



Project Information – Audit Status

OFFICE OF INTERNAL AUDIT

Status of the Audits of the Ongoing Construction Projects in the 2015 Audit Plan

Prepared for the Board Audit Committee:

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Issue Date: **1/11/2016**

For Discussion Purposes Only.
Specific findings will be addressed with the issuance of Interim and Final Audit Reports.

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Executive Summary

Background

The Construction Audit Department of the Office of Internal Audit is responsible for reviewing construction and related projects for the HISD Bond Office. Each year the department puts together an audit plan of selected bond projects to audit. Risk areas, such as prior contractor history, or lack thereof, construction timelines and project dollar values are all considered during the development of the Audit plan. In addition, an attempt is made to include projects with different contractors for more complete audit coverage. As construction projects typically transcend audit years, each project is audited on an ongoing basis. As phases of audits and entire audits are completed, both Interim and Final Audit reports are issued to Management for responses. Those reports with management responses are then shared with the Board Audit Committee. For those projects still ongoing at the end of the audit year, an audit status report is issued to the Board Audit Committee as an update on the progress of the remaining bond projects reviewed throughout the year. At that time the ongoing projects are carried forward on the new audit plan and a review is performed to determine what additional projects can be added to the audit plan.

Audit Scope

In accordance with the 2015 Seven Month Audit Plan which became effective on June 1, 2015, Construction Audit is currently reviewing the Program Management,* Design, and Construction Services for the following schools / facilities being constructed under the 2012 Bond Program.

- Condit Elementary School
- Delmar Field House
- Furr High School
- Grady Middle School
- High School for the Performing and Visual Arts (HSPVA)
- Lee High School
- Milby High School
- South Early College High School
- Waltrip High School
- Worthing High School

*The Program Management Services for the entire 2012 Bond Program are being reviewed.

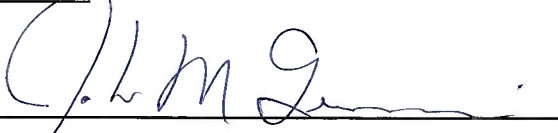
Audit Objectives

The following are the objectives for the projects selected to be audited:

- The service/work being provided has been properly approved by the Board and provided within the limits established by the Board.
- The service/work being provided has been awarded by a fair and proper bidding or selection process, in accordance with State law.
- The contracts/agreements and related changes were executed and administered properly by all parties.

- The invoicing accurately reflects the services provided under the contract and actual progress to date.
- Invoiced amounts are reconciled to the contract values including change orders.
- Invoices are reconciled to resulting payments in the SAP system.
- The change orders reflect actual approved changes, are priced accurately and fairly, and do not include scope duplication or unallowable cost items.
- In the case of a Construction Manager at Risk Contract, the costs incurred by the contractor are necessary and allowable under the terms of the agreement. (This includes a sampling of General Condition's costs, a sampling of Payroll entries, and a 100% review of subcontracts, related changes and payments.)
- The contractor or professional service provider is carrying adequate bonding and insurance coverage in accordance with the terms of the contract/agreement. (100% of the related premiums are reviewed.)
- Verify the level of MWBE commitment on each project with the Office of Business Assistance.

Auditor:



John M. Gerwin – Construction Audit Manager

Approved:



Richard Patton – Chief Audit Executive, Office of Internal Audit

Attachments – Report Detail and Exhibit A

cc: Board of Education
Sundaresh Kamath – Officer Construction and Facility Services
Lenny Schad – Interim Chief Operating Officer

Attachment

Report Detail

Below is listed information related to each ongoing project listed on the 2015 Audit Plan and the status of the review of each project by Internal Audit. It should be noted that some audit work was previously delayed to complete special projects requested by the Board. These reviews cover Construction Contracts, Architectural Agreements, and Project Management Agreements, including executed changes, invoicing and payments, subcontracts, insurance coverage and bonding, project costs including subcontractor payments general conditions costs payroll entries, consultant services, expenses etc. Individual project cost information has been requested as listed in the "What's Next" section of this memo. The percentages listed below for each individual project represent the audit completion to date based on dollar value. A single page summary of the information listed below is attached as **Exhibit A**.

Condit ES – New elementary school for 750 students. (AE – VLK Architects, PM – Heery International, Inc., Contractor – DivisionOne Construction).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$422,181 executed 11/14/13.
- A/E Agreement for \$844,363 executed 3/26/13.
- 1st Amendment for \$0 executed 8/9/13.
- 2nd Amendment for \$10,107 executed 6/7/14.
- No PSSAs (Professional Supplemental Services Authorizations) have been issued to date.
- 1 GMP (Guaranteed Maximum Price) for \$16,474,406 executed 12/19/14
- No Change Orders to date.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 47%.
- Architect Payments Reviewed: 69% (Currently in Construction Phase, 14% complete).
- Construction Payments Reviewed: 25%.
- Condit Costs Received through 7/31/15.
 - Total General Conditions \$71,862.58, Auditor Reviewed 36%.
 - Total Subcontractor \$1,268,865.80, Auditor Reviewed 100%.
 - Total Payroll \$232,029.98, Auditor Reviewed 37%.
 - Total Bonding & Insurance \$197,933.61, Auditor Reviewed 100%.
- Interim Audit Report 1: 100% Complete, Draft Issued 12/2015. Response due 12/16/2015.

