



OFFICE OF INTERNAL AUDIT

Internal Audit Report

Review of the Construction Contract with Satterfield and Pontikes Construction, Inc. for
Waltrip High School-Funded under the 2012 Bond Program

General Manager, Construction and Facility Services

Issue Date: May 19, 2017

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Executive Summary

Background

The Houston Independent School District (HISD) 2012 Bond Election approved the partial replacement and general renovations at Waltrip High School (Waltrip). On July 18, 2013, the HISD Board of Education (Board) approved Construction Management at Risk (CMAR) Services to Satterfield and Pontikes Construction, Inc. (S&P). The agreed upon Guaranteed Maximum Price (GMP) for the project was \$23,262,690.00.

It should be noted that S&P bid \$0 general conditions costs for this project. General conditions work is defined in the contract as "On-site management, administrative personnel, equipment, and incidental work including minor field labor and materials." Bidding \$0 for general conditions means that no cost for any of the services listed in Exhibit I of the contract should be included in the final accounting and final GMP.

Audit Scope

This audit consisted of a review of the 2012 Scope of Work. This audit 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, the subcontracts, other costs of construction, and payments made to S&P. Various contract documents were reviewed including, but not limited, to those listed below:

- The construction contract including all attachments.
- Applications for payment Nos. 1 through 10 from S&P.
- The S&P Project Transaction Detail Ledger.
- The S&P Subcontract Commitment Ledger.
- The construction subcontracts and applicable subcontract change orders.
- HISD Construction Management and Accounting Department records including information made available through the SAP system.
- Verification of the M/WBE commitment with the Office of Business Assistance.

Audit Objectives

The objectives of the audit were to determine if the district received fair value for the work performed and to assess the adequacy of district oversight on the project. To achieve those objectives, the following actions were taken:

- Review of the S&P Project Transaction Detail Ledger to:
 - Verify all costs are allowable.
 - Verify that \$0 for general conditions costs are included in the GMP.
- Review of the S&P Subcontract Commitment Ledger, and reconcile the subcontract values to the subcontract documents and the subcontract payments in the Project Transaction Detail Ledger.
- Review and evaluate the payment process for:

- Proper approval of each application for payment.
- Mathematical accuracy of each application for payment.
- Payments made in accordance with the approved applications for payment.
- Review the contract allowances, which were reconciled to the actual costs incurred
- Review of the status of S&P M/WBE Commitment.

Overall Conclusion

Based on the documentation reviewed and interviews with personnel from HISD and S&P, Internal Audit found that the construction process was well organized and well documented. As other phases of the project are ongoing, CFS should continue to monitor and work with S&P to ensure compliance with the terms of the agreement.

- CFS should continue monitoring for \$0 general conditions.
- CFS should ensure they receive credit for the 20% bond rebate, which will be due to HISD upon project close out. It is currently estimated to be \$35,919.80 based on the Bond Premiums paid to date. It should be noted that this is an interim audit and the rebate amount is subject to change based on the final accounting during project close out.

The following areas were reviewed and found to be in compliance with the terms of the contract:

- Cost Review - The project transaction detail ledger was reviewed for general conditions, No general conditions were included in the GMP and charged to HISD in compliance with contract.
- Progress payment review and reconciliation - Applications for Payment Nos. 1 through 10, have been reviewed with no exceptions found.
- Subcontract review and reconciliation - Internal Audit reviewed 100% of Subcontractor documentation and related costs and found no exceptions.
- Review of the Project Allowances - Internal Audit reviewed 100% of project allowances with no exceptions found.
- Review of the status of S&P M/WBE commitment with the Office of Business Assistance - The Office of Business Assistance is monitoring S&P's M/WBE participation and fully expects them to reach their commitment level of 25%.

It should be noted that throughout the audit, the HISD General Manager of Construction and Facilities Services and the Vice President at S&P were very cooperative by responding to all audit inquires and providing all documentation requested.

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Audit Summary


Items Tested	Audit Results
Contract Verification: Reviewed the contract including all attachments, including but not limited to Board Agenda item, Notice To Proceed, insurance, Payment & Performance bond, and Certificate of Substantial Completion (if applicable) to verify proper approval of documents and verify that proper coverage's are in effect and are adequate.	No exceptions.
Project Transaction Detail Ledger Review: Reviewed and tested a sample of entries for compliance with the terms of the agreement.	No exceptions. This project has \$0 general conditions. Internal Audit verified that the general conditions cost have not been included in the calculation of GMP 1.
20% Bond Rebate Calculation: Calculated the rebate that will be due to HISD upon project close out.	No exceptions.
Subcontract Commitment Ledger Review: Reviewed and reconciled to related subcontracts, subcontract change orders, and payments in the project transaction detail ledger.	No exceptions.
Payment Process Review: Reviewed and evaluated the payment process for proper approval and to reconcile with SAP (system used by bond fund accounting) for accuracy of payments.	No exceptions. This project has \$0 general conditions, no payroll is tested.
Change Orders (C/O) / Construction Change Directive (CCD) Review: If applicable, reviewed these items for compliance with contractual terms.	Not applicable. No C/O's or CCD's have been issued prior to April 2016.
Contract Allowances Review: Reviewed and reconciled the allowances to actual costs incurred.	Builder's Risk and General Liability Allowance -- exceeded the allowance by \$1,756.00
M/WBE Commitment Verification: Verify the commitment goals are being met by the contractor and monitored by Office of Business Assistance.	No exceptions
Payroll Review: Sampled and tested payroll entries for compliance with contract terms.	Not applicable.
Prior Audit Report Review: Review of prior reports and working papers, if applicable, to verify that prior findings were corrected the implementation of audit recommendations.	Not applicable. A prior audit report has not been issued.
Close Out Documents (if applicable) Review: The review included, but not limited to, certificate of final release, consent of surety, affidavit of bills paid, and final release of liens.	Not applicable. The project was not complete.

Auditor:



Jazzmine Fuller – Senior Construction Auditor

Approved:



John M. Gerwin – Construction Audit Manager

Attachments – Report Detail, Exhibit 1

cc: Richard A. Carranza
Rene Barajas
Andreas Peeples
Sherrie Robinson
Derrick Sanders
Lenny Schad
Board of Education

Attachment

Report Detail

The Waltrip HS project is ongoing. This interim audit consisted of a review of 2012 Scope of Work, which occurred from July 2015, through April 2016. This interim report is being issued to ensure the inclusion of any findings resulting from this review in the final accounting for Waltrip HS, upon project completion.

Testing of Costs in the Project Transaction Detail Ledger for Compliance with the Contract

–The project transaction detail ledger contained job costs totaling \$7,393,868.95. That amount included general conditions costs, totaling \$665,260.23. Internal audit has verified that the general conditions costs have not been included in the calculation of GMP 1. Accordingly, no exceptions were found. Please refer to the “Adjustments” section of (Exhibit 1) for a listing of the general conditions costs which were not included in the calculation of the final GMP.

Recommendation – CFS should continue monitoring for compliance with the \$0 general conditions cost provision in the contract.

Management Response – **We will continue to ensure that general conditions are not included in the cost against the project.**

Calculation of the Bond Rebate – During the cost review it was noted that the bond premium charged to date totaled \$179,599.00. Internal Audit has confirmed that the bond is eligible for a 20% rebate, which as of April 2016, totals \$35,919.80. Since the project is still ongoing, the rebate amount is subject to change based on the final GMP at project completion. In accordance with the contract, the district will be due the rebate barring any filings on the bond per Article 8.03 Discounts, Rebates, and Refunds, which states:

“The Cost of the Work to be paid by Owner shall be credited with the following items:”

- d. *“Rebates, discounts or commissions allowed to and collected by the Construction Manager from suppliers of materials or from subcontractors, together with all other refunds, returns, or credits received for return of materials and/or on bond premiums, by way of dividend or otherwise and/or insurance and/or sales taxes at the time received by Construction Manager.”*

Recommendation - CFS should ensure that the rebate is calculated on the final bond premium amount and included in the final reconciliation upon project close out.

