DALLAS INDEPENDENT SCHOOL DISTRICT

Internal Audit

Continuous Audit – Bond Funded Construction Projects for January 1 through June 30, 2026

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Date: November 11, 2026

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

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

Subject: Continuous Audit - Bond Funded Construction Projects for January 1 through June 30, 2026

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Continuous Audit - Bond Funded Construction Projects for the period of January 1 to June 30, 2026.

Auditors continuously reviewed processes and tested transactions procured using the Competitive Sealed Proposal (CSP) and Job Order Contract (JOC) methods to verify proper controls were in place surrounding construction projects funded with 2020 bond program funds.

OIA reviewed sample selections of Contingency Allowance Expenditure Authorizations (CAEAs), applications for payment, project closeouts, and JOC purchase orders approved from January 1 through June 30, 2026.

Overall, Construction Services has designed and continues to enhance their processes for the management and execution of bond funded projects. Construction Services collaborates with Project Management firms to oversee the procurement process and ensure the best value is provided to the District and the community.

An opportunity for improvement was identified in the following area:

Observation	Recommendation
1	Strengthen JOC proposal review and approval procedures to ensure line-items are billed in accordance with the unit price book.

Background

Construction Services' mission is to provide quality sustainable facilities to enhance student achievement. Their goals are to manage the architectural and engineering design for bond-funded construction projects; manage the construction of bond-funded school projects; oversee the procurement of real property for new schools and expansion of existing campuses; manage the procurement of fixtures, furniture, and equipment for new schools and additions; assist in the administration of construction-related warranties; and oversee a construction safety program to ensure safe activities on all campuses during construction projects.

Bond Program

The 2020 bond program was approved at $3.5 billion to fund $3.2 billion of repairs and upgrades for more than 200 District campuses and $270 million for acquisition and update of District technology equipment.

Competitive Sealed Proposals

The District uses the CSP method to procure general contractors (GCs) for the majority of its construction projects. The use of competitive procurement methods, such as CSPs, initiates competition amongst bidders to provide better value for the District. A 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. Contractors typically submit offers to complete the project scope within a given timeframe for a lump sum price. Allowances and owner-controlled contingency amounts may also be determined in the proposal.

Job Order Contracting

The District uses the JOC method typically for smaller construction projects. It involves a multi-year agreement with Board of Trustees (Board) approved JOC vendors, who are pre-selected through a competitive bidding process. During a JOC competitive bidding process, instead of providing lump sum proposals as in CSPs, prospective JOC vendors propose a coefficient, or multiplier, which is later used, along with a unit price book, to accurately estimate the cost of their future assigned job order projects. The unit price book used by the District is RSMeans.

General Contractors

GCs are procured to coordinate construction projects and manage job sites. GCs are contracted within the American Institute of Architects (AIA) A101 and A201 contract documents, which establish a determined scope of work for a lump sum price plus any pre-determined owner-controlled contingency. Once contracted, GCs hire subcontractors to complete the required scope of work. GCs submit applications for payment monthly, for which the District makes progress payments to the GC, based on the percentage of work completed and materials obtained and stored. The District makes the final payment when the contract is fully fulfilled, and work completed has been accepted by the Board.

Architect/Engineer Firms

The District contracts architect/engineer firms (A/E) to provide professional services for the design and oversight of construction projects. A/E services are divided into basic services and additional services, which are compensated differently. Basic services include schematic design, document production and review, and construction administration. Basic services are compensated based on a fee percentage multiplied by the construction cost limitation plus contingency budget. Any additional services performed outside of the basic services are compensated based on an agreed manner between the District and A/E.

Project Management Firms

The District also contracts with project management firms (PMFs) to oversee and manage bond-funded construction projects from planning and design through project closeout. PMFs are responsible for managing all project matters with the purpose of meeting the project completion date within the allotted budget. The District currently has contracts with five different PMFs, each of which are made up of around 10 – 21 employees solely working on District projects. Each PMF manages, on average, approximately 40 projects for the District. PMFs are paid on a fee-based structure based on the managed budget and are paid monthly based on the percentage of the project's completion. In addition, the District employs contract managers to assist and oversee

PMFs. The District's contract managers, A/Es, and PMFs work closely together to coordinate and execute construction projects.

