



Bond Construction Costs Audit: Crockett Elementary School Renovations

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Final Report

Audit Plan Code: 20-01.01

We 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.



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Abbreviations

Board	Board of Trustees
CAP	Corrective Action Plan
CO	Change Order
CSP	Competitive Sealed Proposal
EDFC	Executive Director of Facilities and Construction
EPISD	El Paso Independent School District
GC	General Contractor
GCD	General Condition Days
IT	Information Technology
PM	Project Manager



Executive Summary

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We have completed the Bond Construction Costs Audit: Crockett Elementary School Renovations. The objectives and scope of the audit were to determine whether:

- 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 and
- Required documentation was submitted, and timelines were met for Substantial and Final Completion as established in the General Construction Agreement.

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, an observation, and recommendations.

Summary of Results

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:
 - Were not timely because management had a practice of accumulating contract time extension days.
 - Did not disclose all general condition costs associated with the extensions.
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.

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.

Management provided a written response that states:

"EPISD continues to be committed to delivering the 2016 Bond Projects, on time and on budget. We will not settle for 99.99% accuracy; we aim for 100% accuracy. The audit findings of \$7,349, and \$748, for labor burden charges and profit markup, respectively, are less than .1% of the overall contract value of \$8,253,236. However, we do not take these recommendations lightly and will use this opportunity to strengthen our internal controls. We remain committed to ensuring full transparency which includes reporting change orders on a quarterly basis to the public and the board."

Conclusion

We 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.

We recommend Facilities and Construction staff implement controls in the form of written procedures and training for the construction management and change order 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.

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 to right-size the District. Through the Voter Compact, the Board of Trustees pledged to the voters of the District that the 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")."

The EPISD Facilities and Construction Department is in charge of overseeing the Crockett Elementary School Renovations, Bus Replacement Program, Athletics Improvements, Outdoors Learning, and Technology & Security Improvements & Equipment (Laptops). The District entered into a contract with Jacobs Project Management Co. (Jacobs) for program management services for the design, preconstruction, construction, and post-construction phases for the remaining 16 construction projects.

The Executive Director of Planning and Innovative Schools Construction was in charge of overseeing the 2016 Bond Program projects until his/her departure in November 9, 2018. Among the duties he/she had, under the Superintendent's directive, was the authority to approve individual change orders for an adjustment of costs less than \$50,000. According to management, "At the time of the execution of the contract on May 15, 2018, the former Executive Director of Planning and Innovative Schools Construction granted the then Director of Facilities and Construction (DFC) verbal authority to sign off on all change orders for this project. The division of work was that the DFC would handle all non-Jacobs managed projects and the former Executive Director of Planning and Innovative Schools Construction would handle all of the Jacobs managed projects."

The Executive Director of Planning and Innovative Schools Construction position was filled in June 2019 under the new name of Executive Director of Facilities and Construction (EDFC) by the former DFC.

The Board of Trustees approved the Bond Construction Costs Audit: Crockett Elementary School Renovations as part of the 2019-2020 Internal Audit Plan.

Objective and Scope

The objectives and scope of the audit were to determine whether:

- 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.
- Required documentation was submitted, and timelines were met for Substantial and Final Completion as established in the General Construction Agreement.

Methodology

To achieve our audit objectives, we:

- Reviewed the General Construction Agreement entered into by the District on May 15, 2018 for CSP #18-052, EPISD Project #17.629.
- 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, closing process and controls in place.
- Conducted meetings with and/or interviewed the Executive Director of Facilities and Construction, Construction Project Manager for this project, Campus Principal and General Contractor.
- Consulted with the Building Permits & Inspections Assistant Director at the City of El Paso regarding building inspections.
- Obtained, reviewed, and analyzed documentary evidence provided for the scope period from the District's Facilities and Construction Department (through Owners Insite) and the General Contractor.

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 Deputy Superintendent of Finance and Operations, the Executive Director of Facilities and Construction, and their staff for their cooperation and assistance during the audit.

Results

We 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.

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. The Executive Director of Facilities and Construction (EDFC) approved the seven (7) change orders. The Architect reviewed and signed off on the seven (7) change orders. Per CV(Local), "Change orders for an adjustment of cost greater than or equal to \$50,000 shall require Board approval".

