

**SAVANNAH-CHATHAM COUNTY BOARD OF EDUCATION**  
**Internal Audit Department**



TO: Board of Education

THROUGH: Thomas B. Lockamy, Jr., Ed.D., Superintendent  
Kelly J. Crosby, Interim Chief Financial Officer  
Vanessa Miller-Kaigler, Deputy Superintendent Chief Operations Officer

FROM: Marshall Withers, Senior Director, Internal Audit

DATE: September 22, 2016

SUBJECT: Report on Audit of Rice Creek School – ESPLOST / Final Review  
(#16-10)

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We have completed our Audit of Rice Creek School – ESPLOST / Final Review. Our audit report is presented in the sections listed below:

- I. SUMMARY OF AUDIT CONDITIONS**
- II. AUDIT OBJECTIVES**
- III. AUDIT SCOPE**
- IV. BACKGROUND**
- V. AUDIT CONDITIONS**

Management's response to our report is attached in its entirety. In addition, the specific action that management has agreed to take in response to each recommendation is included in the Management Action Plan, along with who is responsible for the action and when it will be completed.

## **I. SUMMARY OF AUDIT CONDITIONS**

Our Audit of Rice Creek School – ESPLOST / Final Review (#16-10) has identified three conditions where improvements are needed. These conditions are stated below with identified pages where details of each condition are presented.

### **Condition A. Review of Labor Rates (Page 5-6)**

Labor rates listed on the Staffing Plan, Wage and Salary Schedule were listed as an average hourly rate and could not be compared to labor rates listed on invoices submitted with Applications for Payment. *(DAS Goal V)*

### **Condition B. Accuracy of Payment Amounts Reported by the CMR (Page 6-7)**

Payment Verification forms received from Minority and Women Owned Business Enterprises (MWBE's) did not agree to the amount reported by the CMR. *(DAS Goal V)*

### **Condition C. CMR Payments to Subcontractors (Page 7-8)**

Some subcontractor payments were not made within seven days as required by the contract. *(DAS Goal V)*

## **II. AUDIT OBJECTIVES**

Our audit was designed to meet specific objectives. Within those objectives, we focused on areas where we identified opportunities for improvement in Rice Creek School – ESPLOST / Final Review. The objectives of our audit were as follows:

- I. Internal Controls
  - A. Determine that reports are accurate, complete and compared to the master plan/budget.
- II. Design Team (Architect and Engineers)
  - A. Determine that all District Policies, Administrative Regulations, and processes were followed during the award of the contract.
  - B. Determine that the contract is complete in all material respects.
  - C. Determine that charges are appropriate, adequately supported, and timely.
  - D. Determine that the work performed was in accordance with the contract provisions, and that all the work in the contract was completed.
- III. Construction Manager at Risk
  - A. Determine that all District Policies, Administrative Regulations, and processes were followed during the award of the contract.
  - B. Determine that the contract is complete in all material respects.
  - C. Determine that charges are appropriate, adequately supported, and timely.
  - D. Determine that the work performed was in accordance with the contract provisions, and that all the work in the contract was completed.
  - E. Determine compliance with Board Policy FG related to Local, Minority, and Women Owned Businesses.

- F. Validate the accuracy of CMR reports related to Local, Minority, and Women Owned Businesses.
- G. Validate timely and accurate payments to subcontractors.
- H. Determine that the CMR has an adequate safety program in place and holds regular safety meetings.
- I. Review change orders for appropriate approval and documentation of necessity.
- J. Determine that the name of the facility was selected according to Board Policy FDC.

### **III. AUDIT SCOPE**

The Audit of Rice Creek School – ESPLOST / Final Review was completed by reviewing internal controls to ensure District Policies, Administrative Regulations, and processes were followed. We reviewed contract files held by the Facilities Construction Department for the Construction Manager at Risk (CMR) and the Design Professional (DP). We also reviewed invoices maintained by Accounts Payable, documentation regarding the Request for Proposals (RFP) process maintained by the Purchasing Department, and project information found in Impact® (Impact® is a system used by Parsons that maintains documents and contract information for ESPLOST projects). Parsons provides Program Management Services to SCCPSS.

We selected several judgmental samples of Applications for Payment, Vendor Invoices, Change Orders, and Requests for Information (RFI's) for the entire project. We conducted various tests on the Applications for Payment and Vendor Invoices to determine if the expenditures were complete, accurate, and properly authorized prior to payment.

We conducted interviews with the Interim Chief Financial Officer, Director of Disbursements, and the Program Director of Parsons.

Our fieldwork was conducted during the period of June 2016 through August 2016.

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Details of each area tested and recommendations for strengthening the internal controls in that area are listed below.