Contingency Funds

Owner-controlled contingencies are a part of the Board approved project budget and consist of funds set aside for unexpected costs encountered throughout the construction project. For the projects reviewed, these funds typically represent around five percent of the project budget. As these amounts are approved with the original project budget, additional Board approval is not required when funds are used. However, GCs must obtain written approval from Construction Services via a CAEA form before using contingency funds. A CAEA form must be supported with a detailed breakdown of labor, materials, equipment, and other associated costs. The District provides GCs requesting the use of contingency funds with a standard template to use for breaking out the detailed costs. This template provides a format which separates detailed pricing between three individual categories: labor, materials, and equipment. Distinct columns for categories found in the template enable contractors to easily detail individual line items under each category and calculate subtotals. Along with the three categories above, the template includes areas for the contractor to detail additional allowable charges such as labor burden and overhead and profit. The template provides a standard and more efficient way for the PMFs to review.

Labor Burden

Whereas hourly rates and salaries for employees are considered direct labor costs, indirect labor costs such as workers compensation, insurance and benefits, taxes, and other overhead costs fall under the umbrella of labor burden. Generally, labor rates are presented as an hourly rate and labor burden is expressed as a percentage. Both direct and indirect labor costs are permissible to be included as line items in proposals, however, each have an alternative method of calculating their totals.

Direct labor costs are calculated by multiplying work hours proposed by a specified hourly rate. Hourly rates may vary depending on the type of specialty or trade. The proposed labor burden percentage is then multiplied by the total direct labor costs. Labor burden and direct labor totals are then added to determine the total labor cost of a proposed project or change in work.

Overhead and Profit

Current construction contract documents utilized by the District require that any changes necessary to complete a project must be accompanied by an approved CAEA. The CAEA proposal process differs as it uses the cost-plus pricing model. Line items for labor, both direct and indirect, materials, and equipment are detailed and itemized by the amounts to be reimbursed by the District at actual costs. To determine a proposal's overhead and profit, contractors add labor, material, and equipment actual costs and multiply the total by the allowable overhead and profit percentage stated in the contract. The 2020 bond program contracts state that overhead and profit should not exceed ten percent unless the work is performed by a third-tier subcontractor. If performed by a third-tier subcontractor, four percent may be added.

Applications for Payment

GCs submit applications for payment to the A/E and PMF on *AIA Form G702 Application and Certification for Payment* (Form G702), and *AIA Form G703 Continuation Sheet* (Form G703). However, only the A/E is required to sign Form G702 certifying the information is accurate, work has progressed as indicated, and the quality of the work is in accordance with the contract documents. Form G702 provides a summary of the total amount due for the period. Form G703 provides a detailed breakdown of the contract sum, outlining the cost of each work item and its

progress. GCs must have Form G702 notarized before submission to the A/E and PMF. The A/E has seven days to approve or reject all or any part of the Application for Payment. After approval, the A/E provides the District and PMF with a Certificate for Payment for review and approval. The District has 30 days after receiving the Certificate for Payment to pay the undisputed amount certified by the A/E.

Project Closeout

Project closeout refers to the final phase of a project where all outstanding tasks, documentation, and issues are resolved, and the completed project is formally handed over to the District, ensuring compliance and readiness for use and occupancy. GCs must complete the General Contractor Closeout Checklist to ensure all required certificates, documents, manuals, training, permits, warranties, etc. have been completed and provided to the District. Key elements include substantial completion, punch list, and final completion, among others.

Substantial completion is the point where the District and the GC agree that the building is ready for its intended use, even if minor tasks remain. The substantial completion date is established in the contract documents. A change order approved by the Board is required to change the substantial completion date to a future date. Substantial completion is certified by the A/E in *AIA Form G704 Certificate of Substantial Completion* (Form G704).

The punch list is a list of outstanding items that need to be completed before the project is considered finished.

Final completion means actual completion of the project, including any extras or change orders reasonably required or contemplated under the contract document. Final completion must be achieved within 60 days of the original or extended substantial completion date. To achieve final completion, GCs notify the A/E that the project is ready for final inspection and acceptance. The A/E and PMF inspect the project and if they find the work acceptable under the contract documents and the contract is fully performed, they issue a Certificate of Final Completion and a Final Certificate for Payment. Certifying to the District that the project has been completed in accordance with the terms and conditions of the contract documents. A project is finalized after the Board accepts completion of work and authorizes the final payment to the GC.

