CITY AUDITOR'S OFFICE

Scottsdale Unified School District No. 48

Hohokam Bond Project

October 13, 2021

AUDIT REPORT NO. 2116

Prepared for:

Scottsdale Unified School District Governing Board

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October 13, 2021

Honorable Members of the SUSD Governing Board:

Enclosed is the audit report for the *SUSD Hohokam Bond Project,* pursuant to Intergovernmental Agreement (Contract No. 2021-023-COS) between the Scottsdale Unified School District No. 48 and the City of Scottsdale. This audit was conducted to review contract administration, including procurement, project management, contract compliance, and cost-effectiveness, for the Hohokam Elementary School renovation and construction project, largely funded by voter-approved bonds.

Our audit identified controls that can be improved, including closer review of the Construction Manager at Risk's (CMAR) subcontractor selection process, proposed Guaranteed Maximum Price costs, and contract time. As well, formal contract management processes may help the District better monitor and control construction costs and quality and manage the design services contract. We also recommend improving documentation standards and methods. During the audit, District staff began addressing the identified areas, and the Management Action Plan outlines the District's current and planned implementation progress.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

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AUDIT HIGHLIGHTS

SUSD Hohokam Bond Project

October 13, 2021 Audit Report No. 2116

WHY WE DID THIS AUDIT

The Scottsdale City Auditor's office performed this audit on behalf of the Scottsdale Unified School District No. 48 through Intergovernmental Agreement (IGA) 2021-023-COS approved by the City Council and District Governing Board. The audit objective was to review contract administration, including procurement, project management, contract compliance, and cost-effectiveness, for the Hohokam Elementary School construction project.

BACKGROUND

The renovation and rebuild of Hohokam Elementary School was primarily funded by the 2016 voter-approved Bond. The District used a Construction Manager at Risk (CMAR) delivery method for the project, where, in addition to hiring an Architect, it hired a general contractor to provide preconstruction design review and input. As the design phase was ending, the CMAR general contractor and the District negotiated a Guaranteed Maximum Price (GMP) for constructing the project, approximately $21.9 million.

As of August 2021, this project had not yet been closed out.

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WHAT WE FOUND

Closer review of the CMAR subcontractor selection, proposed GMP costs and contract time can better control construction costs.

- Additional oversight of the subcontractor selection process and more detailed review of the proposed costs are needed. For example, about $2 million of the GMP was based on estimates and should have been identified and tracked.
- Transaction privilege taxes (sales taxes) were overstated in the GMP and other Job Order Contracting work performed by the CMAR.

Establishing contract management processes may help the department better monitor and control construction costs and quality.

- Monthly progress billings were not fully supported, and General Conditions costs were billed as lump sum, not at actual cost of allowable items.
- Some change work was not submitted to the District for approval and procedures are needed for key quality control processes.

Management of the Design services contract could be improved.

- Contract terms did not address project architectural services and a pricing structure based on construction costs may not have been advantageous. Also, some fees appear inconsistent with contract pricing.
- Some contract documents were missing, high-dollar change orders were not submitted to the Governing Board, and monitoring procedures are needed.

Documentation standards and methods should be improved.

WHAT WE RECOMMEND

We recommend the District Superintendent require Building Services to:

- Establish requirements for closer review of the subcontractor selection process and construction cost details.
- Establish procedures for reviewing progress payments, changes to the work, and quality control.
- Establish procedures for monitoring design processes and managing project documentation.

MANAGEMENT RESPONSE

The District agreed with the audit recommendations and outlined its current and planned progress for implementation.

BACKGROUND

The Scottsdale City Auditor's office is performing this audit on behalf of the Scottsdale Unified School District No. 48 through Intergovernmental Agreement (IGA), Contract No. 2021-023-COS, approved by the City Council and District Governing Board.

In November 2016, voters approved for the Scottsdale Unified School District (the District) to issue general obligation bonds not to exceed $229 million to fund capital improvement projects. This audit reviews one of the projects funded by the 2016 Bond, the renovation and construction of Hohokam Elementary School, located at Oak Street and Granite Reef Road.

SUSD 2016 Bond funding allowable uses:

- Construction and renovation of school buildings, including design services, project management, and other related costs
- School furniture, equipment, and technology
- Purchasing student transportation vehicles
- Improvement of school grounds
- Bond issuance related costs

SOURCE: Auditor analysis of November 8, 2016 Special Election Ballot

After the District selected an Architect in May 2019, the firm conducted a feasibility study and facilitated public meetings. The District also created a visioning committee comprised of district staff and community members to obtain feedback for the project's direction. In September 2019, the District Governing Board approved the proposed project, which would include renovation of existing school buildings to preserve the historic Ralph Haver architecture, replacement of building systems, and demolition and construction of new administrative and multipurpose buildings.

As of May 2021, the project budget for the Hohokam renovations and construction, as reflected in the Building Services bond status report, totaled about $24.94 million, with another $1 million funded by Adjacent Ways.[1] As shown in Table 1 on page 4, as of May 6, 2021, project bond expenditures totaled about $18.6 million, with an additional $832,000 from the Adjacent Ways fund. With the additional pending encumbrances, project expenditures were estimated to total about $26.3 million, including the related furniture, fixtures and equipment and technology costs.

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[1] Adjacent ways funding is obtained through a levy of special assessment on taxable property in the school district and can be used to construct, maintain, or improve any public way that is adjacent to the school land, including sidewalks, sewers, utility lines, and roadways. Arizona Revised Statutes §15-995.

Table 1. Hohokam Project Expenditures and Encumbrances, as of May 2021

	Payments thru May 6, 2021	Pending Encumbrances	Total
Asbestos and Lead Abatement	$ 536,680	-	536,680
Construction	17,169,723	5,512,798	22,682,521
Design	1,430,659	292,893	1,723,552
Furniture, Fixtures, & Equipment	-	438,963	438,963
Other	97,167	-	97,167
Technology Infrastructure & Equipment	293,833	485,467	779,300
Total	**$19,528,062**	**6,730,121**	**26,258,183**
2016 Bond Fund	$18,696,541	$6,552,681	$25,249,222
Adjacent Ways Fund	$ 831,521	$ 177,440	$ 1,008,961

SOURCE: Auditor analysis of iVisions accounting system reports provided by the District, data through May 6, 2021.

For the Hohokam school project, the District used a Construction Manager at Risk (CMAR) contract for preconstruction and construction services, as well as a Job Order Contract (JOC) for certain time-critical demolition services. In addition, a Consultant provided design and construction administration services. Project costs presented in Table 1 include approximately $54,700 for costs related to a previously canceled design contract and an additional $78,000 in construction costs related to electrical facilities.[2]

