



School District of Indian River County

Internal Audit of Facilities Construction

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November 20, 2008

The Audit Committee of the
School District of Indian River County
Vero Beach, FL 32960-3367

Pursuant to the School District of Indian River County ('District') risk assessment and approved audit plan, we hereby submit our internal audit report covering Facilities Construction. We will be presenting this report to the Audit Committee at the next scheduled meeting on December 11, 2008.

Our report is organized in the following sections:

Executive Summary	Provides a summary of the observations related to our internal audit of the Facilities Construction process.
Background	Provides an overview of the process for completing new construction, including a description of the departments involved as well as District funding sources and planned projects.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Observations and Recommendations	This section describes specific observations noted during our review of the Facilities Construction process with corresponding recommendations and Management's response.
Appendix A – Process Maps B – Sample Checklists	This section includes process maps depicting the flow of in-scope sub-processes as validated by the Facilities Planning and Construction Department (Appendix A) and sample checklists to assist the department with implementing some of the recommendations (Appendix B).
Management's Response	Management's full response with attachments is provided in this section.

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of Facilities Construction.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

The primary purpose of this review was to assess the design adequacy and operating effectiveness of the internal control structure in place over the Facilities Construction process. This included evaluating controls in several departments including Purchasing, Finance and Facilities Planning and Construction. Although the Facilities Planning and Construction Department was our primary contact due to the nature of the process, our focus was to understand and identify any areas for process improvement that would facilitate communication and integration District-wide. We evaluated the following:

Facilities Construction		
Sub-process	# of Inherent Risks Identified	# of Controls Identified*
Planning and Budgeting	8	15
Selection and Contracts	7	10
Payment Application Processing	14	17
Change Orders/Contingency Usage	6	9
Monitoring and Communication	6	10
Project Reconciliation and Close	5	6
Total	46	67

* Where a specific control mitigates a risk in more than one sub-process, it has been counted for each instance where it impacts the overall Facilities Construction process.

During the course of our work, we discussed the control design and operating deficiencies with management. Our observations and recommendations for improving controls are described in detail in this report, along with management's response.

We assigned relative risk factors to each observation, which is an evaluation of the severity of the concern and the potential impact on operations. There are many areas of risk to consider including financial, operational and/or compliance, to name a few. For public sector organizations, we also take into account public perception risk when determining the relative risk rating. Items are rated as High, Moderate, or Low.

- *High - Risk Items* are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- *Moderate - Risk Items* may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- *Low - Risk Items* could escalate into operational issues, but can be addressed through the normal course of conducting business.

A summary of our observations is included on the following pages.

Summary of Observations

Observations Summary	Relative Risk
1. Communication Plan – Effective communication must flow down, across, and up the organization, as well as with external parties. Communication is inherent in information processing and should support the image of transparency. District management is responsible for communicating fiscal and operational performance results to the School Board and citizens. However, a formal communication plan is not in place at the District to manage the expectations of all interested parties. Specifically, as it relates to construction, the depth and breadth of expenditures and multiple restricted revenue sources indicate that a formal process for outlining the purpose, format, and frequency of communication for those projects is needed.	High

Executive Summary - continued

Summary of Observations - continued

Observations Summary	Relative Risk
2. <i>Planning and Budgeting</i> – The accuracy and completeness of up-front assumptions and estimating models the District relies upon to develop the Total Project Budget and estimated Construction Budget are significant for ensuring adequate funding is available for the specifications needed to increase capacity and deliver an enriched learning environment, while still minimizing costs. The Facilities department uses several resources for preparing estimates; however, during our fieldwork, we noted the process for developing a specific project budget is not well documented and inconsistencies were noted.	High
3. <i>Composition of Bid Evaluation Team</i> – The District's current purchasing procedures manual describes objectives of the evaluation team for selecting contractors and states that the team should be a diverse balanced team (including specifically identified personnel). We noted the purchasing manual was updated in September 2008 and discussions with the Purchasing Director indicated this section was given particular attention. We reviewed 24 awarded contracts requested by Facilities (specifically excluding Maintenance) between FY2006 and FY2009 and noted several instances whereby the team did not appear to be balanced. Some balanced evaluation teams were noted in later years; however there were still unbalanced teams during FY2008 and during FY2009 only one contract has been awarded to-date.	High
4. <i>Payment Application Processing</i> – A payment application review is intended to verify that all supporting documentation has been provided and contains accurate amounts, as well as check the mathematical accuracy of the documentation, reasonableness of costs, and check for duplicate submittals. Incomplete or inaccurate documentation may lead to over/underpayment of pay applications. We noted no documented policies regarding review of pay applications, including supporting documentation and completeness. The Facilities department does not currently utilize a checklist or have specific written procedures outlining the steps to be performed when processing a payment application. During our testing, we noted some inconsistencies on payment applications that could be eliminated or at least monitored if an appropriate checklist was used.	High
5. <i>Project Reconciliation, Post-Close Analysis and Reporting</i> – We noted that project reconciliation is not performed between Finance and Facilities, and any cost analyses that are performed are not standardized and documented. Both Finance and Facilities have some procedures in place to monitor costs and perform high level analysis. However, these are not coordinated between the departments, and they are not routinely communicated outside of the respective departments. A holistic, full-circle reconciliation process is not in place and irregularities may not be detected timely. We also noted there is no lifecycle reporting on each construction project or post-project analysis of "lessons learned" being prepared by the District or presented to the Board or other stakeholders.	High
6. <i>Bond / Insurance Monitoring</i> – Although the purchasing manual and contracts require insurance and bonds, the process ownership and current procedures for obtaining, reviewing, and monitoring bond and insurance compliance requirements is not clear in the manual and the departments involved did not have a process in place to ensure the appropriate monitoring and control. If renewal dates for required contractor bonds and insurance are not monitored, policies can lapse and the District can be exposed to general liability losses or losses due to non-performance of the contracts.	High

Executive Summary - continued

Summary of Observations - continued

Observations Summary	Relative Risk
7. Project Close-Out – While the optimal level of scrutiny varies with the construction delivery model and contract type, project close-out audits help preserve integrity, open lines of communication, provide an additional level of oversight and control, and assist management with ensuring that District funds are being appropriately spent. Although one past project is currently undergoing an audit, the District does not routinely perform close-out reviews on construction projects prior to release of final payment to the contractors.	Moderate
8. Performance Measurement – Performance measurement is the regular collection of specific information regarding the results of District services and departments. It includes the measurement of the job the District is doing and addresses the effect the District's efforts are having in the community. Together with strategic planning, benchmarking, and continuous improvement, performance measurement forms the nucleus for managing results. While we noted the Planning and Operations Division has a strategic plan tied to the District's overall plan, and includes specific goals and objectives, we did not see any specific, measurable performance metrics monitored and reported to management on a regular basis.	Moderate
9. Project General Ledger Account Assignment – During our testing of selection of contractors, we noted the process begins with Facilities completing a Request to Bid Approval form and submits it to Purchasing to begin the competitive process. The form includes a section for identifying which general ledger accounts (i.e. budgeted revenue sources) will be used for that project. That section of the form is to be approved by an Accounting Manager in the Finance department or other designee. This is an important step for ensuring the appropriate use of restricted funds, proper accumulation of costs, and adequate disclosure and reporting. We noted that these forms are being completed but not approved by Finance.	Moderate
10. Policies and Procedures – Centralized, standardized, and documented procedures provide vital information to employees in the event of absences, employee turnover, or other occurrences. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent project monitoring and reporting, as well as provide management with a benchmark that can be used to monitor against to ensure that staff perform processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable. Consistent standardized policies and specific department procedures will help ensure proper management of construction projects; compliance with contract provisions; and adequate review and approval of construction documents including contracts, bids, pay applications, invoices and reports. Throughout our testing, we noted that the Facilities department maintains minimal documented policies and procedures.	Low
11. Contractor / Service Provider Performance Evaluations – The purpose of evaluating professionals is to determine whether they are providing satisfactory service to the District. The Facilities Planning and Construction Department does not currently perform evaluations of professionals (i.e., architects, contractors).	Low
12. Florida Department of Education Reporting Requirements – The Florida Department of Education Office of Educational Facilities (OEF) publishes the State Requirements for Educational Facilities (SREF) manual for use in the facilities procurement process. Pursuant to Rule 6A-2.0010, Florida Administrative Code "all educational and ancillary facilities constructed by a school board or community college board shall comply with [SREF]". Although our testing did not make us aware of any forms that were not correctly filed, there is no formal process in place to ensure all required documentation is filed with the OEF. Each area is responsible for their own documents as determined necessary on a project-by-project basis, as not all forms are required for every project.	Low

Background

Background

Mission and Strategic Plan

The Vision and Mission of the School District of Indian River County are to educate and inspire every student to be successful and serve all students with excellence. To sustain those, the Facilities Planning and Construction Department's Mission is to construct, inspect and maintain buildings and grounds that are safe and secure, esthetically pleasing, efficient, economical and that provide a healthy learning environment for students, staff and community.

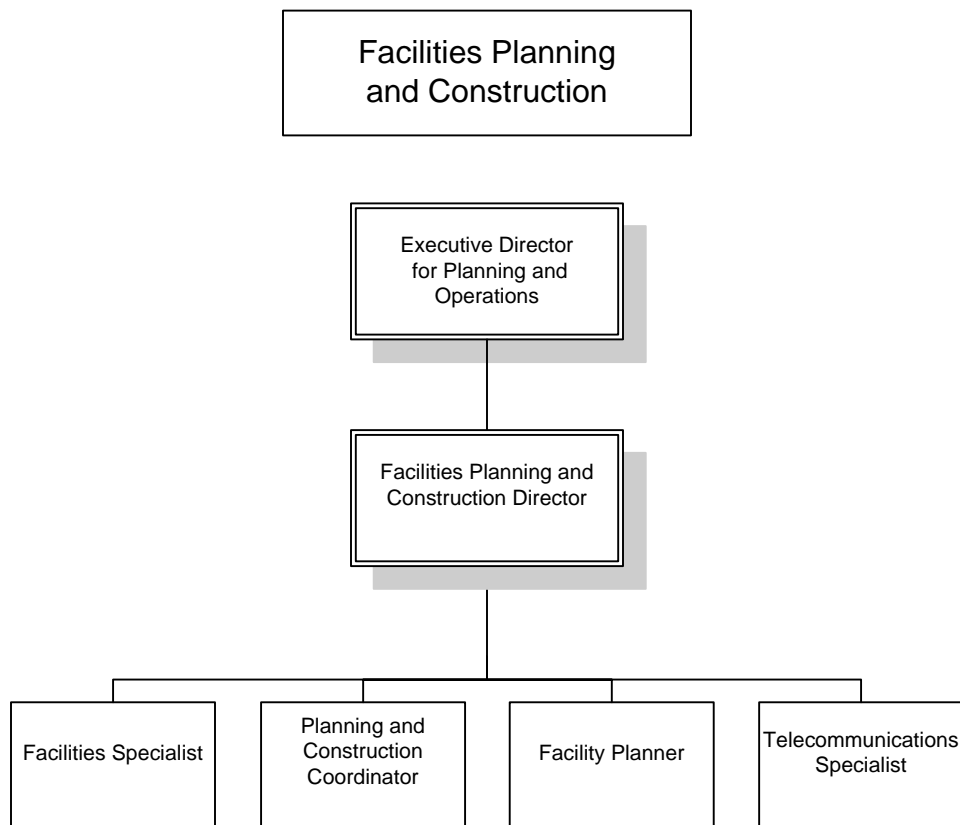
In an effort to support this mission, the Planning and Operations Division developed a Strategic Plan for Facilities and Construction Maintenance and Operations. The Goal and Objectives outlined in the plan include:

Goal – School District of Indian River County will provide and maintain the optimum physical space for enhancement of education and the well being of students at an efficient cost to the public.

- Provide state of the art physical plants, providing a permanent classroom space for every student.
- Provide for student safety and security in building plans, conduct periodic safety inspections and address safety deficiencies in a timely and efficient manner.
- Provide an efficient system for maintenance and repairs to buildings to be performed in a timely manner.
- Establish an Energy Management Program to reduce power consumption.

Organization Chart

Under the leadership of an Executive Director, the Planning and Operations Division oversees the administration of facilities and operations including capital outlay, new construction projects, remodeling, and renovation projects. The Division includes Facilities, Maintenance, and Transportation.



Background - continued

Project Funding

The District's construction projects are primarily funded through the following sources:

- ❑ *Local Capital Outlay Millage Levy* – Florida Statute 1011.72 allows school districts to levy up to 2.0 mills of capital outlay millage without an election. Funds are collected through local property taxes and may be used for new construction and remodeling projects; maintenance, renovation, and repair of existing facilities; specific transportation or equipment needs; and other uses.
- ❑ *Public Education Capital Outlay and Debt Service Trust Fund (PECO)* – A primary source of state capital outlay funding for Florida's school districts, community colleges, and the State University System. PECO funds are generated by a 2.5 percent levy on the gross receipts of utility companies and municipal corporations that provide electricity, natural gas, and telecommunication services and those that transmit co-generated electrical power. PECO funds are used not only for new construction, but also for remodeling, renovation, repair, and site improvement of educational facilities.
- ❑ *Capital Outlay (CO) and Debt Service (DS) Revenue* – Appropriated by Article XII of the State Constitution and one of the oldest (since the 1950s), most restrictive sources of fixed capital outlay funds available to the District, these funds are generated by the Motor Vehicle License Tax. CO and DS funds are distributed automatically by the Florida Department of Education and the amounts are based on a student membership full-time equivalent (FTE) formula.
- ❑ *Certificates of Participation (COP)* – COPs are an "other financing source" by which the District enters into a lease-purchase agreement for a specified period of time in order to borrow funds for the purposes of constructing and/or renovating educational facilities.
- ❑ *Classrooms for Kids Program* – Pursuant to Section 1013.735 F.S., these are class size reduction funds that may only be used to construct, renovate, remodel, or repair educational facilities not identified on a five-year work plan adopted prior to March 15, 2003, for the purposes of complying with the core curricula class size, as reduced by the State.

Below are the budget and actual revenues for the revenue sources shown above. Note that this list is not inclusive of all revenue received by the District for the purposes of facilities construction.

Revenue Source	FY 2008-2009 Budget*	FY 2007-2008 Budget*	FY 2006-2007 Actual
<i>Capital Outlay Millage</i>	\$ 30,607,708	\$ 34,999,136	\$34,531,019
<i>PECO</i>	1,828,066	3,660,288	3,082,537
<i>CO and DS</i>	85,000	85,000	99,413
<i>COP</i>	55,000,000	45,000,000	0
<i>Classrooms for Kids</i>	0	5,174,852	8,183,025
Total	\$ 87,520,774	\$ 88,919,276	\$45,895,994

* This is unaudited data and only represents a portion of the District's total Capital Outlay budget.

Background - continued

District Roles and Responsibilities

The following departments play key roles in the facilities construction process:

Facilities Planning and Construction

The Facilities department is responsible for providing project management services during all phases of construction, from pre-construction and design to inspection and close-out. This is generally accomplished by contracting with professional firms for all design, construction and other contract services and monitoring the projects until completion.

Purchasing

The Purchasing department assists the District with facilities construction by administering the competitive bid process for contractual services, as well as processing requests for procurement of services and goods to be received (i.e., purchase requisitions).

Finance

The Finance department oversees the record keeping of the District's financial transactions and safeguards the District's assets in accordance with generally accepted accounting principles and applicable regulatory requirements.

5-Year Work Plan

The School District of Indian River County Utilizes Public Pathways, a Minnesota-based third party consultant, to assist with the information gathering and preparation of the state-mandated 5-Year Work Plan. According to their website, Public Pathways provides assistance to school districts by working with existing staff to identify facilities needs and develop processes and data analysis skills to manage effective long range capital programs. Other clients in Florida include Orange and Palm Beach County schools.

