

SAVANNAH-CHATHAM COUNTY BOARD OF EDUCATION
Internal Audit Department



TO: Board of Education

THROUGH: Thomas B. Lockamy, Jr., Ed.D., Superintendent
Larry Jackson, Interim Chief Financial Officer
Vanessa Miller-Kaigler, Deputy Superintendent Chief Operations Officer
Arnold Jackson, Executive Director of Operations

FROM: Marshall Withers, Senior Director, Internal Audit

DATE: March 30, 2017

SUBJECT: Report on Audit of Brock Elementary School – ESPLOST / Final Review
(#17-04)

We have completed our Audit of Brock Elementary 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 CONDITION**
- VI. OTHER MATTERS**

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 Brock Elementary School – ESPLOST / Final Review (#17-04) has identified one condition where improvement is needed. This condition is stated below with the identified page where details of the condition are presented. We also identified another area of risk that is listed under Other Matters.

Condition A. Insurance Coverage for the Design Professional (Pages 5-6)

Current insurance certificates were not maintained on file and insurance coverage did not meet the minimum requirements of the contract.

(DAS Goal V)

Other Matters (Pages 6-8)

We identified various issues with the Assignment and Assumption of the Construction Contract from Elkins Constructors, Inc. to Elkins Construction, LLC.

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 Brock Elementary 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.

III. AUDIT SCOPE

The Audit of Brock Elementary 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 Qualifications (RFQ) 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 performed various tests on the Applications for Payment and vendor invoices to determine if the expenditures were complete, accurate, and properly authorized prior to payment.

Final lien releases and payment verification forms for Minority and Women Owned Business Enterprises (MWBES) were not received by Parsons at the time we concluded our audit so these documents were not part of our review. Parsons will obtain these documents prior to the project being finalized.

Our fieldwork was conducted during the period of November 2016 through March 2017.

We talked with various staff in the Finance Division and the Human Resources Division during our audit.

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 goal(s) 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

Brock Elementary School was funded by ESPLOST II funds and was completed in July 2016. 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 April 9, 2014, the Board of Education approved the contract for the Design Professional (DP), and the contract was awarded to Hussey, Gay, Bell & DeYoung, International, Inc. in the amount of \$791,165. Eight change orders were processed increasing the contract amount to \$898,339. A total of \$861,735 has been paid to the DP as of January 30, 2017.

On May 7, 2014, the Board of Education approved the award for Construction Manager at Risk (CMR) Services to Elkins Constructors, Inc. for the construction of Brock Elementary School. The Initial Guaranteed Maximum Price (GMP) was \$14,814,000.

The District received an Assignment and Assumption of the Construction Contract dated March 19, 2015 from Elkins Constructors, Inc. to Elkins Construction, LLC and was requested to approve it. On June 10, 2015, the following was recommended by the Superintendent to the board: (1) Reject the assignment to Elkins Construction, LLC; (2) Approve the termination of the current contract with Elkins Constructors, Inc.; and (3) Authorize the Superintendent to negotiate a contract with CPPI, to be approved by the Board at the next available date. This motion failed for lack of a second to the motion.

On June 17, 2015, the Board approved the Assignment and Assumption of the Construction Contract dated March 19, 2015 between Elkins Constructors, Inc. and Elkins Construction, LLC. According to the Board Agenda Item, "Elkins Construction, LLC, has submitted additional documentation, including verification of its ability to bond the project, a letter of assurance from the new investor, and its current City of Savannah business license. Based on the new information, at this time, the Superintendent recommends that the assignment to Elkins Construction, LLC, be approved."

On August 5, 2015, the Board approved a change order to the GMP increasing the contract amount to \$18,083,270. There were also three changes to the scope that resulted in an increase to the GMP. On November 9, 2016, the Board approved GMP Change Order #2 in the amount of \$260,145 increasing the GMP to \$18,343,415. A total of \$17,156,652 has been paid to the CMR as of January 30, 2017. This project has not been finalized.

V. AUDIT CONDITION

Condition A. Insurance Coverage for the Design Professional (DP)

Current insurance certificates were not maintained on file and insurance coverage did not meet the minimum requirements of the contract. *(DAS Goal V)*

Details of Condition A

Maintaining Insurance Certificates

We reviewed insurance documentation maintained by the Facilities Construction Department, Purchasing Department, and Parsons to determine if all required insurance certificates were current and on file. Two certificates for Professional Liability coverage were not maintained on file:

- June 14, 2014 until June 14, 2015
- June 14, 2016 until June 14, 2017

We corresponded with the insurance company and the DP and found that the Professional Liability coverage was current for the entire project and obtained copies of these insurance certificates.

Minimum Requirements

Insurance requirements are documented in Schedule D of the contract. One section of Schedule D states, "*Workers' Compensation and Employers' Liability Insurance shall be maintained by Design Professional during the term of this agreement for all employees engaged in the work under this agreement, in accordance with the laws of the State of Georgia. The amount of such insurance shall not be less than:*
Workers' Compensation - Georgia Statutory Requirements
Employers Liability - \$1,000,000.00 for each occurrence."