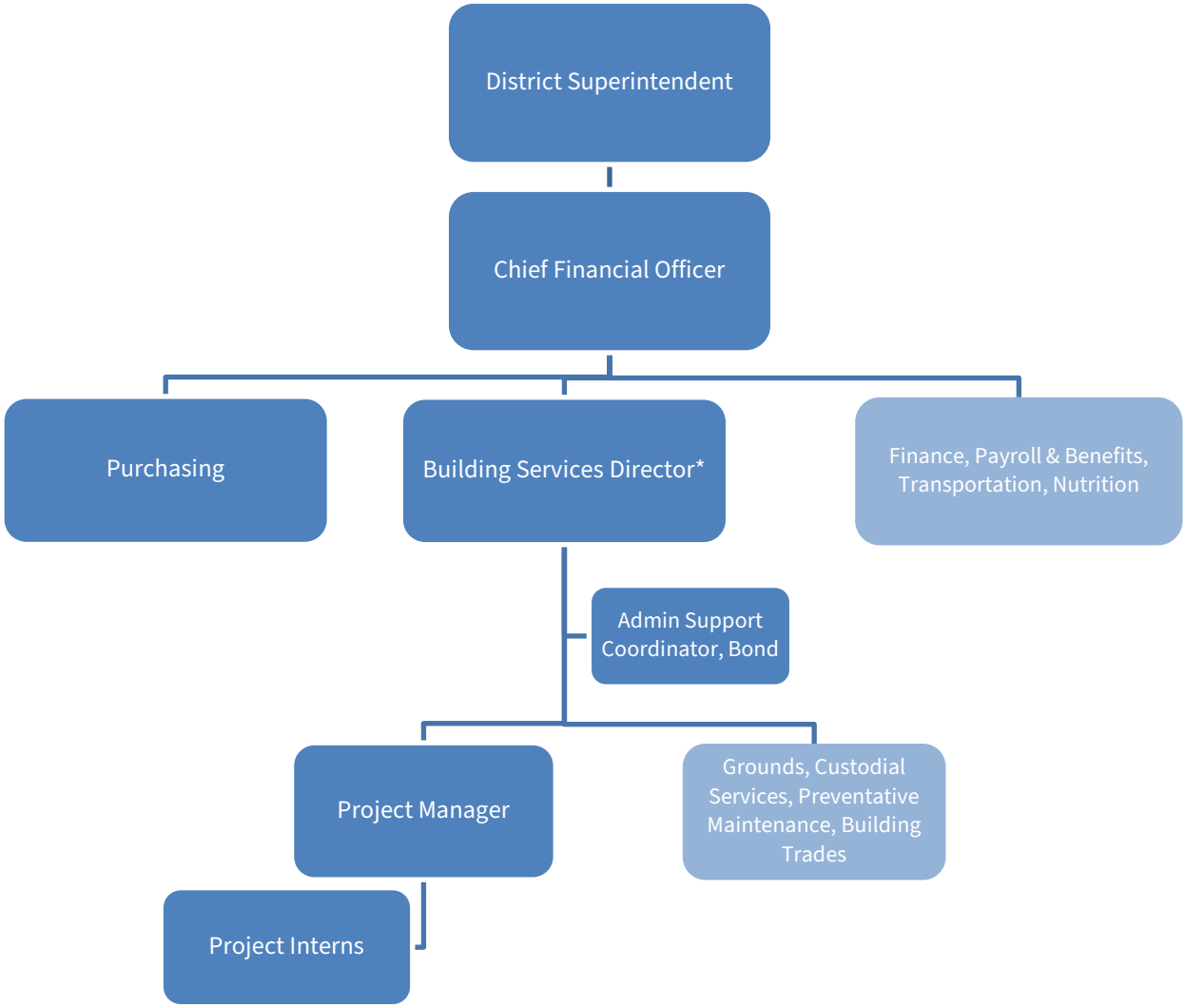
Bond projects and the related contracts are managed by the District's Building Services department. The Building Services Director oversees the projects, and project management is performed by a full-time Project Manager and assisted by two part-time Interns. Administrative support is provided by the department's Administrative Support Coordinator and a Senior Executive Admin Assistant for Business Services. The District's Purchasing department coordinates procurement of goods and services related to these projects.

Figure 1 on page 5 shows an organizational chart of the departments and positions supporting Bond projects.

(continued on next page)

[2] The canceled design costs include $48,000 to an architectural consultant and $6,700 to a consulting firm for procurement services. The District canceled these contracts in early 2018 due to conflict-of-interest issues related to former District administrators and the consultants.

Figure 1. Organizational Chart



* Title recently changed to Director of Facilities and Bond Management.

SOURCE: Auditor analysis of District and Department organization charts.

Architectural Design Services

The District contracted for the project's architectural services through a Mohave Educational Service Cooperative (Mohave) cooperative purchasing contract.[3] In 2018, the District Governing Board approved the use of a series of four Mohave architectural services contracts, and in May 2019, approved the architect selected for the Hohokam Elementary School project.

This architectural services agreement provided basic architectural services, including schematic design, design development, construction documents, bidding assistance, and construction administration, as well as the offered supplemental services, such as 3D modeling, feasibility study and programming, third-party community engagement services, and geotechnical services. As shown in Table 2, the contract services totaled approximately $1.55 million as of May 2021.

Table 2. Architectural Services Fee

	As of May 2021
Basic Services	**$ 1,209,273**
Additional Services:	
3D modeling	9,200
Feasibility study & programming	33,330
Third-party community engagement	28,278
Civil Engineering	82,400
Geotechnical Services	17,500
Food Service consultant	12,500
Landscape	7,175
Landscape rendering	2,150
Energy Modeling commissioning	35,000
Special inspections testing	35,000
Addt'l landscape, arborist, historic architecture	6,710
Reimbursable expenses	34,970
Design contingency	40,000
Total Contract	**$ 1,553,486**

SOURCE: Auditor analysis of Mohave contract 16C-SPS-0506, Architect's Fee Proposals for Phase 1, Phase 2, Additional Services, and District purchase orders.

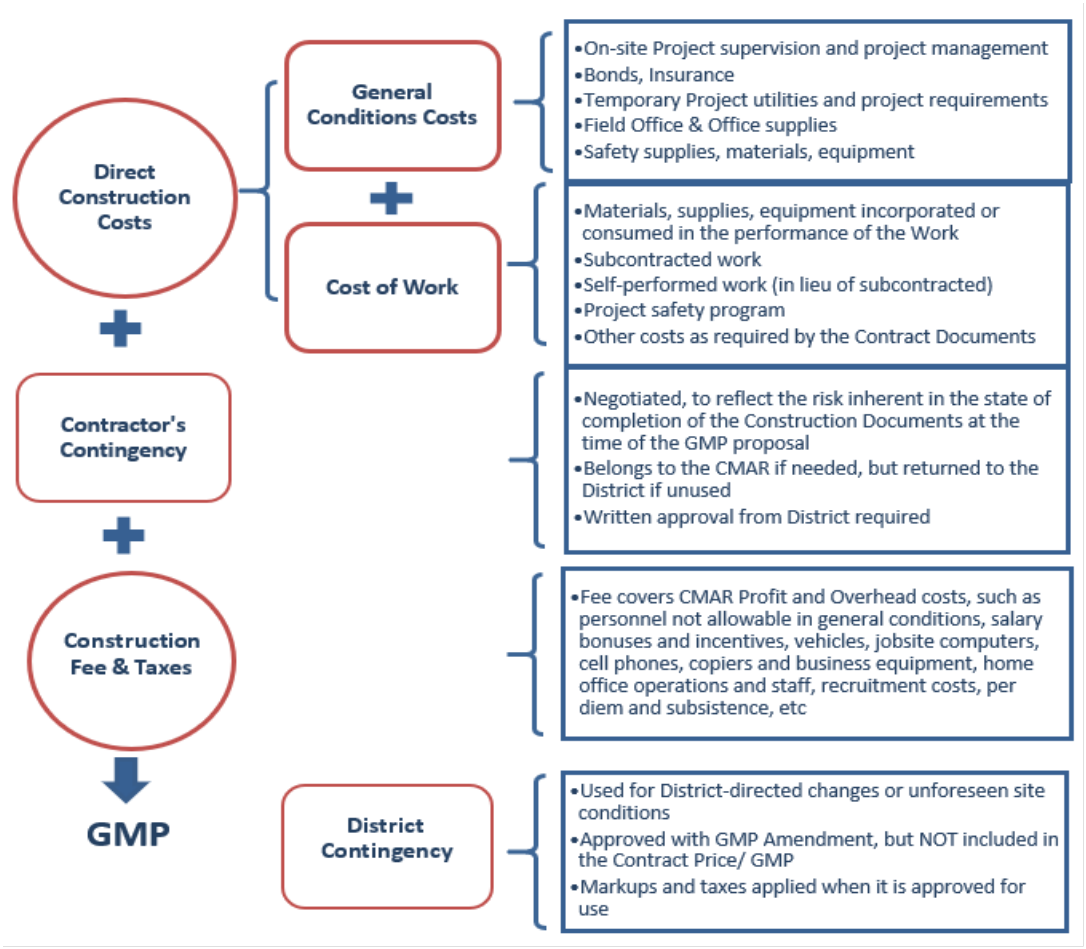
[3] Cooperative purchasing is a procurement conducted by, or on behalf of, more than one public procurement unit.

Construction Services

For the Hohokam project, the District used a Construction Manager at Risk (CMAR) project delivery method. With this delivery method, the owner (District) hires a general contractor during the design phase to provide preconstruction services, which include design review, constructability and biddability reviews, and cost estimates. The CMAR delivery method is often used for more complex projects or for those requiring more flexibility in the schedule or work.

Once the design is completed (or earlier, if required by the project schedule), the CMAR submits a Guaranteed Maximum Price (GMP) proposal for the construction work. As summarized in Figure 2, the District's CMAR contract pays the direct costs of construction plus a construction fee for overhead and profit, and taxes, up to the agreed-upon GMP. If agreement cannot be reached, the GMP portions of the contract may be cancelled. But if the District accepts the CMAR's proposed GMP, the GMP and all related construction documents are incorporated into the CMAR contract through an amendment.

