



Internal Audit

Bond Funded Projects - Competitive Sealed Proposals Audit (Procurement)

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Date: November 10, 2022

To: Board of Trustees
Stephanie S. Elizalde, Ed.D., Superintendent

From: Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Subject: Bond Funded Projects - Competitive Sealed Proposals Audit (Procurement)

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Bond Funded Projects - Competitive Sealed Proposals (CSP) Audit (Procurement).

This audit is being conducted in two phases. This phase of the audit focused on the Procurement Services department's processes and controls surrounding the CSP method for bond-funded construction projects to determine if general contractors (GCs) are procured in accordance with policies and regulations along with best practices. Phase two of this audit, focusing on the Construction Services/Bond Office portion, will be reported on at a later date.

Overall, Procurement Services has established processes and controls surrounding the procurement of GCs for bond-funded projects using the CSP method. Procurement Services works well with the Construction Services/Bond Office to provide superior customer service and ensure bond-funded projects are procured effectively to provide the best value to the District.

Opportunities for improvement were identified in the following areas:

1. The evaluation scoring process should be further automated.
2. A methodology for evaluator scoring should be established.
3. Bid proposal forms should be further streamlined.

Implementation of the recommendations in this report could assist Procurement Services to improve the procurement of GCs for bond-funded construction projects.

Background

Procurement Services works together with schools, departments, vendors, and stakeholders to support the core beliefs of public service by acquiring the needed resources through prudent purchasing practices and excellent customer service.

Bond Program

The District currently has two bond programs in place. The 2015 bond program was approved to fund \$1.6 billion in facility and campus improvements as well as new schools. The 2020 bond program was approved at \$3.4 billion to fund \$3.2 billion of repairs and upgrades for more than 200 District campuses and \$270 million for purchasing and District technology updates.

Competitive Sealed Proposals

Use of competitive procurement methods, such as CSPs, initiates competition amongst bidders in hopes to provide better value for the District. CSP, under Texas Government Code Chapter 2269, is a procurement delivery method used for construction contracts in which the District requests proposals for the project, evaluates and ranks the offerors, negotiates the offer, and then contracts with a GC to complete the project. First, a solicitation must be created to include the following: scope of work, 100% completed construction/design documents, budgets, and estimated completion date. Architects/Engineers are selected to prepare the construction documents based on input from the District, the community, and other stakeholders. Based on the solicitation, contractors typically submit offers to complete the project for a lump sum price. Allowances and owner-controlled contingency amounts may also be determined on the proposal. Solicitations are advertised and all proposals to be considered must be submitted by the established deadline. To keep competition fair, proposals are required to be sealed until the public opening date.

Bid Proposals and Forms

Bidders submit a packet of proposal documents which include Forms 1-a, 1-b, 1-c, and Minority & Women Business Enterprise (M/WBE) documentation. Bid proposal document 1-a is the base proposal form, which includes the bidders proposed price for the project including base price, contingency, and allowances. Form 1-b is the technical proposal form, which includes the management approach, references, safety plan, proposed project team(s), current/past K-12 construction experience, and the proposed construction schedule. Form 1-c is the alternates and unit pricing proposal form, which the bidder uses to specify any alternate priced or unit priced items for the construction project. Alternates and unit-priced items are not required but may be used to separately price optional items. This gives the District opportunities to choose from when finalizing the scope of work to be completed by the awarded contractor.

Bid Evaluations

Once the submission deadline has been met, any proposals received are evaluated and scored based on a list of eight separate criteria: purchase price, references, safety plan and insurance modifier, proposed project team and management approach, bidder's current/past K-12 construction experience, proposed construction schedule and phasing plan, M/WBE, and financial status of the bidder. Criteria is individually weighted with all criteria totaling a max of 100 points.

