

Cypress-Fairbanks Independent School District

INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT

REPORT DATE: APRIL 13, 2015

TABLE OF CONTENTS

	Page
INTERNAL AUDIT REPORT TRANSMITTAL LETTER TO THE BOARD OF TRUSTEES.....	1
BACKGROUND	2
AUDIT OBJECTIVES AND SCOPE.....	3
EXECUTIVE SUMMARY	4
CONCLUSION	5
DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	7
Objective A: Design of Internal Controls	8
Objective B: Effectiveness of Internal Controls	10
Objective C: Payment Compliance.....	15
APPENDIX	17



Board of Trustees
Cypress-Fairbanks Independent School District
10300 Jones Road
Houston, Texas 77065

This report presents the results of the internal audit procedures performed for Cypress-Fairbanks Independent School District (the District) during the period March 11, 2015 through April 13, 2015 relating to the Facilities Planning and Construction Department and the processes in place over the department.

The objectives of this internal audit were to evaluate the design and effectiveness of the District's facilities planning and Construction Management processes. The objectives were organized as follows:

- A. Evaluate the design of internal controls over the Construction Management process to determine if procedures are appropriately designed.
- B. Ensure the processes and controls in place to process the payment of construction project pay applications and to monitor compliance with construction contracts are operating effectively.
- C. Ensure that construction-related expenditures were allowable, approved appropriately, allocated correctly, accurately disbursed in a timely manner, and that required deliverables are provided prior to payment.

To accomplish these objectives, we conducted interviews with key personnel within the District. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at the Facilities Planning and Construction Department and the Instructional Support Center and were completed on April 13, 2015.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management responses.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.
Houston, Texas
April 13, 2015

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

BACKGROUND

The District Facilities Planning and Construction Department (Facilities Department) is responsible for managing all construction of the District's real property and support facilities. The Department engages in the design, procurement, and management of all construction projects for the District. The Associate Superintendent of Facilities, Construction and Support Services is responsible for the Construction Management function and is supported by the Assistant Superintendent of Facilities Planning and Construction, the Director of Project Management, the Director of Design and Facilities Planning, the Director of Construction Field Services and the Director of Engineering and Commissioning. The Facilities Department manages and oversees new construction and renovations of District facilities.

The process that the Department follows includes specific phases including Design, Construction, Close-out and Warranty. During the design phase, the Department is charged with ensuring that all required elements are included in the project. The projects are assigned a Project Manager who is in charge of monitoring assigned construction projects on a day to day basis. This includes all regulatory and code requirements as well as requests from faculty and staff related to the functionality of the facility. The Design phase includes planning procedures until the final construction drawings are received from the Architect. Once final drawings are complete, the Architect is charged with preparing the procurement documents for the selection of the general contractor.

Once a general contractor has been selected utilizing the competitive sealed proposal delivery (CSP) method of procurement, the Department can begin the construction phase. This phase includes all work completed at the project site from ground breaking through substantial completion. The Project Managers report to the Director of Project Management concerning the current status as well as issues associated with the project. Project Managers ensure all payments to the general contractor are complete and accurate as well as monitor and confirm that all stated procedures are complete.

Once the major milestones of the construction or renovation are complete, a certificate of substantial completion is issued. Once the certificate is executed, the close-out and warranty work phases of the project begin. During the close-out and warranty phases, the Architect and general contractor develop the final documentation for closing the project. A punch list is created, which lists all items that are found deficient and are within the scope of the construction contract. Once all items on the punch list are finished and close-out documents submitted to the satisfaction of the District, final release of liens are required to be received to ensure that all sub-contractors were paid by the general contractor. After gathering of final documentation and the release of lien, the District will release final payment including all retainage, usually 5% of contract amounts, to the general contractor.