1.1 Change orders 11, 12, and 13 were all for the same IT revisions to different floors in the same building and share the same subcontractor proposal dated October 4, 2018. The total amount of \$106,271 includes \$87,196 from subcontractor proposals plus general contractor (GC) additional costs. The total amount in the subcontractor proposal was divided among the three (3) change orders and adjusted by using handwritten notes. Refer to Table 1 for amounts of the individual change orders. According to the EDFC, change orders (CO) #11-13 were "intended to perform the work as independent components but the COs were approved around the same time to lock in prices as there was a concern that waiting would potentially result in a price increase."

Table 1: Amounts for Change Orders 11, 12, and 13

Change Order	Amount per Change Order
11	39,940.51
12	26,390.44
13	39,940.51
Total	\$ 106,271.46

1.2 Change orders 17, 18, 19, and 20 were all for re-pavement of the parking lot and share the same subcontractor proposal dated November 5, 2018. The total amount of \$117,386 includes \$112,297 from the subcontractor proposal plus GC additional costs. The total amount in the subcontractor proposal was divided among the four (4) change orders and adjusted by using handwritten notes. Refer to Table 2 for the amounts of the individual change orders. According to the EDFC CO #17-20 "were divided into the phases they were to be built in to [sic] minimize impact to the project".

Table 2: Amounts for Change Orders 17, 18, 19, and 20

Change Order	Amount per Change Order
17	30,221.43
18	38,462.38
19	24,351.31
20	24,351.31
Total	\$ 117,386.43

Circumventing change order approval controls:

- Create a risk unnecessary changes or costs may go undetected,
- Impair the Board's ability to fully understand the scope and status of the project, and
- Impair the Board's ability to communicate to constituents the scope and status of the project.

Finding 2

We identified an instance where the general contractor (GC) initiated work prior to having District administration's written approval. In addition, the EDFC requested Board approval for CO #1A related to work that had been previously initiated and, in some instances, completed by the GC.

2.1 It appears the EDFC approved CO #25 after the work was initiated by the GC. The Architect reviewed and signed off on CO #25 on January 21, 2019. The EDFC approved CO #25 on February 27, 2019. However, pay app #9 submitted by the GC for the period ending February 28, 2019, indicated that the work for CO #25 was 100 percent completed. Change order #25 included "Additional mechanical/plumbing required for unforeseen structural conditions in running new chill water lines and IT cable tray..." and requested 21 additional construction days. The costs associated with CO #25 totaled \$49,617.69.

2.2 The EDFC requested Board approval on March 12, 2019 for CO #1A related to work that had been previously initiated and, in some instances, completed by the GC. This work was paid through the eight (8) change orders listed below. Per pay app #9, as of February 28, 2019, the GC had completed an average of 79 percent of the work. Refer to Table 3 for details.

Table 3: Change Order 1A

CO #	Date approved by EDFC	# of days approved by the EDFC	# of days paid	Total amount charged for GCD* @ \$970/day	Total amount incurred for GCD* as of 2/28/2019 Pay App #9	% of work executed as of 2/28/19 Pay App #9
6	10/18/2018	6	4	3,880.00	3,880.00	100%
11	10/25/2018	4	4	3,880.00		0%
12	10/26/2018	2	4	3,880.00	2,244.97	57.86%
13	10/29/2018	4	4	3,880.00	3,210.70	82.75%
20	11/30/2018	2	0			100%
21	12/3/2018	3	3	2,910.00	2,910.00	100%
24	1/5/2019	23	12	11,640.00	10,444.57	89.73%
25	2/27/2019	21	7	6,790.00	6,790.00	100%
Total		65	38	\$36,860.00	\$29,480.24	79%

*General Condition Days

Per the General Construction Agreement (herein after referred to as the contract) Section 12.1.1, "All such changes in the Work shall be authorized by Change Order...issued before commencement of any of the changes in the work and shall be performed under the applicable conditions of the Contract Documents."

After-the-fact change order approvals increase the risk of the District paying for unnecessary costs, impairs the Board and the public from fully understanding the status of project, and is not in accordance with the contract.

Finding 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:

- Were not timely because management had a practice of accumulating contract time extension days.
- Did not disclose all general condition costs associated with the extensions.

