Internal Audit Report
FY 2008 Bond Program Performance Audit

December 21, 2017

Office of Internal Audit
Executive Summary

In accordance with the Fiscal Year (FY) 2016-17 Audit Plan, the Office of Internal Audit (Internal Audit) has completed its review of the Construction Services Department (CSD) administration and oversight of the Dallas Independent School District (District) FY 2008 Bond Program (Bond Program). The objective of the audit was to assess the effectiveness of the established controls over the District Bond Program. The audit was added to the audit plan at the request of the Internal Audit Committee after a Performance Audit of the Houston Independent School District (HISD) FY2012 Bond Program completed by KPMG revealed a number of issues with their management of construction projects. As a result, the Office of Internal Audit reviewed and took into consideration the issues identified in the KPMG Audit Report in the planning for this audit. KPMG identified the following issues pertaining to HISD’s oversight of their FY 2012 Bond Program:

1. Growth in HISD project costs were caused by increased construction activity and resulting market conditions (cost escalations appear to be the primary factor affecting project costs resulting in the need for additional funds
2. HISD’s policies and procedures for capital projects are not sufficiently developed
3. The FY 2012 HISD Bond Program is lacking an effective and efficient organizational structure
4. HISD is not providing sufficient internal oversight into subcontractor bidding activities nor is it shifting pricing risk to the Construction Manager at Risk (CMaR) contractor
5. HISD is not conducting sufficient project estimating, variance analysis, contingency management or reporting activities

Internal Audit identified an issue pertaining to improvements in policies and procedures (similar to number two above) relating inconsistencies in documentation of monitoring of quality control activities which is explained in detail in the report. Issue numbers one and four above are not relevant because DISD did not have to request additional funds and DISD uses the Competitive Sealed Proposal process instead of the CMaR process as their methodology for project selection and methodology. DISD found no exceptions related to issue numbers three and five.

The Bond Program was approved by Dallas voters on May 10, 2008, for $1.35 billion and included improvements to 218 existing District facilities (projects) and construction of 14 new facilities for a total of 232 projects to be completed in three phases.

The planning for and performance of the majority of the projects in the Bond Program occurred between FY 2006-07 through FY 2014-15. The majority of personnel involved in the management and oversight of the 2008 Bond Program no longer work for the District or third party consultants. Two CSD executive directors responsible for planning and over-seeing the Bond Program no longer work for the District. A listing of the key positions along with the job responsibilities is provided below:

- Executive Director –
  o Provide leadership to effectively and efficiently accomplish the capital improvement plans of the District,
  o Actualize the goals of the Board of Trustees and the Superintendent of Schools through direction and monitoring of District-wide construction projects and related budgets
  o Direct, manage, and coordinate business operations activities related to the planning, development, and implementation of policies, programs, and practices in support of CSD
- Provide counsel and assistance to other staff members.
- Actualize the goals of the Board of Trustees and the Superintendent of Schools through District-wide planning, direction, program initiatives and continuous improvement.
- Achieve the mission of refocused support and delivery of services to schools through day to day coordination and supervision of all aspects of staff departments.

- **Director of Planning and Design –**
  - Oversees the development and maintenance of the facility asset condition database,
  - Prepares future bond plans and project scope packages based on sustainment, improvement, and development information
  - Maintains archive of electronically stored as-built facility plans
  - Develops and maintains educational specifications, technical design guidelines, and architect’s orientation manual
  - Processes waivers to District design standards
  - Responsible for master planning all campuses and space programming of specific projects,
  - Provides conceptual design support for special projects and future facility planning,
  - Provides technical design review for all projects

- **Director of Administration –** Provides direction and leadership within the CSD in areas of:
  - Budget, finance, reporting, construction contracts, claims, business operations, procurement, safety, staffing, program management firms, Minority/Women’s Business Enterprises (W/MWBE) within CSD, District project managers, program risk management, and office-site facility in compliance with District policies, and governmental rules, and regulations
  - Oversees the administrative tasks of the program management firms.

- **Director of Compliance –**
  - Serves as member of Bond Program Executive Team in assisting in managing the addition, renovation, and construction of new schools
  - Prepares compliance reports (copies reviewed by Internal Audit)
  - Ensures compliance with:
    - Contractual requirements;
    - District policies;
    - Department directives;
    - External regulatory agencies; and,
    - Development and implementation of procedures and review of processes

As a result, internal audit had to mainly rely on extensive review of Bond Program records and supporting documentation to perform their assessment of the effectiveness of CSD’s administration and oversight of the Bond Program. Our audit procedures indicated that CSD’s administration and oversight of the Bond Program appears to be effective as supported by the information stated below in the Background section of the report.

