



## **Chesterfield County, Virginia**

### **Internal Audit**

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**GREGORY L. AKERS**  
Director

**DATE:** June 30, 2016

**TO:** Dr. Marcus Newsome                      James J.L. Stegmaier  
School Superintendent                      County Administrator

**FROM:** Greg L. Akers  
Director of Internal Audit

**SUBJECT: School Construction Management Audit**

The Office of Internal Audit completed an audit of School Construction Management, and the final report is attached.

We would like to thank John Brooks, Valerie Fletcher, and School Construction staff for their cooperation and assistance during this audit.

Attachment

Copy: Chris Sorensen, Assistant Superintendent for Business and Finance  
Nita Mensia-Joseph, Chief Operating Officer  
Rebecca Dickson, Interim Deputy County Administrator for Management Services  
Mike Bacile, Director of Purchasing  
Todd Marshall, Director of Maintenance and Construction



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# School Construction Management

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## June 2016

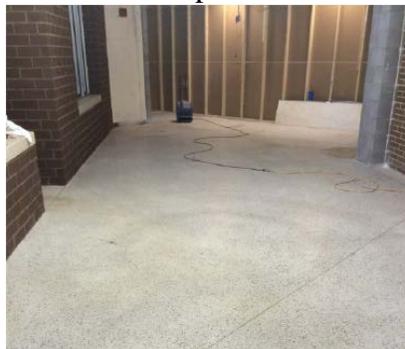
### Monacan High School Renovation



Reception



Office Area



Entry Lobby



Gymnasium Addition

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June 2016

# Highlights

Internal Audit Report to the Board of Supervisors/School Board

## Why We Did This Review

The audit focused on the transfer of School Construction procurement responsibility to County's Purchasing Department effective July 1, 2016. We also incorporated the regularly scheduled audit of School Construction activity from the FY16 audit plan approved by the County Administrator and School Board Superintendent. Objectives included:

- Prepare for procurement transition from School to County including an analysis of existing project and contract inventory.
- Determine compliance with Code of Virginia and County Policies and Procedures for procurement, vendor payments, change orders, and other requirements.
- Report results to the County Administrator and School Superintendent.

## What We Recommend

- School management update current staff contacts for all existing and upcoming contracts for County Purchasing.
- School Construction update procedures to identify steps requiring coordination with County Purchasing, ensure procurement timing aligns with project schedules, and notify County Purchasing of construction schedule changes.
- School Construction continues to strengthen change order procedures to consistently document pricing units and hours verification.



For more information, please contact  
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# School Construction Management



## What We Found

At the Superintendent's request, the County's Board of Supervisors approved a transfer of School Construction procurement responsibility to the County's Purchasing Department effective July 1, 2016. Internal Audit was requested to evaluate School Construction's projects and contracts inventory so the incoming Purchasing team will have a clear understanding of existing conditions.

The Deputy County Administrator for Management Services reported details for the proposed procurement transfer at the Board of Supervisors August 26, 2015 meeting. Ongoing management coordination is necessary to plan orderly roles and responsibilities during and after the transition. Purchasing must: recruit and train new positions, coordinate with Schools on process design, policy, and integrated procedures, develop procurement training for School personnel, and provide vendor community outreach. School's project requirement and specification coordination will continue with Purchasing.

The school division has 64 school buildings and 11 additional buildings totaling more than 8 million square feet under roof. Separate departments perform School's facility maintenance and new construction duties. A reorganization plan effective July 1, 2016 was approved May 2016 consolidating Construction and Facilities Maintenance departments under one Director.

## Findings

School Construction's existing project and contract inventory was evaluated noting completeness. Most upcoming projects are renovations which present the additional challenge of ongoing operation during construction. Construction project files and progress payments for Monacan High, Manchester Middle, and Providence Middle School construction projects were tested for compliance with minor exceptions noted. School Construction project file support and organization have improved since the prior audit (November 2014).

## Actions Taken

Management evaluated procedures and ongoing contracts for VPPA compliance and resolved most issues identified. A Providence Middle School change order is being evaluated prior to seeking School Board approval.

## Commendations

We commend:

- School Management for ensuring School CIP Project Report and School Capital Fund general ledger accuracy.
- Construction Director for organizing project documentation and developing process to monitor project contract and change order status.
- School Construction Department for compliance with appropriate administrative policies and procedures.
- Purchasing Department for coordination with School Construction on procurement compliance, process design, policy, and integrated procedures.