Scope

The audit period included activity and transactions occurring from January 1 through June 30, 2026.

Objective

The objective of the audit is to continuously review transactions for the District's bond program construction projects procured using the CSP and JOC methods.

Methodology

Contingency Allowance Expenditure Authorization Testing

To determine if CAEAs were properly supported, reviewed, authorized, and accurate, auditors obtained a list of CAEAs approved from January 1 through June 30, 2026. The list contained 502 CAEA's totaling $8,431,327 from 76 projects. Auditors selected a sample of 20 CAEA's totaling $1,652,912 from 19 projects. Auditors selected CAEAs valued over $25,000 and made sure all PMFs were represented. For each of the sample auditors performed the following:

1. Verified CAEA forms were stored in the District's shared drive.
   No observations noted; however, results were communicated to management for review.

2. Verified the CAEA forms' validation questions were initialed by the A/E and PMF.
   No observations noted; however, results were communicated to management for review.

3. Verified CAEA forms were approved by the GC, A/E, PMF, Construction Services' Executive Director, and District Contract Manager.
   No observations noted; however, results were communicated to management for review.

4. Verified the following supporting documents were attached to the CAEA form:
   a. GC proposal.
   b. Sub-Contractor proposal.
   c. Sub-Contractor Labor / Material / Equipment Cost Breakdown sheet.
   No observations noted; however, results were communicated to management for review.

5. Recalculated the itemized labor, material, and equipment costs in the Sub-Contractor Labor / Material / Equipment Cost Breakdown sheet.
   No observations noted; however, results were communicated to management for review.

6. Recalculated labor burden charges in the Sub-Contractor Labor / Material / Equipment Cost Breakdown sheet and verified the labor burden percentage was multiplied by the total direct labor cost.
   No observations noted.

7. Recalculated overhead and profit charges in the Sub-Contractor Labor / Material / Equipment Cost Breakdown sheet and verified the overhead and profit percent did not exceed the rates established in the contract.
   No observations noted.

8. Compared the description of change on the CAEA form to the original scope of work to verify if changes were material or out of scope, which require the use of an approved change order.
   No observations noted.

Applications for Payment Testing

To determine if payments were properly supported, reviewed, authorized, and accurate, auditors obtained a list of applications for payments approved from January 1 through June 30, 2026. The list contained 456 applications for payment totaling $189,457,120 from 110 projects. Auditors selected a sample of 20 applications for payment totaling $21,847,121 from 19 projects, ensuring all PMFs were represented. Auditors performed the following:

1. Auditors verified the following documents were attached to the application for payment:
    a. General Contractors Invoice / Pay Application Cover Sheet.
    b. GC Application for Payment Review & Sign-Off checklist.
    c. Form G702.
    d. Form G703.
    e. CAEAs approved during the period.
    f. Credit Authorization / Expenditure Logs approved during the period.
    g. Compliance Audit Summary Page.
    h. Photos of the work completed during the period.

    No observations noted.

2. Verified the General Contractors Invoice / Pay Application Cover Sheet was reviewed and approved by a District and PMF representative.
    No observations noted.

3. To verify the payment was accurate, auditors performed the following:
    a. Recalculated the amount billed, the retainage amount, and net payment.
    b. Verified the net payment matched the current payment due amount in Form G702.
    c. Verified the amount billed matched the amount for work completed during the period in Form G703.

    No observations noted.

4. Verified the application for payment was submitted, approved, and paid in accordance with the contract terms.
    No observations noted.

Project Closeouts Testing

To determine if project closeouts were conducted in accordance with contract requirements and District policies and procedures, auditors obtained a list of project closeouts completed from January 1 through June 30, 2026, noting 12 projects totaling $162,745,147 were completed. Auditors performed the following for all 12 projects:

1. Verified that substantial completion was achieved in accordance with the contract terms comparing the substantial completion date in Form G704 to the substantial completion date established in the project's *AIA Document A101 Standard Form of Agreement Between Owner and Contractor* or change order extending the substantial completion date for the project.
    No observations noted.