The District licenses Public Pathways' *SchoolsCIP* software to develop the 5-Year Work Plan, including long range enrollment projections, capacity options, subdivision tracking, and capital budgeting. *SchoolsCIP* also includes tracking and reporting for the newly authorized Concurrency program, a State-mandated requirement to insure adequate school facilities for new residential development within the District.

The District also has a Long-Range Planning Committee made up of external volunteers from the community.

Background - continued

Construction Contracts and Delivery Methods

Construction Contracts

In any construction contract, the cost of the project consists of the costs for labor and materials and the builder's profit and overhead. Before a project begins, the costs are only estimates. There is risk involved for both the owner and the builder concerning the builder's ability to perform the work for a given actual cost. The differences between types of contracts primarily lie in who assumes the risk, who pays for cost over runs, and who keeps the savings if the project costs less than the estimate.

- *Lump Sum* – A lump sum contract is the most basic form of agreement between a supplier of services and a customer. The supplier agrees to provide specified services for a specific price. The receiver agrees to pay the price upon completion of the work or according to a negotiated payment schedule. In developing a lump sum bid, the builder will estimate the costs of labor and materials and add to it a standard amount for overhead and the desired amount of profit. If the actual costs of labor and materials are higher than the estimate, the builder's profit will be reduced. If the actual costs are lower than the estimate, the builder will earn more profit. Either way, the cost to the owner is the same.
- *Guaranteed Maximum Price* – In a guaranteed maximum price (GMP) contract, the contractor estimates the cost just like in a lump sum bid; however, profit is limited to a specified amount. If actual costs are lower than estimated, the owner keeps the savings. If actual costs are higher than estimated, the contractor pays the difference and profit is reduced. Sometimes, cost savings are shared between the owner and the contractor as an incentive to keep costs down. As in a lump sum contract, higher than anticipated costs can lead to disputes. The GMP will only apply to the work specified in the cost estimate. Changes, possibly including unforeseen circumstances or additional work which the contractor agrees to perform, can result in a final payment that is higher than the GMP. School districts should take steps to ensure that their voters understand that increases are possible.
- *Cost Plus* – In a cost plus contract, the contractor's profit is set at a fixed amount. If actual costs are lower than estimated, the owner keeps the savings. If actual costs are higher than estimated, the owner must pay the additional amount. Cost plus contracts are rarely used for school projects because school administrators and school boards rarely have the authority to exceed the amount appropriated for the project. The great advantage of a cost plus contract is that, generally speaking, the project will result in the building that was envisioned, even if costs run high. The builder is less likely to cut corners or argue for less expensive materials because their profit is not in jeopardy. Similarly, the builder has little incentive to keep the owner's costs down.

Background - continued

Construction Contracts and Delivery Methods - continued

Construction Delivery Methods

Construction delivery refers to the relationships between the owner, the designer, and the builder. There are three primary methods used to construct schools:

- *Design-Bid-Build* (Commonly known as Hard Bid) – The traditional method of building a school is to have the work designed by a team of architects and engineers and then advertise the plan to solicit bids from construction firms. The winning firm becomes the General Contractor and is responsible for overall completion of the project using the firm's own employees, sub-contractors, or a combination of both. The design and construction phases of the project are clear and distinct. A complete set of design documents is finished before the builder becomes involved.

There are several advantages to this process. This method has been around for a long time and is well understood. The design documents must be thorough and complete which lessens the chance of misunderstandings. This method should allow plenty of time to consider alternatives and to complete a thorough integrated design that involves all the occupants and design team members. The disadvantages are that this method takes the greatest amount of time to complete and that the designers and builders can sometimes become antagonists when the builder is unable to understand or even unable to build what has been designed. One potential pitfall to look for is that sometimes builders will intentionally bid low in order to win the project and then hope to make up the loss in profits through change orders.

- *Design-Build* – Design-Build is a very old method that fell out of use until recent years. In this process, the owner selects one contractor to both design and build the project. Design-Build is primarily intended to save time because the designers and builders work together from the beginning.

Time should be saved by using a fast track schedule where the builder begins working on each phase of the construction as soon as the design for that phase is complete. Ideally, the designers complete the next phase just as the builder is ready to start that phase. Design-Build works very well when using standard designs that have been built repeatedly. It is critical that the owner and builder have the same clear picture of the final project before construction begins. Since the owner and builder commit to a cost before design is started, there is a degree of uncertainty that will have an associated cost that will probably be included in the builder's bid.

- *Construction Management* – In Construction Management, the owner hires a construction professional early in the design phase. The construction manager works with the design team to help ensure that the design is something that can in fact be built for a reasonable cost and that the builders will be able to understand the design drawings and specifications. This method can result in a reduction of the total design effort similar to what occurs in Design-Build. There are two basic types of construction management: construction manager as advisor and construction manager at risk. In the construction manager as advisor variation, the construction manager acts as technical consultant to the owner and has no legal responsibility for the performance of the actual construction work. In the construction manager at risk variation, which is frequently used for school projects, the construction manager becomes the prime contractor during the construction phase. The construction manager awards sub-contracts much like a general contractor in a Design-Bid-Build project.

Construction management projects are most frequently done through a guaranteed maximum price contract; however, other types may be used. Fast track schedules are also possible and include the same inherent risks described under Design-Build above.

Background - continued

Construction Contracts and Delivery Methods - continued

Construction Delivery Methods - continued

One advantage of construction management is that a builder is involved in the design and decision making process almost from the start. Another advantage is that the owner can often be more involved in the selection of sub-contractors if so desired. The disadvantages of construction management are that the builder must be paid for his participation in design, there may be some blurring of the lines of responsibility, and the owner should expect to have more meetings requiring attendance.

School boards and facilities personnel will often spend many hours debating the type of contract and method of delivery to be used. All of the various agreements can result in a successful project if used correctly and in the proper situations. Likewise, problems and dissatisfaction can occur with any contract.

The School District of Indian River County builds facilities utilizing a combination of construction contract and delivery methods, primarily Construction Management at Risk with a Guaranteed Maximum Price and Hard Bid. The methodology for choosing a delivery model, though not standardized, is based on the size and complexity of the projects as well as other determining factors.

Objectives and Approach

Objectives and Approach

Objectives

The primary purpose of this review was to assess the design adequacy and operating effectiveness of the internal control structure in place over the Facilities Construction process. This included evaluating controls in several departments including Purchasing, Finance and Facilities Planning and Construction. Although the Facilities Planning and Construction Department was our primary contact due to the nature of the process, our focus was to understand and identify any areas for process improvement that would facilitate communication and integration District-wide. Our approach was focused on determining whether the proper controls exist and whether existing controls are appropriate for mitigating the risks to Facilities Construction.

We evaluated the key controls for the following in-scope sub-processes:

- Planning and Budgeting
- Selection and Contracts
- Payment Application
- Change Orders/Contingency Usage
- Monitoring and Communication
- Project Reconciliation and Close

Approach

The design adequacy and operating effectiveness analysis of internal controls over the Facilities Construction process consisted of the following steps:

Understanding and Documentation of the Process

In order to obtain an understanding of the significant sub-processes in scope and identify inherent risks and key controls to mitigate risks, we conducted a facilitated session and performed a process walkthrough with the respective process owners and subject matter experts. We researched and reviewed applicable Florida Statutes, Rules of the Auditor General, Department of Education Guidelines, School District of Indian River County policies, and Facilities Construction procedures. We inquired of department personnel and obtained detailed documentation of the process, which is captured in a 'Process Map.' The process maps were validated and approved by the District and are included in Appendix A of this report.

Risk and Control Matrix

From the facilitated sessions, process walkthroughs, and documentation provided, we summarized the following for each process:

- Key risks inherent to each process.
- Existing controls for mitigating the risks identified.
- Evaluation of controls. Any findings identified during our evaluation are presented in the Observations and Recommendations section of this report.

Detailed Tests of Controls

We performed specific testing related to the controls identified to evaluate whether the controls were operating as designed. Our fieldwork was conducted at the District's offices. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Where applicable, testing was performed on a sample of construction projects started or completed during the last two fiscal years.

Reporting

At the conclusion of our audit, we summarized our findings related to Facilities Construction. We conducted an exit conference, to discuss our observations and recommendations, with the Deputy Superintendent, the Executive Director of Planning and Operations, and the Director of Facilities Planning and Construction. We have incorporated management's response into our report.

