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Audit finds weakness in HISD bond management

By Ericka Mellon | October 12, 2015 | Updated: October 13, 2015 8:13am



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Photo: Steve Gonzales, Houston Chronicle

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HISD Senior Program Manager Brian Alling talks in the soon to be Waltrip High School ROTC room Tuesday, Oct. 6, 2015, in Houston. Construction is underway at Waltrip High School in HISD. The school is being remodeled as part of HISD's 2012 and 2007 bond programs. The school has been under construction for years after HISD got rid of an embattled contractor and now budget problems are hampering some parts of the project. For example, the school will not get an entirely new fine arts wing and some of the outdated hallway tiles may not be replaced. Several classrooms already have been remodeled.

Weak supervision of contractors and insufficient competition among bidders contributed to a \$211 million shortfall in the Houston ISD's construction bond program, the district's chief auditor told the school board Monday.

The initial audit findings are the latest criticism of Superintendent Terry Grier's management of the \$1.9 billion bond package approved by voters in 2012. Grier has attributed the budget gap to inflation in Houston's booming construction market.

Grier, who defended the district's oversight of the bond program Monday, had hoped to gain school board approval Thursday to borrow additional money to close the estimated shortfall. However, after hearing the audit results, board president Rhonda Skillern-Jones said she would postpone the vote until a more detailed budget analysis is conducted.

Richard Patton, the chief auditor, said he did not have reason to suspect fraud in the \$1.9 billion construction program, but his auditors found that the Houston Independent School District administration was not holding contractors accountable enough for their pricing. Some contractors, for example, did not submit bids from multiple subcontractors, an omission that could drive up prices, he said.

"We probably haven't been playing hardball in the negotiations like we should have," Patton told the board's audit committee.

HISD's bond program, which had the largest price tag in Texas school history, includes rebuilding or renovating 40 campuses, plus upgrading athletic facilities, middle school restrooms, technology and security.

Grier responded in an interview that he remains convinced that the budget problems stem from Houston's saturated construction market and the rising cost of materials such as steel.

Asked whether he suspected mismanagement, Grier said, "I'm not telling you it's not there. I'm just telling you I haven't seen it."

The district has its own staff that administers the bond program and also contracts with outside firms to manage the projects.

The audit focused in part on the district's use of a contracting method that involves hiring so-called "construction managers at risk." Under this approach, instead of seeking sealed bids from multiple construction contractors, HISD first hires the contractors based on their qualifications and then seeks a "guaranteed maximum price" from them.

The method, according to an HISD news release in July 2013, is intended to minimize cost overruns by allowing the contractor and the architect to work together early in the process. The news release also said the method allows for "greater potential for subcontracting specialized work, increasing the number of potential business opportunities with the district."

HISD's auditors, however, found that in at least one case the construction manager at risk method was more expensive. The district, after receiving a high price from the construction manager for Furr High School, switched to a competitive sealed proposal, and the bid was \$14 million lower, Patton said.

Derrick Sanders, HISD's general manager for construction, said the original Furr High bid was an anomaly, and that's why the district severed ties with the construction manager at risk.

Sanders and Sundaresh Kamath, HISD's newly hired construction officer and the main bond manager, acknowledged that receiving bids from multiple subcontractors can be difficult. However, they said the problem would apply to any type of bidding process. Kamath is the district's third bond manager since 2012.

"If our audit department has ways they think our staff can impact subcontractors, I'm really anxious to see that," Grier said, "because I've never seen that before in a 31-year career."

The district refused to release a copy of the audit report Monday, although trustees discussed the findings during an open meeting. Patton and trustee Juliet Stipeche, who chairs the board's audit committee, said they wanted to give Grier's administration time to point out errors and respond in writing.

Patton said his team did not complete the audit until Sunday night, trying to finish before the board was set to vote Thursday on increasing the bond budget.

Skillern-Jones, Stipeche and the other trustees at the audit committee meeting - Anna Eastman, Manuel Rodriguez Jr. and Wanda Adams - agreed that they wanted to see an analysis of how much, if any, extra money each project needed.

The plan from Grier's administration proposed splitting \$211 million proportionally among the campuses, based on their original construction budgets. That method, Skillern-Jones, seemed like a "free for all."


Grier said in an interview that he agreed that the projects should not get the same percentage. He said his staff came up with the proposal.

"I think frankly they were looking at it through a political lens more than they were through a practical lens," Grier said, suggesting that communities may be upset if one school got more money than another.

The audit did not examine the district's use of bond funds on non-construction costs like HISD staff, travel and food. The Houston Chronicle reported Monday that the district had spent \$11.6 million on such internal expenses.

The potential that the bond fund shortfall could force HISD to renege on promises to replace certain schools also has prompted criticism from trustees and others.

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