2. Verified any changes made to substantial completion dates were approved by the Board.
    No observations noted.

3. Verified claims submitted were within the required 14 calendar days of first occurrence of an event or notice of first occurrence of an event and supported by a Notice of Claim.
    No observations noted.

4. Verified District response times to claims were within the ten-day window of claim submittal.
    No observations noted.

5. Verified the A/E submitted the Certificate of Final Completion prior to the final payment and Board acceptance and approval of the project.
   No observations noted.

6. Verified that all sections of the General Contractor Project Close-out Checklist were completed and the checklist was signed by the GC, A/E, PMF, and District Representative prior to the Board's acceptance of the project.
   No observations noted.

Job Order Contract Testing

To determine if JOC projects were authorized and managed in accordance with contract terms and District policies and procedures, auditors obtained a list of JOC purchase orders approved from January 1 through June 30, 2026, noting 13 projects totaling $14,611,935. Auditors performed the following for all ten projects:

1. Verified each project was supported with the following:
   a. Statement of Work for Awarded Suppliers.
   b. Project Initiation Form.
   c. Project Approval Form signed by the PMF, DISD Contract Manager, DISD Construction Services Director of Finance & Operations, DISD Construction Services Director of Special Projects, and the DISD Construction Services Executive Director.
   d. GC proposal supported by a UPB Cost Estimate.
   e. GC proposal price matching the purchase order amount.

   See Recommendation 1 in this report.

Primary criteria used for this audit were:

- Texas Government Code Chapter 2269 Contracting and Delivery Procedures for Construction Projects, Subchapter I – Job Order Contracts Method, last updated September 1, 2021
- District Board Policy CVF (LEGAL) – Facilities Construction: Job Order Contracts, date issued June 22, 2021
- Construction Services, JOC Proposed Procedures, as of this report date

Audit Observations and Recommendations

Observation 1 – Line-item prices in JOC vendor proposals exceeded approved Unit Price Book (UPB) rates.

Condition

Auditors identified 18 line-items from four reviewed JOC projects where proposed pricing exceeded the approved UPB rates, resulting in a total variance of $189,817:

1. Larry G. Smith Elementary School (Main Entry Vestibule): four out of five line-items reviewed exceeded UPB prices by a combined $21,942.

2. Seagoville STEM Environmental Education Center (Renovation): six out of six line-items reviewed exceeded UPB prices by a combined $66,172.

3. Townview Center (Secure Vestibule): five out of six line-items reviewed exceeded UPB prices by a combined $62,234.

4. Frank Guzick Elementary School (Renovation): two out of six line-items reviewed exceeded the UPB prices by a combined $39,469.

Cause

For the period under review, District staff and PMFs did not require the vendors to submit the cost estimate using the approved UPB and did not adequately perform price comparison reviews between proposed vendor line items and the approved UPB database.

Effect

The District could potentially incur pricing variances across projects, leading to overpayments on JOC construction purchase orders.

Recommendation 1

Construction Services management should:

- Conduct a comprehensive review of all line-item variances identified and actively seek recovery or issue credit memos against future invoices for all amounts lacking valid vendor cost support.

- Ensure that any proposed line-item exceeding UPB baseline rates or categorized as non-pre-priced must include verifiable independent quotes (e.g., material receipts, subcontractor proposals) attached to the project file before issuing a Purchase Order.

Risk Level for Observation 1: Medium[1]

[1] See Attachment 1 for Definition of Risk Level.

Management Response

Acknowledgement of observation:

☒ Agree
☐ Disagree

Management Response:
Construction Services ended Gordian's participation in the JOC program in 2025 and has since managed the program internally. The department remains focused on continuous improvement, stronger quality control, and responsiveness to contractor market conditions.

Construction Services concurs with Internal Audit's findings and has taken corrective steps by accepting credits for identified pricing variances and requiring supporting documentation for unit prices that exceed listed amounts.

The department continues to use technology to support unit price reviews and is evaluating software platforms that would alert the district when JOC contractors modify unit prices. This capability would strengthen pricing oversight and improve quality control.

Construction Services remains committed to an error-free JOC program. Through continued collaboration with JOC contractors, program management firms, and internal staff, the department will reinforce quality control training for unit pricing submissions and strengthen overall JOC processes.