Observations and Recommendations

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	<p>1 Communication Plan</p> <p>Effective communication must flow down, across, and up the organization, as well as with external parties. Communication is inherent in information processing and should support the image of transparency.</p> <p>District management is responsible for communicating fiscal and operational performance results to the School Board and citizens. However, a formal communication plan is not in place at the District to manage the expectations of all interested parties. Specifically as it relates to construction, the depth and breadth of expenditures and multiple restricted revenue sources indicate that a formal process for outlining the purpose, format and frequency of communication for those projects is needed.</p> <p>Information and communication systems support the identification, capture, and exchange of information in a form and timeframe that enables management and other appropriate personnel to carry out their responsibilities.</p> <p>Communication also pertains to dealing with expectations and responsibilities of individuals and groups. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others.</p> <p>Without a formal communication plan, stakeholder groups such as public citizens, the School Board, District management and employees may not be assured that they will receive critical information when it is needed or desired.</p>	<p>The Facilities department, in conjunction with District leadership and the Public Information Officer, should develop a communication strategy to ensure timely communication of construction-related events is provided to all pertinent parties.</p> <p>For example, communications should include deviations from timelines and should be relayed to the appropriate levels in a timely manner. This will enable leaders to prepare their schools or departments and to be prepared when parents, students, and teachers ask questions.</p> <p>Some examples of forms of communications are:</p> <ul style="list-style-type: none"> ▪ Policies and Procedures Manuals ▪ District Reports ▪ Press Releases ▪ Departmental Reports ▪ School Board Meetings ▪ Audit Committee Meetings ▪ School-based Newsletters ▪ Website (Intranet and Internet) <p>Websites are more and more becoming the first source of information for stakeholders and interested parties. Technology resources should ensure website links are valid and the District should continue to increase information available via the intranet and internet.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	<p>2 Planning and Budgeting</p> <p>The accuracy and completeness of up front assumptions and estimating models the District relies upon to develop the Total Project Budget and estimated Construction Budget are significant for ensuring adequate funding is available for the specifications needed to increase capacity and deliver an enriched learning environment, while still minimizing costs.</p> <p>Because the planning process is fluid and based on critical assumptions and estimates, there should be written procedures for the methodology and assumptions used to complete the 5-year Capital Improvement Plan budgets and timelines, as well as enrollment projections.</p> <p>Facilities uses several resources for preparing estimates, assumptions and budgets, including:</p> <ul style="list-style-type: none"> Third-party consultant for 5-year plan Local developers and school concurrency information Department of Education projections/trends Industry pricing trends and cost reports Educational Facility Survey Castaldi analysis <p>However, during our fieldwork we noted the process for developing a specific project budget is not well documented and inconsistencies were noted, including the following:</p> <ul style="list-style-type: none"> Multiple future student enrollment projections in use varying by department. Budgets for Vero Beach Elementary and Osceola Magnet replacements to occur in FY2009 are \$20,000,000 for 750 student stations each, while budget for Elementary School "C" to occur in FY2012 is only \$18,000,000 for 750 student stations. 	<p>It is critical that the appropriate people are involved in the budgeting process. This should include internal subject matter experts as well as external experts. The budgeting and planning process should include involvement from all critical departments in the District, such as Facilities, Finance, the Curriculum division, IT and Legal. Other areas may also include Food and Nutrition Services, Maintenance and Transportation.</p> <p>As noted in Observation #10, policies and procedures should be enhanced and formalized. Formalized policies and procedures should include underlying assumptions for the growth planning process. In addition, they should be in adequate detail to ensure cross training, consistency with strategic objectives, and limit the exposure to misunderstandings.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	<p>3 Composition of Bid Evaluation Team</p> <p>The current Purchasing Procedures Manual utilized by Purchasing for administering the competitive bid process describe the composition of the Evaluation Team as follows:</p> <p>"In most projects the district strives to have a diverse balanced team of individuals to participate in this process. Evaluation Team members plus one alternate will be selected by the Director of Purchasing. To the extent possible, the district will have the following profile of individuals to participate in the evaluation process.</p> <ul style="list-style-type: none"> ▪ Project Manager from the Facilities or Maintenance Department ▪ Principal or key staff member for school-based projects ▪ Ad-hoc members to help balance out the diversity and skill base. For example, Director of Food Service, representative of the Finance Department, site administrator or other school-based individuals with the skill set necessary to assist with the evaluation process. Individuals who shall not be voting members of the Evaluation Team are the Executive Director of Planning and Operations and the Director of Purchasing." <p>The manual was updated in September 2008 and discussion with the Purchasing Director indicates this section was given particular attention. We reviewed five project bid files and the files were complete and compliant with Statute. We also reviewed 24 awarded contracts requested by Facilities between FY2006 and FY2009 and noted the following with respect to the make-up of the evaluation teams:</p> <ul style="list-style-type: none"> ▪ 17 evaluation teams included 3 or more employees from the Planning and Operations Division (i.e., Facilities and/or Maintenance). Included in those 17, 5 teams were comprised of all employees from that division. ▪ The Facilities Director has participated in 16 evaluation teams. 	<p>In order to ensure transparency and support positive public perception of an independent, unbiased contractor selection process, evaluation teams should be an odd number of evaluators and should consist of a minority number of employees from the Planning and Operations Division, including Maintenance and Transportation. Non-voting participants with subject matter expertise could include other employees from the division. The current procedures are written in such a way to support this recommendation.</p> <p>Management should consider appointing and training a pool of potential committee members for rotational participation. Participation should be encouraged by leadership and rotation should be mandatory.</p> <p>To further support equitable and independent distribution of work among qualified vendors, Finance should perform a mid-year analysis of payments and encumbrances to vendors paid out of Capital Outlay funds and present a report to the Board with justifications, performance measures, etc. Continuing contracts should be specifically evaluated for equity, since more than one firm was deemed qualified to receive work from the District.</p> <p>See also Observation #8 related to Performance Measurement.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	<p>3 Composition of Bid Evaluation Team - continued</p> <ul style="list-style-type: none"> ▪ The Executive Director of Planning and Operations was on the team for one project – #2007-13 RFQ for Architectural Services for a Master Study of 66th Avenue Property. The Assistant Superintendent of Planning and Operations has not participated in an evaluation team since that time. ▪ A School Board member participated on the team for one project - #2008-34 RFQ for Architectural Services for Charter Schools Needs Assessment. ▪ One team had 6 evaluators instead of 5 and 3 of which were from Facilities or Maintenance. <p>More balanced evaluation teams were noted in later years; however, there were still unbalanced teams during FY2008. Only one contract has been awarded during FY2009 to-date.</p> <p>In addition, we performed an analysis of vendor payments over \$100,000 out of the Capital Outlay funds over the last five years. The analysis indicates that two local contractors receive the bulk of the construction work – Proctor Construction and Summit Construction. They are local vendors that have the qualifications and bonding capacity required to complete the District's larger, more costly projects.</p> <p>Architectural work for large projects seems to be more equitably distributed, however miscellaneous services for site work and building renovations appear to be awarded to two firms, Carter and Associates and Donadio and Associates, respectively. Both of these firms were also recently selected as one of the qualified firms for continuing contract for Architectural Services for Small and Large Projects.</p> <p>It should be noted that in 2008 the District began using other construction companies.</p>		<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	<p>4 Payment Application Processing</p> <p>We noted no documented procedures regarding review of pay applications, including supporting documentation and completeness. The Facilities department does not currently utilize a checklist or have specific written procedures outlining the steps to be performed when processing a payment application.</p> <p>Payment application review is intended to verify that all supporting documentation has been provided and contains accurate amounts, as well as checks the mathematical accuracy of the documentation, reasonableness of costs, and duplicate submittals. Incomplete or inaccurate documentation may lead to over/underpayment of pay applications.</p> <p>During our testing, we noted some inconsistencies on payment applications that could be eliminated or at least monitored if an appropriate checklist was used.</p>	<p>The Facilities department should establish procedures for ensuring that all required documentation is received and reviewed for completeness and accuracy prior to processing a payment request.</p> <p>Due to the complexities of the process and potential turnover of staff, we recommend that a processing checklist be developed and utilized.</p> <p>Some example steps include:</p> <ul style="list-style-type: none"> ▪ Verify the Previously Completed amount on the current pay application agree to the Total Completed amount on the previous pay application. ▪ Match the current period amounts due to the supporting documentation and review the support for reasonableness. ▪ Verify that subcontractor support contains any necessary approvals, as required by the contract, such as notarization and Professional/architect sign-off. ▪ Review percentage of completion and recalculate any fees based on percentage of completion for accuracy. ▪ For any Staffing Costs or General Conditions allowable by the contract, review the supporting documentation for completeness, mathematical accuracy and reasonableness. ▪ For any Staffing Costs or General Conditions, ensure that there are no duplicated invoices that were previously paid with another payment request. <p>A sample checklist is included in Appendix B of this report.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	5 Project Reconciliation, Post-Close Analysis and Reporting		
	<p>We noted that project reconciliation is not performed between Finance and Facilities, and any cost analyses that are performed are not standardized and documented.</p> <p>Both Finance and Facilities have some procedures in place to monitor costs and perform high level analysis. However, these are not coordinated between the departments, and they are not routinely communicated outside of the respective departments. A holistic, full-circle reconciliation process is not in place and irregularities may not be detected timely.</p> <p>Additionally, although not formalized in a communication plan (as detailed in Observation #1), we noted the District utilizes several avenues to keep the School Board and other interested parties updated on the status of capital projects, including the Superintendent's "Friday Update", periodic reports at School Board meetings for exception events, and Board workshops to discuss capital projects and the budget process.</p> <p>However, there is no lifecycle reporting on each construction project or post-project analysis of "lessons learned" being prepared by the District or presented to the Board or other stakeholders.</p>	<p>Reconciliation should occur between Facilities and Finance at a minimum at the completion of a project. Reconciling items should include the following:</p> <ul style="list-style-type: none"> ▪ Monitor and reconcile actual costs, general ledger accounting and contract costs. ▪ Track and reconcile owner direct purchases and resultant sales tax savings. ▪ Identify and appropriately segregate non-permanent assets from construction costs for capitalization. ▪ Budget monitoring and reconciliation. <p>At fiscal year-end, there should also be reconciliation as well, to ensure current projects are capitalized as needed, properly classified as construction in progress, and contractual commitments are adequately disclosed.</p> <p>A post-close analysis should be provided to the Board upon completion of a project and should include project costs as well as other pertinent information. Some examples of the information that should be included are:</p> <ul style="list-style-type: none"> ▪ Original project budget compared to final project cost, including land; furniture, fixtures and equipment; and other non-construction contract costs. ▪ Total cost per square footage compared to other projects within the District, as well as external. ▪ Trend analysis of owner direct purchases and furniture, fixtures and equipment compared to other projects (percentage of total contract and amount of sales tax savings). <p>A sample Project Reconciliation checklist is provided in Appendix B of this report.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
High	6 Bond / Insurance Monitoring		
	<p>Performance and payment bond documentation and support for required insurance coverage is obtained during the qualification, selection, and contract negotiation processes.</p> <p>If renewal dates for required contractor bonds and insurance are not monitored, policies can lapse and the District can be exposed to general liability losses or losses due to non-performance of the contracts.</p> <p>Although the purchasing manual and contracts require insurance and bonds, the process ownership and current procedures for obtaining, reviewing, and monitoring bond and insurance compliance requirements is not clear in the manual. We noted that the Facilities Specialist is sending reminders to contractors and other vendors, but follow up is not occurring.</p> <p>Based on our review of the audited CAFR for the period ended June 30, 2007, we noted the following summarized observation and recommendation was made by the Auditor General:</p> <p>"District procedures require architectural firms to provide professional liability insurance in relation to the probable cost of the construction project. The District entered into a contract with an architectural firm and obtained a certificate of professional liability coverage; however, the coverage was less than the contract requirement. The District should enhance procedures to ensure architects carry sufficient professional liability insurance prior to awarding such contracts."</p>	<p>To ensure appropriate coverage and limitation of losses to the District, Facilities personnel should copy Finance on reminders sent to vendors about bonding and insurance requirements. This will ensure a collaborative effort and provide a backup to Facilities for follow up.</p> <p>Additionally, to facilitate the project setup process and ensure all required documentation is obtained, we recommend implementation of a new project setup checklist.</p> <p>The checklist could be as simple or expansive as desired. A simple checklist could include steps pertaining to obtaining specific documentation up-front, such as bonds and insurance coverage, and setup of reminders for monitoring expiration dates of such documents (i.e., utilizing Outlook reminders and an Excel tracking sheet).</p> <p>A more expansive checklist could include significant milestones and critical documentation steps (i.e. budget approval, contractor selection, GMP approval, contract amendments, etc.) and require sign-offs by all responsible parties.</p> <p>A sample checklist is provided in Appendix B of this report.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Moderate	7 Project Cost and Contract Compliance Review		
	<p>Although one past project is currently undergoing an audit, the District does not routinely perform final in-depth reviews of construction projects prior to release of final payment to the contractors.</p> <p>While the optimal level of scrutiny varies with the construction delivery model and contract type, project cost and contract compliance reviews help preserve integrity, open lines of communication, provide an additional level of oversight and control and assist management with ensuring that District funds are being appropriately spent.</p> <p>Some objectives of a project cost and contract compliance review include:</p> <ul style="list-style-type: none"> ▪ Determine compliance by the contractors (and the District, to a lesser extent) with significant provisions of the performance contracts. ▪ Determine whether the costs of the project paid to-date were valid, complete and accurately reflected in the District's financial records. ▪ Present the costs of construction to-date against the District's pre-determined budget and document the project timeline for further analysis by the District. ▪ Evaluate the amounts payable as shown on the contractors' final payment application for accuracy and completeness. ▪ Make compliance and control recommendations where applicable, as they relate to the specific procedures performed. 	<p>We recommend that the District perform project cost and/or contract compliance reviews prior to release of final payment to the contractor.</p> <p>These reviews could be performed on all projects, all projects that exceed a specified dollar threshold, or other criteria (or combination thereof) identified by management on a risk-based approach. These reviews can be conducted as part of the project budget and operating funds can be utilized for this purpose.</p> <p>Some instances leading to potential cost recoveries that have been identified in other District's include the following:</p> <ul style="list-style-type: none"> ▪ Incorrect calculation and credit of sales tax savings for owner direct purchases. ▪ Inappropriate or unauthorized use of contingency funds. ▪ Duplicate payments for general conditions or contingency items. ▪ Unsubstantiated costs or overages on labor burden. ▪ Inappropriate charges for equipment rental or excessive materials. ▪ Unused line item balances not returned to the District. ▪ Incorrect allocation and payment of fixed Overhead and Profit or Construction Management fees. ▪ Actual payments to subcontractors do not agree to GMP line items and amounts paid by the District. 	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Moderate	<p>8 <i>Performance Measurement</i></p> <p>Performance measurement is the regular collection of specific information regarding the results of District services and departments. It includes the measurement of the job the District is doing, and addresses the effect the District's efforts are having in the community. Together with strategic planning, benchmarking and continuous improvement, performance measurement forms the nucleus for managing results. Departments should develop performance measures that are tied to District's the overall strategic plan.</p> <p>While we noted the Planning and Operations division has a strategic plan tied to the District's overall plan, and includes specific goals and objectives, we did not see any specific, measurable performance metrics monitored and reported to management on a regular basis.</p>	<p>We recommend the department, in conjunction with District management, develop performance metrics that are specific and measurable, and include designated measurement checkpoints (e.g., annually, bi-annually, etc.)</p> <p>Some suggested examples or targeted topics could include the following:</p> <ul style="list-style-type: none"> ▪ Meeting project timelines, including turnaround time for contractor selection, fee negotiation and Board approval; ▪ Project site safety, including number of incidents reported, if any; ▪ Distribution of work among qualified contractors, including major projects as well as continuing contracts; ▪ Costs per student station; ▪ Costs per additional square foot; ▪ "Customer" satisfaction ratings, including principals and contractors. <p>Management should determine what metrics are key to meeting the objectives of the District, define them in measurable terms, and potentially tie the success or failure of those metrics to employee performance. Management could also consider benchmarking their performance against peer districts.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Moderate	9 Project General Ledger Account Assignment		
	<p>During our testing of selection of contractors, we noted the process begins with Facilities completing a Request to Bid Approval form and submits it to Purchasing to begin the competitive bid process. The form includes a section for identifying the general ledger accounts (i.e., budgeted revenue sources) will be used for that project. That section of the form is to be approved by an Accounting Manager in the Finance department or other designee.</p> <p>This is an important step for ensuring the appropriate use of restricted capital outlay or debt service funds, proper accumulation of costs, and adequate disclosure and reporting.</p> <p>We noted that these forms are being completed but not approved by Finance.</p>	<p>We recommend the District continue its compliance efforts to ensure the approval of general ledger accounts prior to incurring project costs.</p> <p>See also the recommendations at Observation #5.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Low	10 <i>Documented Procedures</i>		
	<p>Centralized, standardized, and documented procedures provide vital information to employees in the event of absences, employee turnover, or other occurrences. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent project monitoring and reporting, as well as provide management with a benchmark that can be used to monitor against to ensure that staff perform processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable.</p> <p>Consistent standardized policies and specific department procedures will help ensure proper management of construction projects; compliance with contract provisions; and adequate review and approval of construction documents including contracts, bids, pay applications, invoices and reports.</p> <p>Throughout our testing, we noted that the Facilities department maintains minimal documented policies and procedures.</p>	<p>The Facilities department should enhance and formalize its procedures to ensure all key or significant processes and procedures are formally documented. Facilities, Finance, and Purchasing should also work together to establish a cohesive set of procedures. This will help ensure a complete understanding of the process and compliance with statutes and School Board policy.</p> <p>Some examples of the areas where policies and/or procedures should be considered include:</p> <ul style="list-style-type: none"> ▪ Documenting methodology / analysis criteria to determine construction delivery and bid method. ▪ Project setup requirements. ▪ Payment application processing and approval. ▪ Project reconciliation and close. ▪ Performance evaluations for service providers. <p>Formalized policies and procedures should not only include instructions as to how procedures should be performed, they should include instructions as to how often procedures are to be performed and how often the underlying information, such as methodologies, should be reviewed and updated.</p> <p>In lieu of lengthy documented procedures that require continuous monitoring and update, the department may also consider an overall high-level procedure and implementation of process checklists that include the steps to be taken for a particular area. Some example checklists are included in Appendix B of this report.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Low	11 Contractor / Service Provider Performance Evaluations		
	<p>The purpose of evaluating contractors and other vendors is to determine whether they are providing satisfactory service to the District.</p> <p>In the event an issue is identified, evaluations can provide the documentation necessary to support the District's desired action (e.g. suspension or disqualification of future projects).</p> <p>The Facilities Planning and Construction department does not currently perform evaluations of professional service providers (i.e. architects, contractors).</p>	<p>We recommend that the District develop a procedure and corresponding forms to evaluate service providers. The evaluations should be performed on a regular basis (i.e., annually or at project completion). Such frequency should also be documented in formalized procedures.</p> <p>Also in conjunction with the recommendations at Observation #8, the District may also consider asking the service providers to evaluate the Facilities department at the same time, as a measurement of "customer" satisfaction.</p> <p>See also Observation #10 regarding formalizing and documenting procedures.</p>	<p>Management's Response is included as an attachment to this report.</p>

PROCESS MAPS

Rating	Observations	Recommendation	Management Response
Low	12 <i>Florida Department of Education Reporting Requirements</i>		
	<p>The Florida Department of Education Office of Educational Facilities (OEF) publishes the State Requirements for Educational Facilities (SREF) manual for use in the facilities procurement process. Pursuant to Rule 6A-2.0010, Florida Administrative Code “all educational and ancillary facilities constructed by a school board or community college board shall comply with [SREF]”.</p> <p>The publication is organized in the sequence of steps required. The main sections include Administration, Finance, Survey Procedures, Construction Procedures, Existing Facilities, Size of Space and Occupant Design Criteria, and Forms. The manual is more than 200 pages and the OEF has also made available guidelines to SREF that include recommendations, best practices, and reiterations for rules, codes, and standards not specifically referenced in SREF.</p> <p>Although our testing did not make us aware of any forms that were not correctly filed, there is no formal process in place to ensure all required documentation is filed with the OEF. Each area is responsible for their own documents as determined necessary on a project-by-project basis, as not all forms are required for every project.</p>	<p>We recommend that one individual be designated as a “gatekeeper” for required OEF filings. This person would be responsible for monitoring changes in filing requirements, tracking filing deadlines, and ensuring consistency regardless of department responsible for preparing the documentation.</p> <p>A checklist can be a useful tool for monitoring and tracking deadlines, documentation requirements, etc. The checklist could also include other required filings in addition to SREF, such as County requirements. If the District decides to utilize a checklist, we also recommend that the checklist be reviewed and updated regularly to ensure that it is all-inclusive and remains appropriate.</p> <p>Depending on whether the OEF will be performing facility plan review, the forms that are required to be completed for each new school include the following: All projects:</p> <ul style="list-style-type: none"> ▪ OEF 110A – Project Implementation Form ▪ OEF 208 – Letter of Transmittal ▪ OEF 110B – Certificate of Occupancy ▪ OEF 209 – Certificate of Final Inspection ▪ OEF 564 – Costs of Construction ▪ Florida Inventory of School Houses database (FISH) <p>Plan Review forms:</p> <ul style="list-style-type: none"> ▪ OEF LCCA – Life Cycle Cost Analysis (for HVAC) ▪ OEF 208A – Facility Space Chart 	<p>Management's Response is included as an attachment to this report.</p>

Other Observations

OTHER OBSERVATIONS

Other Observations

Florida Statute 1013.45 states that reuse of existing construction documents or design criteria packages (i.e., prototype schools) must occur if feasible. The statute specifies that if a district's 5-year work plan includes two or more schools for students in the same group and program (such as elementary, middle or high school) a prototype is required. This is a new Florida Statute.

Construction and maintenance projects are assigned a facility/project number in the general ledger to assist with tracking project costs, budget and contract compliance. However, we noted there are multiple generic categorical accounts (e.g., Building Renovation, Air Conditioning, Site Improvements) whereby it is difficult to identify the corresponding project for costs incurred. These accounts are primarily used by Maintenance, but several larger projects have been completed by Facilities instead. The District has been recently assigning another dimension (program code) to larger projects as determined necessary, but the process for which projects need such assignment is not standardized.

We noted the School Board of Indian River County does not approve "final acceptance" of project completion. Florida Statute 1013.50 states that final payment to the contractor "shall not be made...until the board [acting on recommendation of the architect] has accepted the project."

The Contingency Change Authorization form does not contain an area for identifying which party is requesting or responsible for the unforeseen items. This is important for determining and documenting whether Errors and Omissions liability applies or whether the cost should be absorbed by the contractor and not the District.

The Facilities Planning and Construction Department, nor the District as a whole, does not currently have a formal succession plan in place. There are several key administrative individuals in the Deferred Retirement Option Plan (DROP) and will greatly affect the leadership structure of the District.

We noted that on June 12, 2007, a contract was approved by the Board for County Office Electrical and Mechanical Modifications (Bid #2007-34), in the amount of \$528,641 that was not reported as a construction commitment in the annual financial statements for the year ended June 30, 2007. While there is no financial impact, there is a disclosure requirement that was missed for this transaction.