Management Response – **Calculation of the final bond premium amount and rebate are part of the closeout process and will be performed accordingly.**

Review of the Subcontracts – Copies of the executed subcontracts were provided by S&P. The subcontract values were then reconciled to the subcontract commitment ledger and subcontract

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payments listed on the project transaction detail ledger. As of April 2016, there are \$15,091,737.42 in unbilled Subcontractor commitments. Because the project is still ongoing, it is expected that those commitments will be met and charged to the project.

Review of the Payments Made to S&P. – Application for Payment Nos. 1 through 10 were reviewed and reconciled to the payments made through the SAP system. No exceptions were found.

Change Order Review – No change orders were issued during this time period.

Reconciliation of the Project Allowances – S&P had 12 allowances. Only one minor exception relating to the allowances was found. S&P has expensed \$1,756.00 in excess of the Builder's Risk and General Liability Allowance. Please refer to the table below for details on the allowances.

Allowance	Allowance Budget	Amount Expensed	Remaining Balance (Over)/Under
Payment & Performance Bond	\$189,881.00	\$180,435.00	\$9,446.00
Builder's Risk and General Liability	\$536,133.00	\$537,889.00	(\$1,756.00)
Ceramic Tile Allowance at location of removed lockers	\$2,500.00	\$0.00	\$2,500.00
ADA Dishwasher Allowance	\$2,250.00	\$2,250.00	\$0.00
Cubicle Curtain and Track Allowance	\$5,978.00	\$0.00	\$5,978.00
Operable Wall Allowance	\$11,770.00	\$11,770.00	\$0.00
Projector Mount Allowance	\$470.00	\$0.00	\$470.00
Additional Phasing	\$500,000.00	\$336,354.00	\$163,646.00
Additional Abatement Allowance	\$100,000.00	\$100,000.00	\$0.00
VE Allowance	(\$5,864,911.00)	(\$962,203.00)	(\$4,902,708.00)
Permit	\$18,815.00	\$0.00	\$18,815.00
Owner's Contingency	\$922,957.00	\$257,492.10	\$665,464.90

In accordance with the contract, unused allowance amounts are credited back to the district. Because the project is still ongoing, the unused balances can still be used by the contractor for their express purposes. Also, as noted above, there is one allowance that has been exceeded. CFS is not obligated to pay any more than the allowance unless the allowance amount is adjusted by a change order.

Recommendation - CFS should continue to monitor the project allowances. The allowance which has been exceeded needs to be reviewed in order to determine if the overage is allowable. Internal Audit requests additional documentation regarding the insurance premiums. Since there are no change orders on the project during the period under review, there should be no reason to see an increase in the insurance premiums, as the original allowance should be based on the original quote from the insurance carrier.

Management Response – Reconciling allowances is part of the closeout process and will be reconciled prior to final payment.

Review of Satterfield and Pontikes Construction, Inc. M/WBE Commitment – Internal Audit contacted the Office of Business Assistance to verify that S&P's M/WBE goal is being monitored. The Office of Business Assistance stated that they monitor each company's commitment monthly, and that a final reconciliation is performed at the end of each project. At this time S&P has reached a 25% commitment level. The project is still ongoing and the Office of Business Assistance fully expects that S&P will meet their commitment of 25% upon project completion.

Estimated Final Accounting - Internal Audit has incorporated monetary adjustments for the addressed above into a GMP Reconciliation Sheet - Estimated Final Accounting for the project (Please See Exhibit 1). The estimated Guaranteed Maximum Price (GMP) through April 2016 for Phase 1 is \$18,323,036.41, which is \$4,939,653.59 below the originally contracted GMP of \$23,262,690.00. The estimated recovery of the 20% Bond Rebate which impacts both the project cost and the GMP totals \$35,919.80. The estimated GMP of \$18,323,036.41 is then compared to the amount paid of \$9,685,221.36 leaving an unbilled GMP through April 2016 of \$8,637,815.05. It should be noted that the final GMP and balance due to S&P will continue to change as the project is ongoing and additional phases are added.