The Board's District Accountability System (DAS) lists five goals:

- I. To ensure all students are college and career ready.
- II. To provide a safe, healthy, and clean environment that is conducive to teaching and learning.
- III. To maximize and promote opportunities to build strong relationships with stakeholders that contribute to the advancement of student success and community pride.
- IV. To build capacity to achieve a premier workforce that fosters a professional and supportive teaching and learning environment.
- V. To maximize resource stewardship and fiscal responsibility by ensuring District resources are used efficiently, effectively, economically, and equitably.

At the end of each Condition statement, we have identified the DAS goals that are most likely affected by the findings identified in the Condition. Internal Audit has made recommendations to help support the achievement of these goals.

#### **IV. BACKGROUND**

Rice Creek School was funded by ESPLOST II funds and was completed in July 2015. Internal Audit conducted this review as part of the Board of Education's continuing oversight of the ESPLOST program. The Board of Education, as part of their fiduciary responsibility to the citizens of Chatham County, has requested periodic internal audits of ESPLOST. The goal of these audits is to provide transparency and confidence in the construction and renovation processes, and to ensure the effective and efficient use of funding.

On June 26, 2013, the Board of Education approved the site-adapted use of the Pulaski/Gadsden prototype elementary school design for the new Rice Creek School, and the contract was awarded to BRPH Architects-Engineers, Inc. in the amount of \$1,154,000. BRPH Architects-Engineers, Inc. is referred to as the Design Professional (DP) throughout this audit report. Three change orders were requested by the District. The total contract amount was \$1,186,920 after the change orders. As of August 19, 2016, a total of \$1,148,121 has been paid to the DP.

On October 2, 2013, the Board of Education approved the award for Construction Manager at Risk (CMR) Services to Gilbane Building Company for the construction of Rice Creek School. The Initial Guaranteed Maximum Price (GMP) was \$22,875,000. On July 2, 2014, the Board of Education approved a change order to the Guaranteed Maximum Price (GMP) increasing the contract amount to \$25,498,891. On July 13, 2016, the Board of Education approved a GMP Change Order in the deductive amount of \$110,458 for return of project savings and established the final contract amount of \$25,388,433. The project is now complete and all costs have been finalized for the CMR.

## **V. AUDIT CONDITIONS**

### **Condition A. Review of Labor Rates**

Labor rates listed on the Staffing Plan, Wage and Salary Schedule were listed as an average hourly rate and could not be compared to labor rates listed on invoices submitted with Applications for Payment. *(DAS Goal V)*

#### **Details of Condition A**

During our review of five Applications for Payment, we compared labor rates listed on each invoice to the Exhibit K – CMR Staffing Plan, Wage and Salary Schedule. This salary schedule is a list of employees who are assigned to the performance of the work or services under the contract with salary, wage rates, taxes and benefits of each employee. The CMR submitted an updated salary schedule with each Application for Payment. A total of four updated salary schedules were included with the five applications reviewed, but there is no indication that they were approved when submitted as required by the contract. We found 28 instances where labor rates did not agree to the labor rate listed on the salary schedule submitted with the Application for Payment; however, the labor rate paid for 26 of them was less than the rate listed on the salary schedule. The other two instances were for one employee who was paid a labor rate of five cents more an hour in two of the applications reviewed. Parsons reached out to the CMR and was informed that the labor rates were based on an average hourly rate. This is indicated on the salary schedule in the description as “Total Ave Billable Hourly.” There is also a footnote at the bottom of each updated salary schedule that states, “Staffing rates are average over the life of the project. Evidence of aggregate average at completion to be provided or when requested.” This footnote is not included on the original salary schedule that was submitted with the contract. Parsons reviews the labor rates to verify that costs are consistent with the salary schedule when an invoice is submitted with the Application for Payment, but this step is not completed by Accounts Payable. There may be a potential risk of paying additional salary costs when an average labor rate is used instead of an actual labor rate for each employee.

#### **Recommendations for Condition A**

Based on our findings, we recommend the following:

##### **Operations Division**

1. Request for Parsons to review the Exhibit K - CMR Staffing Plan, Wage and Salary Schedules to ensure actual labor rates are documented. Parsons should verify that the labor rate paid for each employee agrees to the salary schedule. An approved salary schedule should also be included with each Application for Payment when submitted to Accounts Payable.

2. No additional recommendation is required for the approval of Staffing Plan, Wage and Salary Schedules as it is being addressed as part of Management Action Plan (MAP) that is in place as of June 2016 resulting from the Audit of Hesse K-8 School (16-08) - Request that Parsons obtain proper signatures from Facilities Management on Exhibit K for all Staffing Plan, Wage and Salary Schedules that are submitted by the CMR. Exhibit K requires District officials to sign at the bottom of the form when a Salary Schedule is submitted by the CMR. These schedules should also be dated to show when they are submitted.