An evaluation committee is formed which typically consists of four to five evaluators. Typically, the evaluation team for procurement of GCs consists of a Construction Services contract manager, safety manager, M/WBE representative, Project Management Firm representative, and the Architect/Engineer representative. Evaluators are given an excel workbook template with the qualified proposers listed. Each member of the committee must subjectively evaluate three of the above criteria: proposed project team and management approach, bidder's current/past K-12 construction experience, and proposed construction schedule and phasing plan. The scores are then averaged and used in the final ranking calculation. The remainder of the criteria are automatically calculated based on predetermined and objective methodology.

Negotiations and Award

Once bidders are ranked and a vendor is recommended, negotiations between the recommended vendor and the District may commence. During negotiations, contract language, contract amounts, and scheduling will be discussed and agreed upon. Once finalized, a negotiation summary document will be established with any changes noted plus the negotiated contract

amount, contract time, and M/WBE participation. The recommended contractor and negotiated contract details will be submitted to the Board of Trustees for approval.

Procurement Document Management

Proposals for construction contracts are currently submitted in paper form. Bid files are created for every solicitation to store pertinent documents. In addition to paper files, Procurement Services also maintains electronic versions of bid files, which are stored on Construction Service's shared drive. Procurement maintains their own folder on the X: drive where access to sensitive procurement documents is restricted.

Scope

This portion of the audit included a review of Procurement Service's current processes and procedures for construction projects funded by the 2015 and 2020 bond program.

Objective

The objective of the audit is to review the District's processes and controls surrounding procurement of GCs for bond-funded construction projects using the CSP delivery method.

Methodology

Auditors interviewed key personnel, conducted walkthroughs, and identified procurement policies and procedures. Auditors selected all the construction projects funded by the 2020 bond program for which the procurement phase was completed at the time of the audit. Projects were then selected to only include demolitions, renovations, and/or additions. Projects for fencing or turf were excluded from the selection. A total of six projects were selected with a total contract amount of \$10,416,223. For the six projects selected, auditors performed the following:

Bidding Process

1. To determine if the GC for the selected project was competitively bid, auditors obtained and reviewed the solicitation, advertisements, and BoardDocs related to the GC contract.
No exceptions were noted.
2. To determine if submitted bids qualified for evaluation and potential award, auditors obtained and reviewed the submitted bid packages and verified the bid was submitted by the given deadline and the required forms were included, complete, and accurate.
Recommendation 3 in this report was noted.

Evaluation Process

1. To determine if all qualified bidders were included in the evaluation process, auditors obtained the bid documents, compared them to the names read aloud at the bid opening, and verified evaluation tabulations were completed for each of the submissions. In addition, auditors verified all evaluated bidders were publicly posted.
No exceptions were noted.
2. To determine if the evaluations were complete, accurate, and appropriate, auditors obtained the evaluation tabulations and verified the following:
 - Evaluations were completed by individuals qualified to properly evaluate the proposals
 - Evaluation tabulations contained the criteria required for scoring

- Criteria and scoring methodology were defined and consistent across individual evaluations
 - Individual tabulations, average scores, and rankings were calculated correctly
 - In addition, auditors compared scorings and inquired of any abnormal scores
- Recommendations 1 and 2 in this report were noted.

3. To determine if the evaluation process was properly conducted and documented, auditors reviewed supporting documentation for signatures of evaluation committee members, meeting dates, meeting attendance forms, tabulation summaries, and evaluation results.
No exceptions were noted; however, the results were communicated to Procurement Services for further review.

Negotiation and Award Process:

1. To determine whether negotiations started with the #1 ranked bidder, auditors obtained negotiation summary sheets and verified the #1 ranked bidder on bid evaluations was the first vendor to enter negotiations with the District. Any instances where the #1 ranked bidder was not negotiated with were reviewed for appropriateness.
No exceptions were noted.
2. To determine if any significant changes to the scope of work, contract amounts, or project schedules were made, were appropriate and did not affect the initial vendor ranking, auditors first identified any significant changes by comparing the original bid documents to the signed contract. For any significant changes, auditors verified they were properly documented on the negotiation summary and that the changes did not affect the vendor ranking.
Recommendation 4 in this report was noted.
3. To determine if the appropriate bidder was awarded the contract, auditors obtained the bid evaluation and verified the #1 ranked bidder on the bid evaluation was awarded the contract. Instances where the #1 ranked bidder was not awarded, auditors reviewed negotiation summary sheets to verify appropriateness.
No exceptions were noted.