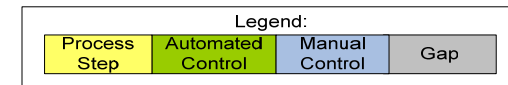
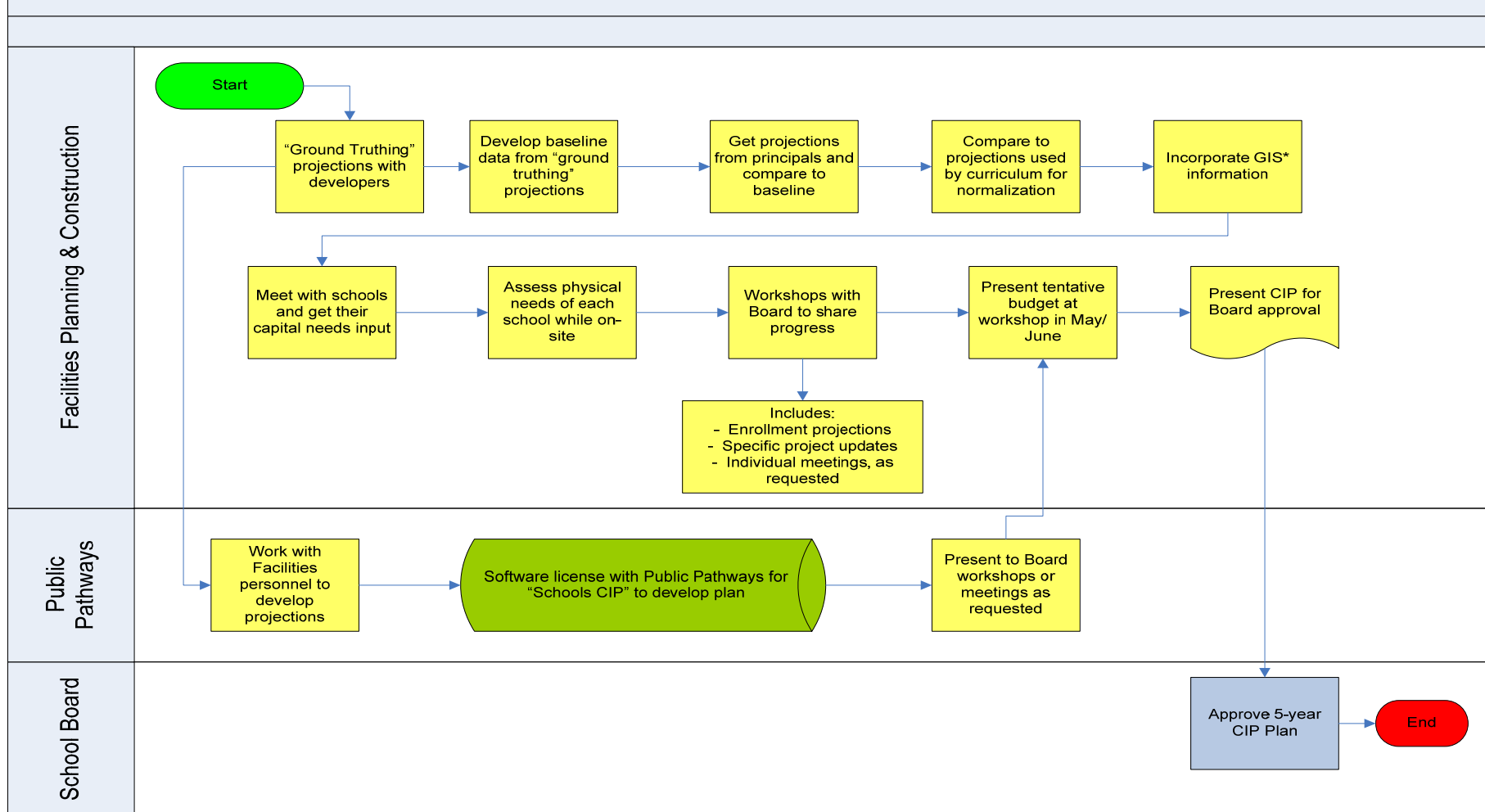
The Long-Range Planning Committee does not have a formal charter and has not met in longer than a year. If the District plans to utilize this committee as an oversight and advisory committee to assist with Facilities Planning and Construction, it should be formalized and meet on a periodic basis.

Appendix A – Process Maps

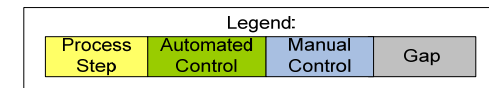
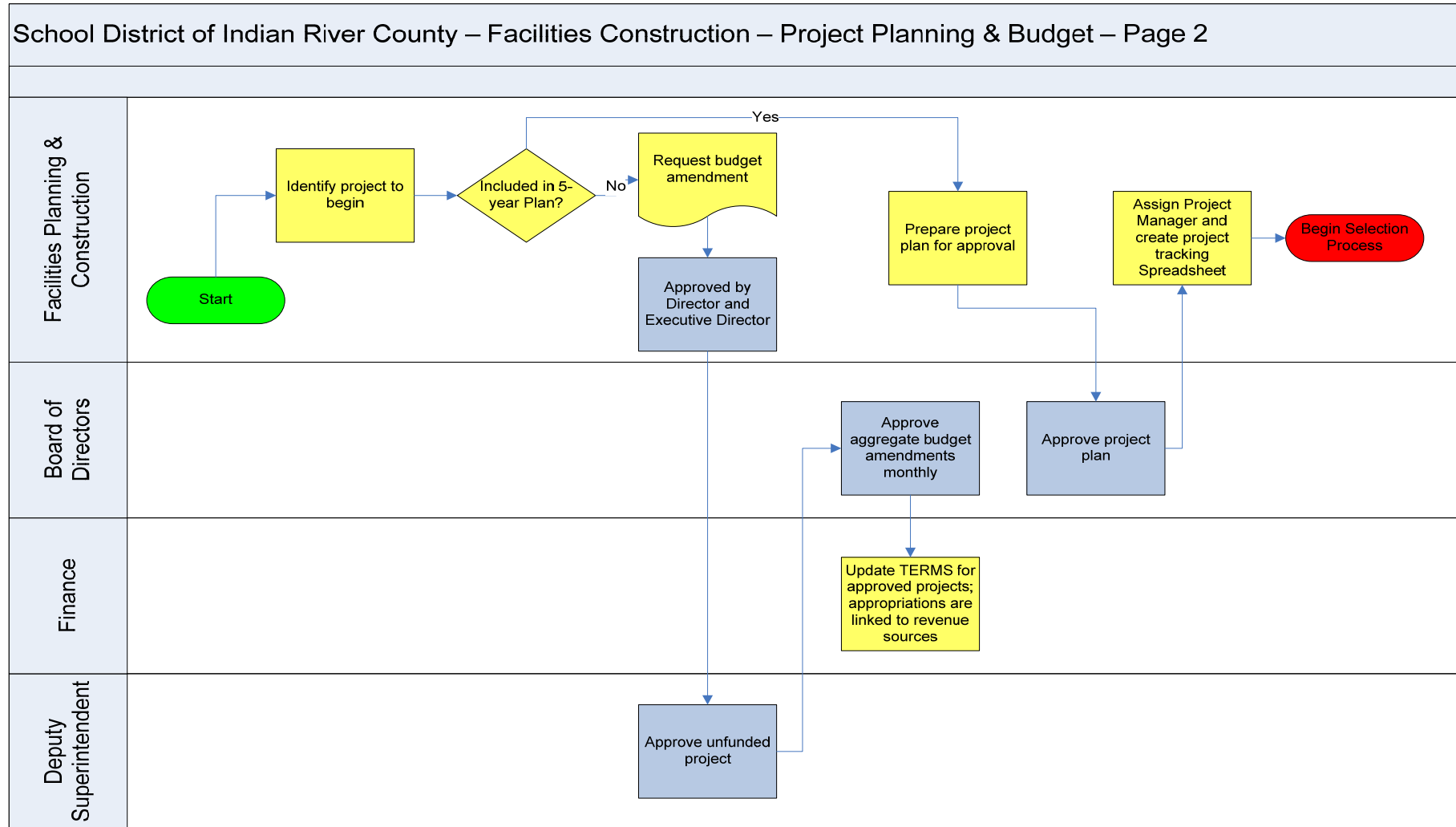
The purpose of the process map is to illustrate key processes and highlight key control points within the process. Process maps may be used as a procedural or training tool by the District to provide a visual depiction of the key steps within a process that needs to be followed.

PROCESS MAPS

School District of Indian River County – Facilities Construction – Capital Improvement Plan Development - Page 1

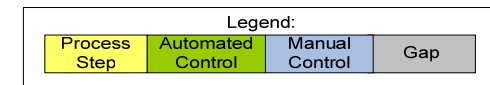
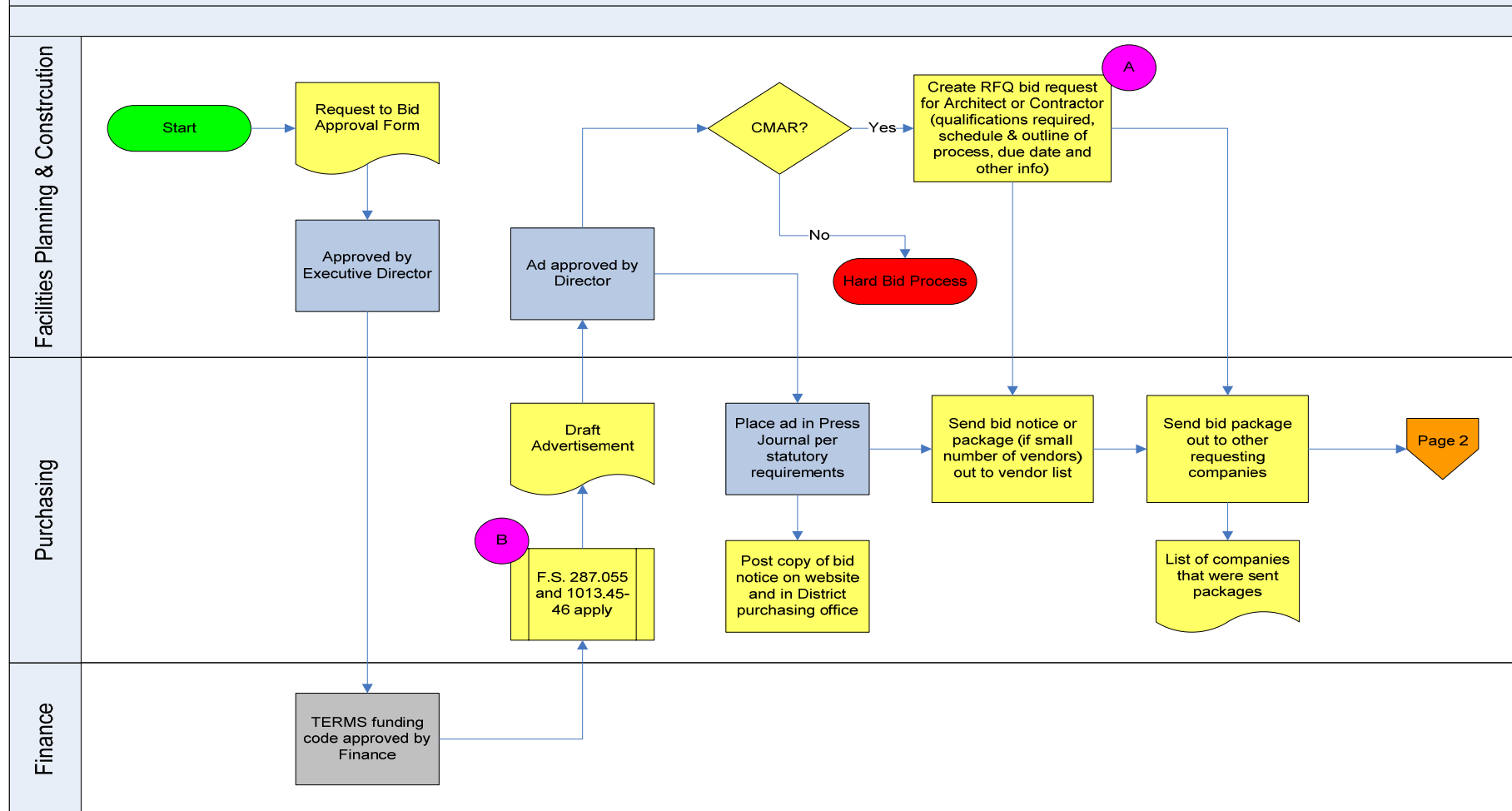


PROCESS MAPS

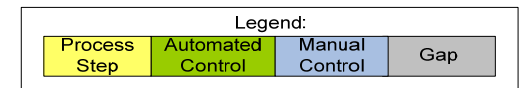
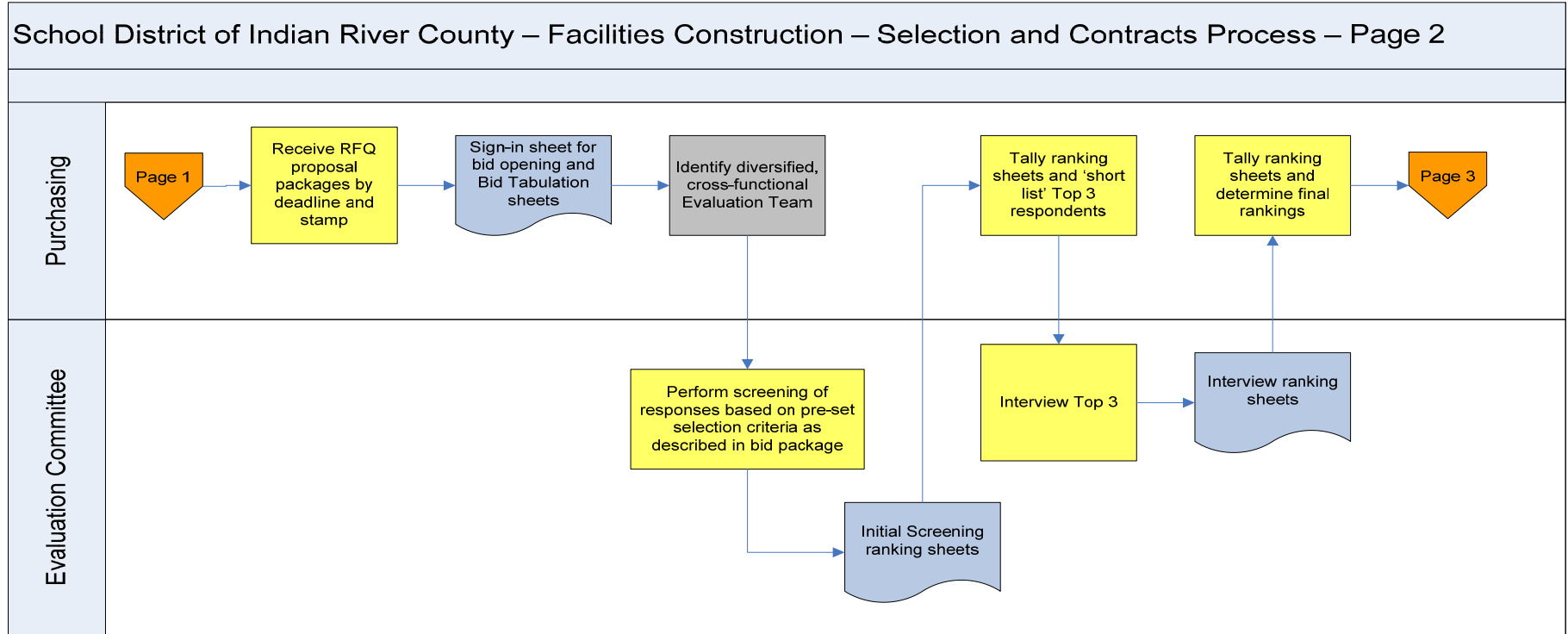


PROCESS MAPS

School District of Indian River County – Facilities Construction – Selection and Contracts Process – Page 1