Delmar Fieldhouse – Replacement of Regional field house and athletic facility improvements. (AE – PBK Architects, PM – Rice and Gardner Consultants, Inc., Contractor – DivisionOne Construction).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$743,258 executed 8/12/14.
- A/E Agreement for \$1,982,901 executed 11/15/13.
No PSSAs have been issued to date.
- Construction Information:
 - 3 GMP's.
 - \$797,464 for Demolition executed 12/6/13.
 - \$11,550,425 for Foundation and Superstructure executed 8/6/14.
 - \$26,313,562 for remaining Building Components, Finishes, and related Site work executed 3/6/15.
- No Change Orders to date.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 35%.
- Architect Payments Reviewed: 64% (Currently in Bidding Phase, 100%).
- Construction Payments Reviewed: 34%.
- GMP #1 audit complete, Interim Report 1 issued.
- Interim Report 2: 40% Complete, Fieldwork Phase (General Conditions and Subcontractor Agreements).
- Delmar costs for Phase 2 and Phase 3 through 7/31/15.
 - Total General Conditions \$554,544.67, Auditor Reviewed 36%.
 - Total Subcontractor \$7,121,658.69, Auditor Reviewed 100%.
 - Total Payroll \$760,211.80, Auditor Reviewed 19%, Still awaiting documentation
 - Total Bonding & Insurance \$469,997.76, Auditor Reviewed 52%, Still awaiting documentation for the remaining 48%.

Furr HS – New high school to accommodate 1,000 – 1,300 students. (AE – ERO Architects Inc., PM – Rice and Gardner Consultants, Inc., Contractor – Prime Contractors).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$893,784 executed 10/30/13.
- A/E Agreement for \$1,638,605 executed 8/23/13.
- No PSSAs have been issued to date.
- CSP Contract lump Sum \$40,500,152 executed 7/13/15.
- No Change Orders to date.
- Contract with original CMAR contractor (KBR) was canceled, project has new contractor with new agreement as a Competitive sealed Proposal (CSP).

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 64%.
- Architect Payments Reviewed: 68% (Currently in Construction Phase, 5%).
- Interim Audit 1: Original contract with KBR was canceled, and closed out for \$5,819.30.
- Construction Payments Reviewed: 1 payment with former contractor (KBR) and 8% with new contractor (Prime Contractors).
- Auditor has reviewed all close out documents on the KBR contract including the final cost reconciliation performed by Rice & Gardner and has found no exceptions.
- Interim Report on the KBR contract is pending.

Grady MS – New addition to complete multi-phase master plan for the campus. (AE – Natex Architects, Inc., PM – Rice and Gardner Consultants, Inc., Contractor – DivisionOne Construction.

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$264,480 executed 10/30/13.
- A/E Agreement for \$528,960 executed 3/26/13.
- 1st Amendment for \$0 executed 5/9/13.
- No PSSAs have been issued to date.
- 1 GMP (Guaranteed Maximum Price) for \$10,473,381 executed 11/21/14
- 1 Change Order for \$ 37,803.75 for Repair damaged electrical conduit.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 83%.
- Architect Payments Reviewed: 84% (Currently in Construction Phase, 61%)
- Construction Payments Reviewed: 37%.
- Interim Audit 1: Cost Review, Auditor has not yet received cost documentation.

HSPVA – New performing and visual arts school to accommodate 750 students. (AE – Gensler, PM – Rice and Gardner Consultants, Inc., Contractor – McCarthy).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$1,451,912 executed 10/30/13.
- A/E Agreement for \$2,903,823 executed 11/5/13.
- 1st Amendment for \$0 executed 8/11/14.
- PSSAs issued:
 - \$176,220 executed 8/31/14.

- \$112,145 executed 3/31/15.
- GMP no new contract with amount.
- No Change Orders to date.
- Contract with original contractor (Cadence McShane) was canceled, project was delayed McCarthy chosen as the new contractor 8/13/15.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 62%.
- Architect Payments Reviewed: 65% (Currently finished Bidding Phase).
- Construction Payments Reviewed: 1 payment under former contractor. Interim Audit 1: Original contract with Cadence McShane was canceled, and closed out for \$428,019.41.
- Auditor has reviewed all close out documents on the Cadence McShane contract including the final cost reconciliation performed by Rice & Gardner and has found no exceptions.
- Interim Report on the Cadence McShane contract is pending.