Figure 2. GMP Components in the Contract Terms



SOURCE: Auditor analysis of the Hohokam CMAR contract, RFQ# 20000.

In June 2019, the District selected the CMAR through a Request for Qualifications (RFQ) procurement process. This process, managed by the District's Purchasing department, involves evaluating the candidates' Statements of Qualifications and holding selection panel interviews.

The CMAR's preconstruction services fees totaled $120,000. Table 3 summarizes the subsequent GMP of $21,986,783 that was approved by the District Governing Board in June 2020. While the 2016 Bond primarily funded this contract, the Adjacent Ways Fund contributed $1,008,961 for certain eligible costs. Construction work began in June 2020 and completed in late June 2021, with minor punch list work still outstanding at the time of this report.

In addition to the CMAR contract, the contractor was also awarded a Job Order Contracting (JOC) contract for demolition work.[4] To facilitate the goal of completing the project before the 2021/22 school year, these tasks were performed before the GMP was finalized. The District used a cooperative procurement contract awarded by Buckeye Elementary School District to issue the JOC job order for demolition work totaling $497,546, as shown in Table 3.

Table 3. Hohokam GMP and JOC Summary

	CMAR contract GMP	JOC job order
General Conditions	$ 1,009,227	$ 12,500
General Requirements	216,263	
Cost of Work	17,492,607	413,235
Allowances	85,000	
Project Contingency	329,802	
City Review Contingency	54,967	
General Liability Insurance	285,828	5,971
Builder's Risk Insurance	142,914	a
Performance & Payment Bond	219,868	4,975
Construction Fee	999,739	n/a
General & Administrative	n/a	2,488
Profit	n/a	32,340
Taxes	1,150,568	26,037
Contract Price	**$ 21,986,783**	**$ 497,546**

a – Builder's Risk and General Liability insurance were combined for the JOC.

SOURCE: Auditor analysis of the Hohokam CMAR contract, RFQ# 20000 and Buckeye ESD Contract # 17-003, *Hohokam ES Building Demo JOC Proposal*.

[4] Job Order Contracting is an indefinite-delivery indefinite-quantity construction delivery method where the owner awards a master contract under which many smaller projects may be completed.

Construction Administration and Quality Control

Basic services in the District's architectural services contract included construction administration to be performed by the Architectural consultant and its construction administration team (Consultant). Construction administration services typically involve monitoring construction for conformance with the design plans and specifications, answering related questions, issuing written clarifications, verifying materials used, and reviewing contractor billings against the work completed prior to the District's review.

As part of the overall quality control process, the District's Building Services Project Manager also attended construction meetings and performed site visits to review the construction work.

During construction, the Architect's subconsultants from various engineering trades perform field inspections as well as special inspections required by the City's building code. The CMAR contracts for materials testing throughout construction, and the Consultant is responsible for reviewing the test results.

Construction Administration

For the Hohokam project, the specific activities that may be provided included:

- construction meeting attendance,
- site visits,
- submittal review,
- Request for Information responses,
- pay application (billing) review,
- change order review, and
- project closeout verification.

SOURCE: Contract 16C-SPS-0506, Hohokam Phase 2 Scope of Services.

Change Requests –To use project contingency, the CMAR submitted additional work to be funded as an Allowance Use Authorization (AUA) request for approval. Such change requests typically result from construction plan clarifications and updates, unforeseen site conditions requiring additional work, or District-directed changes. After review and verification, the Consultant forwarded the AUA for the Building Services Project Manager's review, with the Director of Building Services providing the final approval.

Monthly progress and pay applications – The CMAR submits monthly pay applications for payment based on the estimated work progress. The Consultant reviews the pay applications and resolves any differences with the CMAR. The Consultant then submits the pay applications to the Building Services Project Manager for review and the Director of Building Services' approval for payment.

Figure 3 on page 10 illustrates the overall project timeline.

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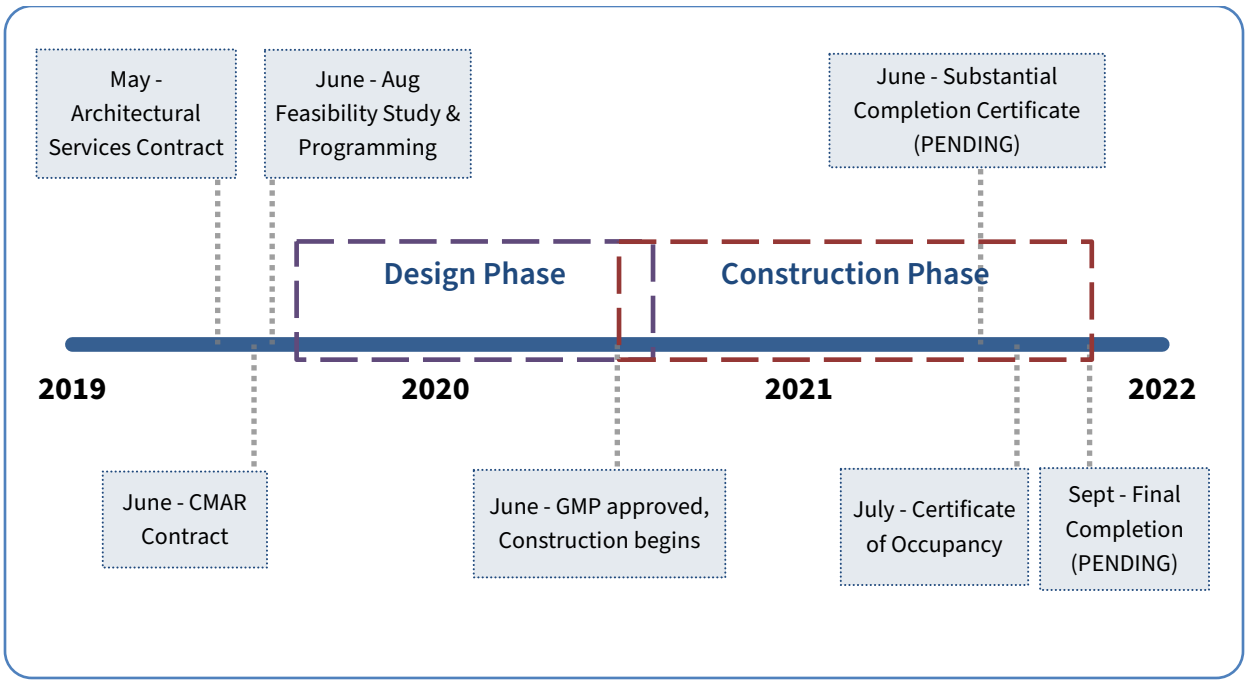
Figure 3. Project Timeline



SOURCE: Auditor analysis of Hohokam Governing Board meeting materials, Architect-provided design schedule, and District-provided closeout information.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit of *Hohokam Bond Project* was completed pursuant to the City Council and Scottsdale Unified School District Governing Board-approved Intergovernmental Agreement, 2021-023-COS. The audit objective was to review contract administration, including procurement, project management, contract compliance, and cost-effectiveness, for the Hohokam Elementary School renovation and construction project.

As of the time of this report, the contractors had not yet submitted their final invoices. This audit report reflects cost information provided by August 31, 2021, with other applicable dates as noted throughout the report.

To gain an understanding of the Hohokam project, we reviewed the major contracts for project design and construction:

- Mohave Education Services Cooperative, Inc. contract #16C-SPS-0506 for *Architect Services*, along with the District's related project fee proposals, change orders, and purchase orders issued under this cooperative contract.
- The District's Construction Manager at Risk (CMAR) agreement RFQ#20000, including Amendment 1 with the GMP and construction documents.
- Buckeye Elementary School District S.A.V.E. Cooperative Contract #17-003 for *Job Order Contracting Services – General Contractors* and the District's related *Hohokam ES Building Demo JOC Proposal* approved under this cooperative contract.

To gain an understanding of District procedures and records for procurement, contracts, project management and administrative practices, we interviewed the Purchasing Director, the Building Services Director, and the Project Manager. We also reviewed District correspondence with the CMAR and Consultant to gain an understanding of the review and approval processes. We also reviewed State and District requirements for procurement of design and construction services and the District's prior audits related to this topic, including:

- Arizona Administrative Code, Title 7, Chapter 2, Articles 10 and 11, *School District Procurement Rules,* adopted by the Arizona Board of Education.
- School district procurement guidance and Uniform System of Financial Records for Arizona School Districts promulgated by the Arizona Auditor General.
- Scottsdale Unified School District Purchasing Services Department Procedures Handbook.
- Fiscal Year (FY) 2019/2020 Single Audit Report, and the FY 2018/2019 and FY 2019/2020 Agreed-Upon Procedures review of Procurement.