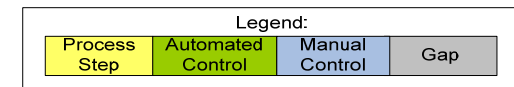
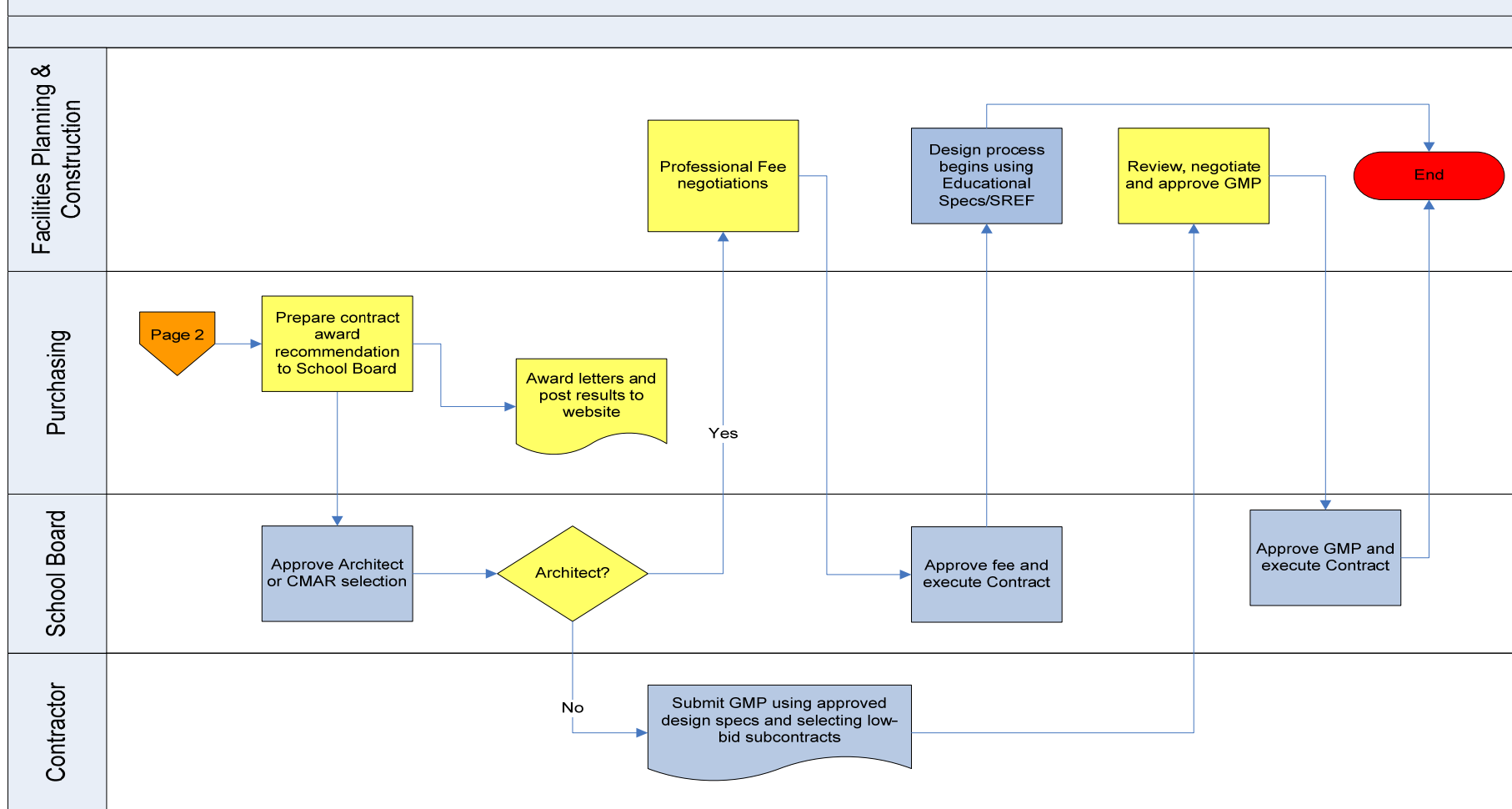


PROCESS MAPS

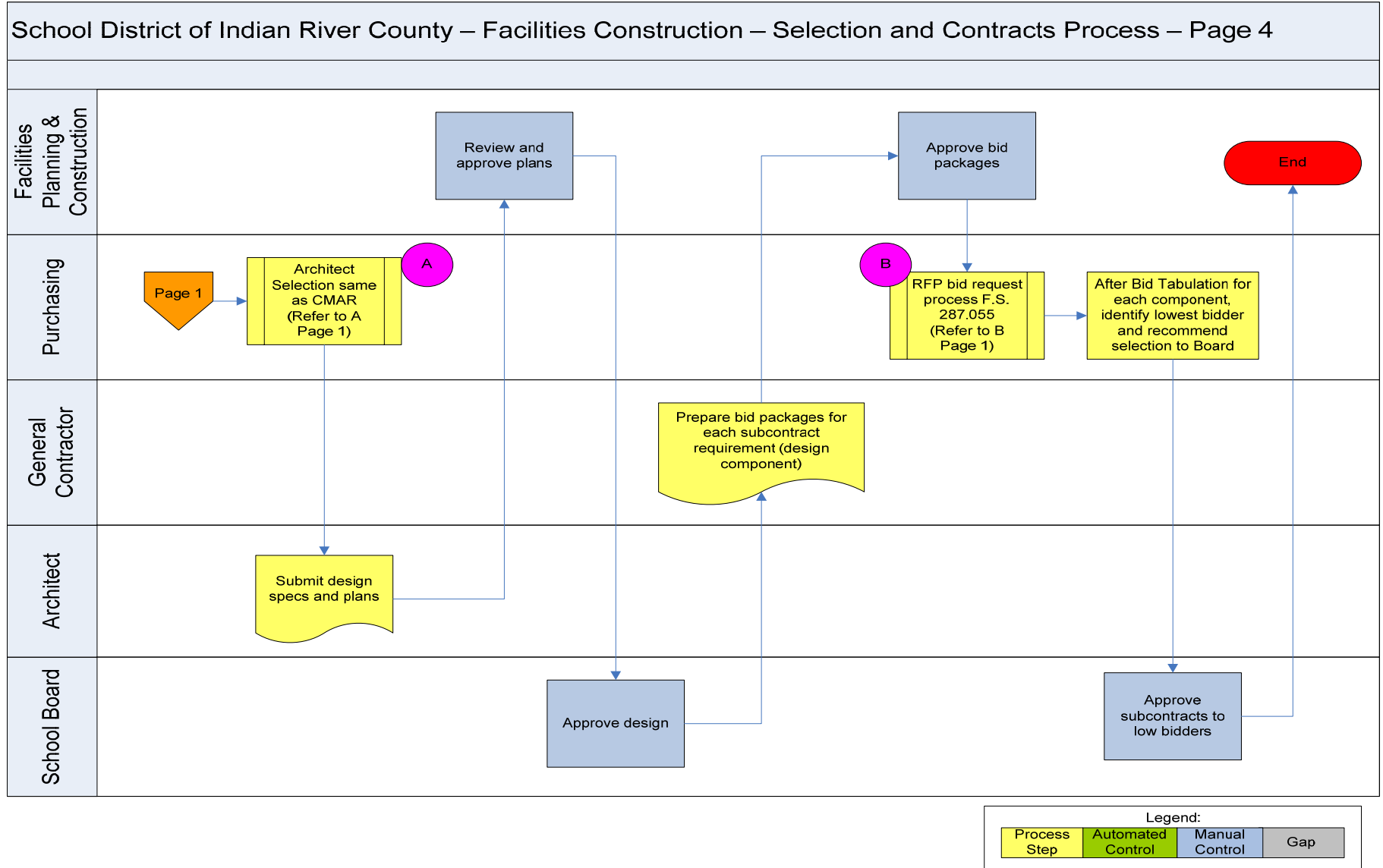


PROCESS MAPS

School District of Indian River County – Facilities Construction – Selection and Contracts Process – Page 3

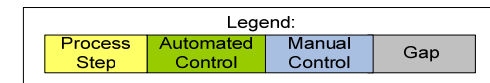
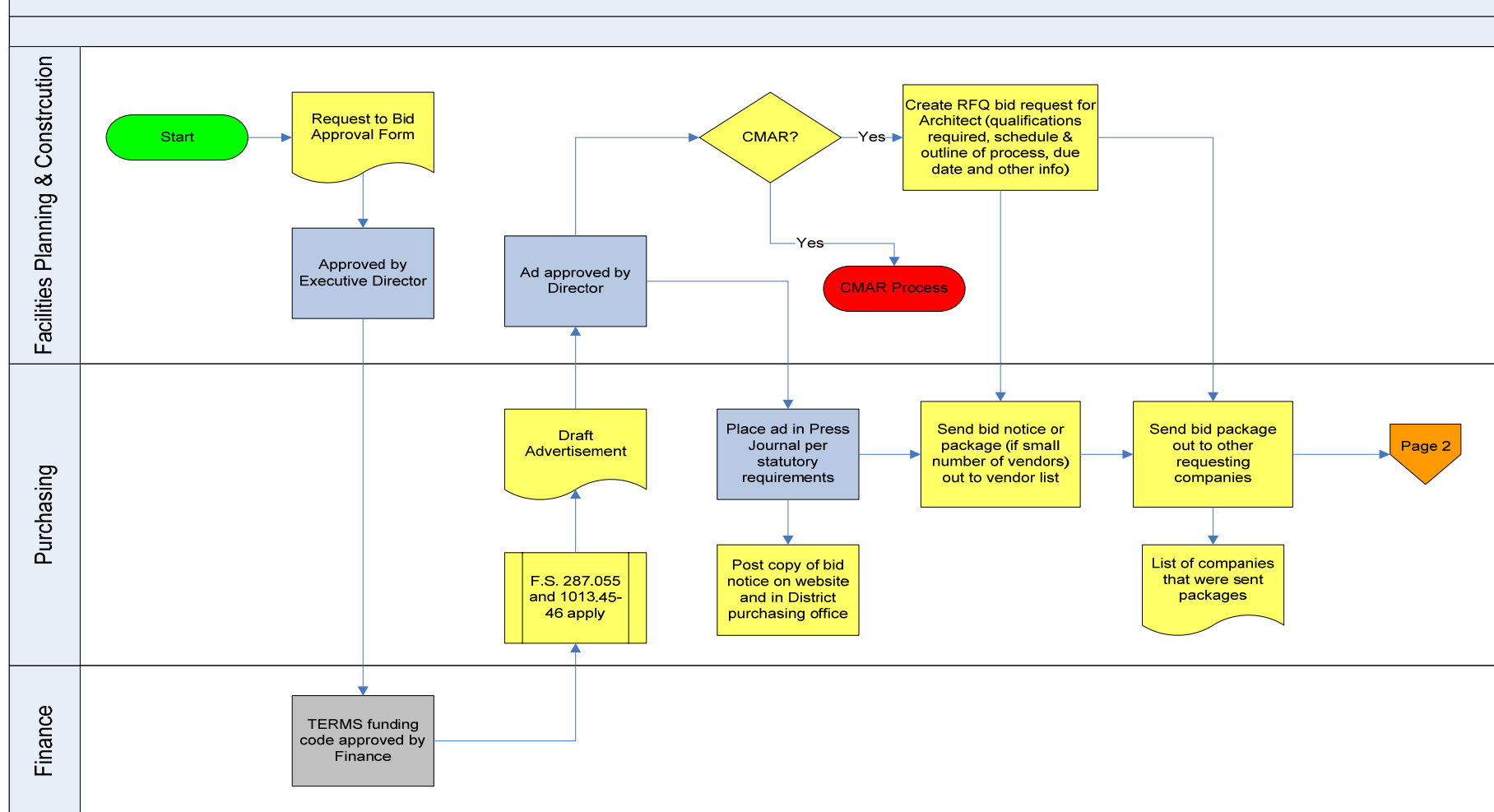


PROCESS MAPS

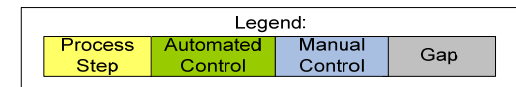
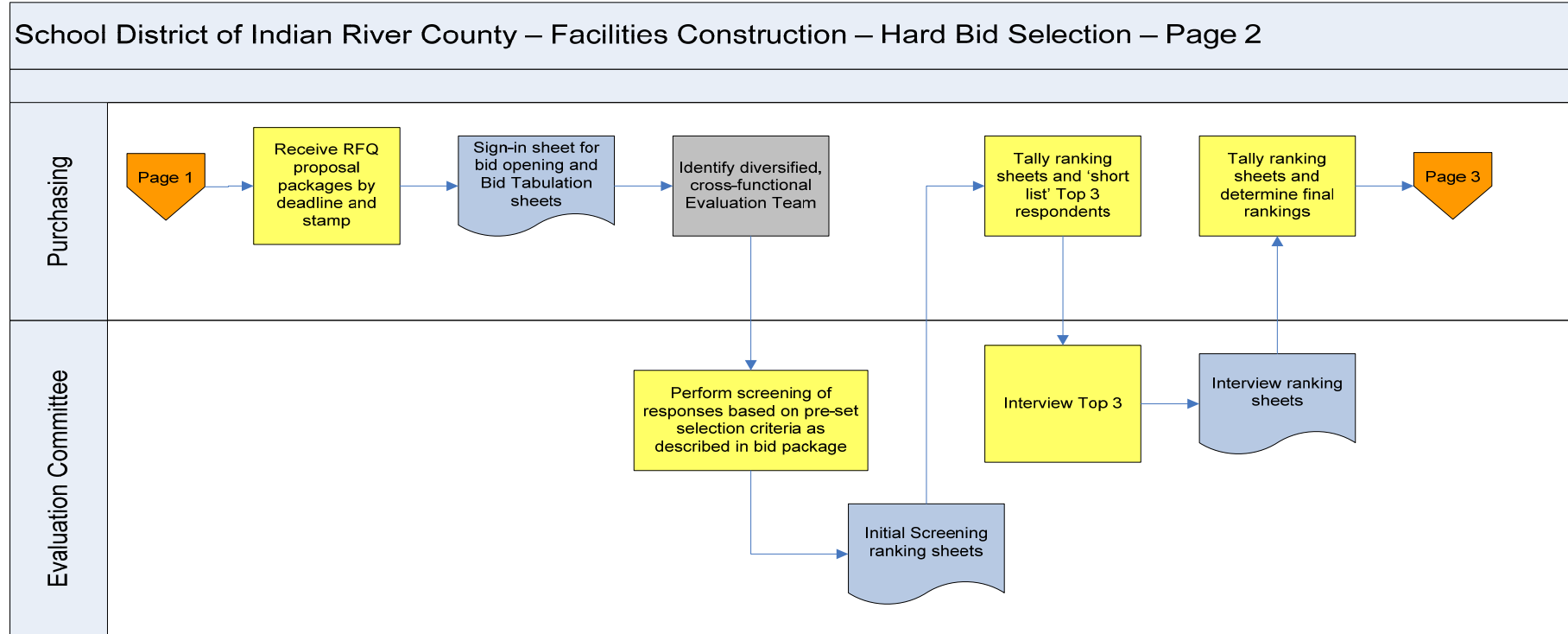