Board Policy CV(Local) requires, "Changes to the construction time exceeding 30 days in the aggregate or individually shall be presented to the Board for approval." Refer to Table 4 for a summary of the change orders involving contract time extensions.

- 3.1 The EDFC approved 36 additional construction days through CO #6 on October 18, 2018. The 36 days were split between CO #6 (30 days) and #1A (6 days). Only 6 days were submitted to the Board for approval through CO #1A on March 12, 2019. Splitting additional construction days is a red flag that someone may be trying to circumvent change order approval controls.
 - 3.1.1 Management stated they did not submit 30 (of the 36) days in CO #6 to the Board for approval because Board Policy CV(Local) gives administration the authority to approve up to 30 days.
 - 3.1.2 However, Board Policy CV(Local) requires individual change orders that extend the construction time more than 30 days be submitted to the Board for approval.
- 3.2 District management approved change orders for contract time extensions, between October 12, 2018 and May 1, 2019, totaling 137 days. District management submitted two contract time extensions totaling 107 days to the Board for approval on March 12, 2019 and April 30, 2019 (CO #1A and CO #30, respectively).
 - 3.2.1 The 30-day individual and aggregate Board approval thresholds were reached with CO#6 dated October 18, 2018. As such, all change orders requesting additional days subsequent to and including CO#6 should have been presented to the Board for approval.
 - 3.2.2 When CO #1A was presented to the Board for approval, the description provided stated: "The Contractor has requested an additional 65 calendar days of construction time due to unforeseen conditions that have occurred during the construction process."
 - 3.2.3 District management did not disclose that the days being requested under CO #1A were related to eight (8) change orders approved by the EDFC between October 18, 2018 and February 27, 2019.
 - 3.2.4 According to District management, "The practice of accumulating days before we go to the board will [no] longer be allowed...this was done because it usually is a negotiation between the contractor, Architect and the PM. As you can see by the requests from the contractor, they will usually request more days than the District may be willing to give."
- 3.3 In seven (7) instances the District paid the GC for general condition days charges that were not approved in the change order form by District management. Based on a final reconciliation it appears the District paid general condition charges for 131 of the 137 days the contract time was extended.
- 3.4 The two contract time extensions submitted to the Board for approval did not disclose all general condition charges associated with the extensions.
 - 3.4.1 In CO #1A, management did not report any costs associated with the time extension.
 - 3.4.2 In CO #30, the change order form showed "no cost" for the 42-day time extension. However, the GC charged and the District paid \$21,340 in general condition costs associated with this time extension.

3.4.3 Ultimately, the GC was paid a total of \$125,766 in general condition costs associated with 131 time extension days.

Table 4: Additional Days Approved by EDFC v. Approved by the Board

CO #	Date CO was Signed by management	Additional days paid to GC	Time extensions approved by the EDFC	Time extensions approved by the Board
2	10/12/18	12		
6	10/18/18	34	36**	
11	10/25/18	4		
12	10/26/18	4		
13	10/29/18	4		
15	11/16/18	2		
20	11/30/18	0		
21	12/3/18	3		
24	1/15/19	12		
25	2/27/19	7		
1A	3/13/19	*	65**	65**
27	3/15/19	9		
28	3/14/19	8		
29	4/9/19	2		
30	5/1/19	22	42	42
31	8/23/19	8***		
Total Days		131	137	107

* The Project manager indicated that CO#1A includes the days associated with CO# 6 11 12 13 20 21 24 25

** The EDFC approved 36 additional construction days through CO#6. However, the days were split between two change orders when presented to the Board. CO#6 reported 30 days and CO#1A included the remaining six days.

*** The Board approved CO#31 which included the cost for eight general condition days. However, contract time remained unchanged.

Not reporting additional construction days and/or related costs in a timely manner or at all impairs the Board and the public from fully understanding the status, timeline and costs associated with the project.

Finding 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. During the Board Facilities Committee meeting on August 29, 2019, management did not disclose that the District previously owned the evaporative coolers and were those removed from Crockett when asked about CO#1.

The Facilities and Construction staff reached out to the Maintenance Department to inquire if there was interest in salvaging the existing evaporative coolers for future use by the district. However, this was done on the same day the contract was signed.