### **Condition B. Accuracy of Payment Amounts Reported by the CMR**

Payment Verification forms received from Minority and Women Owned Business Enterprises (MWBE's) did not agree to the amount reported by the CMR. *(DAS Goal V)*

#### **Details of Condition B**

We reviewed and compared the following reports to verify the accuracy of payment amounts reported by the CMR:

- The CMR report received on June 21, 2016 of all contracts awarded and payments made for Rice Creek School;
- The CMR Electronic Check Register as of June 24, 2016;
- The MWBE Verified Payment Report from the August 18, 2016 CIC meeting; and
- All Payment Verification forms that have been received by Parsons as of August 18, 2016.

The MWBE Verified Payment Report from the August 18, 2016 CIC meeting reported that a total of \$8,225,126 in payments were made to MWBE subcontractors and subs of subcontractors for Rice Creek School. We reviewed all Payment Verification forms received by Parsons as of August 18, 2016 and found that a total of \$7,620,161 in payments were reported by the MWBE subs and subs of subcontractors.

MWBE subcontractors and subs of subcontractors are asked to complete a Payment Verification form at the end of the project. This form is not a requirement of the contract; however, it allows Parsons to verify the payment amounts received by the MWBE subcontractors and subs of subcontractors to the payment amounts reported by the CMR. Fourteen completed forms have been received by Parsons as of August 18, 2016. Parsons is still waiting on two forms to be returned. Payment Verification forms are pre-filled with the payment amount reported by the CMR, but the forms do not include an "as of date" to indicate what payments are included in the amount. The forms are signed and dated by each MWBE subcontractor or sub of subcontractor to verify the total amount received. If there is a discrepancy, the subcontractor or sub of subcontractor will write the updated amount in a space provided before signing and dating the form.

Payment amounts on two of the 14 forms were updated. Parsons did not account for these updates when completing the MWBE Verified Payment Report for the August 18, 2016 CIC meeting. We found one instance where a MWBE subcontractor updated the form to indicate the total payment received was \$141,415 more than the amount

reported by the CMR. The MWBE Verified Payment Report shows \$1,182,330, the Payment Verification form indicates the payment was \$1,323,745, and the CMR Check Register shows a total payment of \$1,323,745. It appears that the CMR did not include the last two payments that were made to the subcontractor. We found another instance where a MWBE sub of a non-local subcontractor updated the Payment Verification form to indicate the payment was \$746,380 less than the amount reported by the CMR. The MWBE Verified Payment Report shows \$1,094,427, the Payment Verification form indicates the payment was \$348,047, and the Paid Invoice Report from the subcontractor dated August 25, 2016 shows a total payment of \$1,183,843. At the end of the audit, Parsons followed up with the sub of the subcontractor and obtained an updated Payment Verification form indicating the total amount received by the sub was \$1,183,843. It appears that there may have been some confusion with the language on the initial Payment Verification form. Language indicating that the sub “has been paid to and through joint checks” from the subcontractor was added to the updated form that was signed by the sub on September 6, 2016. There was no written documentation that research was completed to account for both of these differences when the initial Payment Verification forms were received by Parsons.

### **Recommendations for Condition B**

Based on our findings, we recommend the following:

#### Operations Division

1. Ensure that Parsons adequately reviews and verifies the Payment Verification forms when they are returned by the subcontractor or sub of subcontractor and documents any discrepancies found.
2. Request for Parsons to update the Payment Verification forms to include an “as of date” next to the amount that has been paid. The current form is only dated when signed by the subcontractor or sub of subcontractor.

### **Condition C. CMR Payments to Subcontractors**

Some subcontractor payments were not made within seven days as required by the contract. *(DAS Goal V)*

We selected a judgmental sample of 58 payments made to subcontractors from the CMR Electronic Check Register as of June 24, 2016. We reviewed Applications for Payment and invoices to determine the timeframe between when the request for payment was made by the subcontractor and when the payment was made by the District. If an invoice was outstanding greater than 60 days prior to payment, we verified that the subcontractor was paid within seven days of the CMR receiving payment by the District. We identified four subcontractor invoices that were not paid within seven days as required by the contract. Payments were made 10 days after the CMR received payment and deposited the check into their bank account.

The Project Accountant for the CMR responded in an email stating, “CM received check 11.24.15 (Thanksgiving break), check was deposited into CM Bank Account 11.30.15, funds released to sub 12.10.15.”

## **Recommendations for Condition C**

Based on our findings, we recommend the following:

### Operations Division

1. Ask Parsons to re-emphasize to CMR's that payments should be made within seven days of receipt of payment by the District as this is a requirement of the contract.