Management concurred with 8 of 8 recommendations to be implemented from July 1, 2016 to August 31, 2016.

We appreciate the cooperation received from management and staff while conducting this audit.

## **INTRODUCTION**

### **BACKGROUND**

At the Superintendent's request, the County's Board of Supervisors has approved a transfer of School Construction procurement responsibility to the County's Purchasing Department effective July 1, 2016. Currently, the School Superintendent is the purchasing agent for School Board Construction and School Nutrition Funds. Internal Audit was requested to evaluate School Construction's projects and contracts inventory so the incoming Purchasing team will have a clear understanding of existing conditions. We also incorporated the regularly scheduled FY16 audit of School Construction activity. Accordingly, our report is being issued to both the Administrator and Superintendent.

The Deputy County Administrator for Management Services reported on the proposed procurement transfer at the Board of Supervisors August 26, 2015 meeting. Details covered included: benefits and potential issues, new operational model, resource requirements, funding, transition process and milestones, and recommendations. The procurement transfer is a major undertaking and requires the following ongoing efforts and resources across County and Schools:

- Management coordination and monitoring.
- School Construction Procurement Transition Team with County and School staff created fall 2015 to plan orderly roles and responsibilities transition.
- Purchasing's recruitment and training of new positions for increased responsibilities and workload. Three positions have been authorized, with two positions filled in January 2016. Hiring the third position is deferred until need is further substantiated.
- Purchasing's coordination with School Construction on process design, policy, and developing integrated procedures.
- Purchasing's development of procurement training for School personnel and providing vendor community outreach.
- School's continued project requirement and specification coordination with Purchasing.
- Purchasing reassess operations after FY17 to ensure their resources are sufficient for the additional workload.

The school division has 64 school buildings and 11 additional buildings totaling more than 8 million square feet under roof. Separate departments perform School's facility maintenance and new construction duties. Several changes and management actions have taken place, or are planned, since our previous School Construction audit dated November 2014 including:

- A new Assistant Superintendent for Business and Finance started May 2015.
- A new Director of School Construction started June 2015 (and left May 2016).
- Chief Operating Officer (COO) position was established for school construction oversight (previously managed by Assistant Superintendent for Business and Finance) and started November 2015.
- A reorganization plan effective July 1, 2016 was approved May 2016 consolidating Construction and Facilities Maintenance departments under one Director.
- A new Director of Maintenance and Construction started June 2016.
- An RFP is currently in process to outsource School's construction management.

The School staffing changes increase implementation effort by Purchasing. Certain procedure coordination and training must be repeated as new contacts are established.

School Construction currently includes a Director, a Capital Improvement Plan Coordinator, two Construction Coordinators, four Construction Specialists, and an Administrative Assistant. Most construction projects require a request for proposal (RFP) to select an architect for design and construction administration, followed by an invitation for bid (IFB) for the construction.

As of March 31, 2016, there is one active construction contract (Monacan High) and three active design and construction administration contracts (Monacan High, Providence Middle, and Manchester Middle). Two design RFPs (Prototype Elementary and Administration Building) and two construction IFBs (Providence Middle and Manchester Middle) were scheduled prior to June 30, 2016. As of May 2016 only the IFB for Providence was issued, which was subsequently cancelled for specification refinement. The July 1<sup>st</sup> transition to County Purchasing may occur prior to completion of these RFPs and IFBs. The Current CIP Schedule with Milestone Completion Dates is included at page 7.

## **OBJECTIVES**

Objectives of the audit were to:

- Prepare for procurement transition from Schools to County:
  - Analyze inventory of existing projects and contracts.
  - Evaluate current School procurement practices for Virginia Public Procurement Act (VPPA) compliance.
  - Evaluate current School Construction project procedures and consider impact from transition to County Purchasing.
  - Determine coordination between School Facilities and School Construction regarding project priority and selection.
  - Evaluate project management practices for establishing timelines, monitoring status, and reporting to management.
  - Evaluate facility condition assessment practices to identify and prioritize future project needs.
  - Compare 2013 bond referendum project estimates to current School Capital Budget for School Construction.
  - Evaluate general ledger review process to ensure accuracy of encumbrances and expenses by project.
- Determine compliance with the *Code of Virginia*, *Code of the County of Chesterfield* and County Administrative Procedures for project contracts.
- Determine compliance with bond and insurance requirements.
- Test vendor payments for propriety and compliance with County Administrative Procedures.
- Determine that change orders are priced in accordance with contract documents, adequately supported, and properly approved.
- Report results to the School Superintendent and County Administrator.