Estimated Implementation Date: January 1, 2027

Individuals responsible for implementation: Mike Garcia, Deputy Chief of Construction, Construction Services/Bond Office, Financial Services

Conclusion

Overall, Construction Services has designed and continues to enhance their processes for the management and execution of bond funded projects procured using the CSP and JOC methods.

We would like to thank Construction Services and the PMFs for their cooperation and assistance with this audit.

The audit was conducted in conformance with the Institute of Internal Auditors' *Global Internal Audit Standards.* Those standards require OIA to plan and perform the audit to obtain sufficient, reliable, and relevant 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

Cc: Pamela Lear, Ed.D., Deputy Superintendent of Staff and Accountability
Eduardo Ramos, Deputy Superintendent of Business Services, Financial Services
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Acknowledgments:
Eva Narten, CPA, CIA, CISA, Deputy Chief of Internal Audit
Brandon Jones, MBA, Audit Manager
Enrique Fuentes Lazzarini, CFE, Auditor II

Attachment 1

Definition of Risk Level

Risk Level	Definition
High	These risks could directly impact the achievement of critical strategic or operational objectives of the District. There is a high likelihood of occurrence, and if the event materializes, it could result in a significant negative impact on the District's financial stability, operational efficiency, ability to meet intended outcomes, reputation, or compliance, potentially exceeding the District's risk appetite.
Medium	These risks pose a moderate likelihood of occurrence and could have a notable adverse impact on important operational aspects of the District. While undesirable, the potential financial, reputational, strategic or compliance consequences are less severe than high-level risks and may approach the District's risk appetite.
Low	These risks have a low likelihood of occurrence and are expected to have a minimal impact on the District's operational efficiency, financial standing, reputation, or compliance. These risks are generally within the District's risk appetite but still warrant monitoring and may require basic controls.

Attachment 2

Management Response

Observation 1 – Line-item prices in JOC vendor proposals exceeded approved Unit Price Book rates

Acknowledgement of observation:

☒ Agree
☐ Disagree

Management Response:
Construction Services ended Gordian's participation in the JOC program in 2025 and has since managed the program internally. The department remains focused on continuous improvement, stronger quality control, and responsiveness to contractor market conditions.

Construction Services concurs with Internal Audit's findings and has taken corrective steps by accepting credits for identified pricing variances and requiring supporting documentation for unit prices that exceed listed amounts.

The department continues to use technology to support unit price reviews and is evaluating software platforms that would alert the district when JOC contractors modify unit prices. This capability would strengthen pricing oversight and improve quality control.

Construction Services remains committed to an error-free JOC program. Through continued collaboration with JOC contractors, program management firms, and internal staff, the department will reinforce quality control training for unit pricing submissions and strengthen overall JOC processes.

Estimated Implementation Date: January 1, 2027

Individuals responsible for implementation: Mike Garcia, Deputy Chief of Construction, Construction Services/Bond Office, Financial Services

Attachment 3

Criteria by Observation

Observation 1 – Criteria

1. *Texas Government Code Chapter 2269 Contracting and Delivery Procedures for Construction Projects, Subchapter I – Job Order Contracts Method, last updated September 1, 2021*

   - Section 2269.404 – Contractual Unit Prices: Requires the governing body to specify or approve standard unit prices in the contract (e.g., UPB/RSMeans database) and coefficient multipliers.
   - Section 2269.410 – Job Orders: Governs order creation, scoping, and price verification requirements before issuing a job order.

2. *Dallas ISD Board Policy CVF (LEGAL) – Facilities Construction: Job Order Contracts, date issued June 22, 2021*

   Establishing Unit Prices

   The district may establish contractual unit prices for a job order contract by:
   1. Specifying one or more published construction unit price books and the applicable divisions or line items.

   Job Orders

   An order for a job or project under job order contracting must be signed by the district's representative and the contractor. The order may be:
   1. A fixed-price, lump-sum contract based substantially on contractual unit pricing to estimated quantities, or
   2. A unit price order based on the quantities and line items delivered.

3. *Construction Services, JOC Proposed Procedures, as of this report date*

   JOC Procedure
   Assumptions:
   1. RS Means Estimating Software as Unit Cost Model:
      a. RS Means Estimating Software will be used as the primary unit cost model for estimating JOC tasks. It provides comprehensive and reliable data to establish baseline costs for various construction activities.