Once the general contractor is released from the project, they still have responsibility to complete any warranty work. To ensure that all warranty claims are identified and fully corrected, the District performs a six (6) and 11 month walk through of the project site to identify any potential issues that are related to the one (1) year warranty. Should warranty repairs be identified, the District's Warranty Manager notifies the general contractor to repair the issue under warranty. If the repair is determined to be outside of the scope of the general contractor's responsibility, the Warranty Manager will work with the Maintenance Department to complete the repair.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

AUDIT OBJECTIVES AND SCOPE

The audit focused on the Construction Management processes and procedures to ensure consistency, accuracy, and adequacy of internal controls. The key functions and sub-processes reviewed within the Construction Management process included:

- Contract Execution and Compliance Monitoring
- Construction Project Status and Monitoring
- Acceptance and Payment of Pay Applications
- Project Close-Out
- Construction Costs

We evaluated the controls and procedures in place to ensure that construction contracts are executed by individuals with appropriate authority, contract terms are evaluated and analyzed for appropriateness, processing of pay applications for contractors and sub-contractors are proper, and negotiating and disbursement of retainage fees are appropriate. Our procedures did not cover an audit over the procurement function or bidding process.

Our procedures were designed to ensure relevant risks were covered and verified the following:

Contract Execution and Compliance Monitoring

- Negotiated contract terms are in compliance with District policies, approved by the School Board or designee and reviewed by Purchasing.
- Contracts, including revisions, were properly reviewed and approved by appropriate personnel.
- Contract terms are tracked and tracking tools accurately reflect the major terms of the contract.

Construction Project Status and Monitoring

- Required documentation is maintained for on-going construction projects.
- Site visits occur regularly and construction project status and follow-up items are documented and tracked.
- Construction materials are appropriately inspected and approved to ensure they are in conformance with specified requirements.
- Appropriate certificates are obtained and checklists are completed prior to acceptance of work.
- Appropriate procedures are performed to verify that all project requirements are met and the projects are appropriately completed.

Acceptance and Payment of Pay Applications

- Payment applications are reviewed and approved by appropriate individuals.
- Adequate support exists to validate sub-contractor expenses.
- Payment applications are in-line with construction time table and completion requirements.
- Allowance/change orders/change proposal requests include adequate documentation, appropriate approvals, and are included with payment applications in a timely manner.

Project Close-Out

- Appropriate project evaluations and sign-off are obtained prior to payment of the final retainage.
- Close-out inspections, certificates, documentation and approvals are obtained before release of retainage.
- Inspections are appropriately performed and operations and maintenance documents are provided.
- Warranty inspections are conducted according to schedule and warranty claims are submitted in a timely manner.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

Construction Costs

- Costs are reasonable and allowable under the terms of the contract.
- Expenses are supported by payrolls, petty cash accounts, invoices, or other appropriate supporting documentation.
- Expenses are coded to the correct project in the District's financial system.
- Payment requests are appropriately approved.

The objectives of the internal audit were as follows:

- A. Evaluate the design of internal controls over the Construction Management process to determine if procedures are appropriately designed.
- B. Ensure the processes and controls in place to process the payment of construction project pay applications and to monitor compliance with construction contracts are operating effectively.
- C. Ensure that construction-related expenditures were allowable, approved appropriately, allocated correctly, accurately disbursed in a timely manner, and that required deliverables are provided prior to payment.

We performed test procedures to verify that key controls and processing points are operating as designed. We also performed procedures to verify that architect/engineers, general contractors and sub-contractors were in compliance with the criteria and requirements contained in the executed contracts, including Davis-Bacon requirements. Test procedures included reviewing contract documentation, policies and procedures, payment requests, transaction data, and schedules of costs incurred to date. Our testing included examining transactions for all phases of construction projects and covered the period of July 1, 2013 through February 28, 2015.

EXECUTIVE SUMMARY

Through our interviews, evaluation of internal control design and testing of transactions, we identified nine (9) findings. The findings include those items that have been identified and are considered to be non-compliance issues with documented District policies, procedures or State statutes and regulations. Findings were also identified where there is a lack of Facilities Planning and Construction Department procedures or internal controls in place to adequately cover the significant risks to the District.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

A summary of our results, by audit objective, is provided in the table below. See *Appendix* for an overview of the Assessment and Risk Ratings.