## **SCOPE**

We reviewed activity for all three projects currently in process. Our audit included testing the following areas from the inception of the project through February 29, 2016:

Procurement	Bonds and Insurance
Progress Payments/Expenditures	Change Orders
Financial Analysis of Expenditures to the Budget	

We considered the following codes, policies, and procedures during our audit:

Chesterfield County Public Schools Procurement Policy	Library of Virginia
Chesterfield County Public Schools Roles and Duties of the Superintendent Policy	Accounting 1-5: Bill Approval, Documentation and Payment
Accounting 1-12: School Capital Projects	Budget 2-1: Change Requests
Budget Cash Proffer Policy	Purchasing 12-1: Authority and Responsibility
Purchasing 12-11: Competitive Sealed Bidding	Purchasing 12-12: Competitive Negotiation
Purchasing 12-15: Contract Administration	Purchasing 12-16: Change Orders
Purchasing 12-17: Receiving/Payment Authorization of Goods and Services Policy	Purchasing 12-18: Review/Approval Levels for IFB/RFP Files and Non-County Contract Purchases
Risk Management 13-2: Administration Policy Required Insurance	Utilities 15-1: Right of Way Acquisition

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Steve Sanderson, Senior Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

## **METHODOLOGY**

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included review of the construction projects with compliance to *Code of Virginia* and County Administrative Procedures. We reviewed bid tally sheets for accuracy and adequate analysis, as well as the evaluation of the winning bids prior to contract award. We reviewed contract documentation and tested bonds and insurance against contract requirements to ensure coverage met contract requirements, covered appropriate time periods, and insurers were financially stable. We also considered planned procurement transition from Schools to County and performed financial analyses of the projects, including comparing the accounting system to capital budgets. Finally, we tested change orders and progress payments for propriety and compliance with County Administrative Procedures including adequate support, mathematical accuracy, and proper approval.

### **INTERNAL CONTROL CONCLUSION**

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place and there were minimal findings to question their ability to assist management in meeting its mission, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

### **CLOSING**

We would like to thank the School Construction Management staff for their cooperation and assistance during the course of this audit.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6)

#### **CRITERIA:**

At the Superintendent's request, the County's Board of Supervisors has approved a transfer of School Construction procurement responsibility to the County's Purchasing Department effective July 1, 2016. Internal Audit was requested to evaluate School Construction's projects and contracts inventory so the incoming Purchasing team will have a clear understanding of existing conditions. Internal Audit also evaluated School procurement practices for Virginia Public Procurement Act (VPPA) compliance, for areas such as: the pre-bid process, development of specifications, use of brand names, pre-qualification of bidders, and change order approval.

School Construction projects have four key stages:

- **Pre-Design:** Site location, land acquisition, site approval, request for proposal (RFP) for architectural & engineering services, and contract award.
- **Design:** Stakeholder engagement, schematics, additional stakeholder engagement, design development, construction documents, site plan approval, and construction document approval.
- **Bid/Solicitation:** Invitation for bid (IFB) for general contractor and contract award.
- **Construction Complete:** Contractor submittals, modified stakeholder engagement, construction updates, substantial and final completion reports, and final close out report.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6 Continued)

**CONDITION(S):**

The April 2016 inventory below identifies project status with the estimated dates for future stages. The majority of projects are renovations which present the additional challenge of ongoing operation during construction.

<b>Current CIP Schedule with Milestone Completion Dates</b>				
Project	Pre-Design	Design	Bid/Solicitation	Construction Complete
Monacan High Renovation	<i>Awarded</i>	<i>Completed</i>	<i>Awarded</i>	<i>In Progress</i>
Providence Middle Renovation	<i>Awarded</i>	<i>In Progress</i>	July 2016	April 2019
Manchester Middle Renovation	<i>Awarded</i>	<i>In Progress</i>	July 2016	March 2019
Prototype Elementary Design <sup>1</sup>	<i>In Progress</i>	October 2016	N/A	N/A
Beulah Elementary Replacement <sup>1</sup>	August 2016		January 2017	August 2018
Enon Elementary Replacement <sup>1</sup>	August 2016		January 2017	August 2018
Matoaca Elementary Replacement <sup>1</sup>	May 2017		November 2017	August 2019
New Midlothian Elementary <sup>1</sup>	May 2017		November 2017	August 2019
Reams Elementary Renovation	December 2017	December 2018	March 2019	January 2021
Harrowgate Elementary Renovation	October 2018	August 2019	December 2019	July 2021
Crestwood Elementary Renovation	December 2018	December 2019	March 2020	January 2022
Etrick Elementary Renovation	July 2019	August 2020	December 2020	July 2022
Administration Building	<i>Pending</i>			

<sup>1</sup> Prototype design using construction “as-builts”, with site specific adjustments, will be used on the four replacement and new elementary school projects. Pre-design and design stages become a blended activity.