**Objective, Scope and Methodology**

The objective of the audit was to assess the effectiveness of the established controls over the District Bond Program. The scope of this audit included all activities related to the administration and oversight of the District Bond Program. However, any additional matters, procedures, and transactions may be reviewed to understand and verify information during the audit period. The audit was conducted in accordance with the *Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.*
Components of the Bond Program examined by Internal Audit included:

1. Project management planning
2. Cost/Time management
3. Contract administration
4. Quality management

Our methodology included reviews of policies and procedures and extensive review of Bond Program records and supporting documentation in the areas of:

- Bond Program Planning – including review of Bond Advisory and Future Facility Task Force meetings and supporting documentation supplied to them by District and consulting personnel
- Cost/Time Management – including tools used by CSD and consultants to track and monitor Program costs and scheduling (e.g., Program Manager Reports, Weekly Budget Reports, etc.)
- Quality Management – including project progress meetings and field reports
- Contract Administration – including consultant and contractor payment applications and contractor/consultant Request for Proposal/Competitive Sealed Proposal selection process

Background and Results

PROJECT MANAGEMENT PLANNING

Review of CSD Bond Program planning documents indicated the District had an effective Bond Program project planning process. In anticipation of the need for a new Bond Program to address the District’s future facility needs, the Board of Trustees and the District Superintendent directed the Auxiliary Services department to form assessment teams. Ten Auxiliary Services’ assessment teams inspected approximately 218 campuses and 35 support and athletic facilities to document deficiencies in several areas including: a) plumbing, electrical and finishing; b) HVAC; c) roofing; d) site work; e) alarms and public address systems; f) fire suppression systems; g) doors and related hardware; and h) environmental services using standardized assessment forms developed by the District Conditions Assessment Office. The Condition Assessment Office was responsible for developing and distributing assessment forms and walk-through schedules, entering completed assessments in the database after the assessment teams performed the walk-throughs, and documenting deficiencies using the assessment and walk-through forms. The Conditions Assessment Office then created a database recording the results of the facilities assessments and distributed this information to the consulting firm (Jacobs/Pegasus) who summarized the documentation according to the pricing model.

The Board of Trustees developed a Facilities Planning Task Force (Task Force) to advise the Board on a future Bond Program by:

- Working concurrently with the District staff on a strategic plan for facilities
- Studying current facility needs
- Researching and recommending funding level for a future bond program
- Recommending to the Board of Trustees a facilities program for approval by the voters

The Task Force was directed to 1) identify District Staff to facilitate development of a future facilities program; 2) review educational facilities including: population needs, program concepts, individual space requirements, technology integration; 3) analyze existing facilities; 4) integrate demographic studies including latest enrollment data and population forecasts; 5) assess condition of current
facilities; 6) research current bond market conditions; and 7) recommend facilities needs to be funded by a future bond issue.

The Task Force selected representatives of District user departments including: Technology Services, Special Education, Athletics, Food & Child Nutrition, Safety & Security, Fine Arts, and Curriculum to provide input on current educational specifications and additional facility recommendations. The user departments provided recommendations based on the following parameters: a) campus/facility targeted by facility assessment recommendations; b) District user representative recommendations; c) priority of recommendations; d) current educational specifications per District user department representatives; and e) District user department representatives recommended changes to current educational specifications.

The Task Force and District user representatives met approximately every 2 weeks between May 2007 through February 2008 to review and analyze the results of the facilities assessment teams. Additionally, the Task Force held four public meetings between June 5, 2007 and June 20, 2007 to obtain community input on matters concerning Dallas ISD facilities and a future bond program. As a result of the review and analysis of the facility assessment data, information obtained during the public meetings, and advice from financial services consultants the Task Force recommended a $1.35 billion Bond Program package complete with a detailed listing of projects. The Board of Trustees approved the Bond Program package. Voters approved the Bond Program amount of $1.35 billion on May 10, 2008.

Upon approval of the Bond Program by the voters, the District Board of Trustees and Superintendent selected a Bond Advisory Committee consisting of ten citizens to assist the District throughout the Program. The roles of the Bond Advisory Committee were to:

- Facilitate open communication between the District and the community concerning the construction program
- Assist in supplying information about planned improvements and construction to citizens on an ongoing basis
- Assist in retaining and building on the community’s trust and goodwill.