To evaluate the effectiveness of contract administration, including procurement, project management, contract compliance, and cost-effectiveness, we:

- Obtained construction cost records from the CMAR/JOC contractor through the March 31, 2021 billing period, and reviewed the CMAR's job cost ledger, GMP cost details and subcontractor

bidding documentation to evaluate the subcontractor selection process and costs included in the GMP line items.

- Reviewed Design contract and CMAR pay applications for consistency with contracted amounts and accuracy of calculations. We also compared pay applications to CMAR cost records provided, through the March 31, 2021 billing period.
- Reviewed documentation of change requests, contingency use requests and use of allowances submitted to the District.
- For a risk-based sample of 10 major subcontractors, we compared the subcontracts, pay applications, and change orders against District-approved changes, subcontractor bids, the CMAR bid tabulation documentation, and the CMAR job cost ledger. In addition, we reviewed two other subcontracts due to significant modifications to their scopes of work.
- Compared general conditions costs recorded by the CMAR to contract definitions. We also selected a risk-based sample of general conditions and other costs to validate the accuracy of the recorded descriptions and amounts.
- Evaluated whether approved value engineering options had been applied in the GMP cost details.
- Reviewed the CMAR's separate JOC costs for phased demolition work.
- Reviewed the available documentation of design and preconstruction activities, including the design schedule, design review documentation, cost estimates and related reviews.
- Reviewed available construction phase documentation, including quality control testing, Requests for Information (RFI), Architect Supplemental Information (ASI), and construction meeting minutes.
- Reviewed documentation of project closeout procedures provided as of August 31, 2021 in comparison to the related contract requirements.
- Reviewed a small risk-based sample of other project-related contracts and compared the pricing or costs to District purchase orders and invoices. These other contracts included cooperative purchasing contracts for restaurant supplies and equipment; furniture, fixtures, and equipment; and asbestos abatement services.

Our audit found that closer review of the CMAR subcontractor selection, proposed GMP costs and contract time can better control construction costs. Establishing additional contract management processes may help in monitoring construction costs and quality, managing design services and improving documentation.

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. Audit work took place from April through August 2021.

FINDINGS AND ANALYSIS

1. **Closer review of the CMAR subcontractor selection, proposed GMP costs and contract time can better control construction costs.**

The Hohokam construction contract provides for the District to pay the Construction Manager at Risk (CMAR) for the actual cost of construction plus a construction fee, up to a Guaranteed Maximum Price (GMP). To evaluate that the proposed GMP is fair and reasonable, the District should review and understand how the underlying costs were established. As well, ensuring a competitive subcontractor selection process would help control construction costs. For the Hohokam CMAR contract, additional oversight of the subcontractor selection process and more detailed review of proposed costs were needed. Also, some costs estimated by the CMAR had not been separately identified to be monitored, and the Contract Time had not been clearly defined.

A. Monitoring the subcontractor selection process could help encourage a more competitive process.

The District's CMAR contract includes controls such as requiring the CMAR to obtain District approval for the subcontractor candidates, open subcontractor bids in the presence of the District's Project Manager and submitting the bid tabulations to the Project Manager within a reasonable time after closing the bid proceedings. In practice, these activities were not performed.

According to Building Services, staff and the CMAR discussed subcontractor bids and bid tabulations during project meetings, but documentation was not provided for closer review. Our review of the bid documents found that the CMAR received only one or two complete bids for about two-thirds of the subcontracted trades. Subcontractor costs drove more than 80% of the Hohokam project costs, so ensuring competitive selection practices could help control the overall project cost.

B. The CMAR's pricing included additional estimated amounts that were not identified in the GMP proposal to be monitored as allowances or potential contingencies.

In its subcontractor bid tabulations provided during the audit, the CMAR had highlighted about $1 million in estimated costs. They explained to auditors that these estimates were for work not clearly defined in the plans, added through final project meetings, or miscellaneous scope not included in subcontracts. And auditors identified another $1 million in estimated costs that were added to the documented subcontractor bid amounts the CMAR provided.

For a sample of 10 subcontracts, we compared the subcontracts and any change orders as of June 2021, the subcontractor bid tabulations, the GMP pricing, and the CMAR's job cost ledger. For these 10 subcontracts, as shown in Table 4 on page 14, about 25% of the work with estimated costs were subsequently incorporated into the subcontracts through change orders

or purchased through other vendors. This information is based on cumulative costs through the CMAR's March 31, 2021 job cost ledger and subcontract change orders through June 2021. Based on the pay applications through March, the CMAR had completed and billed approximately 75% of the Hohokam project.

Table 4. Estimated GMP Amounts Incorporated as of March and June 2021.

Sampled Trades in GMP	Est'd Amounts in GMP line	Related Work as of March /June 2021 [a]	% for Related Work
Structural Steel	$ 87,536	-	0%
Landscaping	211,820	$ 94,394	45%
Rough Carpentry	221,330	Re-bid	n/a
Electric	105,329	41,576	39%
Site Utilities	51,037	22,636	44%
Paint, Framing & Drywall	115,571	8,889	8%
HVAC	-	-	-
Demolition & Earthwork	229,765	85,354	37%
Metal Panels, Roofing & Sheet Metal	179,166	-	0%
Concrete	137,957	26,802	19%
Total	**$ 1,339,511**	**$ 279,651**	**25% [b]**

[a] Related work calculated based on the descriptions from subcontractor change orders and other vendor payments. We reviewed subcontractor change orders through June 2021 and vendor payments through March 2021.

[b] Average percentage of related work excludes Rough Carpentry, where the final subcontract scope differed significantly from the bid submitted for the GMP.

SOURCE: Auditor analysis of CMAR-provided documents, including subcontractor bid documents, bid tabulations, subcontracts, and change orders through June 2021 and job cost reports through March 2021.

Further, the CMAR funded some subcontract change orders for other work using the additional estimated costs but these change orders were not submitted to the District's Building Services department for review and approval. According to the CMAR, these subcontractor change orders were primarily for work related to unknown conditions and identified as construction progressed. For the 10 selected subcontracts, as shown in Table 5 on page 15, the CMAR submitted only the subcontract change orders requested to be funded through the Project Contingency, about 19%, to the District for approval.

Table 5. District-Approved Changes, as of June 2021

Trade	Subcontract Change Orders	District-Approved Changes
Structural Steel	$ 41,023	$ 19,292
Landscaping	22,493	13,493
Rough Carpentry	94,477	3,200
Electric	106,437	30,699
Site Utilities	52,343	15,460
Paint, Framing & Drywall	51,236	1,757
HVAC	36,972	2,291
Demolition & Earthwork	116,465	33,643
Metal Panels, Roofing & Sheet Metal	23,509	-
Concrete	122,919	3,779
Total	**$ 667,874**	**$ 123,614**
Percentage of Sub Change Orders Approved by the District		**19%**

SOURCE: Auditor analysis of CMAR-provided subcontract change orders and District-approved AUA's, as of June 2021.

Some subcontract changes funded through the additional estimated amounts included cost types that might typically be allowable uses of a Contractor's contingency, including work that may have been missed in the design plans, or rework due to damage or error. Other changes related to minor design changes and revisions could have been funded through either the District's contingency or contractor's contingency, if approved by the District.

For this project, the District did not approve a Contractor's Contingency amount in the GMP, choosing instead to approve an overall Project Contingency. While contract terms describe Contractor's and District's contingencies and their uses, the Project Contingency term is not defined.

The CMAR contract terms required District approval for use of Contractor Contingency. Typically, the parties would negotiate Contractor's Contingency amounts based on the complexity of the work and the completeness of the design plans when the GMP is being finalized. Because the CMAR's cost details did not clearly identify the allowances being built into the GMP, the District did not have the opportunity to evaluate whether these additional estimated amounts were appropriate for potential added work or the risk of changes.

As well, identifying these estimated costs would allow potential savings to be monitored through allowance logs. In some instances, use of these GMP savings for changes in the work

should have required a District-approved Change Directive. Yet, due to the way the estimated amounts were added and managed, they were not submitted for District review.