In addition to the awarded contracts listed above, at May 2016 there are five open encumbrances totaling \$128,607 across four projects:

- Beulah Elementary, \$61,200 feasibility study, July 2013 requisition with \$18,360 remaining after November 2015 payment.
- Enon Elementary, \$29,890 feasibility study, October 2015 requisition with no payments.
- Matoaca Elementary, \$116,272 comprehensive study, March 2015 requisition with \$76,113 remaining after November 2015 payment.
- Chesterfield Technical Center at Hull Street:
  - \$2,189,769 architectural & engineering services, June 2012 requisition with \$90 remaining after July 2015 payment.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6 Continued)

- \$24,566,663 general contractor services, May 2013 requisition with \$4,154 remaining after September 2015 payment.

A reorganization plan effective July 1, 2016 was approved May 2016 consolidating Construction and Facilities Maintenance departments under one Director. As a result, certain School positions with purchasing responsibilities have been eliminated or repositioned. These changes impact the primary purchasing contacts for Construction and Facilities Maintenance. The School Construction Procurement Transition Team identified key considerations to address between May and July 1<sup>st</sup> are School's schedules for summer maintenance, construction, and staffing. Planning will be required to identify responsible personnel for existing contracts, upcoming renewals, and ongoing and new procurements.

The Purchasing Department has coordinated with School Construction on procurement compliance, process design, policy, and integrated procedures. School Construction developed documented procedures during FY16 to comply with VPPA for their projects. These procedures identify the applicable requirements, responsible parties, and sequence for the various project stages. Procurement testing found School Construction practices generally comply with the VPPA. Actions taken to address two instances of non-compliance are illustrated in the Procurement section (Point Sheet C-1.2).

The School Construction Procurement Transition Team with County and School staff are planning roles and responsibilities after the transition between School Construction and County Purchasing. As School construction procurement responsibility transfers to County Purchasing, there are certain procedure differences compared to the County to be aware of including:

- Current cumulative change order approval requirement at 10% on all contracts versus County's at 20% for contracts under \$500,000 and 10% for contracts \$500,000 and above.
- County procedures for use of brand names do not include an option to list two additional brands.

Current School CIP procedures are outlined below:

1. Pre-bid process:
  - a. Site Location
    - i. Request for site is sent to the Site Selection Committee.
    - ii. Site Selection Committee locates sites; assembles review packet for agencies/departments; compiles comments and assembles a report.
    - iii. Recommendation is made to School Board; School Board considers/approves
    - iv. Capital Construction Goals and Accountability Committee (CCGAAC) are advised.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6 Continued)

- b. Land acquisition
    - i. Utilities Right-of-Way makes the acquisition, which is ultimately approved by the Board of Supervisors.
  - c. Site Approval
    - i. Substantial accord is confirmed during the acquisition process.
  - d. Selection of Architect/Engineer (AE)
    - i. Public advertisement for Request for Proposal (RFP)
    - ii. Evaluation of proposals
    - iii. Short list
    - iv. Interviews
    - v. Negotiation
    - vi. Recommendation to School Board for award
    - vii. School Board award
    - viii. Contract execution
  - e. Stakeholder Engagement
    - i. Community meeting is coordinated with Community Revitalization Manager to hear community input on project.
  - f. Schematic Design
  - g. Stakeholder Engagement
    - i. Community meeting is coordinated with Community Revitalization Manager to present project to community.
  - h. Design Development
  - i. Construction Documents
  - j. Site Plan approval by Planning
  - k. Approval of Construction Documents by Building Inspections
  - l. Bidding
2. Development of Specifications:
- a. AE consultants develop specifications based upon industry standards and best practices.
  - b. AE and Owner confirm project-specific needs with stakeholders.
  - c. Owner reviews/approves specifications.
3. Use of brand names:
- a. When brand names are used, either:
    - i. Two additional brands are listed (for a total of three) that have been reviewed as equals.
    - ii. Or, the name brand is followed by “or equal”.
  - b. A process is delineated to allow bidders to request approval of equals or to substitute products.
    - i. AE/Owner consider substitution requests of materials during the bid period and (21) days after the Notice to Proceed.
-