Under the leadership and supervision of the Construction Services Division, the original Bond Program was to provide improvements to 218 existing District facilities (projects) and construction of 14 new facilities for a total of 232 projects. The 218 projects for existing District facilities consisted of 13 additions/renovations, 17 expansions/renovations, and 188 straight renovations. The projects were to take place at school campuses, athletic, and non-instructional facilities throughout the District. The Program started with the first sales of bonds in December 2008. Operating efficiencies, economic factors, and favorable construction costs resulted in the addition of a fourth phase and an additional 20 projects. The additional projects were approved by the Board of Trustees at the May 13, 2013 Board meeting. See the Table below for Bond Program Phasing timelines.
TABLE: Bond Phasing Timelines

<table>
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<tr>
<th>Phase Number</th>
<th>Number of Projects</th>
<th>Number of Bid Packages</th>
<th>Start Date</th>
<th>Completion Date</th>
</tr>
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<td>36</td>
<td>February - 2009</td>
<td>February - 2014</td>
</tr>
<tr>
<td>2</td>
<td>89</td>
<td>33</td>
<td>November - 2009</td>
<td>October - 2014</td>
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<td>April - 2016</td>
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<td>9</td>
<td>June - 2013</td>
<td>August - 2017</td>
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<td>TOTALS</td>
<td>252</td>
<td>107</td>
<td></td>
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</tbody>
</table>

COST/TIME MANAGEMENT

The auditors reviewed CSD policies, procedures and reports utilized by CSD to track and monitor Bond Program costs and scheduling. Results of the auditor’s review of the policies, procedures and reports in place during the Bond Program indicated CSD has detailed policies and procedures related to the management and control of Bond Program funds including:

- Projects to general ledger reconciliation,
- Projects to program manager reconciliation
- Accounting for accounts payable reconciliation
- Accounting for bond draw-downs for accounts payable expenditures
- Accounting for cash receipts
- Accounting for interest income
- Accounting for monthly accounts payable accruals

Additionally, CSD utilizes multiple reports to document management of Bond Program funds and tracking of project scheduling. All Program Management Firm reports listed below are reviewed by District Project Managers and the CSD Director of Program Services prior to publication. All Budgeted and Financial Services reports are reviewed by the Manager of Budget and Financial Services prior to publication. A listing of some of those reports along with a brief description of each are provided below:

- Weekly Budget Reports – report prepared weekly by CSD Budgeting and Financial Services listing all Bond Program projects containing original budget amount, expenditures to date, and remaining budget amounts
- Contractor/bid scheduling report – report prepared weekly by Program Management Firms that is a listing of projects scheduled for bid and contains estimated procurement bid dates, pre-proposal meeting dates, bid opening dates, bid evaluation dates, Board agenda dates, and Board Meeting date (for approval) by project
- Program Manager Monthly Report – report prepared monthly by Program Management Firms that contain the following information:
  - Bond Program overview
  - Safety outline,
  - Bond Program schedule
  - Financial summary
Our review of these documents found them to be sufficient to indicate effective monitoring of Bond Program expenditures, project scheduling, and project completion.

**CONTRACT ADMINISTRATION**

The auditors judgmentally selected a sample of 26 Bond Program projects to test for compliance with Contractor selection process and contractor payment application process using the following selection criteria to obtain a representative sample:

- Type of project (new construction, addition, renovation, etc.)
- School level (elementary school, middle school, high school)
- Estimated project cost
- Program Management Firm/Architectural firm

CSD groups projects in bid packages in order to streamline the request for bid process. Factors included in the determination of projects grouped in a bid package include:

- Size of project
- Similarity of project
- Cost of project
- Complexity of project
CSD uses the Competitive Sealed Proposal (CSP) process to select contractors for each bid package. The CSP process requires the development of a Request For Proposal (RFP) that contains selection criteria with weighted values, estimated budget, project scope, and required completion date. The CSP process also requires project advertisement according to statute and a pre-proposal meeting. Bids received by the due date must be opened and read aloud publically giving the names and monetary proposals provided by each bidder. All bids read publically must be evaluated and ranked according to the published selection criteria. The bidder who submits the proposal that offers the best value is then selected. Upon approval, contract negotiation with the selected bidder commences.

CSD has developed a detailed RFP/RFQ checklist that is required to be completed for each bid package. The auditors tested each bid package for the following attributes to determine compliance with contractor selection requirements:

- CSD RFP/RFQ checklist completed
- Bid advertisement with support documented
- Pre-proposal/Pre-bid meeting documented
- Bid receipt sign in sheet documented
- Bid evaluation with support documented
- Bid evaluation review documented
- Bid package submitted to Board of Trustees with recommendation

The auditors identified no exceptions in the 26 projects tested.

Using the same sample of 26 Bond Program projects, the auditors judgmentally selected one payment from each project to test the contractor payment application process. The auditors tested the following attributes: a) payment adequately supported; b) payment amount correct; c) payment approval; and, d) payment timeliness. The auditors identified no exceptions in the 26 projects tested.