In April 2021, the CMAR transferred $449,082 in savings from the various GMP line items into the Project Contingency budget, citing that the savings were based on *"a) assumptions made at GMP time for undefined scope inclusions generating cost savings, b) economies of scale and trade partner selection and, c) unrealized unforeseen conditions allowances within site and renovation spaces."*

Although auditors and District staff requested it during the audit, the CMAR has not yet provided details for how this savings amount was determined, instead indicating that they were preliminary numbers. Because the identified additional estimated amounts totaled approximately $2 million, it is not clear whether all savings were included and how all other amounts were applied. During the audit, District staff also had initial discussions with the CMAR regarding the estimated amounts.

C. Transaction privilege taxes were incorrectly calculated for both the CMAR's GMP and the JOC demolition job order and pay applications.

In its GMP and JOC costs, the CMAR included the contractor's transaction privilege taxes (TPT, or sales tax) in a way that resulted in taxes being calculated on the tax amount, as shown in Table 6 on page 17. By applying the tax rate in this manner, the amount charged to the District was approximately $62,000 higher than what the CMAR would be required to pay the state Department of Revenue.

In the CMAR's job cost ledger, the project's total recorded TPT amount through March 31 approximated the taxes calculated on the pre-tax amount. Additionally, we noted that the CMAR had recorded about an $8,000 reduction in tax expense for tax-exempt utility pipe work, but this deduction was not yet reflected on its pay applications. Through March 31, 2021, billing period, the District had paid about $37,000 more in taxes than the CMAR had recorded in tax expense for the same period.

(continued on next page)

Table 6. Hohokam Project CMAR and JOC Tax Calculations

Contract Type:	CMAR	JOC
Construction Costs	$ 18,718,097	425,735
Allowances, Contingencies	469,769	-
Bonds and Insurance	648,610	10,946
Fee	999,739	34,828
Subtotal	**$20,836,215**	**471,509**
Taxes (5.23%) as calculated for the GMP [1]	1,150,568	26,037
Total	**$ 21,986,783**	**497,546**
Taxes calculated on pre-tax Subtotal	$ 1,090,255	24,672
Difference	**$ 60,313**	**1,365**
Additional Tax savings from Utility Pipe Exemption [2]	**$ 8,044**	**n/a**

[1] The 5.23% rate represents the contractor tax rate of 65% of the combined Scottsdale tax rate of 8.05%.

[2] Utility Pipe tax savings amount as recorded in the CMAR's job cost ledger.

SOURCE: Auditor analysis of the Hohokam CMAR contract and JOC Job Order.

D. The Substantial Completion date was not specifically stated in the CMAR construction contract documents.

In various sections, the Hohokam contract terms reference a Substantial Completion date and the related requirements and indicate that the Substantial Completion date will be stated on the Master Schedule attached to the contract. As well, contract terms also address requirements for Final Completion.

However, the CMAR's Master Schedule identified a "finish date" of June 23, 2021, without clarifying whether this was the Substantial Completion or the Final Completion date. Adding to the ambiguity of the intended completion time, this Master Schedule date was preceded by a couple weeks noted as "punch list" work. This list is typically generated at Substantial Completion with the items to be completed before Final Completion.

> Substantial completion is "the stage in the progress of the Work when the Work or designated portion is sufficiently complete in accordance with the Contract Documents so that the Owner can occupy or utilize the Work for its intended use."
>
> **SOURCE**: American Institute of Architects (AIA) Document G704-2017.

In addition to establishing that the work has been sufficiently completed in accordance with the contract documents, Substantial Completion also marks the end of the "Contract Time" and the start of the warranty period. This contractual milestone is evaluated by the District and

its Design Consultant after various project inspections and review of required documents. Further, a "punch list" attached to the Substantial Completion certificate lists any incomplete items and must be resolved for Final Completion, which is to be accomplished within 60 days following Substantial Completion. Contract terms also specify that delays in achieving these completion dates may result in damages being assessed.

Without clarity of the Substantial and Final completion dates, it is more difficult to ensure compliance with contract terms and timely project completion.

Recommendations:

The District Superintendent should require Building Services to:

A. Establish or enforce existing procedures for District oversight of the subcontractor selection process.

B. Require adequate information be provided to support the proposed GMP amounts, including subcontractor bids and bid tabulations, with any estimated amounts identified for monitoring.

C. Review the Transaction Privilege Tax rates and calculations that have been applied within cost proposals and pay applications to avoid unnecessary costs.

D. Verify that the contract and proposed construction timeline clearly identify the substantial completion and final completion dates.

2. Establishing contract management processes may help the department better monitor and control construction costs and quality.

With its limited staffing, Building Services relies heavily on its Consultant to monitor construction costs and quality. The District's project manager also checks construction progress and reviews monthly pay applications and change requests. However, establishing written policies and procedures for contract management processes could help better ensure monitoring activities are consistently and effectively performed, such as reviewing pay applications, managing work and cost changes, evaluating general conditions costs, and retaining inspection and materials testing reports.

A. The CMAR's monthly pay applications for progress payments were not supported by field reports, subcontractor pay applications or vendor invoices.

1. Field inspection reports and contractor's daily construction reports were not required to be submitted.

   The Consultant's construction administrator performed field observations to inspect work progress and verify that construction was in accordance to the design plans and specifications. However, Building Services did not require field observation reports to be

submitted. As well, the Consultant's engineering subconsultant field inspection reports were not submitted to Building Services for review.

Similarly, the CMAR's project superintendent completes daily construction reports, which were not submitted to Building Services and do not appear to have been submitted to the Consultant for review.

These types of contemporaneous reports document the work being completed, any issues observed, and discussions between the Consultant's construction administrator and the CMAR. As well, they serve as documentation to evaluate the CMAR's pay applications, which were being based on work progress.

2. Invoices supporting the amounts billed were not required for the CMAR or the JOC contracts.

   - Each month, the CMAR submits a draft pay application for the Consultant's review, with the amount billed based on the percentage of the work estimated to have been completed that month. The Consultant evaluates the accuracy of stated progress based on its field observations and may negotiate revisions before sending the pay application for the District's review and approval.

     While subcontractor progress billings form the basis for most of the billed construction costs, these were not provided to and reviewed by the Consultant to evaluate the CMAR's billing accuracy. However, the District's contract states that the CMAR will review subcontractor pay applications with the Consultant and determine whether the amounts requested reflect the subcontractors' work progress.

   - During our review of the ten CMAR subcontracts and related pay applications, we noted the CMAR required a 0.22% fee for its electronic system for managing subcontract pay applications and electronic payments. For the ten reviewed subcontractors, these fees, which we estimated totaled about $22,900, were charged within the cost of work.

     The Hohokam project's contract classifies this type of home office and administrative support cost as overhead costs to be covered by the CMAR's construction fee. Therefore, the electronic payment system fees and about $7,000 for software license fees should not have been charged to the District as a direct cost of construction.

   - Job Order Contracting costs were not verified at proposal or closeout. The CMAR performed certain time-sensitive demolition work through a District Job Order Contract (JOC) before the GMP was established.

     The underlying JOC contract was structured as an "open book pricing" contract, with markups and fees pre-negotiated by the contracting procurement entity. In its JOC proposal, the CMAR should have submitted firm price quotes from at least 3 qualified subcontractors to support its proposed direct construction costs. When the CMAR

subsequently billed the full proposed JOC costs, it did not submit the final project invoices and subcontractor pay applications after completion of the work.

We were able to verify subcontract amounts, as summarized below.

	Billed to District	Verified Subcontracts	Other Costs
Building Demolition, HVAC and Electrical Make-Safe	$413,235	$375,897	$37,338
General Conditions	$ 12,500	$ 0	$12,500
Direct Costs*	**$425,735**	**$375,897**	**$49,838**

* Costs, such as insurance, bonds and fees as shown in Table 3, are not included here.

In late August, the contractor provided additional supporting invoices and receipts totaling about $22,000 in miscellaneous costs. However, costs identified on some invoices appear to overlap with or be applicable to the CMAR contract scope because the JOC work was performed later than planned. For example, documents provided for JOC support included a Dust Control Permit receipt, which is a cost that was budgeted in the CMAR contract's GMP; a refundable hydrant meter deposit; a Department of Environmental Quality Construction Permit receipt, which was recorded in the CMAR job costs; and costs related to the project's temporary facility. Evaluating these potentially overlapping scopes of work would be difficult due to the lack of detail provided with the JOC proposal. In September, the CMAR provided the job cost ledger for the JOC work, but it has not yet been reviewed by auditors.