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6 Continued)

4. Prequalification of Bidders:
  - a. Under Code of VA, 2.2-4317, Prequalification of bidders requires a process adopted by the local body which Schools have not done. Therefore, prequalification of bidders is not currently permitted.
5. Change Order Approval:
  - a. Potential Change Orders (PCOs) are submitted by General Contractor (GC) to Architect (AE) for review.
  - b. AE reviews and responds. Once the AE approves, the AE submits the PCO to the Owner for approval with a letter of recommendation for the PCO to be included in a future Change Order.
  - c. The Department of New Construction (NC) reviews the PCO
  - d. Once NC reviews, the PCO is submitted to the Chief Operations Officer for review, approval, and signature.
  - e. The PCO is then returned to the AE for inclusion in a Change Order.
  - f. AE collects approved PCOs to be included in Change Order
  - g. Change Orders are sent to GC for approval/signature and then returned to AE
  - h. GC-signed Change Orders are received by AE; a letter of recommendation is attached; and the Change Order is sent to the Owner for approval.
  - i. The Owner's change order approval routing is that of 5c-5d above for PCO's.
  - j. Any change order or individual change order item (PCO component) over \$50,000 would have to be approved by the School Board.
    - i. As a result, any PCOs valued at \$50,000 or more will be processed singly as a change order.
  - k. If the total of change order value exceeds 10% of the original contract value, then that change order and all subsequent change orders must be approved by the School Board.

### COMMENDATION(S):

We commend Purchasing Department for coordination with School Construction on procurement compliance, process design, policy, and integrated procedures.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement Transition

(Point Sheet C-1.6 Continued)

#### RECOMMENDATION(S):

1. As personnel changes occur during the planned Facilities reorganization, School management will need to continue to maintain and provide current contacts responsible for existing contracts, upcoming renewals, and ongoing and new procurements for County Purchasing.
2. School Construction should update their procedures to identify steps requiring coordination with County Purchasing for applicable procurement stages.
3. School Construction procedures should include steps to consider procurement timing (at various stages) with County Purchasing to align project schedules.
4. School Construction should establish a formal process to periodically evaluate any construction schedule changes and notify County Purchasing.
5. School Construction should align their procedures to comply with County policy for noted differences.

#### MANAGEMENT'S RESPONSE(S):

1. *Concur. Director of Maintenance and Construction and/or COO were responsible for implementing June 22, 2016. This is an ongoing management responsibility. The primary reason for this recommendation was due to the fact that there was angst as a result of the magnitude of the Maintenance and Construction reorganization. Providing Purchasing with a primary contact in the event of organization changes has and will continue to be an ongoing part of management responsibilities.*
2. *Concur. Director of Maintenance and Construction and/or COO are responsible for implementing August 1, 2016. The current procedures / process for school construction – upon the consolidation of procurement under the County will be modified to reflect responsibility and required stakeholder collaboration. Any changes in dates or project planning will require input from the required stakeholders.*
3. *Concur. See response #2.*
4. *Concur. See response #2.*
5. *Concur. Director of Maintenance and Construction and/or COO are responsible for implementing July 1, 2016. Schools will implement County procedures effective July 1, 2016 when County takes over procurement for construction. Implementation and training should be completed by September 2016.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement

(Point Sheet C-1.2)

#### **CRITERIA:**

School Board Policy and Procedure 7150 – Operations and Finance, specifies the guidelines for securing public confidence of purchasing, competition among vendors and contractors, and to obtain high quality goods and services at the lowest possible price. In addition, the policy states that the School Superintendent is the purchasing agent for School Board construction funds.

The Virginia Public Procurement Act (VPPA) provides guidance for public entities in the Commonwealth to obtain high quality goods and services at a reasonable cost through fair and impartial procurement practices.

VPPA Section 2.2-4302.1 *Competitive Sealed Bidding – IFB (Invitation for Bid)* requires that the following steps be followed: (1) issuance of a written IFB, (2) public opening and announcement of all bids received, (3) evaluation of bids, and (4) award of bid to lowest responsive and responsible bidder.