PROCESS MAPS

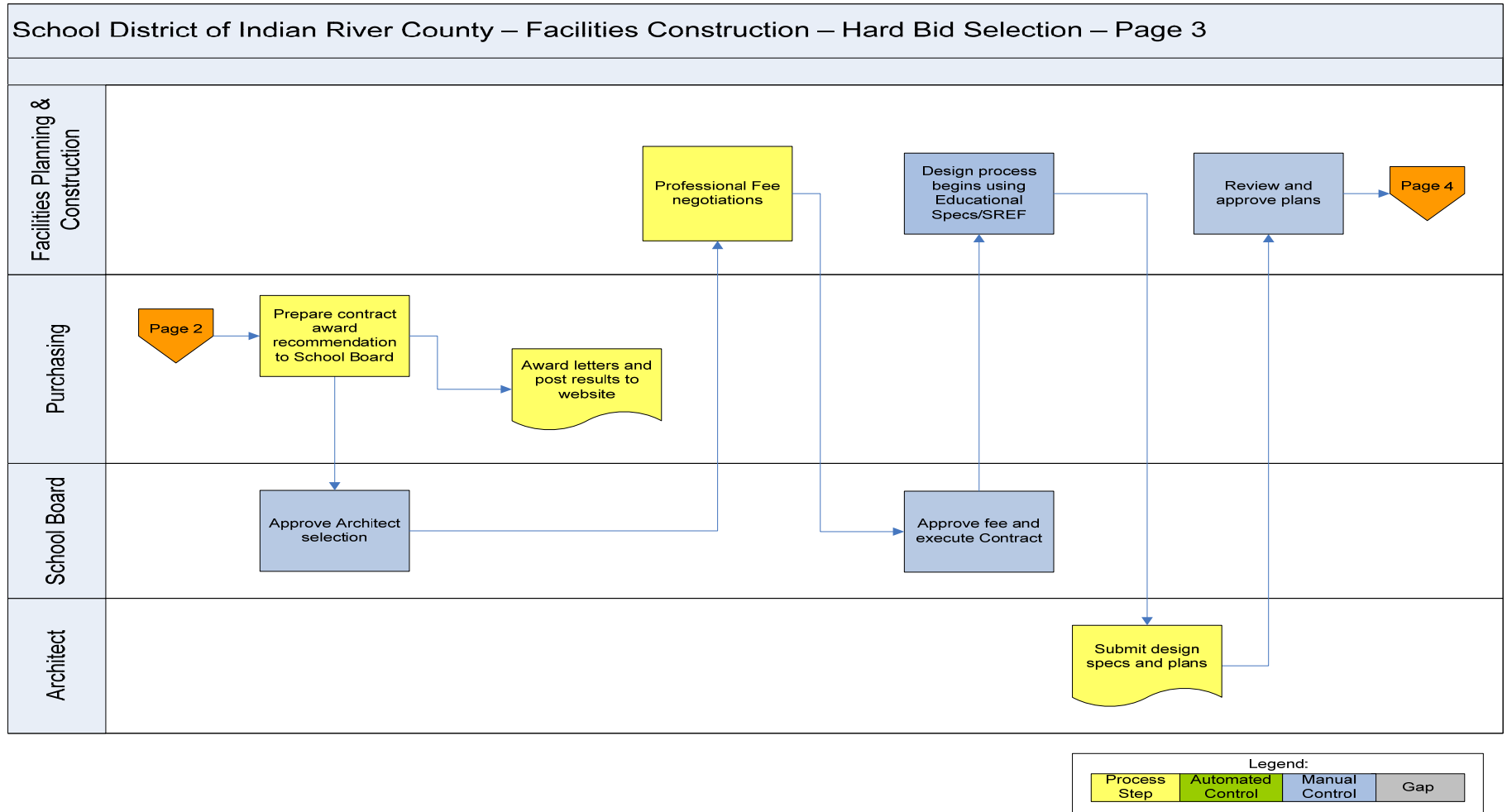
School District of Indian River County – Facilities Construction – Hard Bid Selection – Page 1



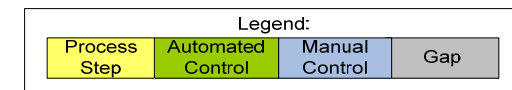
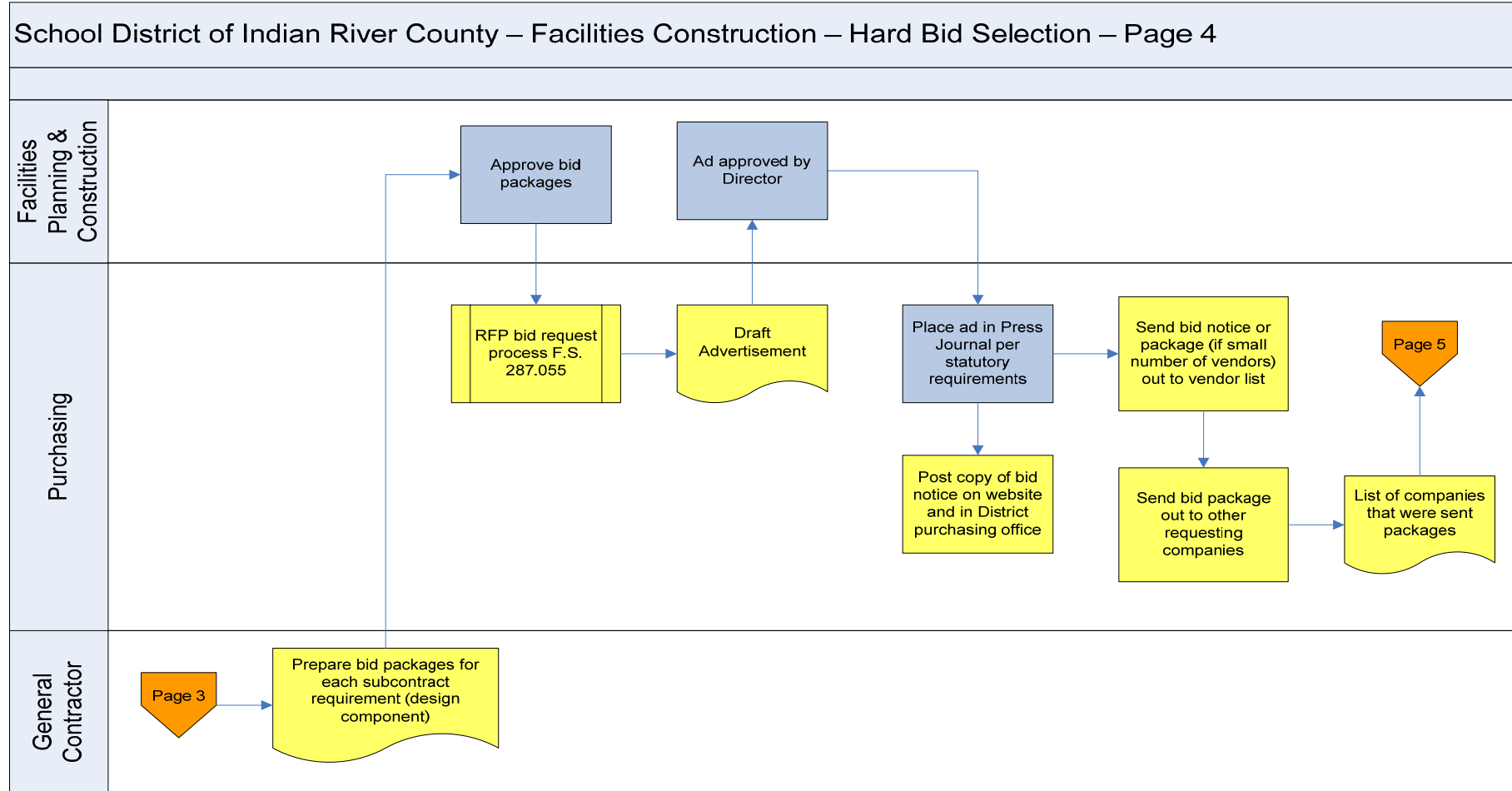
PROCESS MAPS



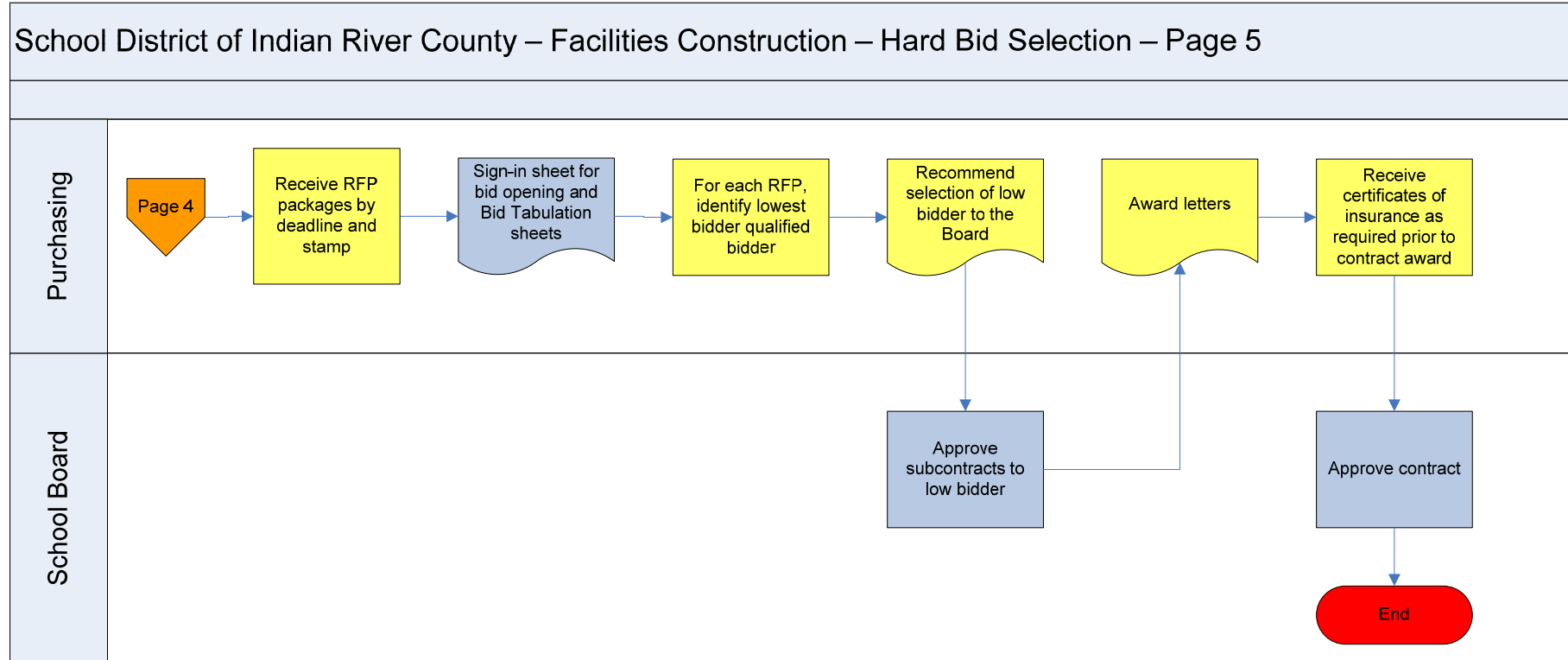
PROCESS MAPS



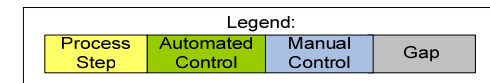
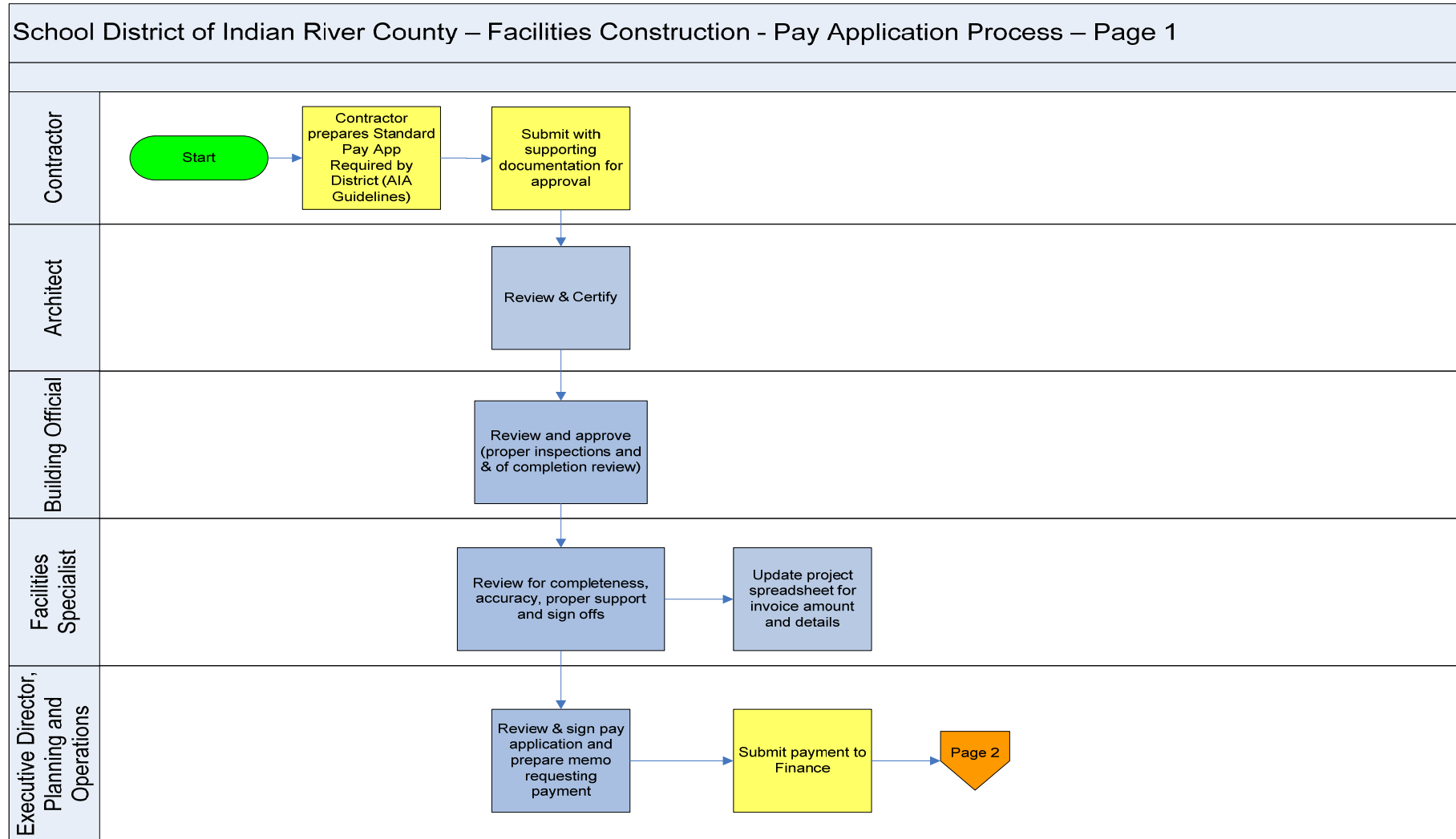
PROCESS MAPS



PROCESS MAPS

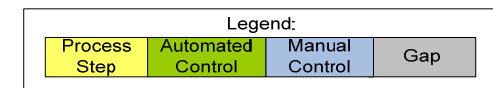
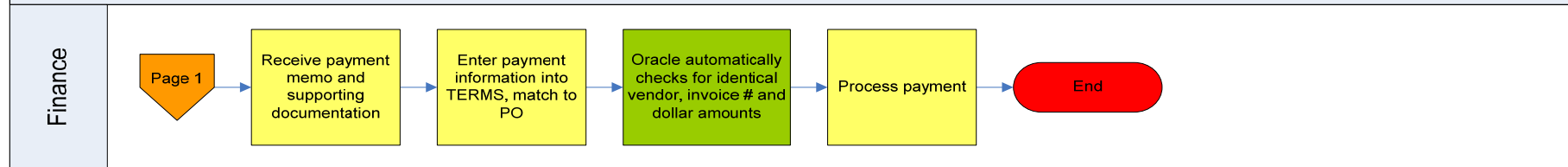