B. Change management expectations and procedures need to be formalized to ensure all changes are reviewed and approved by the District.

The CMAR contract establishes that any change in the work must be submitted to the District for approval. Changes that do not modify the contract sum or time are to be documented through a Change Directive; those that do cause such modifications require a Change Order. In addition, the CMAR contract requires it to submit subcontractor change requests to the District for approval.

In practice, the CMAR submitted an Allowance Use Authorization form for changes to be funded by the Project Contingency. Both the Consultant and the District's Project Manager reviewed these proposed changes, and the Building Services Director and the Consultant approved them. However, other work changes were not submitted for the District's review or incomplete information was provided.

As noted in Finding 1B, the CMAR sometimes funded subcontract change orders with the additional estimated amounts included within GMP line items for the various trades. These subcontract change orders sometimes resulted from minor redesign work or design changes, but they were not submitted to the District for approval. For the ten CMAR subcontracts we reviewed, approximately 19% of the subcontract change orders were submitted to the District

for review as a request to be funded by the Project Contingency. The remaining 81% were funded by the additional estimated amounts included in the GMP.

1. We noted one significant change was approved informally without cost details. During construction, District staff identified a need for a more durable type of doors in certain areas than specified in the design plans. The Consultant revised the plans, and the CMAR adjusted its subcontracts to reflect this change. According to the Building Services department, the CMAR stated the cost would be covered by the existing GMP line items, which totaled about $1.4 million. While the department confirmed they approved the plan revisions, a Change Directive was not created to document the cost impact or the District authorization. The revised CMAR subcontracts totaled about $80,000 less than the GMP pricing.

2. For four District-directed change requests, the CMAR submitted incomplete cost information for review.

   - In at least two instances that we noted, the CMAR submitted and received District approval for only part of a changed cost, the portion to be funded from the Project Contingency. The remaining costs seem to have been funded through the additional estimated amounts that were included within the GMP.

	Supporting Subcontract Quotes	Subcontract Change Orders	Amount Covered by Estimated Costs
Change A	25,000	39,588	14,588
Change B	11,530	25,486	13,956

   - In another two instances, work the District decided to remove was not credited at the original estimated amounts applied in the GMP pricing.

	Credited Amount	Original Estimated Cost	Amount Not Credited
Change C	2,844	12,300	9,456
Change D	2,225	5,500	3,275

C. General Conditions costs were as billed as a stipulated lump sum item, even though the contract describes it as a reimbursement of actual costs for allowable items. Receipts were not submitted to support these costs.

We reviewed the CMAR's job cost ledger for costs classified as General Conditions and General Requirements for comparison to the allowable costs in the Contract definitions.[5] Because the CMAR had not submitted supporting receipts with its pay applications, we initially evaluated costs based on the expense classification and description, vendor name and type. Based on our

[5] The terms General Conditions and General Requirements are sometimes used interchangeably and the CMAR contract's definition of allowable General Conditions included costs normally classified in both categories.

sample of selected expenses and the supporting invoices, the job cost ledger's expense descriptions were reliable for this purpose.

Through the March 31, 2021, pay application, the CMAR had billed about 75% of the GMP's General Conditions amount. These costs were billed as a fixed priced item based on the estimated percentage of construction work completed.

Based on our review, about $727,000 of the CMAR's cost recorded as General Conditions and General Requirements, or about 73%, appeared to be allowable within the contract terms. Another $53,000 of general cleanup and equipment fuel costs were not specifically defined in the contract as General Conditions costs but are typically classified within that category. As shown in Table 7, as of the March pay application, the CMAR had billed the District for almost $923,000 in General Conditions costs.

Table 7. General Conditions Costs through March 31, 2021

	GMP Value	Pay Applications through March 31, 2021	Job Cost Ledger, through March 31, 2021	Not within Allowable Cost Categories	Not Specified, but Customary	Within Allowable Cost Categories
General Conditions [1]	$ 1,009,227	760,161	831,328	163,747		667,581
General Requirements	216,263	162,441	161,192	48,147	53,357	59,689
Total	**$ 1,225,490**	**922,602**	**992,520**	**211,893**	**53,357**	**727,270**

[1]Bonds and insurance, which are defined as a General Conditions cost within the CMAR contract, were separately listed by the CMAR.

SOURCE: Auditor analysis of CMAR pay applications and job cost reports for the period through March 31, 2021.

While the CMAR's job cost ledger as of March 31 did not represent final costs, at this point recorded costs totaling approximately $212,000 do not appear to be allowable within the contract specifications. Most of these costs are related to payroll allocations for vehicle, cell phone and computer allowances and gas for employee vehicles. The contract defines these costs as overhead to be covered by the CMAR's Construction Fee. Other unallowable costs included restaurant charges, administrative staff salaries, software, salaries for preconstruction modeling, and costs for items that were specifically covered in other GMP lines, such as survey work or storage containers.

While hourly rates for project supervision and management appeared reasonable, no specific personnel rates were approved in the CMAR contract. The contract terms referenced a Personnel Costs attachment, but the contract documents did not include one.

Further, if General Conditions was defined as a fixed-price line item, existing contract terms would not protect the District from the potential that typical General Conditions costs may be billed in other cost categories. For example, the CMAR budgeted temporary project utilities and traffic control, which are defined as allowable General Conditions costs, in the GMP's Electrical and Earthwork line items.

D. Department procedures are needed to verify that key quality control processes have been completed. In addition to requiring field observation reports and contractor's daily reports to be submitted, the department should require copies of any inspections or materials tests. Requiring contemporaneous records will allow the District to ensure original records are available should future issues arise.

   As well, the District Project Manager participates in project closeout meetings and walk-through inspections, but task checklists could better guide verifying timely completion of project closeout requirements. For example, some required inspections, such as the mechanical, plumbing, and electrical engineer's walk-though and punch list, had not been verified as completed prior to the date initially identified as substantial completion.

Recommendations:

The District Superintendent should require Building Services to:

A. Establish standards for the reporting and documentation to be submitted to support the reported progress in the work and amounts billed. In particular, the District should require invoices, payroll reports, and subcontractor pay applications to support final construction costs.

B. Establish policies and procedures for documenting and reviewing all changes and communicate these expectations to the contractors in project kickoff meetings.

C. Ensure general conditions are managed in accordance with contract terms and require supporting cost records for amounts billed.

D. Develop procedures to ensure that key quality control processes are being completed, such as obtaining and reviewing consultant and contractor reports on construction, obtaining copies of inspections and tests, and identifying required project closeout tasks and verifying their completeness.

3. Management of the Design services contract could be improved.

Architectural services for the District's Bond projects were acquired through contracts procured by the Mohave Educational Services Cooperative, a school district purchasing cooperative. The cooperative contract did not directly address terms and conditions specific to a project's architectural services. As well, some fee calculations were not consistent with the cooperative contract pricing.

A. The cooperative contract terms were not geared towards project architectural services, and its pricing structure may not have been advantageous for the District's project.

1. The cooperative contract did not contain terms specific to a project's needed architectural services, such as in the contract terms recommended by the American Institute of Architects. Instead, its terms addressed the contractual agreement between the cooperative and the approved consultant. When using the cooperative contract, a school district had the option of attaching its own terms, but SUSD had not yet developed specific architectural services terms and conditions. Instead, any additional terms came from the Consultant's fee proposal, which included a description of the project's Scope of Work.

   As a result, the District's service needs were not clearly addressed. For example, in the cooperative contract and the Consultant's proposal, Construction Administration is described at a summary level. But given Building Services' reliance on the Consultant for monitoring construction quality and costs, these services should be more detailed and reference the related responsibilities described in the CMAR contract.

   Additionally, for the Hohokam project, the approved Consultant fee proposal included about $35,000 for reimbursable expenses and $40,000 for design contingency. These additional amounts and their allowable uses were not defined in any contract terms. As of the March 2021 billing, the Consultant had invoiced about $4,600 for reimbursable expenses and $40,000 for design contingency. The receipts for permits and reprographic reimbursements were provided with the invoices, but detailed support for the use of the design contingency was not provided.

2. The cooperative contract based the Architectural basic services fee on a percentage of construction costs. The contract included a range of rates, with the specific rate to be negotiated by the District and the Consultant based on project complexity. For Hohokam, a Basic Services fee of 6% was approved, with supplemental services to be charged at the pre-approved hourly rates in the cooperative contract or subconsultant fees.