OVERALL ASSESSMENT		SATISFACTORY
SCOPE AREA	RESULT	RATING
Objective A: Evaluate the design of internal controls over the Construction Management process to determine if procedures are appropriately designed.	We identified 24 key controls in place in the processes. There are opportunities to improve the processes and control environment, including: - Budget to actual reviews - Contract standardization - Warranty work monitoring	SATISFACTORY
Objective B: Ensure the processes and controls in place to process the payment of construction project pay applications and to monitor compliance with construction contracts are operating effectively.	Some controls are operating as designed; however, several controls are not operating effectively to appropriately manage the process. We identified the following areas for improvement: - Contract execution - Document authorizations - Documentation of controls - Warranty inspections - Substantial completion - Pay application approvals	UNSATISFACTORY
Objective C: Ensure that construction-related expenditures were allowable, approved appropriately, allocated correctly, accurately disbursed in a timely manner, and that required deliverables are provided prior to payment.	We did not identify any exceptions related to construction costs where expenditures were not allowable, appropriately approved, correctly allocated, or delivered in a timely manner. However, we determined that payment of construction costs were not always in compliance with the Texas Prompt Payment Act.	SATISFACTORY

Other opportunities for improvement were identified through our interviews, evaluation of internal control design and transactional testing. These observations include those items that are not considered to be non-compliance issues with documented District policies, procedures or State statutes and regulations. These are considered process improvement observations and the intent for the recommendations are to strengthen current District processes and controls. These observations were provided to management separately.

CONCLUSION

Based on our evaluation, the Facilities Planning and Construction Department has procedures and controls in place to aid in conducting effective management of the significant processes within the department. However, we identified those controls do not always operate effectively and there are several opportunities to improve the processes and effectiveness of the controls within the Facilities Planning and Construction Department.

The District should develop standardized processes that can be executed and documented consistently. This includes the use of standard contracts for external parties as well as internal documentation standards and procedures. The District should also take steps to retain sufficient documentation to

**CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015**

evidence that performance of controls ensure that the expected controls are performed to manage the construction process. Finally, the District should take the steps necessary to ensure that payments are made to vendors in compliance with the Texas Prompt Payment Act, including the payment of all construction costs within the required payment period or notifying any payee of a delay of payment within 21 days of receipt of their invoice.

**DETAILED PROCEDURES PERFORMED, FINDINGS,
RECOMMENDATIONS AND MANAGEMENT RESPONSES**

**CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015**

**DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS
AND MANAGEMENT RESPONSES**

Our procedures included conducting interviews with key Facilities Planning and Construction Department (Facilities Department) and Business and Financial Services Department (Finance Department) personnel, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. Our procedures were designed to achieve the following objectives:

Objective A: Design of Internal Controls

Evaluate the design of internal controls over the Construction Management process to determine if procedures are appropriately designed.

- 1. Procedures Performed:** We gained an understanding of the current Construction Management processes by conducting interviews and walkthroughs with relevant personnel from the Facilities Department and Finance Department. We also reviewed the District's project management manual, existing procedures, standardized forms, contracts and other applicable documentation used by Construction personnel. We reviewed the Cypress-Fairbanks ISD policies and administrative regulations to identify required procedures. In addition, we performed a segregation of duties and reporting lines analysis over the Construction Management and Construction Accounting processes to identify any weaknesses or possible conflicts in duties.

Results: We identified 24 key controls in place throughout the Construction Management process. These controls were identified through interviewing and reviewing the current processes in place within the Facilities Department at the District. The following table illustrates the distribution of the identified controls in the Construction Management sub-processes. Key controls provide reasonable assurance that material errors will be prevented or detected in a timely manner. Non-key controls provide additional assurance over the process. However, if a non-key control fails, a material error would be prevented or detected by another control.

Significant Processes	Non-Key Controls	Key Controls	Total Controls
Contract Execution and Compliance Monitoring	3	11	14
Construction Project Status and Monitoring	2	3	5
Acceptance and Payment of Pay Applications	0	4	4
Project Close-Out	3	6	9
Construction Costs	1	2*	3*
Total	9	24	33

*Two key controls are designed to mitigate risks in both the Acceptance and Payment of Pay Applications and the Construction Costs processes. These controls are duplicated in both processes of the table to demonstrate the mitigation of risks in both areas.

We analyzed the controls identified against our expected controls to determine if any control gaps exist. We identified three findings where we did not identify appropriate controls to address the risks.