Auditor:



Jazzmine Fuller – Senior Construction Auditor

Waltrip HS - 2012			Exhibit 1	
Reconciliation Sheet - Estimated Final Accounting				
	Contract Document	Contract Value	Comments	
	Base Contract	\$ 23,262,690.00	Taken from Exhibit B of the Contract	
	C/O's	\$ -		
	Total GMP	\$ 23,262,690.00	Contract Value + C/Os	
	Deduct	\$ (703,187.00)	CM at Risk Fee	Taken from Exhibit B of the Contract
	Total GMP Cost Only	\$ 22,559,503.00	GMP at Cost	Less CM at Risk Fee at 3.25%
Reference				
	Actual Cost incurred Per Job Cost History Provided by S&P	GMP @ Cost Per Pay Application	"Billed Cost" = Contract Value Less CM at Risk Fees at 3.25%	
	\$ 7,393,868.95	\$ 22,559,503.00	GMP @Cost = GMP < CM at Risk Fees VS Final Actual Cost through 4/30/16 per S&P	
Adjustments				
Remove General Conditions Costs				
Site Furnishings	\$ (27,985.00)			
Labor Burden - Salary Employee	\$ (165,304.49)			
Labor Burden - Hourly	\$ (20,673.55)			
Project Management-Lab	\$ (325,448.27)			
Project Management-OTH	\$ (9,310.30)			
Vehicle Allowances	\$ (7,585.00)			
Field Workers-Lab	\$ (22,634.00)			
Field Workers - OTH	\$ (3,414.08)			
Photographic Documentation	\$ (1,532.88)			
Badges/Security Procedures	\$ (216.50)			
Temporary Telecommunication	\$ (2,717.43)			
Field Office Trailer	\$ (3,209.60)			
First Aid Facilities	\$ (533.27)			
Postage & Delivery	\$ (46.43)			
Copy Machine/Fax Machine	\$ (1,581.25)			
Data Processing-Technology E	\$ (17,430.40)			
Office Supplies	\$ (6,108.56)			
Reprographics Expense-Blue p	\$ (861.89)			
Crane Mats	\$ (661.45)			
Temporary Fencing & Toilets	\$ (2,036.01)			
Temporary Security Barriers	\$ (8,005.60)			
Temporary Project Signage	\$ (477.76)			
Site Maintenance	\$ (7,851.79)			
Rent/Haul Dumpster	\$ (9,753.92)			
AGC Fees	\$ (19,881.00)			
Total General Conditions		\$ (685,260.23)		
Unbilled Amounts				
Subcontractor	\$ 16,442.00		Add Unbilled ABC Door Inc	
Subcontractor	\$ 217,565.23		Add Unbilled American Door Products Inc (\$221,680.00 - \$4,114.77= \$217,565.23)	
Subcontractor	\$ 89,181.00		Add Unbilled Basic Environmental Group, LLC (\$134,650 - \$45,469= 89,181)	
Subcontractor	\$ 232,300.00		Add Unbilled Big Boys Landscape and Irrigation (\$275,300 - \$43,000 = 232,300)	
Subcontractor	\$ 1,277,000.00		Add Unbilled CFI Mechanical (\$1,872,000 - \$595,000)	
Subcontractor	\$ 453,665.00		Add Unbilled Chief Fire Systems (\$814,665 - \$361,000=453,665)	
Subcontractor	\$ 672,400.00		Add Unbilled D & H Masonry Inc	
Subcontractor	\$ 526,665.81		Add Unbilled Dobbins Floor Coverings, Inc. (\$764,505 - \$237,839.19=\$526,665.81)	
Subcontractor	\$ 20,990.00		Add Unbilled Elite Storage Products (\$104,146 - \$83,156 = 20,990)	
Subcontractor	\$ 20,904.00		Add Unbilled Environmental Allies, Inc	
Subcontractor	\$ 1,937,511.00		Add Unbilled Gonzales Commercial Electric Inc. (\$2,922,619 - \$919,704 = 1,937,511)	
Subcontractor	\$ 2,874,806.00		Add Unbilled Greco Structures, LLC (\$4,505,031 - \$1,630,225 = \$2,874,806)	
Subcontractor	\$ 159,900.00		Add Unbilled Gulf Coast Soda Blast, LLC	