PROCESS MAPS

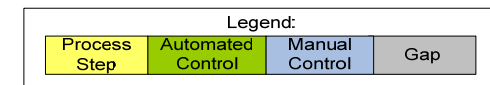
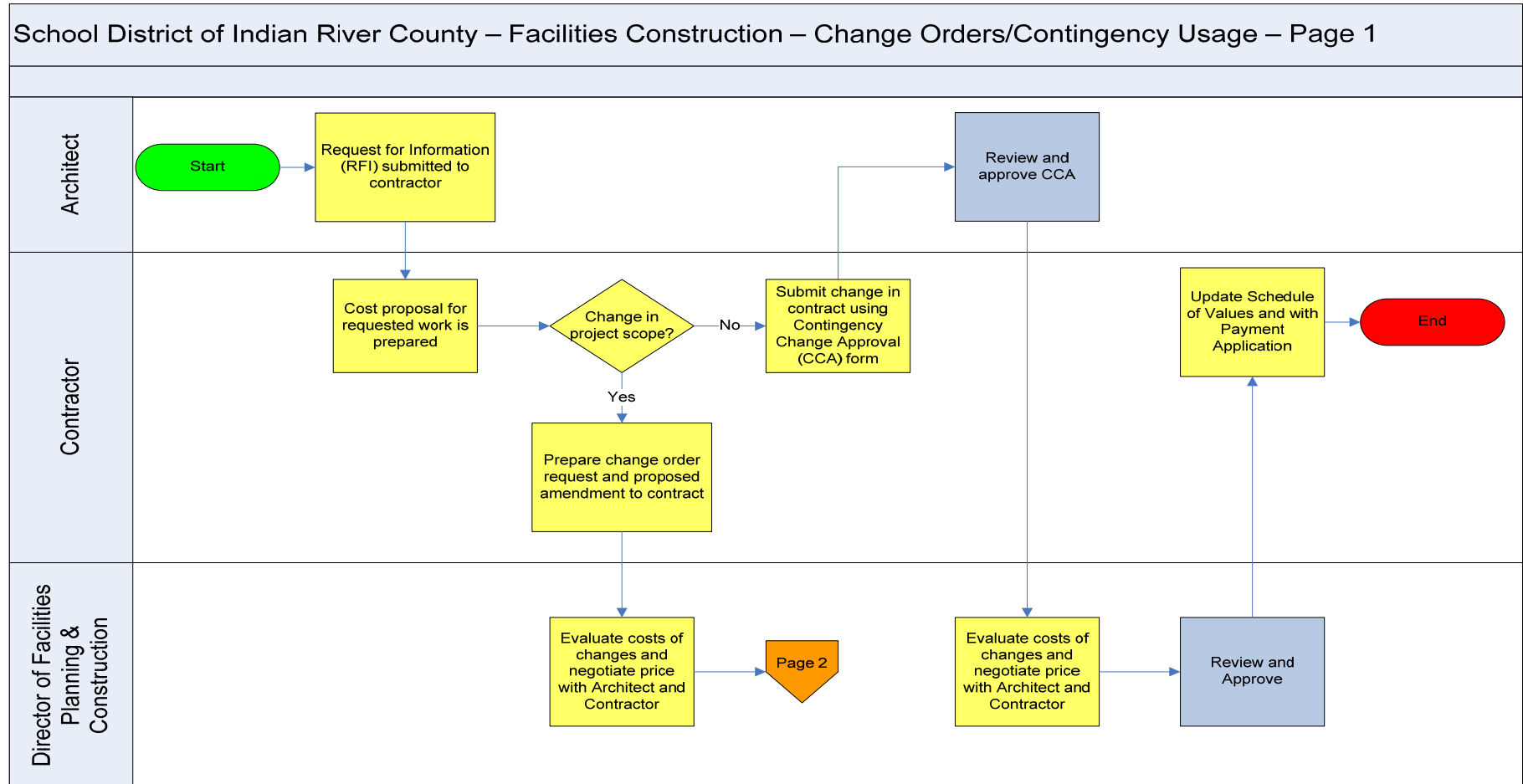


PROCESS MAPS

School District of Indian River County – Facilities Construction - Pay Application Process – Page 2

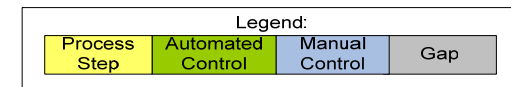
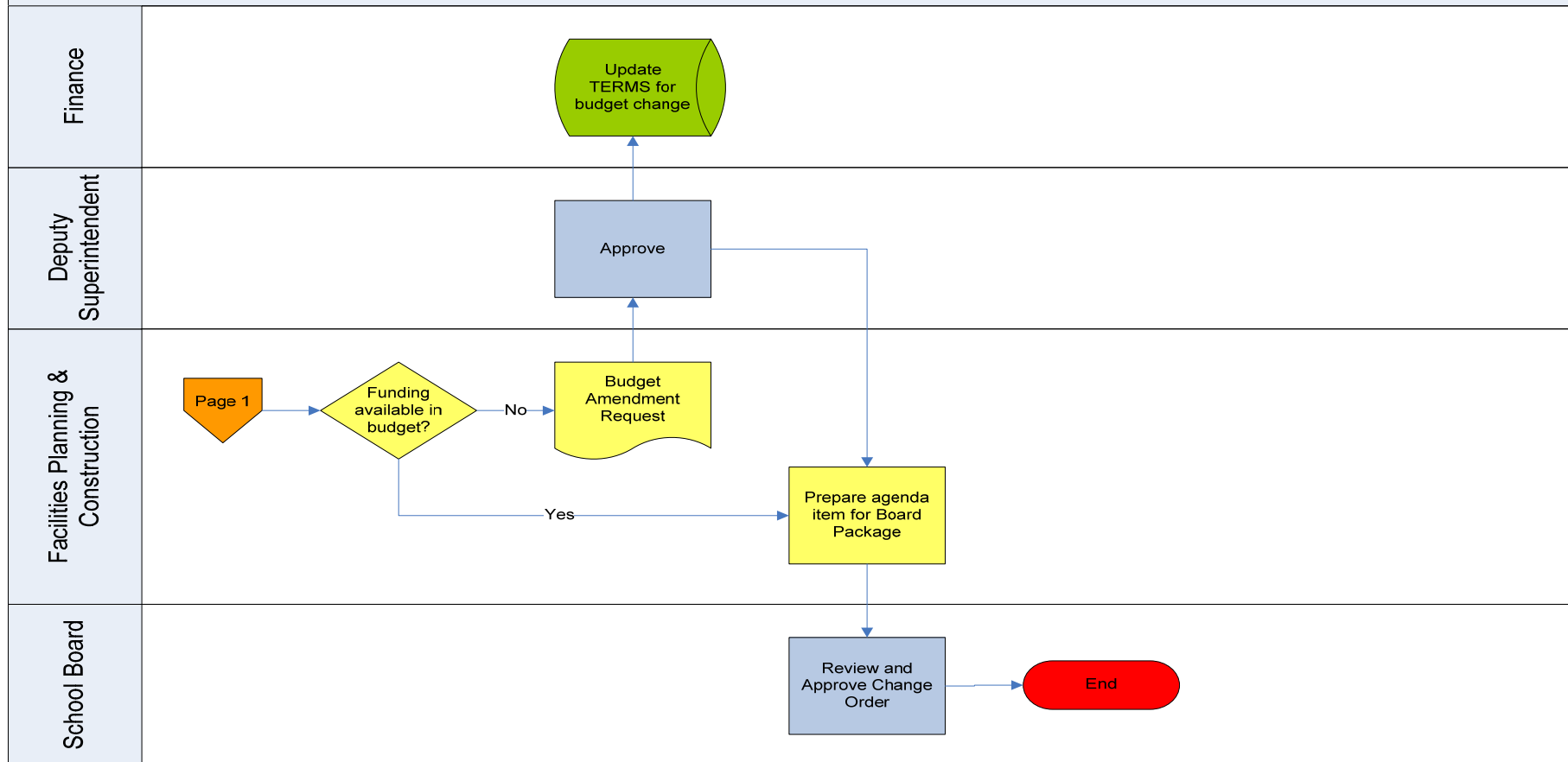


PROCESS MAPS

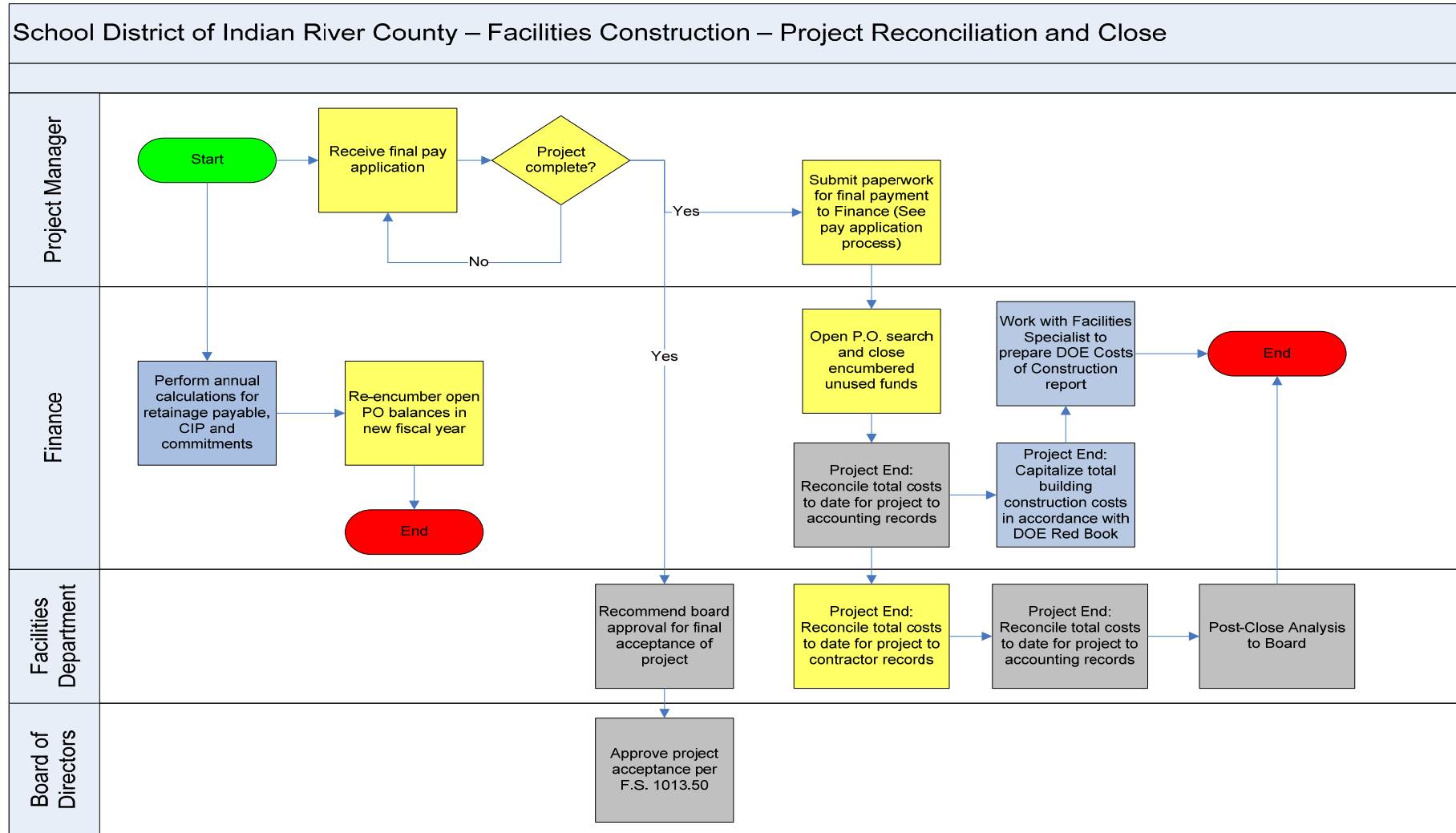


PROCESS MAPS

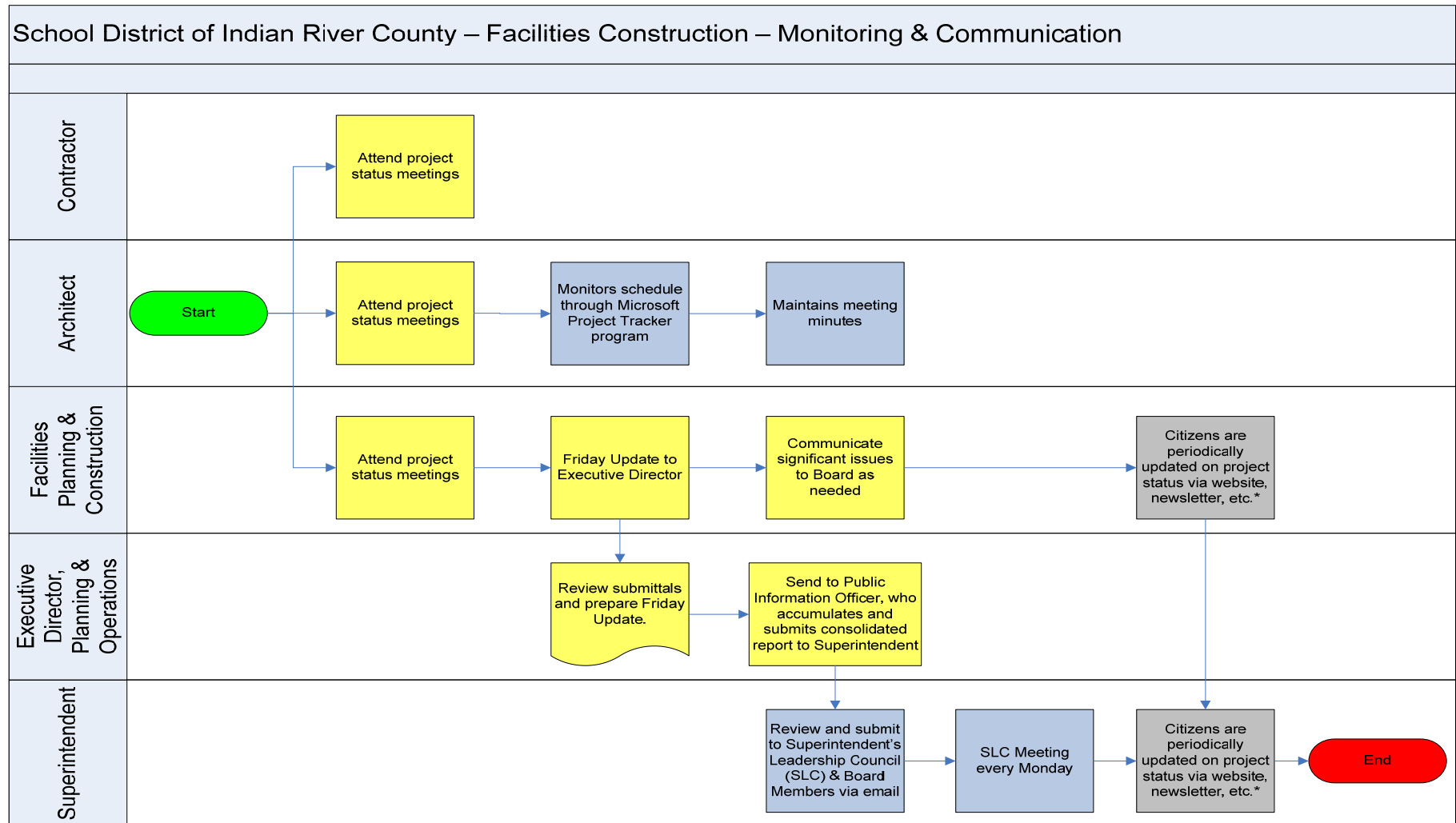
School District of Indian River County – Facilities Construction – Change Orders/Contingency Usage – Page 2



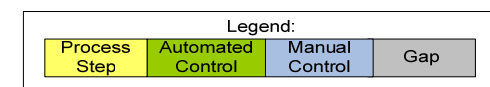
PROCESS MAPS



PROCESS MAPS



* Each school may have their own method for communicating project status to teachers and/or parents, such as the school's website or a newsletter. However, there is no District-wide process.