- Per section 024119-Selective Demolition of the contract: "Items which will be salvaged and turned over to the Owner or reinstalled in the project...are shown or noted in the drawings" and "Demolished material shall be considered to be property of the Contractor, except for items noted in the drawings, and shall be completely removed from the job site."
- Per section 022200-Site Demolition of the contract: "Prior to demolition work Owner will remove any items that are to be salvaged to the Owner."

The drawings identified assets that were to be removed and salvaged by EPISD, however, the evaporative coolers were not listed to be removed and turned over to the owner.

Finding 5

The general contractor (GC) and some subcontractors inappropriately charged, and the District overpaid \$7,349.24 in labor burden charges. We identified overcharges in labor burden in six (6) out of 15 change orders in our sample. The change orders were reviewed by the PM and approved by the EDFC. The Architect reviewed and signed off on the change orders. Per section 12.5.3.2 of the contract "Proposed wages paid for skilled, semi-skilled or unskilled labor performing the additional work, which shall be itemized completely to include hourly rates by trade, hours and total cost including those operating equipment, if required, plus an amount not to exceed twenty percent (20%) of the hourly rates for labor burden items..." Table 5 provides the calculation of the inappropriate charges/overpayments.

5.1 Some subcontractors charged a labor burden percentage that exceeded the 20 percent limit as set forth by the contract.

5.2 In addition, the GC and the subcontractor charged a profit markup of four (4) and 10 percent respectively on the labor burden overcharges.

Table 5: Labor Burden Charges

Change order #	Labor Burden Charged	Labor burden calculated at 20%	Over charge	Sub contractor markup fee 10% on difference	GC markup fee 4% on difference	Total
11,12,13	7,450.40	4,574.11	2,876.29	287.629	115.05	3,278.97
2	3,478.61	2,319.07	1,159.54	115.95	46.38	1,321.87
21	719.71	479.81	239.9	23.99	9.6	273.49
30	9,329.94	7,161.16	2,168.78	219.38	86.75	2,474.91
						\$7,349.24

Finding 6

The general contractor (GC) inappropriately charged, and the District overpaid \$748.28 in profit markup on fees related to General Liability, Builders Risk, and Payment and Performance Bond. Per section 12.1.7 of the contract, "Change Order cost adjustments due to increases or decreases in bond or insurance costs (if applicable) shall not be subject to any mark-up percentage fee." The Architect and the PM reviewed and the EDFC approved the 14 change orders in our sample (summarized in Table 6) that included the unallowable charges.

Table 6: Profit Mark-up on Bond and Insurance Costs

#	Change Order #	Amount overcharged
1	2	62.75
2	6	41.96
3	11	50.34
4	12	33.26
5	13	50.34
6	17	39.52
7	18	48.47
8	19	30.69
9	20	30.69
10	21	32.22
11	22	31.48
12	23	3.06

Table 6: Profit Mark-up on Bond and Insurance Costs (Continued)

#	Change Order #	Amount overcharged
13	26	40.70
14	30	252.81
	Tota	\$ 748.29

Finding 7

The subcontractor cost proposals were not itemized in 13 out of 15 change orders (in our sample) as required by the contract. 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”.

It appears that change orders were not being thoroughly reviewed by the Architect, PM and the EDFC as they were approved without the required level of detail. Internal Audit contacted the GC and was subsequently provided with supporting documentation for some of the invoices. Approving change orders without itemized supporting documentation increases the risk inflated or undue costs may go undetected.

Finding 8

The description in CO#2 form did not correlate with the backup documentation from the Architect and the general contractor (GC). Per EPISD change order form, work to be performed was “Auditorium plaster ceiling demolition and provide new acoustical ceiling.” Per supporting documentation from the Architect and GC, work to be performed was “Demolish entire plaster ceilings at existing corridors and classrooms...” The EDFC confirmed that CO #2 “was related to work in the classrooms, not the auditorium.”

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.

Finding 9

An administrator, who did not have delegation of authority from the Superintendent, approved 29 change orders for the Crockett ES Construction Renovations Project.