Lee HS – New school for 1,700 – 1,900 students. (AE – WHR; Lake-Flato, PM – URS-Skanska, Contractor – Satterfield and Pontikes Construction, Inc.).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$1,308,793 executed 10/30/13.
- A/E Agreement for \$2,617,585 executed 6/3/13.
- 1st Amendment for \$0 executed 6/24/13.
- No PSSAs have been issued to date.
- 2 GMP's
 - \$1,375,169 for Demolition and Abatement executed 2/3/15.
 - \$52,511,978 for Building Construction executed 7/24/15.
- 1 Change Order for \$29,920.43 for removal and disposal of the ACM vapor barrier mastic around the perimeter of building.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 72%.
- Architect Payments Reviewed: 66% (Currently in Bidding Phase, 97%).
- Construction Payments Reviewed: 14%.
- Interim Audit 1: 15% Complete, Fieldwork Phase (General Conditions).
- Lee HS costs through 10/31/15 – Waiting on more documentation.
 - Total General Conditions \$86,366.33.
 - Total Subcontractor \$1,259,439.48.
 - Total Payroll \$167,963.69.
 - Total Bonding & Insurance \$67,713.62.

Milby HS – New school preserving the architecturally significant building structure to accommodate 1,800 – 2,000 students. (AE – Kirksey Architecture, PM – Heery International, Inc., Contractor – Tellepsen Builders, LP).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$1,384,881 executed 8/20/14.
- A/E Agreement for \$2,208,948 executed 10/18/13.
- 1st Amendment for \$543,453 executed 8/15/14.
- 1 PSSA to date:
 - \$23,141 executed 8/10/15.
- 2 GMP's.
 - \$1,932,482 for Demolition and Abatement executed 10/29/14.
 - \$50,519,700 for Building Construction executed 2/26/15.
- 1 Change Order to date for \$705K for cost associated with loading, transporting, and unloading salvage items from Milby HS to HISD CFS Facility, and cost associated with additional abatement.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 43%.
- Architect Payments Reviewed: 70% (Currently in Construction phase, %15).
- Construction Payments: 7%.
- Interim Audit 1: 40% Complete, Fieldwork Phase (General Conditions and Subcontractor Agreements).
- Milby HS costs through 7/31/15.
 - Total General Conditions \$104,379.68, Auditor Reviewed 50%.
 - Total Subcontractor \$2,525,110.16, Auditor Reviewed 100%.
 - Total Payroll \$426,087.50, Auditor Reviewed 0%.
 - Total Bonding & Insurance \$242,904.08, Auditor Reviewed 100%.

South Early College HS – New school for 400 students at the Houston Community College – South Campus. (AE – Smith & Co., PM – Kwame Building Group, Contractor – Drymalla).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$315,000 executed 10/30/13.
- A/E Agreement for \$627,000 executed 3/5/13.
- 1st Amendment for \$0 executed 7/31/13.
- No PSSAs have been issued to date.
- 1 GMP for \$11,022,441 executed 1/9/15.
- No Change Orders to date.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 90%.
- Architect Payments Reviewed: 65% (Currently in Bidding Phase, 100%).
- Construction Payments Reviewed: 11%.
- Interim Audit 1: 10% Complete, Fieldwork Phase (Subcontractor Agreements).
- South Early College HS costs through 7/31/2015 – Beginning sample selection process.
 - Total General Conditions \$872,967.62.
 - Total Subcontractor \$1,257,374.06.
 - Total Payroll \$150,889.77.
 - Total Bonding & Insurance \$133,410.02.

Waltrip HS – Partial replacement and general renovations to accommodate 1,800 – 2,000 students. (AE – Gensler, PM – Rice and Gardner Consultants, Inc., Contractor – Satterfield & Pontikes).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$543,487 executed 10/30/13.
- 1st Amendment for \$134,513 executed 7/28/14.
- A/E Agreement for \$1,086,974 executed 3/26/13.
- 1st Amendment for \$0 executed 7/31/13.
- No PSSAs have issued to date.
- 3 GMP's.
 - \$98,402 for Demolition Area "A" executed 4/1/15.
 - \$1,112,026 for Build Out "A" executed 4/1/15.
 - \$22,052,262 for Additions and Renovations executed 7/29/15.
- 1 Change Order to date \$36,453 for Fire Sprinkler Water Flow Test; Temporary Toilets at Baseball Field, auditorium carpet, security portal, locker/auditorium changes, football field scoreboard, flashlights & light strands for school personnel, childcare area-move existing shelves, area B move double doors, additional ACM area A, batting cages and pitching mounds, replace existing 100 amp disconnect at pool pack.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 67%.
- Architect Payments Reviewed: 67% (Currently in Construction Phase, 12%).
- They have 2007 Bond payments being rolled into 2012 Bond.
- Construction Payments Reviewed: 50%.
- Interim Audit 1: Documents received.
- Waltrip HS costs through 10/31/15 – Beginning sample selection process.
 - Total General Conditions \$536,283.94.
 - Total Subcontractor \$0.
 - Total Payroll \$13,507.06.

- Total Bonding & Insurance \$234,329.59.

Worthing HS – New facility that will incorporate the new two-story classroom wing for a campus accommodating 1,100 – 1,300 students. (AE – Molina Walker Architects, PM – Kwame Building Group, Contractor – B3Ci).

Construction Information – Contract information, change orders, amendments and PSSAs including monetary value.

- PM Agreement \$503,203 executed 10/30/13.
- A/E Agreement for 960,000 executed 3/26/13.
- 1st Amendment for \$0 executed 7/31/13.
- No PSSAs issued to date.
- 2 GMP's issued to date.
 - \$3,815,494 for Structural and Site work for 2007 Addition executed 2/13/14.
 - \$15,905,970 for Roofing, Flooring, Restrooms, Electrical etc. remainder of 2007 Addition executed 8/21/14.
 - Still negotiating amount will be for temporary kitchen, Gym, other remodels, and demolition of kitchen and gym.
- 13 Change Orders issued to date for \$3,823,982.91.
 - \$146,331.24 for investigative services per Architect.
 - \$133,175.52 to raise existing poles for truck maneuvering, provide 4,300 SF of stabilize base for temporary road access, structural steel modifications required to incorporate design changes requested by Owner, to repair stored damaged steel, and to repair existing piers.
 - \$66,167.47 to remove existing piers installed by previous contractor to verify rebar installation.
 - \$277,639.46 to compensate Contractor for General Conditions during early mobilization to job site between 10/1/13 – 2/19/14.
 - \$369,111.68 for unforeseen underground pipe conditions, proposal to install underground telecommunications lines, and to procure air-cooled chillers and boilers.
 - \$529,084.62 to relocate 2007 addition building 5ft. in order to install new piers.
 - \$247,524.44 for general conditions associated with pier delay costs, additional investigation of piers installed by previous contractor (original investigation was for 13 need to investigate an additional 48 piers), and pier bell investigation.
 - \$62,678.45 to incorporate cost increase for concrete and select fill materials associated with GMP#1.
 - \$158,783.55 general conditions due to delay while waiting on pier resolution.
 - \$ 41,311.71 to incorporate miscellaneous interior modifications and site revisions.
 - (\$56,706.43) deduction for concrete not used.
 - (\$1,075,977.01) deduction for demolition and abatement work.
 - \$2,924,858.21 Internal Audit is awaiting documentation for this change order.

Auditor Project Review Status – The following has been reviewed.

- PM Payments Reviewed: 75%.
- Architect Payments Reviewed: 42% (Currently on 60% Construction Document phase, 80%).
- Construction Payments Reviewed: 56%.
- Per Kwame, Contractor is having to redo everything the 2007 contractor did.
- Interim Audit 1: 40% Complete, Fieldwork Phase (General Conditions and Subcontractor Agreements).
- Worthing HS costs through 7/31/15.
 - Total General Conditions \$283,312.15, Auditor Reviewed 33%.
 - Total Subcontractor \$11,528,839.77, Auditor Reviewed 100%.
 - Total Payroll \$1,195,751.91, Auditor Reviewed 0%.
 - Total Bonding & Insurance \$620,391.95, Auditor Reviewed 49%.
- Beginning Change Order Review.

Program Management Firms – Internal Audit is reviewing billings, for the entire program from the five PM firms to ensure that the billings are in accordance with the fee schedules that is attached to each PM agreement.

- Heery International: Total billed 49%, no exceptions to date.
- Jacobs Project Management: No longer PM with HISD, Internal Audit completed audit with no exceptions. Memo to file in work papers.
- URS: Total billed 13%, currently reviewing billing schedule versus billed amount.
- Kwame: Total billed 64%, currently reviewing billing schedule versus billed amount.
- Rice & Gardner: Total billed 39% currently reviewing billing schedule versus billed amount.

What's Next – Below are the next steps for Internal Audit.

- Internal Audit has submitted requests to all HISD Senior Managers for project cost information from the contractors for all projects on the Audit Plan. Cost documentation has been received for 7 of 10 projects.
- A subcontractor review, payroll review, and cost review, is initiated upon receipt of the cost information.
- Internal Audit is currently reviewing the details of all Change Orders issued.
- Internal Audit has added 6 additional projects to the 2016 Audit Plan.
- As construction progresses, procurement of furniture, fixtures, and equipment, Media Center books and materials, and technology equipment will be reviewed on selected projects.