   In its initial proposal, the Consultant estimated its Basic Services fee based on an $18 million construction budget, or $1,080,000. After the GMP was approved for $21.9 million, the Basic Services fee was increased. The rate was later adjusted down to 5.5%, resulting in a revised fee of $1,209,273.

   Because the Consultant plays an important role in helping to control the project budget, there is an inherent conflict when basing their fee on construction costs. This fee structure

also rewards the Consultant by increasing the fee even if no additional work was required but construction costs are higher than expected due to unrelated market escalations, such as lumber or steel prices. As well, the arrangement represents a potential financial risk for unnecessarily increasing the District's project costs.

Professional services fees should be based on the level of service provided.

During the audit, the District began working to update the contract terms for newer projects.

B. Some Consultant fees for the Hohokam project were not consistent with the cooperative contract's specified pricing.

1. The Consultant's fee proposal added $89,575 for civil engineering and landscape design as additional services. However, according to the contract's pricing sheet, these services are included in the Basic Services fee.

2. The Basic Services fee was calculated on the GMP, which is not fully aligned with the contract definition of Construction Costs, as quoted in the textbox on page 24. The Hohokam GMP included the following items which are to be excluded from the fee:

   - Testing Allowance $35,000
   - Surveys $69,150
   - Permits est. $3,000
   - Contingency $434,769

   Adjusting the fee calculation for these items would reduce the Basic Services fee by $29,806. As well, any final project savings identified by the CMAR would also reduce the Consultant's fee.

> **Basic Architect Services** "shall include all necessary services to design and construct the project without any hidden or unknown cost. The services to be included as part of the contract as basic services shall include but not be limited to structural, mechanical, and electrical engineering services, fire protection, special systems, assistance with furniture, fixtures and equipment, post-construction inspection, warranty, guarantee inspection, on-site civil engineering, landscaping and acoustical engineering. Services may be provided by your in-house staff or may be sub-contracted out."
>
> **Construction costs** "shall include the construction cost of the building, site improvements and all fixed and installed equipment. It shall not include furniture, fixtures and equipment, testing, surveys, permits, land cost, studies, contingencies or architect and engineer fees."
>
> **SOURCE**: Mohave Educational Services Cooperative, Contract 16C-SPS-0506 Price Summary.

C. Contract management processes are needed to effectively monitor contract performance.

1. At the time of our audit, the Purchasing department and Building Services did not have the complete Architectural Services contract documents or scope of work readily accessible, making it difficult for the departments to effectively monitor contract requirements.

2. The Consultant provided architectural services fees in multiple stages. While the various proposals increased the overall project fee, change orders did not go to the Governing Board for approval. In addition, the change orders lacked sufficient supporting documentation.

Scope of Work	Proposal Date	Fee Amount
Phase 1: Feasibility study, community engagement, and 50% schematic design	May 2019	$156,808
Added landscape, arborist, historic architecture services	August 2019	6,710
Phase 2: Basic Services (with 50% schematic design) and supplemental services	November 2019	1,260,695
Basic Services fee adjustment for GMP	July 2020	129,273
Total		**$1,553,486**

- The State Board of Education's School District Procurement Rules require that change orders or contract modifications exceeding $100,000 or 5% of the contract, whichever is greater, must be reviewed and approved by the Governing Board. [6] For the Hohokam project, the change order to increase the Basic Services fee was approved by the Purchasing and Accounting staff. If the District's requirements differ for cooperative purchasing contracts, the formal written policies should be clarified.
- The Phase 2 and Basic Services fee increase change orders did not have adequate supporting documentation for the amount approved. Although some Phase 2 proposed services were not accepted, a revised document was not obtained. The original Phase 2 fee proposal totaled just over $1.4 million, but $1.26 million in services was approved.

  Additionally, the Consultant's fee proposal for the Basic Services fee increase applied a 6% rate, although the rate was adjusted to 5.5%. While the Consultant's invoices are consistent with the agreed-to scope and fees, having all contract modifications documented accurately is important should any disputes arise later.

D. Adding Design phase control procedures could help minimize potential errors and schedule delays.

1. Building Services typically reviewed design progress through project meetings but did not actively monitor the Consultant's design schedule nor require it to be updated. While Building Services did not have the Consultant's design schedule, the Consultant provided it upon the auditor's request. The schedule indicated that construction documents would be completed by March 2020, allowing the GMP to be negotiated in March and April, and construction to begin in late April. A later email in March 2020 from the Consultant to the CMAR provided a schedule update which showed plans being completed in April and GMP

[6] Arizona Administrative Code Section R7-02-1005.

approval in May 2020. However, the GMP was finalized in late May 2020 and, according to Building Services, the construction documents were about 75% complete at the time.

The District can better manage timely project completion and evaluate potential delays by monitoring the design schedule to identify any slippage and requiring a revised timeline when needed. In particular, the Contractor's fees and contingency amounts in the GMP are negotiated considering the level of risk perceived to be assumed. Incomplete design plans increase risk and can result in a higher construction price.

2. For the Hohokam project, the Consultant did not appear to have a comment tracking system established to ensure all design review comments were resolved. In addition, design meeting discussions and decisions were not documented in minutes to aid in addressing them. For example, during design development, a review session with various District Facilities staff addressed considerations such as equipment and maintenance specifications. While the input was to be incorporated into the Consultant's final project specifications, without documentation of the provided comments, it is unclear whether they were appropriately addressed. Unresolved items may cause schedule delays when they have to be addressed at a later point.

   Further, the construction contract states that the CMAR will submit design review reports to the District during preconstruction. The CMAR's design review comments are to address important factors of constructability and biddability. According to the department, the CMAR review comments were provided through meetings and not documented.

   To help ensure the District's and the CMAR's design review comments are addressed in design plans, these comments should be logged and their dispositions recorded.

E. Building Services should track cumulative contract amounts and payments to prevent billing and payment errors.

The Fiscal Year (FY) 2019/20 and 2020/21 purchase order amounts for the Architectural Services contract had not been fully adjusted for prior year payments, and these differences carried forward to the next year's purchase orders. As a result, the FY 2021/22 purchase order provided an additional $122,066 in spending capacity. While difference such as these result from fiscal year timing, having excess purchase order capacity could increase the risk of overpayment. Although contractors often summarize cumulative contract amounts on each payment application, these amounts should be compared to the District's records to avoid payment errors. Tracking contract amounts and cumulative contractor billings and District payments can help ensure errors are caught before payments are made.

(continued on next page)

Recommendations:

The District Superintendent should require Building Services to:

A. Work with the District's legal team to ensure contract terms adequately address roles and responsibilities specific to architectural services and that sufficient detail is included for the project-specific work. Also, the District should negotiate professional fees based on the level of service to be provided.

B. Verify that proposed fees comply with contract terms prior to approval.

C. Maintain complete records of the contract and any related changes. Further, ensure appropriate authorizations are obtained for contract changes.

D. Establish procedures for monitoring design progress and design review processes.

E. Track contract payments against approved contract amounts and ensure these are accurately reflected in District accounting records.

4. Documentation standards and methods should be improved.

In addition to public records retention requirements, effective project management requires maintaining complete records to demonstrate that contract requirements are being met. Documentation was inconsistently maintained and/or retained for the Hohokam bond project throughout the contracting and contract management process.

A. Documentation of design and construction activity was often not requested or maintained.

The design and construction process generates a large amount of documentation, and due to the department's small staffing for construction projects, they have been reluctant to request more documentation, such as cost estimates, invoices, meeting minutes, and daily reports. However, obtaining these routinely as they are generated and reviewing them periodically is more effective than asking for them when a concern has been identified. Establishing a document management system may help the department identify and obtain necessary documents and organize them for easier review or retrieval.

B. The selection process for architectural services was not documented in the procurement files.

After initial review of the 5 firms available through the cooperative contract, the District approved 4 that provided services locally. Subsequently, as projects were initiated, the District requested project-specific proposals from the approved firms and held interviews to select the architect for each project. Retaining documentation of this process would help demonstrate that the selection was fair and transparent. As well, complete contract documents should be maintained to allow staff to effectively monitor contract performance.

C. JOC contract pricing documents were not obtained. The District acquired the CMAR's job order contracting services through a cooperative contract awarded by another school district.