- The Superintendent signed a memo dated November 30, 2016 to give the Executive Director of Planning and Innovative Schools Construction the delegation of authority to approve individual change orders as stated by board policy CV (Local).
- According to management, when the contract was executed on May 15, 2018, the Executive Director of Planning and Innovative Schools Construction verbally granted the Director of Facilities and Construction (DFC) authority to sign off on all change orders for the Crockett project.
- After the departure of the Executive Director of Planning and Innovative Schools Construction (November 9, 2018), “...the DFC continued to sign off on the change orders, believing she had the authority to sign off on these projects because of the prior delegation and the division of work as previously assigned.” Per memo signed by the Superintendent on December 18, 2018, the Deputy Superintendent of Finance and Operations was given the delegation of authority.

According to management, a memo requesting delegation of authority for the EDFC was submitted to the Superintendent after he/she assumed that position. However, it appears the Superintendent has not responded to the request nor given delegation of authority to the EDFC.

Finding 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.

10.1 The signed Certificate of Final Acceptance was dated November 8, 2019; however, final completion did not occur until December 7, 2019. The certificate was originally submitted to the Board for approval for the November 19, 2019 meeting, however, it was pulled from the agenda during the meeting. Subsequently, a revised Certificate of Final Acceptance was signed with the appropriate date.

10.2 The Facilities and Construction Department did not obtain the Conditional Certificate of Occupancy until November 15, 2019. Per section 017800 – Closeout Submittals of the contract, “Prior to Substantial Completion, obtain from authorities having jurisdiction Certificate of Occupancy. Submit with Notice for Substantial Completion.”

10.3 Final completion for the Crockett ES Renovations Construction Project occurred on December 17, 2019, 109 days after substantial completion, which happened on August 30, 2019. Per section 8.1.4 of the contract, “Unless otherwise agreed in writing by Owner, Contractor agrees that Final Completion shall occur not more than sixty (60) days after the date of Substantial Completion”.

Not meeting all requirements prior to substantial completion may have led to the building not being used for its intended purpose and delayed final completion. Additionally, signing the Certificate of Final Acceptance prior to fully executing final completion misrepresents the status of the project to the Board and the public. It may also result in the warranty coverage period beginning prematurely and EPISD making final payment before the work is fully completed.

Observations

While conducting this audit, we identified the following observation that does not violate local, state, or federal guidelines. However, we felt this observation was worthy of reporting to you as the data owner/expert.

Observation 1

Change order #20 showed a two-day time extension was approved, but the supporting documentation from GC and Architect did not reflect a request for additional days. No general condition costs were associated with the time extension. When IA inquired about this difference, the Project Manager stated this was an oversight among all parties involved and that indeed all parties had verbally agreed on a two-day extension.

Information on approved change order form should agree with supporting documentation from GC and Architect. Discrepancies between what was requested and what was approved can lead to erroneous change orders being approved and undue costs being paid.

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.

Management also provided a written response that states, "EPISD continues to be committed to delivering the 2016 Bond Projects, on time and on budget. We will not settle for 99.99% accuracy; we aim for 100% accuracy. The audit findings of \$7,349, and \$748, for labor burden charges and profit markup, respectively, are less than .1% of the overall contract value of \$8,253,236. However, we do not take these recommendations lightly and will use this opportunity to strengthen our internal controls. We remain committed to ensuring full transparency which includes reporting change orders on a quarterly basis to the public and the board."

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(s) Responsible: Executive Director for Facilities and Construction

Implementation Date: May 31, 2020

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(s) Responsible: Executive Director for Facilities and Construction

Implementation Date: May 31, 2020

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(s) Responsible: Executive Director for Facilities and Construction

Implementation Date: March 31, 2020

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.

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

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

Implementation Date: March 31, 2020

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.

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

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

Implementation Date: April 17, 2020

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.

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

Person(s) Responsible: Deputy Superintendent for Finance and Operations; Irene Ramirez, Executive Director for Facilities and Construction.

Implementation Date: April 30, 2020 (activities 7 and 9) and May 31, 2020 (activity 8).

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).

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; Irene Ramirez, Executive Director for Facilities and Construction.

Implementation Date: March 31, 2020.

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.

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

Person(s) Responsible: Executive Director for Facilities and Construction.

Implementation Date: May 31, 2020.



EL PASO INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Bob Geske, Board President

Al Velarde, Vice President

Diane Dye, Secretary

Josh Acevedo

Daniel Call

Freddy Khlayel

Chuck Taylor



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