Bid Document Security

1. To determine if sensitive or high-risk procurement documents are properly secured, auditors obtained a listing of users with access to the procurement folder on the X: drive and reviewed for appropriateness.
No exceptions were noted; however, the results were communicated to Procurement Services for further review.

Primary criteria used for this audit were:

- 1) Dallas Independent School District Purchasing Manual, dated December 1, 2021
- 2) Construction Services A101 and A201 Contract Documents, dates vary based on contract date
- 3) Texas Government Code 2269, as of date of this audit report
- 4) Financial Accountability System Resource Guide, Module 5 Purchasing, 2022
- 5) Texas Association of School Boards, School Board Member's Guide to Purchasing, dated December 2021

Audit Observations and Recommendations

Observation 1 – The evaluation scoring process should be further automated.

Condition

Auditors reviewed evaluation scores from six 2020 bond projects¹ and found for two of the six projects, the average scores were calculated incorrectly on the evaluation. For one of the projects, the error did not result in a change to the vendor rankings. For the other project noted, the correct calculation of the average score changed the 6th ranked vendor to the 7th ranked vendor. Neither project appeared to affect the result of the vendor awarded.

The current evaluation process uses an Excel template to document evaluation scores. The template is distributed to the individual evaluators and is then manually consolidated on the primary template where the individual scores are then averaged to determine the ranking of the vendor. The template uses formulas to automatically calculate the average score once manually populated. The formulas may need to be adjusted depending on the number of evaluators.

Criteria

Financial Accountability System Resource Guide, Module 5 Purchasing, 2022

5.49 Records Management

Accurate recordkeeping and documentation should be a fundamental element of the procurement process. Precise and systematic recordkeeping and records management withstands the constant scrutiny of various interest groups including vendors, the public, and outside agencies as well as internal groups that are the users or customers of the purchasing system.

Cause

The evaluation template used in the samples selected averaged the scores of five evaluators; however, the projects with errors noted above only had four evaluators. The template was not adjusted to average only four evaluations and, therefore, led to an incorrect average score.

Effect

Incorrect calculation of evaluation scores could lead to an error in vendor rankings and potentially allow for the wrong vendor to be awarded. In addition, incorrect evaluation scores could lead to an increased risk of vendor protests.

Recommendation 1

- Procurement services should consider implementing an electronic process for bid evaluations to reduce the risk of errors and omissions and allow for more effective and efficient monitoring processes. The use of construction management software is a potential solution to track construction projects from solicitation through final closeout.
- For instances where the evaluation template is used, Procurement Services should

¹ Methodology section of this report discusses how the six projects were selected.

consider updating the bid evaluation template formulas to only pull from evaluation tabs that were completed. In addition, a monitoring process should be implemented to verify all evaluation tabulations are complete and accurate and any formulas and results are accurate.

Risk Level for Observation 1: Medium²

Observation 2 – A methodology for evaluator scoring should be established.

Auditors reviewed procurement processes from six 2020 bond projects³. During review of the evaluation process, auditors noted evaluation templates identify specific criteria to be scored on as well as numerical ranges for which to score the criteria; however, the methodologies documented for assigning numerical values to the three criteria listed below could be more clearly defined.