Subcontractor	\$ 4,398.00		Add Unbilled Kirk Services	
Subcontractor	\$ 365,488.00		Add Unbilled Kizziah Construction, Inc.	
Subcontractor	\$ 400,229.00		Add Unbilled LSI Corporation of America	
Subcontractor	\$ 363,350.00		Add Unbilled Marton Roofing LTD	
Subcontractor	\$ 34,805.00		Add Unbilled Miller Wire Works, Inc	
Subcontractor	\$ 77,389.00		Add Unbilled MRK Industrial Flooring Inc.	
Subcontractor	\$ 145,634.80		Add Unbilled MYREX Industries (\$376,180.00 - \$614,545.20 = \$145,634.80)	
Subcontractor	\$ 110,649.00		Add Unbilled NAH Sports Flooring, LLC	
Subcontractor	\$ 15,271.48		Add Unbilled Rob Pelletier Construction, In (\$33,546 - \$18,274.52 = \$15,271.48)	
Subcontractor	\$ 7,458.60		Add Unbilled Raven Mechanical LP (\$160,747.00 - \$153,288.40 = \$7,458.60)	
Subcontractor	\$ 79,520.00		Add Unbilled Spectrum Resource Group, LTD (\$81,401.00 - \$13,300 = \$79,520.00)	
Subcontractor	\$ 860,750.00		Add Unbilled The Theut Company LLC (\$1,042,893.00 - \$182,143.00 = \$860,750.00)	
Subcontractor	\$ 1,533,336.50		Add TX Lone Star Mechanical (\$1,877,650.00 - \$344,313.50 = \$1,533,336.50)	
Subcontractor	\$ 35,813.00		Add Underground Firemans R US (\$89,813.00 - \$54,000.00 = \$35,813.00)	
Subcontractor	\$ 333,125.00		Add Vogler Sheet Metal Company	
Subcontractor	\$ 1,991,690.00		Add Westway Construction Services (\$2,399,059.00 - \$407,369.00 = \$1,991,690.00)	
Subcontractor	\$ 233,500.00		Add W.S Steel Erection LLC	
Total Unbilled Subcontractor		\$ 15,091,737.42		
Allowance	\$ 9,446.00		Add unused Bond allowance - Allow. \$189,881 - Actual \$180,435 = \$9,446	
Allowance	\$ 2,500.00		Add unused Ceramic Tile Allowance at location of removed lockers	
Allowance	\$ 5,978.00		Add unused Cubicle Curtain and Track Allowance	
Allowance	\$ 470.00		Add unused projector mount allowance	
Allowance	\$ 163,646.00		Add unused Additional Phasing (\$500,000.00 - \$336,354.00 = \$163,646.00)	
Allowance	\$ 18,815.00		Add unused Permits	
Allowance	\$ 665,464.90		Add unused Owner's Contingency (\$922,957 - \$257,492.10 = \$665,464.90)	
Allowance	\$ (4,902,708.00)		Add unused VE Allowance (\$-6,864,911) - (\$62,203.00) = (4,902,708.00)	
Allowance - Insurance	\$ (1,756.00)		General Liability Ins and Builders Risk Ins. & other - Allow. \$536,133.00 - Actual \$537,889.00 = -1756.00	
Total Allowances		\$ (4,038,144.10)		
Payment and Performance Bond	\$ (35,919.80)	\$ (35,919.80)	179,599.00*20%	20% Bond Rebate Due HISD upon project completion
Subtotal	\$ 10,352,413.29	\$ (35,919.80)		
Totals	\$ 17,746,282.24	\$ 22,523,583.20	Adjusted Cost/Adjusted GMP at Cost	
		\$ (4,777,300.96)	Cost vs. GMP at Cost	
	\$ 17,746,282.24	\$ 22,523,583.20	Adjusted Cost Incurred per Transaction Detail / Adjusted GMP	
	\$ 576,754.17	\$ 576,754.17	Apply Fee to Adjusted Cost at 3.25%	
		\$ (4,777,300.96)	Remaining Uncommitted GMP as of 4/30/16	
	\$ 18,323,036.41	\$ 18,323,036.41	To Date GMP Based on Actual allowable costs with 3.25% Fee Applied	
Payments	9,685,221.36		Billed through Pay App 10.2 through 4/15/16	
	\$ 8,637,815.05		Unbilled GMP as of 4/15/16	