VPPA Section 2.2-4302.2 *Competitive Negotiation – RFP (Request for Proposal)* requires that the following steps be followed: (1) issuance of a written RFP, (2) public notice of RFP, (3) selection of two or more qualified proposals, (4) if proposals shall be for professional services then the engagement of discussions with two or more offerors deemed fully qualified should take place, and finally (5) the negotiation for a fair and reasonable price.

VPPA Section 2.2-4304(B) *Purchasing from another Public Contract without Participation in the Procurement* defines piggybacking as purchasing from another public body's contract provided that the RFP (Request for Proposal) or IFB by which the contract was procured was specified that the procurement was being conducted on behalf of other public bodies. Piggybacking cooperative procurement cannot be used for professional services contracts and construction.

VPPA Section 2.2-4317(B) *Prequalification* of bidders is optional and allowed if the public body, in advance, sets forth a procedure in writing that allows potential competitors a fair opportunity to complete the process.

County Administrative Policy 1-12: Accounting - School Capital Projects Accounting, includes, but is not limited to, the following: retainage and payment terms of contracts executed by the School Board will conform to the County's standards, School Construction maintains the contract files for all school capital projects, and also states that change orders require approval in accordance with County Administrative Procedure 12-16: Purchasing – Change Orders.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement

(Point Sheet C-1.2 Continued)

#### CONDITION(S):

We reviewed the following contract files for compliance to policies and procedures:

- Manchester Middle School (design)
- Providence Middle School (design)
- Monacan High School (design and construction)

We reviewed each of the 4 contracts and noted the following:

- **3 of 4** School Construction practices comply with Virginia Public Procurement Act.
- School Construction provided appropriate list of projects as well as supporting documentation which allowed Internal Audit to select samples for testing.
- There are no non-specific contracts available to use as contractors needed for School Construction.
- No practices or events indicating collusive bidding or price fixing were identified.

- **Construction (IFB):**

The following was noted for the one active contract:

- Requisitions were properly approved and authorized.
- IFBs were publicly posted at least ten days prior to the opening date.
- Pre-bid conference was documented, if held.
- All bids were opened publicly at the date and time specified and tabulated on a tally sheet
- Two staff members were present at the public bid opening.
- Bid awarded to the lowest responsible and responsive bidder.
- Tested to verify bidders submitted bid bonds, cashier's checks or other appropriate surety in the amount of 5% of the total amount bid.

However, the School Board had not approved bidder prequalification procedures used during the IFB process required by VPPA.

The current School Construction Director discovered the Monacan HS procurement, completed before his arrival, used a bidder prequalification process without advance School Board approval of the procedures required by VPPA. The School Construction Director has taken action to comply with VPPA on subsequent procurements.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement

(Point Sheet C-1.2 Continued)

- **Construction Awards:**

The following was reviewed for the one active project:

- References to confirm ability to perform contract.
- Experience and availability of firm's employees in performing similar work.
- Experience of firm in performing similar work.
- Availability of equipment to do the work, if applicable.
- Prior clients were contacted and evaluations obtained as to cost and schedule performance and quality of the work produced, if applicable.
- Firms were not included on debarment lists.
- Firms were properly licensed with the State.

- **Professional Services (RFP):**

The following was noted for **3 of 4** professional services contracts:

- Requisitions were properly approved and authorized.
- RFPs were publicly posted at least 10 days prior to the opening date.
- Scoring matrices were consistent with RFP criteria.
- Proposals were evaluated individually by selection committee.
- Weighting criteria used agrees with RFP.
- Individual scores were by proposal and accurately summarized.
- There were no conflicts located in the order of RFP events between proposal and the date of first payment.

In July 2015, the new School Construction Director identified a VPPA violation with a geotechnical engineering contract initially used during Manchester Middle School and Monacan High School's design phase. The School contract piggybacked an existing County contract. VPPA does not allow other public bodies to piggyback cooperative professional service contracts. School Construction is taking action to comply going forward.

### **CAUSE(S):**

- Prior School Construction Director used a bidder prequalification process, without School Board adoption, for the Monacan High School IFB.
- Prior School Construction personnel were not aware VPPA does not allow other public bodies to piggyback professional service contracts.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Procurement

(Point Sheet C-1.2 Continued)

#### **EFFECT(S):**

School Construction did not initially comply with VPPA requirements for:

- Section 2.2-4317(B), written bidder prequalification process must be adopted by School Board.
- Section 2.2-4304(B), piggybacking cooperative professional services contracts from another public body.