Finding 1 - MODERATE - Budget to Actual Reviews: The Facilities Planning and Construction Department does not have a formal process to monitor and track the total budget to actual expenditures for construction projects. Construction costs are monitored against the budget through the applications for payment; however, the soft project costs such as architect fees, inspection fees or other third-party fees are not included in the applications for payment and, therefore, not monitored against the total budget.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

Recommendation: The Facilities Planning and Construction Department should implement budget to actual monitoring that includes all construction costs for the project. The budget to actual expenditures should be reviewed on a regular basis by the Project Managers and District management to ensure the project is on time and on budget.

Management Response: There are forms and processes developed within the Facilities Department's Project Manager Manual that tracks the original budget, committed to date, and contract values/expenditures. With the transition and addition of staff in recent months, forms and processes will be revised and training of the team will be completed. Facilities Department and Finance Department are updating the tracking document/spreadsheet to include original budget, projected cost, committed/encumbered to date, expenditures to date, and uncommitted/available balance. This analysis will include the soft project costs. Facilities Department and Finance Department will continue coordination efforts to ensure reconciliation.

Responsible Party: Facilities Department and Finance Department
Implementation Date: June 1, 2015

Finding 2 – MODERATE – Contract-Standardization: The District does not have standard contracts established for their Architect-Owner and Contractor-Owner agreements. Contracts are modified and revised on a project-to-project basis; starting with the standard 2007 AIA (American Institute of Architects) contract provisions and reverting back to include many of the 1997 AIA contract provisions that the District feels are beneficial. Changes to the contracts are not consistent.

Recommendation: The Facilities Planning and Construction Department, in coordination with legal counsel, should develop a standard set of contracts to use on all future projects. The contracts should include the language and terms that are desired by the District, and should only be modified on an exception basis. Legal counsel should approve the standard contract and authorize any modifications to those terms on future contracts.

Management Response: Previously, the District developed standard contracts for the contractor and architects. We agree that the team has not used this standard agreement consistently, resulting in alternative language and formats being found in our agreements. The standard architect/engineer and professional service contracts will be reviewed and approved by the General Counsel. In addition, the General Counsel will review and approve contract modifications. Modifications should only be on rare occurrences.

Starting on June 1, 2015, any contracts executed must use the standard contract.

Responsible Party: Facilities Department
Implementation Date: June 1, 2015

Finding 3 – MODERATE – Warranty Work Monitoring: Warranty repairs are supervised and reviewed by the District's contracted architect. However, after repairs are complete, District personnel do not inspect the work to verify that the repairs performed are acceptable and complete. The Warranty Manager is in the process of developing a new oversight process to inspect warranty repairs.

Recommendation: The Warranty Manager should continue to develop and implement the oversight process over warranty repairs that are currently in progress. Going forward the process should require and establish formal documentation to evidence the monitoring of all warranty repairs by the Warranty Manager or his designee. This will ensure that the completed work as declared by the contractor and the architect is completed within the standards of the District.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

Management Response: The District does have a warranty process in place, but with the high volume of work, the Project Management team had not been able to effectively follow the process and relied on our architect/engineer to follow through and verify completion status. The District created the Warranty Manager position last year to provide better oversight of the warranty items and process on our projects and to help provide support to the Project Management staff. The Facilities Department is currently finalizing a work flow chart that includes the District's verification of compliance of warranty work.

Responsible Party: Facilities Department

Implementation Date: June 1, 2015

Objective B: Effectiveness of Controls

Ensure the processes and controls in place to process the payment of construction project pay applications and to monitor compliance with construction contracts are operating effectively.

- 1. Procedures Performed:** We selected a sample of five (5) contracts from a total of 45 District contracts for the period of July 1, 2013 through February 28, 2015. Contracts were judgmentally selected from different construction stages to include design, construction, close-out, and completion. For each project selected, we performed the following testing procedures to verify the accuracy and completeness of the procedures:

- Verified the Architect contracts were appropriately selected, evaluated, and executed by the Associate Superintendent.
- Verified the Purchase Orders for Architect services were appropriately approved and set up in a timely manner.
- Verified 50-75-95% reviews of the construction documents were timely reviewed by the Architect, Project Manager, and Director of Design as evidenced in the design meeting minutes.
- Verified Competitive Sealed Proposals (CSPs) for general contractor's proposals prepared by the Architect were reviewed by the appropriate Facilities Planning and Construction personnel to ensure that CSP met the requirements of the construction project.
- Verified whether the CSP advertisement for each selected contract and the advertising source were appropriate.