Appendix B – Sample Checklists

New Project Setup Checklist		
Project Name		
Project Number in TERMS		
Architect/Engineer		
Construction Contractor		
Contract Type/Delivery Model	<div> CMAR DB DBB (Hard Bid) </div> <div>(Circle One)</div>	
Required:	Notes/Comments	
Request for Bid Approval Form		
Recommendation to Board		
Fee Negotiations Support		
Insurance Certificate		
Performance Bond		
Executed Contract		
Contractor's License		
Subcontractor List		
Other:	Notes/Comments	
Site Plan/Testing Documentation		
Photos		
Permits/Easements		

Other Information:

Payment Application Processing			
Project Name			
Project Number in TERMS			
Architect/Engineer			
Construction Contractor			
Payment Application Number			
Procedure	Initials	Date	Notes/Comments
Spot check the Scheduled Value line items against the approved GMP to ensure the amounts are accurate.			
Verify that the Original and Adjusted Contract amounts are correct and agree to the currently approved agreements.			
Verify that the Previously Completed amount on the current pay application agrees to the Total Completed amount on the previous pay application.			
Match the current period amounts due to the supporting documentation and review the support for reasonableness.			
Verify that subcontractor support contains any necessary approvals, as required by the contract, such as notarization and Professional/architect sign-off.			
Confirm that the Professional/architect and Project Manager verified the percentage of completion by signing off on the payment request.			
Review percentage of completion and recalculate any fees based on percentage of completion for accuracy.			
For any Staffing Costs or General Conditions allowable by the contract, review the supporting documentation for completeness, mathematical accuracy, and reasonableness.			
For any Staffing Costs or General Conditions, verify that there are no duplicated invoices that were previously paid with another payment request.			
For any Staffing Costs or General Conditions, specifically review materials purchases, equipment rental, and asset acquisition for approvals and reasonableness of costs.			
For line items that are 100% complete, verify that the Final Releases of Liens were received.			
Other Information:			

Project Cost Reconciliation				
Project Name	XYZ High School Addition			
Project Number in TERMS				
Additional Student Stations	600			
Additional Square Footage	25,000			
BUDGET:				
	\$			
Total Project Budget (Original)	\$	5,000,000		
Total Project Budget (Final)	\$	9,327,000		
Construction Budget (Original)	\$	4,000,000		
Construction Budget (Final)	\$	10,348,900		
ACTUAL COSTS:		DESIRED METRICS	Board Approval Dates:	
Design:				
Architect	Architects R Us, Inc.			
Original Contract	\$	562,000		
Additional Services	\$	74,950		
Final Contract	\$	636,950		
Total Paid to Architect	\$	633,450		
% of Total Project Budget (Final)		6.79%	Example: < 5%	
% of Total Project Costs		5.53%	Ex: < 5%	
Construction:				
Construction Contractor	We Build It Rite, Inc.			
Original Contract	\$	9,642,900		
Change Order #1	\$	678,000		
Change Order #2	\$	(1,319,000)		
Change Order #3	\$	(52,175)		
Change Order #4	\$	-		
Final Contract	\$	8,949,725		
Total Paid to Contractor	\$	8,691,500		
% of Total Project Budget (Final)		93.19%	Ex: < 80%	
% of Total Project Costs		75.89%	Ex: < 80%	
Owner Direct Purchases	\$	1,320,000		
% of Total Project Budget (Final)		14.15%	Ex: >10%	
% of Total Project Costs		11.53%	Ex: >10%	
Furniture, Fixtures & Equipment	\$	730,000		
% of Total Project Budget (Final)		7.83%	Ex: < 8%	
% of Total Project Costs		6.37%	Ex: < 8%	

Project Cost Reconciliation			
ACTUAL COSTS:		DESIRED METRICS	Board Approval Dates:
Other Costs:			
Surveys	\$ 25,000		
Site/Soil Testing	\$ 15,000		
Environmental	\$ 8,000		
Portables Leasing	\$ 30,000		
TOTAL ACTUAL COSTS:	\$ 11,452,950		
TERMS G/L ACTUAL COSTS:	\$ 11,567,950		
	\$ (115,000)		
VARIANCE FROM ORIGINAL BUDGET	129.06%	Ex: < 3%	
VARIANCE FROM FINAL BUDGET	22.79%	Ex: < 5%	
COST/STUDENT STATION	\$ 19,088	Ex: < \$20,000	
COST/SQUARE FOOTAGE	\$ 458	Ex: < \$500	

Legend:
FORMULA - DO NOT CHANGE
FILL IN AMOUNTS
FILL IN DESIRED METRICS

Project Analysis:

Management's Response

RESPONSE TO INTERNAL AUDIT OF FACILITIES CONSTRUCTION

Department of Facilities, Planning & Construction

December 1, 2008

Introduction

From October 14th to November 20th, consultants working for RSM McGladrey (RSM) evaluated the work processes used by the staff in Facilities. The primary contacts from RSM were Jill Reyes and Shalerie Wilkins. Susan Olson and Michelle Simons provided the bulk of material and dialogue with RSM, with input from Dr. Dan McIntyre, Dean Manny, Nick Westenberger and Al Payne. Facilities staff provided approximately 1200 pages of scanned information, copied and original documents. Approximately 33 staff hours were spent in preparation time, meetings and debriefs regarding business methods and results.

We discussed the draft report on November 5th with the RSM consultants, and they made minor changes. We met again on November 20th with the RSM staff and the District's CFO to receive the report and provide comments.

High Risk Observations

In the Summary of Observations, RSM found six items that were deemed of high risk. They are:

- Communication
- Planning & Budgeting
- Composition of Bid Evaluation Team
- Payment Application Processing
- Project Reconciliation, Post-Close Analysis and Reporting
- Bond/Insurance Monitoring

There was a spirited discussion regarding the Observations Summary at the November 20th meeting, involving Ms. Reyes, Mr. Degutis, Dr. McIntyre and Mrs. Olson with respect to the first item, "Communication Plan" and the third item, "Composition of Bid Evaluation Team". As these require a fair amount of discussion, I will leave Facilities staff's response to those items until the other four items have been covered.

Planning & Budgeting: ECD = N/A

The chief concern regarding Planning & Budgeting is, in the opinion of Facilities staff, off the mark. "Budgets for Vero Beach Elementary (VBE) and Osceola Magnet replacements to occur in FY 2009 are \$20M for 750 student stations each, while budget for Elementary School "C" to occur in FY 2012 is only \$18M for 750 student stations." As was discussed with the RSM staff, there are three reasons for this. First: budgets for VBE and Osceola include \$2 million each to pay for the demolition costs associated with a renovation. Elementary School "C" is a new school, and there would be no demolition costs associated with its construction. Second: commodity and labor prices are going down, and are likely to continue the downward trend for the foreseeable future. Third: some Board members have commented at televised School Board meetings that our budgets are too high, leading contractors to price construction higher than the market should support. As such, and with concurrence from the Finance Department, we budgeted \$18 million for a school to be under construction in School Year 2011. Given that the Five Year Plan is updated each year, that gives us three more opportunities to adjust the values, should the need arise. The consultants' observation regarding "multiple student enrollment projections in use varying by department" does not necessarily equate to an inconsistency. There are three primary sources for enrollment projections: local school principals, the state Department of Education, and the cohort projection method embodied in the Schools CIP software used with the Five Year Plan. Principals' projections are used to allocate teaching staff to the schools; the state Department of Education uses their projections to help set budgets for whole school districts; and the cohort projection method used by the CIP software is an accepted methodology for projecting future enrollments by grade, by school. All three inputs are valid, and the use of three different sources of input is a normally a good check on each individual system. As a result, the enrollment projections for 4 of the 5 years have been 99%+ accurate.

Cross training was also included in the recommendation. There was no recommendation as to which staff member should receive cross training on this process. Current staffing levels preclude cross training (see information regarding workload and staffing in the Conclusions section below). As such, this must stand, at the present time, as an unfulfilled recommendation.

Payment Application Processing: ECD = 6/09

The consultants indicated there are no documented procedures for the review of pay applications. Ms. Simons has been performing this task for approximately 5 years, and is very good at her job. However, the consultants point out that it would be difficult to replace Ms. Simons with another qualified person, given her current pay status. As such, they have enlightened us on the importance of documenting the details of processing payment applications, rather than simply relying on her expertise and careful attention to detail.

Project Reconciliation, Post-Close Analysis and Reporting: ECD = 9/09

RSM recommends that a reconciliation occur between the Facilities and Finance Departments upon completion of each project. They highlight 4 areas to reconcile, including dealing with actual costs, owner direct purchases, segregating non-permanent costs from construction costs and budget reconciliation. All these recommendations are useful, so a joint Facilities/Finance Task Force will take on this recommendation and develop processes and documentation to support these recommendations. Further, the consultants recommend a post-close analysis for each project, to be shared with School District Administration and Board. This is a good suggestion as well.

Bond/Insurance Monitoring: ECD = 12/09

The consultants recommend a checklist to either document the entire procurement process, including bond and insurance requirements, or a simpler checklist to ensure coverages are monitored and continue in effect for the duration of each project. We see these as two excellent recommendations, both of which should be incorporated into our work processes. A checklist with time frames for each step in the procurement process would likely assist in alleviating the long delays currently being experienced with nearly all our solicitations. As such, Facilities, Purchasing and Finance staff will collaborate on just such a checklist. A second checklist can be developed by the same team, to serve as a repository of information for insurance.

Communication Plan: ECD = 03/09

This item was the first item mentioned, and was Rated High Risk by the consultants. A rating of High Risk, according to RSM, goes to "items ...considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner." There were no specifics listed regarding Communication in the Observations area. When Facilities staff questioned the consultants, they were informed that School Board members had been interviewed regarding Facilities. They were quite emphatic that, based on Board members' input, this was a high risk area of concern.

Facilities staff is aware that current and former members of the School Board have stated that public perception is negative toward the Facilities Department. The data to support this comes from a meeting with the former Board Chair on October 21st, 2008, attended by the CFO, Dr. McIntyre and Mrs. Olson. Much of the feedback received in that meeting is reflected in items one and three in the Observations Summary.

The consultants wrote: "Communication is inherent in information processing and should support the *image* of transparency." So it would appear we are dealing with an image problem, i.e. a perception problem. This is supported by the consultant's recommendation to involve the District's Public Information Officer in developing a communication strategy. The discussion regarding 'perception' and 'reality' was the debated topic at the November 20th meeting referenced in the Introduction to this Response. The statement was made by the consultant that "perception is reality." The challenge for the Facilities Department is how to manage 'perception' regarding purchasing processes, planning and construction activities, versus investing time and effort to achieve outstanding results in these same areas. Is it more important to look good than to be good?

There is a staff of 5 in Facilities, Planning & Construction. By and large, the staff's skills lie in project management, and other, related technical areas of expertise. While the staff is certainly capable of communicating with public citizens, the School Board, District management and employees, they would be hard pressed to achieve the stated goal of planning and executing "a formal communication plan to *manage the expectations of all interested parties*", as RSM has written in their observations. Frankly, Facilities staff does not believe they are capable of managing expectations for all interested parties. Rather, they are charged with planning for and managing the construction of educational facilities for the School District. Further, Facilities staff does not believe it is their responsibility to communicate with the School Board directly. There is a chain of command in place, to which staff has frequently been reminded to adhere. Four department members report to the Director. The Director reports to the Executive Director. When the Superintendent directs them to do so, the Director and Executive Director address the Board at meetings and workshops.

Communication Plan: ECD = 03/09 - continued

Facilities staff believes that communicating with public citizens is the responsibility of the Communications Director. As such, using the Process Map entitled "Facilities Construction – Monitoring & Communication", noting the only gap that exists, staff will ensure that "Citizens are periodically updated on project status via website, newsletter, etc" by providing input to the Communications Director.

Composition of Bid Evaluation Team: ECD = Immediately

This section of the audit is specific to Purchasing practices and procedures. These practices and procedures, as noted in the audit, have been the subject of much discussion, debate and change. The current methods, as documented in the Purchasing Procedures Manual updated in September, 2008, incorporate most of the recommendations made in the audit. As such, the only item under discussion is whether the Facilities Planning & Construction Director should serve as a voting member of the selection team. NOTE: There was an apparent conflict between two different documents shared with the auditors by the Purchasing Department. This has been clarified, however see proposed solution below.

This item was discussed with the consultants, and the information provided that Management (i.e. the current Superintendent) had directed that the Facilities, Planning & Construction Director should serve as a voting member of the selection team. The consultants verbally affirmed at the debrief on November 20th that this information was shared with them during the data gathering stage. The consultants direct "Management" to "...determine whether the Facilities Planning and Construction Director should be a voting member of the team..."

According to the consultants' recommendation, we are to "...support positive public perception of an independent, unbiased contractor selection process..." Past experience in this realm leads Facilities staff to conclude that their participation in the process precludes that goal. As such, Facilities staff requests to be relieved of any and all participation in contractor selection processes, and that consideration be given to having Board members serve as selection team members.

Conclusion

Significant barriers currently exist to smooth workflow for Facilities staff. That fact, coupled with the audit results from RSM McGladrey, with the accompanying expectation of additional process changes and duties, make for an untenable situation for Facilities staff.

In August of 2008, the Facilities department retained the services of Staff Connections LLC to address issues regarding workload and resource allocation. The firm was asked to evaluate Facilities Planning & Construction's current and projected workload, benchmark it against corresponding departments in two other School Districts, and identify any existing or projected shortfalls in resource allocation. They were then asked to provide recommendations on how best to meet those increasing needs. A copy of their final report can be obtained by contacting the Director of Facilities, Planning & Construction via telephone or e-mail.

Staff Connections LLC concluded that the department is understaffed by nearly 6 employees at current and projected workloads through 2010. Further, they identified barriers and constraints that "...have a continued effect on worker productivity." They recommend documentation, in some ways similar to RSM's recommendations regarding work flow. However, they add "The process would be greatly enhanced by providing the project managers with *more* autonomy in decision making and fostering a higher level of trust between the School Board and Facilities Planning and Construction as they strive to achieve common goals." This audit recommends exactly the opposite take place. If and when implemented, these recommendations virtually remove independent decision making from Facilities staff in order to further goals that are superficial and based on perception. Fostering a higher level of trust between the School Board and Facilities requires the Administration's support and guidance for the work currently underway in Facilities. The net result of implementation will directly and negatively impact results in the areas of planning and construction for the School District.

Moderate Risk Observations

In the Summary of Observations, RSM found three items that were deemed of moderate risk. They are:

- Project Close-Out
- Performance Measurement
- Project General Ledger Account Assignment

Project Close-Out: ECD = TBD

The consultants "recommend that the District perform project cost and/or contract compliance reviews prior to release of final payment to the contractor." In discussions with them, they also suggested that their firm could do this work with a better result than the firm previously retained to audit the one past project that had been examined. Facilities staff does not believe this is their call to make, regarding the retaining of auditing firms. Instead, staff would look to the Finance Department and the Audit Committee to decide whether this is prudent, and if so, to select the firm that would best be able to complete the work.

Performance Measurement: ECD = 09/09

RSM suggests "the department, in conjunction with District management, develop performance metrics that are specific and measurable, and include designated checkpoints (e.g. annually, bi-annually, etc.)." They go on to suggest areas to target, including project timelines, including turnaround time for contractor selection, fee negotiation and Board approval, site safety, distribution of work among qualified contractors, cost/student station, cost per square foot and customer satisfaction ratings. Finally, they recommend that Facilities benchmark performance against peer districts. These are all excellent recommendations, and staff will endeavor to develop such a list of metrics by the date specified above.

Project General Ledger Account Assignment: ECD=Immediately

The consultants recommend a simple change that we have Finance sign off on requests to bid for contractor selections. This will be addressed concomitant with the changes for Composition of Bid Evaluation Team.

Low Risk Observations

- Documented Procedures: ECD=Consistent with High Risk Areas Above
- Contractor/Service Provider Performance Evaluations=Consistent with High Risk Areas Above
- Florida Department of Education Reporting Requirements=Consistent with High Risk Areas Above