



Bond Construction Costs Audit: Change Orders

ASSURANCE • INSIGHT • OBJECTIVITY

Final Report

Audit Plan Code: 20-01.02

Overall, change orders for the 2016 Bond construction projects managed by Jacobs were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreements. We did not identify systemic issues but rather isolated instances of non-compliance.



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Abbreviations

CAP	Corrective Action Plan
CEA	Contingency Expenditure Authorizations
CO	Change Order
EPISD	El Paso Independent School District
GC	General Contractor
SP	Subcontractor Proposals



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 to right-size the District. Through the Voter Compact, the Board of Trustees pledged to the voters that bond monies would be used for “the construction, renovation, demolition, and equipment of school buildings and school facilities in the District, including technology improvements, safety and security improvements, school reconstruction, renovations to existing facilities and athletic facilities improvements; the purchase of necessary sites for school buildings; and the purchase of new school buses (collectively the “2016 bond projects”).”

On January 18, 2017, the District entered into a \$15,700,000 contract with Jacobs Project Management Co. (hereinafter referred as Jacobs/Program Manager) to provide bond program management services for the design, preconstruction, construction, and post-construction phases for 16 construction projects. 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.

As stated in the contract, “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, “the Program Manager will undertake many of the daily and routine functions that might otherwise be performed by District staff.” Jacobs’ team of project managers is led by the Program Director and Deputy Program Director. Currently, there are a total of six project managers assigned to oversee the 16 construction projects. Each project manager is in charge of overseeing one to three construction projects.

The Bond Construction Costs: Change Orders was approved by the Board of Trustees as part of the 2019-2020 Internal Audit Plan.

Objective and Scope

The objective of the audit was to determine whether changes in work for 2016 Bond projects were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreements.

The scope of the audit included construction projects managed by Jacobs that were more than 40% completed.

Methodology

To achieve our audit objectives, we:

- Reviewed the General Construction Agreement entered into by the District for EPISD Projects: #17.612, 17.614, 17.622, 17.623, 17.625, and 17.626.
- Researched relevant Board policies and the Facility and Construction’s manual/guidelines.

- Used internal control questionnaires and performed walkthroughs to obtain an understanding of the change order process and controls in place.
- Conducted a meeting and/or emailed with Jacobs' Program Director and Deputy Program Director and project managers.
- Consulted with Legal in regards to general conditions and change orders.
- Obtained, reviewed, and analyzed documentary evidence provided for the scope period from Jacobs, General Contractors and subcontractors.
- Used RSMeans to test materials costs.

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 the federal, state, local policies, and guidelines.

Acknowledgement

We would like to acknowledge and thank the Chief Quality Officer, Executive Director of Facilities and Construction as well as the Jacobs' Program Director, Deputy Program Director and their staff for their cooperation and assistance during the audit.

Prior to the beginning of this audit, Jacobs' staff established a process to self-audit construction projects on a bi-annual basis. The purpose of the self-audits is to "determine if change orders were executed in compliance with EPISD's policies, EPISD/Jacobs approved change management procedures and construction contracts." By doing so, they aimed to identify and correct instances of non-compliance, if any. They completed their first self-audit on February 28, 2020, which covered the period from the beginning of construction to March 01, 2020, for 14 projects and presented the results to administration. The process also includes developing a corrective action plan to address findings identified.

Management's Corrective Action Plan

District management and leadership submitted a Corrective Action Plan (CAP) outlining the activities to be implemented. The two 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 and Results

Overall, change orders for the 2016 Bond construction projects managed by Jacobs were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreements.

We did not identify systemic issues in the change order process. Rather, we found isolated instances of non-compliance such as (i) an instance of supervision fees in a change order and (ii) subcontractor proposals not itemized in detail to satisfy contract requirements.

Finding 1

Supervision fees of \$34,719 within general conditions for an approved change order were not in alignment with the general construction agreement. Article XII Changes in the Work section 12.5.3.2 of the general construction agreement states "Such labor costs shall include labor required for performance of the changed Work only, and may include working foremen; all other supervisors shall be excluded and shall be considered as a part of field supervision that is covered by the allowable markup percentages stated in 12.1.7". According to District administration and Jacobs staff, change orders that include supervision fees are not a common occurrence, however, in this case, supervision fees were needed.

- Per Jacobs, the general contractor's (GC) request for an additional assistant superintendent was due to the magnitude of the change order and "was reasonable especially when the GC offered an amount of savings that exceeded the supervision costs." Jacobs recommended for the change order to be approved, and it was presented to and approved by EPISD administration and the Board of Trustees.
- Per administration, "EPISD administration knew of and approved the supervision fees included in the change order as the magnitude of the change was such that additional supervisory staff would be required to manage the work of the change order."
- At the time the change order was presented to the Board of Trustees for approval, it included these additional supervision fees. However, the Board was not informed that these fees were not in alignment with the contract.

Compliance with Article XII Changes in the Work of the General Construction Agreement is necessary to reduce the risk of unnecessary or unallowed fees being paid out to the general contractor.

Finding 2

Subcontractor proposals (SP) in five (5) out of 10 approved change orders (CO) and contingency expenditure authorizations (CEA) were not itemized in detail to satisfy the general construction agreement requirements. Per section 12.8.2 of the contract, "the Contractor shall provide a detailed labor and material breakdown of the proposed pricing for the Work specified in the Proposal Request."

Of the five (5) CO/CEA, one (1) had two (2) instances where a subcontractor did not itemize their cost proposal in detail. The remaining four (4) CO/CEA had one instance each. Approving change orders without being itemized in detail to satisfy the general construction agreement requirements, increases the risk inflated or undue costs may go undetected. See Table 1 below for details.

Table 1: Subcontractor Proposals (SP) not Itemized

#	Contract	Description	Total amount paid for CO/CEA	Total # of SP in CO	# of SP not itemized in detail	Amount of SP not itemized in detail
1	17.625	CEA #02 Elevator Pricing	\$ 31,114	7	1	\$ 3,451 *
2	17.625	CO #1 Tennis Courts Post Tension Concrete	\$ 257,851	4	2	\$ 257,851
3	17.623	CEA #02 Sidewalk Replacement	\$ 68,476	1	1	\$ 68,476
4	17.626	CEA #01 Increase Retention Well Capacity	\$ 97,494	1	1	\$ 27,010
5	17.626	CEA #06 Temporary Power for IT / Ladder Racks	\$ 42,539	1	1	\$ 1,568

*Documentation provided did not include labor itemization in detail.

Internal Audit requested and was subsequently provided additional documentation that appropriately itemized costs for the subcontractor proposals in question with the exception of one. The one exception did not have labor itemized in detail.

With the exception of the cost proposal that was not itemized in detail, subcontractor cost proposals reviewed were found to be reasonable per construction cost estimate industry standards.

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. The two (2) 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 for the Facilities and Construction Department develop procedures to outline the steps/process administration should follow to obtain and document approval for change orders that include costs that may not align with the general construction agreement requirements.

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

Person(s) Responsible: Executive Director of Facilities and Construction

Implementation Date: 08/31/2020

2

We recommend Jacobs (i) continue enforcing a thorough review of subcontractor proposals for proper itemization prior to approving a change order and (ii) incorporate checking for detailed itemization into their bi-annual audit in order to identify and correct any instances where proposals were not itemized properly.

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

Person(s) Responsible: Executive Director of Facilities and Construction

Implementation Date: 08/31/2020



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