**QUALITY MANAGEMENT**

During the Bond Program CSD had two project managers responsible for the administration and oversight of the design and construction of the Bond Program projects. To assist the project managers, CSD contracted with three Program Management Firms to assist the District project managers in the administration of the Bond Program. The Program Management Firms are assigned Bond Program projects and are responsible for the management of those projects. For each project, an Architect/Engineering firm is selected from the list of architects that were selected via the CSP process outlined earlier. The Architect/Engineering firm is responsible for the monitoring of the work performed on the project. CSD requires regular progress meetings and field reports to document monitoring of the work performed on the project. In order to assess the effectiveness of CSD’s Quality Management process, the auditors reviewed project files of the 26 projects sampled selected for testing in the previous audit steps. The auditors reviewed the files to determine the following:

- Frequency of the meetings
- Validity and thoroughness of the content of the meeting notes
Personnel attending meetings had adequate knowledge of the project and the authority to make decisions on project related matters.

While CSD’s administration and oversight of the Bond Program was effective, Internal Audit identified an opportunity concerning the consistency of documentation of quality control of consultant/contractor activities including progress meetings and field reports among the Architectural/Engineering Firms. Additionally, because of the high volume of projects on-going, CSD project managers were only able to attend progress meetings on the projects tested on a sporadic basis.

**Observations, Recommendations, and Management’s Action Plan**

**Issue 1: Inconsistent Documentation of Monitoring of Quality Control Activities**

Monitoring, as defined in the COSO Framework, is implemented to help ensure “internal control continues to operate effectively”. When monitoring is designed and implemented appropriately, organizations benefit, because it enhances the ability to (a) identify and correct internal control problems on a timely basis; (b) produce more accurate and reliable information for use in decision-making; and (c) prepare accurate and timely reports.

The auditors judgmentally selected a sample of 26 projects (10%) for audit fieldwork to test project files for documentation of CSD’s process for quality control of consultant/contractor work performance. For all 26 project files meeting minutes and corresponding field reports did contain detailed information concerning contractor/consultant activities to allow the auditor to determine that the level of quality monitoring was sufficient.

However, some of the meeting minutes did not contain meeting attendees to determine if all appropriate personnel were in attendance. This could indicate inconsistent documentation of the monitoring of quality control activities among the Architectural/Engineering Firms. Additionally, during the Bond Program CSD had two project managers responsible for the administration and oversight of the construction of the Bond Program projects. Because of the high volume of on-going projects, CSD project managers were only able to attend progress meetings on the projects tested on a sporadic basis indicating a potential overreliance on the Program Management Firms and Architectural/Firms in the monitoring of quality control on Bond Program construction projects.

**Risk Level- HM**

**Recommendation:**

In discussing this issue with the CSD Director of Program Management Services, the auditor learned CSD identified this as an area that needed improvement during the Bond Program. As a result, CSD determined they needed to take a more active role in the hands on management of the Bond Program construction projects. To achieve this CSD has added an additional three project managers and hired two inspectors and a warranty specialist for quality oversight of on-going FY 2015 Bond Program projects. The increase in project managers allows for more involvement in on-going projects including increased interaction with the Program Management Firms and Architects/Engineering Firms including developing policies and procedures relating to project documentation requirements. The inspectors and warranty specialist are in the field reviewing day to day construction activities on a daily basis. If workload dictates, additional project managers and inspectors may be added within budgeting parameters.
As a result of improvements made to this process, Internal Audit will test this process during the FY 2015 Bond Program Continuous Monitoring Project.

Acknowledgement of finding:

☑ Agree
☐ Disagree

Management's Response:

Concur

Estimated Implementation Date:

Implemented. See Recommendation for explanation.

Individual responsible for implementation:

Don Smith, CSD Director of Program Management Services

Conclusion

Auditors found CSD has controls in places to effectively administer the Bond Program. However, we identified an opportunity for improvement in controls in the area of documentation of project monitoring for quality control of consultant/contractor activities. Implementation of management action to address the noted deficiency would assist in mitigating risks that could possibly hinder the District in the achievement of their goals and objectives.

Using the KPMG report as a guide, Internal Audit will update current FY 2015 Bond Program Continuous Monitoring activities to include detailed audit procedures in the following categories:

1. Project management planning
2. Cost/Time management
3. Contract administration
4. Quality management

We would like to thank the CSD staff, especially the Executive Assistant to the Executive Director, CSD Business Operations, Finance and Procurement Managers and the Directors of Compliance and Project Management Services, for the hospitality and courtesy extended to us during the audit.