Results: We identified instances where the internal controls are not effective. We identified two findings where the controls are not adequate or not appropriately documented. See Findings 4 and 5(a).

- 2. Procedures Performed:** For the same five (5) selected contracts, we performed the following testing procedures:

- Verified that the general contractor selections were appropriately evaluated by the Facilities Planning and Construction Department and approved by the Board.
- Verified the general contractors provided necessary documentation prior to the project construction phase, such as insurance and bonds, to the District, and that documentation was properly evaluated and approved by the Risk Management Department to ensure compliance with the District's policies.
- Verified that sub-contractors were evaluated and approved in accordance with the District's policies.
- Verified that building permits were obtained prior to the project construction phase.

Results: No exceptions were identified during testing.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

- 3. Procedures Performed:** For the five (5) selected construction projects, the following procedures were performed to ensure accuracy and completeness:

- Verified that Blanket purchase orders were appropriately reviewed and approved by the Assistant or Associate Superintendent of Facilities Planning and Construction Department and agreed to the contract amounts.
- Verified that change orders were appropriately reviewed and approved by appropriate personnel.
- Verified the Architect-Owner and Contractor-Owner contracts have audit clauses.

Results: No exceptions were identified during testing.

- 4. Procedures Performed:** For the four (4) contracts in construction (one project is in pre-construction), we randomly selected 29 weekly site visits from a population of 148 active weeks of construction over all four (4) projects. We performed the following testing procedures over the selected samples:

- Verified that the Architect, Project Manager, and general contractor were present during the site walkthroughs
- Verified that the Project Managers prepared weekly Project Status Reports and submitted them to the Director of Project Management and Assistant Superintendent for review.

Results: We were unable to obtain documentation that confirms that the site visits were conducted for all of the selected weeks and that all appropriate personnel were present during the visits. See Finding 5(b).

- 5. Procedures Performed:** We judgmentally selected a sample of nine (9) of 45 pay applications from the four (4) active construction projects. We examined the pay applications and performed the following testing procedures:

- Verified that draft pay applications were reviewed by the Project Manager.
- Verified that the Architect, Project Managers, Director of Project Management, and Assistant Superintendent reviewed the pay applications.
- Verified the contract amounts agreed to amounts listed in the contracts (for completed projects).
- Verified the retainage amounts withheld were properly calculated in accordance with the contracts terms.
- Verified that the Total Work Completed on the payment applications agreed to the attached Schedule of Values.
- Recalculated the requested payments by ensuring that current requested payments and previously requested amounts were accurate to ensure that double charges were not within the current period payment request.

Results: The controls in place are operating effectively with the exception of one instance where the review and approval were not documented by appropriate personnel on the pay application. See Finding 6(a).

- 6. Procedures Performed:** We selected a sample of five (5) contracts from a total of 45 District contracts for the period of July 1, 2013 through February 28, 2015. Contracts were judgmentally selected from different construction stages to include design, construction, close-out, and completion. For each of the engagements that were substantially complete or approaching substantial completion, we obtained punch lists, substantial completion certificates, close-out forms, and certificates of compliance where applicable. We performed the following testing procedures:

**CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015**

- Verified the Punch Lists were created by the Architect and general contractor and were reviewed by the Project Manager containing supporting documentation.
- Verified the Substantial Completion Certificates were approved by appropriate personnel.
- Verified the Close-out Forms were signed by the appropriate personnel.
- Verified the Certificates of Compliance were signed by the appropriate personnel.

Results: Although controls are in place, they appear to be haphazardly executed. We discovered instances where the performance of controls was informal and documentation of the performance of internal controls did not exist. We identified three findings where controls were ineffective or performed informally. See Findings 6(b), 7, and 8.

7. **Procedures Performed:** We judgmentally selected 29 of 129 Change Proposal Requests (CPRs) based on the monetary value of the CPRs and the number of CPRs for each of the four (4) active construction projects and performed the following testing procedures:

- Verified that the CPRs tested were approved by the Architect.
- Verified that the selected CPRs were appropriately reviewed and approved by Associate or Assistant Superintendents, or Director of Construction.
- Verified that the approved Change Requests agreed to the supporting documentation such as third party quotes and statements.

