



# OFFICE OF INTERNAL AUDIT

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Internal Audit Report

Review of the Construction Contract with KBR Building Group, LLC for  
Sharpstown High School

Andreas Peeples – General Manager, Construction and Facility Services

Issue Date: 8/24/2016

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## Executive Summary

### Background

The Houston Independent School District (HISD) 2012 Bond Election approved the Construction Manager-at-Risk (CMAR) project delivery method for seventeen projects. On October 10, 2013, the HISD Board of Education (Board) approved KBR Building Group, LLC (KBR) as the CMAR for Sharpstown High School. During the pricing negotiations, KBR and HISD could not agree on a Guaranteed Maximum Price (GMP) for the contract, so on July 28, 2015, a formal letter was sent by the HISD General Manager of Construction Services to KBR, which stated the following:

*"Your efforts to prepare a Guaranteed Maximum Price (GMP) for the above referenced project, through GMP No. 1 and GMP No. 2, have resulted in a combined GMP total of \$58,734,524. This amount exceeds HISD's established construction budget for this project by \$18,588,670. Unfortunately, HISD cannot accept your GMP total price."*

*"Accordingly, please be advised that effective immediately, HISD is ceasing negotiations on GMP 1 and 2 and providing seven days' notice of terminating the agreement with KBR Building Group for the Sharpstown High School Project, pursuant to Article XIII TERMINATION as follows:"*

*"GMP No. 1   \$ 6,074,053   April 17, 2015"*

*"GMP No. 2   \$52,660,471   June 30, 2015"*

*"Submit your final invoice to HISD for Pre-Construction Services rendered in accordance with ARTICLE II PAYMENTS TO THE CONSTRUCTION MANAGER 7.01 PARAGRAPH (a) Pre-Construction Services."*

Board Item J-6 dated November 12, 2015 stated that *"In July 2015 the district terminated negotiations with the construction manager-at-risk contractor and approved a delivery method change to competitive sealed proposals (CSP) for the construction of the new Sharpstown High School."*

ICI Construction, Inc. (ICI) was determined to be the highest-ranked best value proposer. Therefore, it was recommended that ICI be awarded the contract for the new Sharpstown High School.

On November 13, 2015, HISD entered into a CSP contract with ICI Construction, Inc. for construction of Sharpstown HS in the amount of \$40,500,152. That contract will be the subject of a separate audit.

### Audit Scope

The audit consisted of a review of the close out of the KBR CMAR contract. It was performed in accordance with the Institute of Internal Auditors (IIA) International Auditing Standards. It contained an evaluation, testing, and review of the construction agreement, costs of construction and payments made to KBR. Various contract documents were reviewed including, but not limited, to those listed below:

- The construction contract including all attachments.

- The termination letter from CFS
- The applicable Board items
- Applications for Payment from KBR.
- HISD Construction Management and Accounting Department records including information made available through the SAP system.

### **Audit Objectives**

The objectives of the audit were to determine if the district closed out the contract properly and to assess the adequacy of district oversight on the project. To achieve those objectives, the following actions were taken:

- Ensure that the billings reflect the cost of the Pre-Construction Services amount on contract.
- Reconcile payments in the SAP system to the approved invoices.

### **Overall Conclusion**

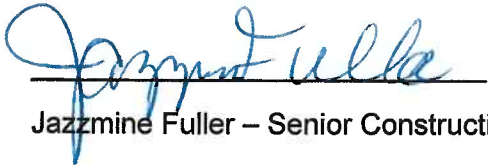
Based on its' review, Internal Audit concurs with the amount paid for Pre-Construction services in the amount of \$27,000.

From the documentation reviewed Internal Audit found that the project was closed out properly.

The termination of the contract with KBR due to their GMP exceeding the established Construction Budget is an example of a good budgetary control for which Construction and Facility Services (CFS) deserves recognition.

Because there were no findings, no response was required from management; CFS did inform Internal Audit of their concurrence with the contents of the report.

Auditor:



Jazzmine Fuller – Senior Construction Auditor

Approved:



John M. Gerwin – Construction Audit Manager

Approved:

Attachments – Report Detail

cc:

Richard A. Carranza  
Kenneth Huewitt  
Sherrie Robinson  
Derrick Sanders  
Lenny Schad  
Board Audit Committee

## Attachment

### Report Detail

The Sharpstown HS agreement with KBR was terminated by HISD, and accordingly the project was closed out because KBR and CFS could not agree on a Guaranteed Maximum Price. The scope of this audit was a review of the project costs and billings from beginning of the project until the project was closed. Based on its' review, Internal Audit concurs with the amount of \$27,000 paid to KBR for Pre-Construction services.

**Project Cost Review** – Because no agreement was ever reached on a GMP, there were no project costs to review, with the exception of the agreed upon lump sum of \$27,000. for Pre-Construction Services.

**Project Billing Review** – Internal Audit reviewed all progress billings and reconciled them to the contract Pre-Construction services value of \$27,000. Internal Audit verified that these amounts were billed and paid through the SAP system.

**Management Response** – The information contained within is accurate as to the contract amount, monies paid and the reasons for the termination of KBR.

Auditor:

  
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Jazzmine Fuller – Senior Construction Auditor