#### **ACTION(S) TAKEN:**

##### **Bidder Prequalification:**

- The School Construction Director discontinued the prequalification procedure used by the prior Director which had not been approved by School Board.

##### **Piggybacking:**

- In July 2015, School Construction obtained a geotechnical engineering contract with Schnabel Engineering for Monacan High School using a change order through BCWH which complies with VPPA requirements.
- In October 2015, School Construction used the Informal RFP process to properly procure geotechnical engineering services for balance of the Manchester Middle School design.
- In February 2016, County Purchasing initiated a joint geotechnical engineering RFP that will allow both County and School use on future projects (such as Providence Middle School).

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Financial Review

(Point Sheet C-1.5)

#### **CRITERIA:**

County Administrative Policy 1-12: Accounting – School Capital Projects Policy and Procedure outlines the procedures to ensure financial information is presented timely and accurately for effective capital project management.

#### **CONDITION(S):**

School management's November 2015 CIP Project Report was compared to School Capital Fund in the general ledger noting completeness and accuracy.

The Construction Director and Chief Operations Officer developed spreadsheets to maintain detail by project for contract and change order status.

#### **CAUSE(S):**

- School Construction performed general ledger monitoring appropriately by following administrative policies and procedures.
- School Construction uses excel spreadsheets to review project financial and contract status.

#### **EFFECT(S):**

- Complying with administrative policies and procedures helps School Construction reach budgetary goals.
- Project spreadsheets provide a project overview, including contract status and consideration of change orders for required approvals, for easy reference.

#### **COMMENDATION(S):**

- We commend School management for ensuring School CIP Project Report and School Capital Fund general ledger accuracy.
- We commend the Chief Operations Officer and Construction Director for organizing project documentation and developing a process to monitor project contract and change order status.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Change Orders

(Point Sheet C-1.4)

#### **CRITERIA:**

County Administrative Policy 12-16: Purchasing – Change Orders states the same official who has authority to execute a contract on behalf of the county or school board shall have authority to execute change orders or other amendments to that contract. A contract in excess of \$500,000 with a cumulative change order totaling 10% (20% for contracts under \$500,000) shall be approved by the Board of Supervisors or School Board. Also, any single change order that increases the amount of a contract by more than \$50,000 shall be approved by the Board of Supervisors or School Board.

#### **CONDITION(S):**

We reviewed change orders for Manchester Middle, Providence Middle, and Monacan High School from inception through February 29, 2016. There were eight change orders totaling \$425,102 across the four base contracts totaling \$19,536,695. We noted:

- A \$56,761 professional service change order for Monacan High had a \$256 pricing error.
- Although detailed descriptions were included, 5 of 8 change orders did not have adequate unit cost or hours defined to verify pricing:
  - \$2,250 for stripe painting.
  - \$40,576 for reprogramming design from 1,500 to 1,100 students.
  - \$88,440 for specified civil engineering tasks.
  - \$28,632 for kitchen design consultation.
  - \$63,370 for technology design services.
- A \$40,576 professional service change order Manchester Middle School does not appear to have been approved timely. The change order received on June 22, 2015 was approved on August 26, 2015 and invoiced on August 27, 2015. It is not clearly documented approval was provided before design reprogramming was performed.
- 2 of 6 professional service change orders dated September 16, 2014 for \$88,440 (Providence Middle) and October 6, 2014 for \$56,761 (Monacan High) increased a contract by more than \$50,000 were not approved by the School Board.

#### **CAUSE(S):**

- One minor math error was not identified where unit pay rate did not match original contract.
- Unit cost and additional hours were not included with all change order requests.
- A change order approval was 65 days from the receipt date with no documentation explaining delay.
- Prior Assistant Superintendent of Business and Finance did not acquire School Board approval for professional service change orders totaling \$145,201 for Providence Middle (Moseley Architects, \$88,440) and Monacan High (BCWH Architects, \$56,761).

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Change Orders

(Point Sheet C-1.4 Continued)

#### **EFFECT(S):**

- \$256 was overpaid.
- Pricing verification for change order units and hours are not consistently documented.
- Untimely change order approval may delay progress or could result in unexpected costs.
- School Construction was in violation of County Administrative Policy 12-16.

#### **ACTION(S) TAKEN:**

- School Construction project file support and organization have improved since the prior audit (November 2014). As noted earlier, we commend the Construction Director for organizing project documentation and developing process to monitor project contract and change order status.
- In March 2016, School Management created a change order routing form and CIP award notice to provide change order details and required approval compliance.
- In April 2016, management was notified of the two change orders without School Board approval. School Board subsequently approved the Monacan High change order on May 2016 and the Providence Middle change order is being evaluated further prior to seeking School Board approval.

#### **RECOMMENDATION(S):**

6. We recommend School Construction continue to strengthen change order procedures to consistently document pricing units and hours verification.
7. We recommend School Construction document reasons for delays in change order approval.

#### **MANAGEMENT'S RESPONSE(S):**

6. *Concur. COO / Assistant Superintendent of Business and Finance completed April 2016. The new change order procedures and tracking forms were implemented and shared at the CCGAAC meeting on April 20th. As a result of continuous improvement efforts on the part of the Schools, the Change Order Routing form has been updated from a Word to an Excel document so that calculations are made automatically and therefore reduce the opportunity for human error.*
7. *Concur. COO is responsible for implementing August 2016. The reasons for delay with the change orders for Mosley and BCWH are documented in the Memo's to the School Board. The delays in School Board approval were due to human error and a lack of knowledge that the change orders required board approval. The new procedures should eliminate recurrence in addition to County Purchasing assuming all procurement responsibilities for school construction procurement.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Bonds and Insurance

(Point Sheet C-1.1)

#### **CRITERIA:**

County Administrative Policy 13-2: Risk Management – Insurance and Bond Responsibilities, specifies the guidelines for the contractor to secure the appropriate insurance coverage to fully protect the County and Public Schools, the consulting professional, and the general public from any and all claims. The policy also states that the awarded contractor will be required to submit copies of certificates of insurance (COI) before entering into agreement and shall maintain coverage until the end of the contract term.

The Library of Virginia Records Retention and Disposition Schedule for County and Municipal Governments, Series Number – 010165, states that Insurance Records and Reports carried by the locality, such as commercial policies, third-party coverage, and self-insurance programs must be retained for 3 years after the end of the fiscal year. This series may include but is not limited to: insurance policies, claims, invoices, and investment files.

#### **CONDITION(S):**

School Construction maintains an electronic copy of COIs. We obtained and reviewed COIs for Manchester Middle, Providence Middle, and Monacan High School. We found:

- School Construction did not have COIs for the architect on file for 1 of 4 projects (Providence Middle School) for the annual periods ending May 2015 and May 2016.

#### **CAUSE(S):**

School Construction did not obtain certificates of insurance from an architect.

#### **EFFECT(S):**

Without proper coverage, Schools are at risk of not having proper insurance for the awarded project(s).

#### **ACTION(S) TAKEN:**

School Construction subsequently obtained COIs for this period.

#### **RECOMMENDATION(S):**

8. We recommend School Construction consistently maintain architect COIs until July 1, 2016 transition of this function to County Purchasing.

#### **MANAGEMENT'S RESPONSE(S):**

8. *Concur. Director of Maintenance and Construction is responsible for implementing July 1, 2016. All documents will be given to Purchasing effective July 1 for current and new projects.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Progress Payments

(Point Sheet C-1.3)

#### **CRITERIA:**

County Administrative Policy 1-12: Accounting – School Capital Projects Accounting Policy defines the responsibilities of County and School departments to facilitate timely and accurate financial information by which capital projects can be effectively managed.

#### **CONDITION(S):**

Only 1 of 3 projects tested had reached the construction phase. As a result, we tested progress payments in the amount of nearly \$6 million for Monacan High School and found:

- All progress payments made to date tied to cumulative total requested to date as reflected on the most current monthly progress payment.
- Change orders were accounted for and invoiced separately on the payment application (monthly progress billing).
- Retainage was reasonable and withheld in accordance with contract terms.
- Backup of monthly pay requests and supporting documentation was adequate and in agreement with contract and change order terms, and all pay items had been properly reviewed and approved prior to being submitted for payment.

#### **CAUSE(S):**

School Construction performed tasks appropriately by following administrative policies and procedures.

#### **EFFECT(S):**

Complying with administrative policies and procedures helps the County achieve its goal of being exemplary stewards of the public trust.

#### **COMMENDATION(S):**

School Construction is commended for compliance with appropriate administrative policies and procedures.