During bid evaluations, evaluators are given an evaluation tabulation Excel workbook template which contains a listing of each qualified bidder, criteria to be scored, and a score range for each criterion. Evaluators are expected to assign points to qualified bidders for the following criteria:

- Proposed Project Team(s) and Management approach
 - Scoring Range: 0 - 12
- General Contractor's current/past K-12 construction experience
 - Scoring Range: 0 - 10
- Proposed Construction schedule and phasing plan
 - Scoring Range: 0 - 5

Criteria

Texas Association of School Boards, School Board Member's Guide to Purchasing, dated December 2021

B. Factors to Consider When Awarding the Contract

Under Chapter 2269, the district must base its selection among offerors on the criteria listed for the method used. The district must publish the following in its request for proposals or qualifications:

1. the criteria that will be used to evaluate the offerors;
2. the applicable weighted value for each criterion; and
3. a detailed methodology for scoring each criterion.

The district must document the basis of its selection and make the evaluations public not later than seven days after the contract is awarded. Tex. Gov't Code § 2269.056(b)-(c).

Cause

When the evaluation template was established, a scoring methodology was not determined or documented. Evaluators are expected to use their best judgement to score the criteria.

² See Attachment 1 for Definition of Risk Level.

³ Methodology section of this report discusses how the six projects were selected.

Effect

Without determination of a scoring methodology to assist evaluators in understanding how to assign points, the potential for large variances in scores between evaluators is more likely to occur and, in turn, cause skewed evaluation results.

Recommendation 2

Procurement Services should consider establishing a specific methodology for assigning points to be used internally for the evaluators. The methodology should define the criteria behind assigning a particular score.

Risk Level for Observation 2: Low⁴

Observation 3 – Bid proposal forms should be further streamlined.

Using the six 2020 bond projects⁵ selected, auditors reviewed bid proposals submitted and noted at least one bidder in every submitted proposal package had an inaccurate or incomplete bid proposal form. Specifically,

- One project contained an incomplete bid proposal which was missing Form 1-c.
- Within three projects, at least one bidder within each project contained inaccuracies within the pricing portion of Form 1-a.
- Two projects contained bid proposals with the contingency amount calculated incorrectly.

Criteria

Dallas Independent School District Purchasing Manual, dated December 1, 2021

Bid Process – Before preparing an offer, suppliers are encouraged to pay particularly close attention to the district's requirements. Specific attention should be given to the instructions to offerors and to the conditions of purchase, delivery due date, payment terms, and conditions. When determining the amount of the offer, suppliers should be especially careful to include all costs of material, labor, overhead, packaging, and delivery.

Rejected and/or Non-Responsive Bids/Proposals – Responses to a bid or proposal are considered "offers." A contract/agreement in response to a competitive solicitation (i.e., bid or proposal) is awarded to the responsive, responsible offeror providing best value to the district based on price and other factors. A responsive offer is one that is in conformance with the requirements of the solicitation document. Flaws in the offer may result in the offer being deemed non-responsive, and may include the following:

- (1) Qualifying the offer
- (2) Failure to provide bond(s) or insurance, if required
- (3) Attempt to limit offeror's liability
- (4) Exceptions to terms and conditions
- (5) Exceptions to statement of work
- (6) Failure to complete required documentation
- (7) Inaccurate information on required documentation
- (8) Pricing defects, etc.

⁴ See Attachment 1 for Definition of Risk Level.

⁵ Methodology section of this report discusses how the six projects were selected.

Cause

Procurement Services currently utilizes manual paper forms for vendors to complete and submit their proposals. These forms are not always clear, specifically when it comes to the contingency amount to be included within the bid price.

Effect

Evaluation of bidders with inaccurate, incomplete, and/or inconsistent proposals could lead to an increased risk of vendor protests, especially if the awarded vendor for a project is deemed as non-responsive based on procurement policies. Additionally, inaccurate calculations of proposed price by one vendor could potentially affect which vendor is awarded the contract.

Recommendation 3

Procurement Services, in conjunction with the Construction Services/Bond Office, should consider updating bid proposal forms to be clear and consistent. Additionally, Procurement Services should consider making bid proposal forms an electronic fillable PDF to avoid errors or omissions and ensure any calculations are accurate.

Risk Level for Observation 3: Low⁶

Conclusion

Overall, Procurement Services has processes in place for the procurement of GCs using the CSP method for bond-funded construction projects. Implementation of the recommendations in this report could assist Procurement Services in improving the processes surrounding bond project procurement.

We would like to thank Procurement Services for their cooperation and assistance with this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

Robert Rubel

Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

⁶ See Attachment 1 for Definition of Risk Level.

Cc: Pamela Lear, Ed.D., Deputy Superintendent, Chief of Staff and Racial Equity Officer
Dwayne Thompson, Deputy Superintendent, Business Services, Financial Services
Tamika Alford-Stephens, Chief Financial Officer, Financial Services
Kristopher Robinson, Executive Director II, Procurement Services, Financial Services
Rose Kohut, Director II, Purchasing 1, Procurement Services, Financial Services
Brent Alfred, Chief Construction Officer, Construction Services/Bond Office, Financial Services
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Eva Narten, CPA, CIA, CISA, Deputy Chief, Internal Audit
Shelly Kelley, CPA, Audit Manager
Zachary Ornelas, CFE, Auditor II
Jaime Benitez Renteria, Auditor I

Definition of Risk Level

Risk Level	Definition
High	<p>High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk.</p> <p>These observations are defined as an observation by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the District</p>
Medium	<p>Risks are considered to be substantially undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.</p>
Low	<p>The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.</p>

Management Response

Observation 1 – The evaluation scoring process should be further automated.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Procurement Services agrees that calculation errors occurred through the evaluation process for two of the identified solicitations that resulted in no change to the awarded vendor. The calculations were human errors. Procurement Services identifies the remedy as a documented process to ensure that human errors are minimized, and accurate calculations occur. In addition, Procurement Services will ensure that calculations are peer-reviewed and signed off by Procurement Management to indicate all calculations have been reviewed by multiple staff members and verified for accuracy.

Procurement Services updated the bid evaluation template currently used for Construction Services' solicitations in July 2022. During this update, fields were automated to highlight when evaluators were not input on the evaluation form. The form prompts calculation errors when information is missing. Procurement Services has also implemented an additional formula into the spreadsheets to automate the number of evaluators that are input. These formulas further reduce the risk of human error inputs.

Estimated Implementation Date: Complete

Individuals responsible for implementation:

Kristopher Robinson, Executive Director of Procurement Services
Rose Kohut, Director of Procurement Services for Bond

Observation 2 – A methodology for evaluator scoring should be established.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Procurement Services agrees that language can be added to further detail methodologies and expectations for evaluators to score vendor responses.

Procurement Services will add the following language to the procurement manual:
During the evaluation process, evaluation panel members will provide scores based on comparing

each vendor's response and how those responses best meet the requested needs of the District.

Estimated Implementation Date: Complete

Individuals responsible for implementation:

Kristopher Robinson, Executive Director of Procurement Services
Rose Kohut, Director of Procurement Services for Bond

Observation 3 - Bid proposal forms should be streamlined.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Procurement Services agrees that language can be added to further clarify expectations of the District through the solicitation process. Procurement Services will work with the Bond/Construction Services' team to add verbiage to the CSP Solicitation Section 00 41 11 - Proposal Form - Base Proposal to further clarify that the Owner's Controlled Contingency Amount, when applicable, is firm and is not to be edited, marked out, or otherwise changed when submitting a bid response.

Procurement Services will update the form templates to be electronic fillable PDF bid proposal forms for CSP solicitations. Vendors are ultimately responsible for providing their contingency amounts accurately for projects that allow for vendor-provided contingencies.

Estimated Implementation Date: February 1, 2023

Individuals responsible for implementation:

Kristopher Robinson, Executive Director of Procurement Services
Rose Kohut, Director of Procurement Services for Bond
Brent Alfred, Chief Construction Officer, Construction Services/Bond Office
Michael Garcia, Executive Director, Construction Services/Bond Office
Devyn Mountain, Director Finance and Operations, Construction Services/Bond Office