Although the JOC pricing was negotiated as part of that procurement, that information was not available in the District procurement files or from Building Services. While we were able to verify that the contractor generally followed the negotiated markups and fee pricing, the District would not have been able to based on its available records.

Recommendations:

The District Superintendent should require Building Services to:

A. Maintain records of design and construction activities and establish a document management system that identifies the required documentation and organizes them for easy retrieval.

B. Document procurement activities, such as the basis for any contractor or consultant selection.

C. For cooperative contracts, ensure any negotiated terms have been reviewed and applied to the District's pricing.

MANAGEMENT ACTION PLAN

1. Closer review of the CMAR subcontractor selection, proposed GMP costs and contract time can better control construction costs.

Recommendations:

The District Superintendent should require Building Services to:

A. Establish or enforce existing procedures for District oversight of the subcontractor selection process.

B. Require adequate information be provided to support the proposed GMP amounts, including subcontractor bids and bid tabulations, with any estimated amounts identified for monitoring.

C. Review the Transaction Privilege Tax rates and calculations that have been applied within cost proposals and pay applications to avoid unnecessary costs.

D. Verify that the contract and proposed construction timeline clearly identify the substantial completion and final completion dates.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

A. District oversight of the subcontractor selection process now comes into conformance with the contract. Currently on the Kiva project, the subcontractor selection process has been for the owner's representative to review the subcontractor bids, deltas in pricing and scope, and ensuring subcontractors are qualified for the scope of work. Unless there is good reason not to, the low responsive contractor is to be awarded the contract.

B. District oversight of the GMP process now comes into conformance with the contract. Currently on the Kiva project, the GMP process has been for the owner's representative to review the subcontractor bids, deltas in pricing and scope validation, and ensuring subcontractors are qualified for the scope of work. Work that will not require a subcontractor, is deferred due to ongoing design evolution, or to continue to vet pricing, a dollar figure will be used in that line item as a TBD for the awarded contractor. These items will be tracked by the project team on at least a monthly basis or as needed.

C. Building Services will rely on the Finance Department to ascertain what is the correct Transaction Privilege Tax rate for the project to ensure calculations are correct. Once established, the district representative, contractor, and architect will meet once a month to review the finances of the project more in depth.

D. Building Services has instructed their current Construction Manager's at Risk (CMAR) that this is a requirement moving forward in their contractual master schedule. This will also be reviewed monthly during the master schedule update with the project team.

RESPONSIBLE PARTY: Dennis Roehler, Director of Facilities and Bond Management

COMPLETED BY: 9/6/2021

2. Establishing contract management processes may help the department better monitor and control construction costs and quality.

Recommendations:

The District Superintendent should require Building Services to:

A. Establish standards for the reporting and documentation to be submitted to support the reported progress in the work and amounts billed. In particular, the District should require invoices, payroll reports, and subcontractor pay applications to support final construction costs.

B. Establish policies and procedures for documenting and reviewing all changes and communicate these expectations to the contractors in project kickoff meetings.

C. Ensure general conditions are managed in accordance with contract terms and require supporting cost records for amounts billed.

D. Develop procedures to ensure that key quality control processes are being completed, such as obtaining and reviewing consultant and contractor reports on construction, obtaining copies of inspections and tests, and identifying required project closeout tasks and verifying their completeness.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

A. Building services has established a monthly deep dive financial review of project costs and amounts billed versus the current percentage of completion for the job. During this review, the District Representative, CMAR, and Architect will discuss appropriate amounts to bill for the current state of completion. The review will include subcontractor billings at a minimum and general condition expenditures in random audits.

B. Building Services has instituted the procedure that all changes must go through the Request for Information process through the Architect to their consultants. These entries are kept in the General Contractor's RFI tracking system until project closeout which they will then be uploaded to the District File System.

C. Building Services will ensure GC's are managed in accordance with the contract by conducting random audits of receipts/billings. If errors are found, the District, or its agent, will hold the right to fully audit all monthly expenditures of the General Contractor.

D. Building Services now requires all project related documentation to be uploaded to the project management software for the project. This includes consultant field reports, daily logs, testing results, etc. Once punchlist has started, the project team will utilize the same software to create punchlists. Those punchlist walks will occur with a member from the District, Architect, and CMAR and the lists will be reviewed weekly until all work has been completed.

RESPONSIBLE PARTY: Dennis Roehler, Director of Facilities and Bond Management

COMPLETED BY: 9/6/2021

3. Management of the Design services contract could be improved.

Recommendations:

The District Superintendent should require Building Services to:

A. Work with the District's legal team to ensure contract terms adequately address roles and responsibilities specific to architectural services and that sufficient detail is included for the project-specific work. Also, the District should negotiate professional fees based on the level of service to be provided.

B. Verify that proposed fees comply with contract terms prior to approval.

C. Maintain complete records of the contract and any related changes. Further, ensure appropriate authorizations are obtained for contract changes.

D. Establish procedures for monitoring design progress and design review processes.

E. Track contract payments against approved contract amounts and ensure these are accurately reflected in District accounting records.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

A. Building Services has worked with the legal team and has had our latest three projects utilize an AIA contract to supplement the Mohave Cooperative Contract. Our legal team, along with Building Services, has negotiated terms and fees with the design firms in the best interest of the District.

B. Building Services has obtained the Mohave Cooperative Contract regarding the in-question service fees. Now, with the new AIA contracts, Building Services will ensure that our design firm fees align with the contract via contract and fee scope analysis.

C. Building Services has created a file system in the District shared Facilities drive that houses Architectural contracts and their changes. All change orders to the original contract totaling $100,000 or more will be taken to the Governing Board for approval per board policy.

D. Building Services has instructed the Design Professionals that they are to utilize visioning committees that meet at regular intervals. Meeting minutes, notes, pictures, and other artifacts from the meetings are then documented, saved, and distributed to the project team. Those documents are housed per the Management Action Plan #4A.

E. Building Services currently tracks payments versus approved contract line items via monthly pay app reviews and through our internal budgeting process. During the August/September timeframe Building Services will reconcile their last FY PO's with the current FY balances. This is due to the allowable payment timeframe of invoices from the prior fiscal year.

RESPONSIBLE PARTY: Dennis Roehler, Director of Facilities and Bond Management

COMPLETED BY: 9/6/2021

4. Documentation standards and methods should be improved.

Recommendations:

The District Superintendent should require Building Services to:

A. Maintain records of design and construction activities and establish a document management system that identifies the required documentation and organizes them for easy retrieval.

B. Document procurement activities, such as the basis for any contractor or consultant selection.

C. For cooperative contracts, ensure any negotiated terms have been reviewed and applied to the District's pricing.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

A. *Construction Activities*

Building Services has instituted a process for document management pertaining to construction activities and document management. All construction daily reports, field reports by consultants, and financial documents are to be uploaded to the General Contractor's document management system (i.e. Procore, SharePoint, BOX, Dropbox, etc.) which the Owner, Contractor, and Architect have 24/7 access to. These documents will be uploaded to District File Systems at the end of the project.

- In an effort to identify required documentation the District has given the service provider specific instructions. The service provider will analyze the contract, along with

District Staff, and identify required deliverables per the contract. This will include what the deliverable is as well as a schedule for it to be delivered within the contractual timeline.

Design Activities

Building Services has instructed the Design Professionals that their documents are to be housed in a shared file system that they and the District have access to. This can be in a tool such as Procore, Microsoft OneDrive, SharePoint, Dropbox, etc. These documents will be uploaded to District File Systems at the end of the project.

- In an effort to identify required documentation the District has given the service provider specific instructions. The service provider will analyze the contract, along with District Staff, and identify required deliverables per the contract. This will include what the deliverable is as well as a schedule for it to be delivered within the contractual timeline.

B. In January 2021, the District started using the Bonfire Electronic Procurement Portal for issuance, response, evaluation, and award of all RFP's, IFB's and CMAR's and most written quotes. Using Bonfire enables the district to produce consistent procurement and all documents are electronically stored eliminating paper documents. Additionally, Purchasing is documenting all decisions with regards to any procurement in the Bonfire Portal.

C. This is a shared function between Building Services and Purchasing. Building services will ensure that pricing either meets the cooperative contract pricing or is more advantageous to the District. This will be done through negotiations with the vendor/service provider while utilizing the cooperative contract as a starting point.

RESPONSIBLE PARTY: Dennis Roehler, Director of Facilities and Bond Management

COMPLETED BY: 9/6/2021

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