the contract. However, according to the Deputy Superintendent of Finance and Operations (DSFO), District leadership did have discussions, meetings, and interviews regarding the two changes in Jacobs' lead Program Manager/Program Director position.

There is a risk that Jacobs personnel working on the 2016 Bond Program may not have the combination of work experience/education that aligns with the District's needs and expectations to manage a bond with the size and complexity of the 2016 Bond Program.

- According to the contract Section 3.1.2, "The Program Manager's personnel, and the Program Manager's associated subconsultants, to be employed in the Project, are identified in Attachment A. The personnel

and entities identified as the Attachment A and subconsultants shown in Attachment A shall be approved in advance by the District and shall not be changed except with the District's prior written agreement, which shall not be unreasonably withheld."

3.1 According to the DSFO, s/he was involved in meeting(s) and interview(s) of Jacobs' lead Program Managers with other District leadership. The current Program Director (previously known as Program Manager) corroborated this information in regard to his/her case.

3.2 For Jacobs' personnel other than Program Management Leadership, we compared the list of personnel included in Attachment A of the contract to a list of staff currently "On the Project" submitted by Jacobs. We noted changes in the following personnel positions: (i) Program Manager, (ii) Project Engineer, (iii) Construction Manager, (iv) Project Cost Engineer, and (v) Administrative Assistant. No evidence was provided to document the District provided or Jacobs received the approval to make changes in personnel.

Finding 4

Jacobs did not report employee background checks had been completed to the Procurement Department before commencing work on the 2016 Bond Program as required by the contract. However, according to Jacobs' Human Resources Department, the results of completed background checks were on file for the 10 employees in our sample. In early February 2019, Jacobs subsequently reported to the Procurement Department that the background checks had been completed.

According to the contract Section 14.3, "During the term of this Agreement, the Program Manager's employees have the potential to have continuing duties and direct contact with students. Subsequently, the Program Manager is responsible for complying with Texas Education Code § 22.0834. Program Manager may not commence work until all employees have been approved by the Purchasing Department."

Observations

While conducting this audit, we identified the following observations that do not violate local, state, or federal guidelines, and as such, were not included as findings. However, we felt these observations were worthy of reporting to you as the data owner/expert.

Observation 1

Jacobs implemented a change management process to document changes in projects' scope, schedule, and/or budget during the design phase. However, the process does not ensure changes that may significantly impact the construction cost limitation, are previously reviewed and approved by all appropriate stakeholders (e.g. the Superintendent and Board of Trustees).

In addition, we did not find a Board Policy or District procedures that outline the approvals needed, from the Superintendent or Board, for significant scope and budget changes that occur during the design phase and which may significantly impact the contingency or total project budget.

Without consistent review/approval, there is a risk project changes will not be aligned with stakeholders' scope, schedule, and budget expectations for the 2016 Bond Program.

- 1.1 The District's agreement with Jacobs requires design or programmatic changes be approved in writing by the "District" (Section 4.7.9), but it does not define who in the District is authorized to approve said changes.
- 1.2 The change management process includes the use of a Change Request Form (CRF). The CRF requires a signature from "EPISD" (name and position not specified) to document the District's "...understanding of the direct and indirect impact of the change to the project budget and schedule."
- 1.3 We tested the 10 CRFs listed below with estimated construction cost limitation (CCL) budget impact. Our observations are listed in 1.4 to 1.5.

Sample #	Project #	Estimated CCL Budget Increase
1	17.626	\$ 1,534,660.00
2	17.623	\$ 315,009.50
3	17.623	\$ 921,450.00
4	17.623	\$ 35,000.00
5	17.613	\$ 878,332.00
6	17.624	\$ 500,000.00
7	17.614	\$ 1,938,054.00
8	17.615	\$ 1,750,942.00
9	17.616	\$ 297,600.00
10	17.619	\$14,333,839.00

- 1.4 Nine of the 10 CRFs in our sample were approved by the Executive Director and one by the DSFO. In general, CRFs do not require the Superintendent approve the requests.
- 1.5 It appears only one (sample #10) of the CRFs, listed above, was presented to the Board for prior approval.

Observation 2

Meeting minutes prepared by Jacobs for six Construction Team meetings, where critical activities were discussed for action, were not finalized as they were labeled "draft." These meetings took place in June 2018. According to Jacobs, they considered these final since they "did not receive comments back" from the meeting participants.

The risk of not having finalized meeting minutes may lead the Construction Team to take actions based on incomplete and/or inaccurate information.

Observation 3

We noted there is no requirement that District management's review be documented for Jacobs' reports that are deemed important/critical for decision-making purposes. Although we found no documentary evidence of a review during our scope period for the sampled reports, the DSFO stated s/he reviews three reports known as: (i) Value Engineering Analysis Report, (ii) Project Cost Control Report, and (iii) Incident Notices.

Without evidence of District management's review, there is a risk parties cannot be held accountable for expectations or information listed in such reports.

Observation 4

According to the contract, Constructability Review Reports (CRR) are to be prepared by Jacobs for each construction project prior to the issuance of the construction contract documents. Although the contract does not specify when CRRs are to be submitted, according to Jacobs, these reports are submitted for District's approval after they are at the Construction Document (CD) 100%, which is the last part of the design phase. The purpose of the CRRs is to "outline items that in the Program Manager's opinion may cause problems in the way the Project is to be constructed and which will review the overall coordination of specifications and drawings, details, and discrepancies that if left unattended may result in Change Orders or claims once the Project is bid or procured."