Results: We have identified no exceptions in CPR review and approval by the architects; however, change requests were not appropriately approved by the Facilities Planning and Construction personnel. In addition, we identified instances where CPRs did not have adequate supporting documentation. See Finding 6(c).

Finding 4 - HIGH - Contract Execution: Purchase orders to encumber the Architect fees for projects are entered into the accounting system before the Architect-Owner contracts were executed. We identified two (2) contracts that were executed after the purchase orders were established in the system:

1. High School #11 contract was finally executed on February 2, 2015, but the purchase order was entered into the accounting system on May 7, 2014.
2. Bradley Police Station contract was finally executed on November 28, 2014, but the purchase order was entered into the accounting system on November 12, 2014.

This occurred because personnel in the Facilities Planning and Construction Department had the ability to enter purchase orders into the accounting system. However, the personnel with this access have transferred out of the Department.

In addition, for Pridgeon Stadium, we identified that architect/engineering work was being performed by the consultant without a signed contract or a purchase order in place.

Recommendation: Management should require evidence of executed contract prior to entering and establishing a purchase order in the accounting system. The ability to create purchase orders should be segregated from the Facilities Planning and Construction Department. Management should review the access rights of the users who have permissions to enter purchase orders and remove any inappropriate access.

Management Response: We are in agreement with the audit team findings. Purchase orders were entered into the system in order to facilitate payment of invoices being submitted while final terms and conditions were negotiated and agreed upon. However since the purchase order process is now under the Finance Department, a purchase order will not be entered into the system by the Finance Department unless there is an executed contract as backup. Then a formal 'notice to proceed' will be issued prior to any work product being initiated.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

The Facilities Department and Finance Department are working together to better forecast future cash flow needs which will assist in determining potential dates contracts must be executed.

Responsible Party: Facilities Department and Finance Department
Implementation Date: April 20, 2015

Finding 5(a) – MODERATE - Documentation of Controls: We were unable to identify or obtain documentation to support the performance of certain controls:

1. For the Bradley Police Station, Watkins and Thornton Middle Schools and the Anthony Middle School projects, we could not obtain detailed meeting minutes for all design reviews for the 50-75-95% construction document review meetings. In addition, the construction document review meetings require attendance by the key construction project stakeholders including the Architect, Project Management team, design team, and third-party agents. We could not obtain sign-in sheets for two (2) of the Watkins and Thornton Middle Schools meetings and thus was not able to validate the presence of all required personnel.
2. The review of the Watkins and Thornton Middle School's request for proposal packet and advertising materials, by the Facilities Department, as required by District policy, could not be evidenced. The packets are drafted by the architect and require approval by the District prior to release to the public.

Finding 5(b) – MODERATE - Documentation of Controls: We were unable to identify or obtain documentation to support that site visits were completed as designed. Documentation to demonstrate that site visits were conducted for four (4) of the 29 weekly site inspections for the Watkins and Thornton Middle Schools, Anthony Middle School, and High School #11 projects could not be provided. Additionally for two site inspections (one Bradley Police Station and one Anthony Middle School), we could not verify that District personnel participated in the site visit due to lack of documentation.

Recommendation: The Facilities Planning and Construction Department should formally document the performance of key project monitoring controls. Documentation of meeting minutes, those participating in meetings and the execution of inspections provides records of control performance and construction project status. The documentation should be retained in the project files.

Management Response: The Facilities Department is currently drafting a Request for Proposals (RFP) to purchase Project Management Software that will more easily allow for project teams to create, store and access project documents.

The meeting minutes for Anthony Middle School 50-75-95% construction document reviews have since been located; however, they were not filed previously in the appropriate area. These documents have since been filed properly.

Responsible Party: Facilities Department
Implementation Date: July 1, 2015

Finding 6(a) – HIGH - Documentation of Authorizations: We were unable to identify where required approvals were obtained and/or documented for the approval of a pay application. One (1) of eight (8) pay applications (for the Bradley Police Station) tested did not have the required Project Manager review and signature on the certified pay application.

Finding 6(b) – HIGH - Documentation of Authorizations: We were unable to identify where required approvals were obtained and/or documented for the following transactions:

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

1. The close-out form for the Watkins and Thornton Middle Schools project tested did not have the required approval by the Assistant Superintendent, Director, or Project Manager.
2. One (1) of the three (3) projects with punch lists did not have evidence of the required approvals. The completed Watkins and Thornton Middle Schools project in close-out did not have evidence of the approvals by the general contractor, Project Manager or architect.