The Employers' Liability Insurance had a \$100,000 policy limit when the contract was signed in April 2014. The coverage increased to \$500,000 in April 2015 and increased again in April 2016 to the minimum requirement of \$1,000,000. The Program Director of Parsons stated, "The Umbrella Policy normally covers anything over the Employer's Liability policy limit." Umbrella Coverage was not required by the contract, but the DP had a \$6,000,000 policy included on their insurance certificates throughout the project. We emailed the insurance company to verify if the Umbrella Policy would cover claims over the Employers' Liability limit. The insurance company replied, "The Umbrella Policy does pick up over the Employers' Liability."

We also met with the Director of Risk Management for the District, who contacted the Georgia School Board Association (GSBA) Risk Management area to discuss the minimum insurance requirements documented in the contract. Based on our conversation, insurance coverage and limits should be maintained as outlined in the contract. However, it was suggested by the GSBA that if the Workers' Compensation and Employers' Liability policy limits do not meet the minimum requirements of the contract, the insurance company should document in the remarks section of the insurance certificate that the Umbrella Coverage will cover any claims over these limits.

Recommendations for Condition A

Based on our findings, we recommend the following:

Finance Division

The Purchasing Department should ensure that minimum insurance requirements are met during the RFQ process. The Finance Division should review insurance requirements to determine if Umbrella Coverage should be considered in future contracts and if the remarks or notes section should be used as suggested by the GSBA when the policy does not meet the minimum requirements.

Operations Division

Maintain all required insurance certificates on file as required by the contract and review coverage to ensure minimum insurance requirements are met.

VI. Other Matters

During the course of this audit, we determined an additional area of risk that was impacted by Brock Elementary School – ESPLOST / Final Review. While we did not include this area in our audit program and did not conduct extensive tests in this area, we believe that District management should consider further review of this area to mitigate possible risk. We have made general recommendations for this area. We have also included a sequence of selected events that occurred during the project.

Issues identified with the Assignment and Assumption of the Construction Contract from Elkins Constructors, Inc. to Elkins Construction, LLC

Applications for Payment

We found one Application for Payment that exceeded 30 days. This application was submitted correctly by the CMR on August 6, 2015 under Elkins Construction, LLC; however, it was processed under the purchase order that was in the system for Elkins Constructors, Inc. A new purchase order was not set up in the system when the contract was assigned to Elkins Construction, LLC, and this caused the check to be issued incorrectly to Elkins Constructors, Inc. The original check was voided and returned to the District. Accounts Payable issued an updated payment once the new purchase order was set up for Elkins Construction, LLC.

Board Agenda Items documented with incorrect information

August 5, 2015 – Background information in the Board Agenda Item was not updated to reflect the Assignment. It states, “On May 7, 2014, the Board approved the award of RFQ #C14-24, Construction Manager at Risk (CMR) for the new Otis J. Brock Elementary School to Elkins Construction, LLC, with an initial GMP of \$14,814,000.” The Board approved the award to Elkins Constructors, Inc. on May 7, 2014 and then approved the assignment to Elkins Construction, LLC on June 17, 2015.

May 6, 2015 – The name in the Board Agenda Item is documented as Elkins Construction. The name is not very clear to which company is being referenced. At this time, the contract was still under Elkins Constructors, Inc.

Parsons Impact® System

The CMR name was documented incorrectly as Elkins Constructors, LLC in the Impact® System. The name should have been updated to Elkins Construction, LLC.

Recommendations for Other Matters

Based on our findings, we recommend the following:

Finance and Operations Division:

Consider creating a communication plan to ensure proper steps are taken when a unique event occurs (such as the assignment of a contract from one company to another) that will impact multiple departments.

Sequence of Selected Events

- May 7, 2014 - Contract awarded to Elkins Constructors, Inc.
- July 1, 2014 - Date of purchase order for initial GMP – Elkins Constructors, Inc.
- March 19, 2015 - Date of Assignment and Assumption of the Construction Contract
- June 17, 2015 - Assignment approved by the Board from Elkins Constructors, Inc. to Elkins Construction, LLC.
- August 5, 2015 - Board approval of GMP change order for Elkins Construction, LLC
- August 6, 2015 - Elkins Construction, LLC submitted Pay App #1.
- August 7, 2015 - Parsons submitted a request for the purchase order (Elkins Constructors, Inc.) to be updated with GMP Change Order Amount
- September 3, 2015 - Elkins Construction, LLC made Parsons aware that the company received a check issued to Elkins Constructors, Inc. instead of Elkins Construction, LLC.
- September 4, 2015 - Purchase Order (Elkins Constructors, Inc.) was updated with the GMP Change Order Amount
- September 8, 2015 - Parsons submitted a request for a new purchase order to be created for Elkins Construction, LLC.
- September 22, 2015 - Date of new purchase order with correct vendor, Elkins Construction, LLC.
- September 25, 2015 - Accounts Payable processed an updated payment with a check made payable to Elkins Construction, LLC.