We noted two issues with the CRR as noted below:

4.1 A CRR at the CD 100% phase in September 2018 was not submitted for District's approval until May 2019. In addition, this CRR did not outline the Program Manager's opinion as required in the contract.

4.2 During our scope period, Jacobs completed 11 CRRs (between July 24, 2018 and November 19, 2018), but did not formally submit them to the DSFO for approval until May and June 2019 as we were conducting our audit.

There is a risk the District may run into issues that affect the delivery and budget of projects during the construction phase. These issues could be identified and resolved prior to the construction phase if CRR contain a clear outline and are presented timely to District management for review and action.

Recommendations and Management Response

A Corrective Action Plan (CAP) outlining the activities to be implemented and signed by District management and leadership was submitted to Internal Audit. All eight (8) recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report.

1

We recommend District management work with the Board Policy Committee to ensure Board Policy CV(Local) clearly outlines the Board's expectations for approving changes to professional services' fees and/or the scope of work.

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

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: January 31, 2020

2

Due to factors such as (i) bond size, (ii) complexity of the bond, and (iii) the District's core beliefs of transparency and accountability, we are making the following recommendations related to the District's performance review process of Jacobs.

2.1 Develop and implement a comprehensive formal vendor performance review process in consultation with key functional departments (i.e. Procurement and Facilities and Construction) and with key 2016 Bond Program stakeholders to be in effect for the length of the 2016 Bond Program contract. We recommend the review process:

2.1.1 Identify the key 2016 Bond Program stakeholders who should be part of the performance review process and define their roles and responsibilities.

- 2.1.2 Define the basic performance criteria mentioned in the contract.
 - 2.1.3 Include S.M.A.R.T. (specific, measured, attainable, relevant, timely) criteria based on facts, figures, or other measurable criteria, which is less subjective and arbitrary in nature.
 - 2.1.4 Develop action plan(s) as part of each performance review conducted. The District could use these plans to document and communicate to Jacobs areas identified as non-compliant and/or needing improvement.
 - 2.1.5 Follow the District's vendor performance reporting process outlined in the EPISD Procurement Services Manual in the event of continuous non-compliance.
- 2.2 Consider more frequent performance reviews as permitted by the contract. These reviews could be used as "progress reports" of Jacobs with the intent to recognize (i) exceptional performance, (ii) correct deficient performance, and/or (iii) address non-compliant areas identified in action plans on a more timely basis.
- 2.3 Develop and implement a process to share, on a timely basis, the results of performance reviews with appropriate key 2016 Bond Program stakeholders.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activities two (2) through nine (9).

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: January 31, 2020

3

- 3.1 Jacobs should develop a notification process to make the District aware of changes in personnel and subconsultants as early as possible to ensure continuity and avoid disruptions to their management responsibilities.
- 3.2 To ensure the best fit for the District, District management should consider developing a baseline of qualifications for Jacobs to use in their process of assigning key management positions and before assigning them to work on the 2016 Bond Program. The District could then review Jacobs screened list of proposed personnel changes before issuing their written approval.

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

Persons Responsible: Deputy Superintendent for Finance and Operations, Executive Director for Facilities and Construction, and Deputy Program Manager (Jacobs)

Implementation Date: November 30, 2019

4

- We recommend the criminal background check requirements, outlined in the agreement, be incorporated into the notification process in recommendation 3.1.

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

Persons Responsible: Deputy Superintendent for Finance and Operations, Executive Director for Facilities and Construction, and Deputy Program Manager (Jacobs)

Implementation Date: November 30, 2019

5

We recommend District management develop procedures to ensure scope and budget changes (i) that occur during the design or construction phase and (ii) which significantly impact a project's construction cost limitation or total project budget be reviewed and approved, on a timely basis, by appropriate stakeholders (e.g. DSFO, Superintendent, Board of Trustees).

We recommend District management determine:

- Approval thresholds (amounts or percentages).
- Approval authority. Determine who, within the District, has the authority to review and approve Change Request Forms (e.g. DSFO, Superintendent, Board of Trustees, etc.) at each threshold.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activities 13 and 14.

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: November 30, 2019

6

We recommend Jacobs ensure meeting minutes are finalized on a timely basis after each Construction Team Meeting where critical activities are discussed. Finalizing meeting minutes includes documenting the activities discussed and providing the official record of actions taken during the meeting.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 15.

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: September 30, 2019

7

We recommend District management establish and implement a consistent review and approval process for reports, provided by Jacobs, identified as important/critical for decision-making purposes for the 2016 Bond Program. District management involved in the review of such reports should ensure review/approval is documented (e.g. signed off/dated, email approval).

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 16.

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: September 30, 2019

8

We recommend Jacobs' Constructability Review Reports (CRR) provide a clear statement of their opinion for District's management review and action. The statement should clearly identify issues/items that may cause problems, change orders, or claims before the project is bid or procured.

For previously submitted CRRs, which do not include a clear statement of Jacobs' opinion, we recommend the District determine if there is value in obtaining such opinion at this point in time. If determined to add value, we recommend Jacobs resubmit the revised CRRs for District management's review and approval for each project.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activities 17 and 18.

Persons Responsible: Deputy Superintendent for Finance and Operations and Executive Director for Facilities and Construction

Implementation Date: September 30, 2019



EL PASO INDEPENDENT SCHOOL DISTRICT

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