Finding 6(c) – HIGH - Documentation of Authorizations: We were unable to identify where required approvals were obtained and/or documented for the approval of CPRs. Three (3) of 29 CPRs for the Watkins and Thornton Middle Schools and Anthony Middle School projects tested did not have documentation of the required approvals by the Associate Superintendent, Assistant Superintendent, or Director of Project Management.

Recommendation: The District should establish an overall delegation of authority matrix that includes operational and financial authorities for key members of management. The delegation of authority matrix should be distributed to all construction, purchasing, and accounting personnel to use in processing transactions. Additionally, the District should require the formal documentation and approval of construction related documentation. A project close-out checklist should include the verification that all documents have been formally reviewed and signed-off. Purchase orders and payments should not be entered into the system without documented approval from appropriate personnel, as designated in the District's authority matrices.

Management Response: The Facilities Department and Finance Department will refine the formal workflow for each of the following items to ensure that all persons understand the approval process:

- Signature Authority for:
- a. Contracts
 - b. Purchase Orders
 - c. CPRs / Change Orders
 - d. Close-out Documents

Since the purchase order process is now under the Finance Department, a signature document for every authorized signer has been implemented to further monitor appropriate approvals/alternate approvals.

A close-out checklist (Form AO) has been in place and is being used. Additionally, a "Certificate of Final Completion" form has been created and has been implemented for all ongoing and future projects to be executed prior to final payment.

Responsible Party: Facilities Department and Finance Department
Implementation Date: June 1, 2015

Finding 7 - MODERATE - Warranty Inspections: We identified that the Warranty Manager did not perform the required six (6) month warranty inspection for the Wilson Elementary project. The six (6) month inspection was overlooked due to the volume of other final warranty inspections that were due in the same time period and was not identified through the review of project status reports by management.

Recommendation: It is recommended for the District to continue to refine their Project Management Checklist to include the six (6) and 11 months warranty inspections. These checklists should be included in the weekly and monthly status reports to Facilities Planning and Construction management to ensure that warranty inspections are performed according to the District's timeline.

Management Response: The District does have a warranty process in place, but with the high volume of work, the Project Management team had not been able to effectively follow the process

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

and relied on our Architect-Engineer to follow through and verify completion status. The District created the Warranty Manager position last year to provide better oversight of the warranty items and process on our projects and to help provide support to the Project Management staff. Facilities Department is currently finalizing a work flow chart that includes the District's verification of compliance of warranty work.

Responsible Party: Facilities Department
Implementation Date: June 1, 2015

Finding 8 – MODERATE - Substantial Completion: The Substantial Completion Certificate could not be issued by the Architect and signed by the Contractor and the Owner in a timely manner for the Bradley Police Station project. The inability to complete the renovation project was caused by the inability to move District personnel occupying the workspace to another location due to space limitations. This resulted in the delay of the issuance of the Substantial Completion and caused the 6 and 11 months warranty walks that should be performed after the date of Substantial Completion, to be performed prior to its issuance.

Recommendation: To ensure that the construction process complies with pre-determined milestones and timeframes, the Facilities Planning and Construction Department should provide adequate planning strategies between the design and construction stages of the project to account for operational business continuity and possible warranty overruns with the construction schedule.

Management Response: As with any construction project there are unforeseen conditions that cause delays and require additional coordination. The delay in moving was caused by the new onsite emergency radio tower not communicating properly. Thus requiring the District's 24 hour emergency dispatch to remain in the portable building beyond the original plan.

The Facilities Department will implement a detailed procedure for all future phased projects to assist in forecasting known issues and moves.

Responsible Party: Facilities Department
Implementation Date: June 1, 2015

Objective C: Payment Compliance

Ensure that construction-related expenditures were allowable, approved appropriately, allocated correctly, accurately disbursed in a timely manner, and that required deliverables are provided prior to payment.

- 1. Procedures Performed:** We identified all expenses that were created and paid for by the Facilities Planning and Construction Department from the period of July 1, 2013 through February 28, 2015. We randomly selected 50 transactions for testing to ensure that all invoices were received and paid in a timely manner. We reviewed the original Accounts Payable packet including the invoice, purchase order and a copy of the payment voucher. We utilized the received date, the invoice date and the paid date to gather information on the timing of expense payment generated by the Facilities Planning and Construction Department.

Results: We identified no exceptions in the allowability of construction costs, their approval, allocation in the general ledger, or the timeliness of delivery by the vendors. However, we did identify where the District has not paid vendors in compliance with the terms of their contracts or the Texas Prompt Payment Act. We also identified invoices where the invoice date and the received date are significantly different.

Finding 9 - HIGH - Compliance with Construction Payment of Invoices – We identified that eight (8) of 50 invoices tested were paid later than the 45 days required by the Texas Prompt Payment Act. Three (3) of those eight (8) were paid later than 90 days after the 45 day deadline. Because of the discrepancies we identified between the invoice date and the received date, we also compared the

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

payment dates to the invoice date. Sixteen (16) of 50 were paid later than the 45 days after the invoice date. Six (6) of those 16 were paid more than 90 days from the invoice date. Additionally, the District has no record of accruing and/or paying an interest payment based on these late payments in compliance with the provisions of the Texas Prompt Payment Act.

Identified Late Payments	Number of Late Payments	Average Days Late (More than 45 days)	Total Amount of Late Payments (Net of Retainage)
Invoices by Receipt Date			
Paid 45 days after the receipt date *	8	61	\$ 1,228,356.85
Paid 90 days after the receipt date *	3	126	\$ 14,384.00
Invoices by Invoice Date			
Paid at least 45 days after invoice date	16	56	\$ 5,132,967.86
Paid at least 90 days after invoice date	6	122	\$ 60,802.60

*Three invoices selected did not have a stamped receipt date, so the invoice date was used for the analysis.

Recommendation: Invoices should be entered into the accounting system when received, and before being routed for approval. This will allow all outstanding invoices to be identified for payment before their deadlines. If entering invoices into the system upon receipt is not feasible, Management should implement a tracking procedure that tracks invoice date, date of receipt and the payment date to ensure that any invoices approaching the maximum 45 days will be investigated and paid to stay in compliance with the prompt payment act and terms of the contract. This can be accomplished by establishing a workflow between accounting and construction, which can be manual or systematic, that routes the invoice for approval. Additionally, the workflow would aid in identifying and documenting that the Finance Department has been notified that the invoice has been rejected or placed on hold within 21 days of receipt in order to ensure proper compliance with the Texas Prompt Payment Act.

Management Response: The Facilities Department has restructured to separate the facilities/project management and finance responsibilities to assist in the management and monitoring of vendors being paid in a timely manner. This restructure allows for additional checks and balances to ensure that all requirements have been met prior to payment including the prompt payment act.

Since some late payments may have been due to a contractor or vendor failing to provide the required documents, procedures will be implemented to document legitimate delays in payment such as an error on the pay application and/or insufficient supporting documents.

As invoices and pay applications are received by the Facilities Department, they will be date stamped and tracked until payment is made by using an Excel spreadsheet or Project Management software in the future, if purchased.

If an invoice is submitted to the Finance Department by the end of the day on Tuesday, payment will be made that same week.

Responsible Party: Facilities Department and Finance Department
Implementation Date: June 1, 2015

APPENDIX

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

REPORT RATINGS

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the District
- District objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - o Reliability and integrity of financial and operational information
 - o Effectiveness and efficiency of operations and programs
 - o Safeguarding of assets
 - o Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong	The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.
Satisfactory	The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.
Unsatisfactory	The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

CYPRESS-FAIRBANKS ISD
INTERNAL AUDIT REPORT OVER CONSTRUCTION MANAGEMENT
APRIL 13, 2015

RISK RATINGS

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the District's achievement of strategic objectives or continued existence
- Potential material impact to operations or the District's finances
- Remediation requires significant involvement from senior District management
- Impact of the finding could be felt outside of the District or beyond a single function or department

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the District
- Remediation efforts that will require the direct involvement of functional leader(s)
- Impact could be felt outside of the District or across more than one function of the District
- May require senior District management to be updated
- Noticeable and possibly material impact to the operations or finances of the District

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the District's strategic priorities
- Minimal financial or operational impact to the organization
- Impact is limited to a single function within the District
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk