

SAVANNAH-CHATHAM COUNTY BOARD OF EDUCATION
Internal Audit Department



TO: Board of Education

THROUGH: Ann Levett, Ed.D., Superintendent
Larry Jackson, Chief Financial Officer
Vanessa Miller-Kaigler, Deputy Superintendent Chief Operations Officer

FROM: Marshall Withers, Senior Director, Internal Audit

DATE: February 22, 2018

SUBJECT: Report on Contract Compliance Audit of Mock Plumbing & Mechanical,
Inc. (#18-02)

We have completed our Contract Compliance Audit of Mock Plumbing & Mechanical, Inc. Our audit report is presented in the sections listed below:

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

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. AUDIT OBJECTIVES

Our audit was designed to meet specific objectives. Within those objectives, we focused on areas where we identified opportunities for improvement. The objectives of our audit were as follows:

- A. Determine that applicable District Policies and Administrative Regulations were followed during the award of all Mock Plumbing & Mechanical, Inc. contracts dated in fiscal year 2016.
- B. Determine if the District is in compliance with its responsibilities as defined in all Mock Plumbing & Mechanical, Inc. contracts dated in fiscal year 2016.
- C. Determine if the contractor is in compliance with its responsibilities as defined in all Mock Plumbing & Mechanical, Inc. contracts dated in fiscal year 2016.

II. AUDIT SCOPE

Mock Plumbing & Mechanical, Inc. was identified and selected for review during the Internal Audit's annual risk assessment of vendor expenditures. The audit was completed by reviewing contracts dated in fiscal year 2016 for Mock Plumbing & Mechanical, Inc., reviewing records maintained by various departments, and conducting interviews with District staff. The following contracts were identified and reviewed:

- Bid C16-09 (ESPLOST) Purchase and Installation of Cooling Tower at Marshpoint Elementary School
- Bid C16-33 (ESPLOST) Windsor Forest High School HVAC System Replacement Project

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 supportive learning environment that is conducive to teaching and learning.
- III. To maximize family and community engagement that contributes to the advancement of student success.
- IV. To build professional capacity in order to achieve a premier student-focused workforce.
- V. To maximize resource stewardship and fiscal responsibility by ensuring District resources are used efficiently, effectively, economically, and equitably (4E's).

III. BACKGROUND

The service contract for the Purchase and Installation of Cooling Tower at Marshpoint Elementary School was awarded to Mock Plumbing & Mechanical, Inc. and executed on June 3, 2016 in the amount of \$58,700. The cooling tower installation was completed on September 12, 2016. The project was managed by the Maintenance and Operations Department (M&O) and finalized in December 2016 with a total amount paid of \$58,700.

The construction contract for the Windsor Forest High School HVAC System Replacement Project was awarded to Mock Plumbing & Mechanical, Inc. and approved by the Board of Education on April 6, 2016 in the amount of \$2,499,000. The contract was executed on April 26, 2016. The project was managed by the Capital Projects Department and finalized in June 2017 with a total amount paid of \$2,567,151.

IV. AUDIT CONDITION

Monitoring of Contract Terms and Requirements

Payments

Purchase and Installation of Cooling Tower at Marshpoint Elementary School

The contract requires the payment to be made within 40 days after receipt of invoice and required documentation. There was only one application for payment for this project and it was received by M&O on October 13, 2016. It was then approved by the Executive Director of Operations on October 17, 2016 and submitted to Accounts Payable. The check was issued by Accounts Payable on December 9, 2017. This was 57 days after the application was received by M&O (Table 1). We met with the Accounting Technician and Interim Senior Director of Disbursements to discuss the payment delay. We did not find any information to indicate that there was an issue with the application for payment. There was an issue with the timing of the payment once the application was received by Accounts Payable.

Table 1. Payment for the Purchase and Installation of Cooling Tower at Marshpoint Elementary

| Application for Payment | Date received by M&O | Date approved by M&O | Date Paid by Accounts Payable | Number of days between the date received by M&O and date paid by Accounts Payable | Payment Amount |
|--------------------------------|---------------------------------|---------------------------------|--------------------------------------|--|-----------------------|
| 1 | 10/13/2016 | 10/17/2016 | 12/9/2016 | 57 | \$58,700.00 |

Payment Terms of Contract: 2% 10 Net 40

Windsor Forest HVAC Replacement Project

The contract requires the final payment to be made within 10 days of receipt of the application upon achievement and certification of final completion by the Design Professional (DP), the architect firm selected by the owner. The Certificate of Final Completion was completed by the DP on May 10, 2017, which was the same day the application for payment was received by the Capital Projects Department. The final

review and approval of the application was completed by the Capital Projects Department on June 16, 2017. It was then processed by Accounts Payable on June 29, 2017, which was 50 days after the application for payment was received by the Capital Projects Department (Table 2). There was a delay in the review and approval process when the application was received by the Capital Projects Department.

Table 2. Final Payment for the Windsor Forest HVAC Replacement Project

| Application for Payment | Date Certified by the DP | Date received by Capital Projects | Date of final review and approval by Capital Projects | Date Paid by Accounts Payable | Number of days between the date received by Capital Projects and date paid by Accounts Payable | Payment Amount |
|-------------------------|--------------------------|-----------------------------------|---|-------------------------------|--|----------------|
| 7 | 4/25/2017 | 5/10/2017 | 6/16/2017 | 6/29/2017 | 50 | \$128,357.53 |

Final Payment Terms of Contract: Final payment shall be due 10 days after receipt by the Owner of the application for payment upon achievement and certification of Final Completion.

The contract also includes additional requirements for the final payment. The contract states, "Payment shall be made by a check payable jointly to the contractor and surety and shall be mailed to the surety." We found that the check for final payment was only made payable to and mailed directly to Mock Plumbing & Mechanical, Inc. The final payment was not monitored to ensure it was paid within the terms of the contract.

Maintaining Documentation

Purchase and Installation of Cooling Tower at Marshpoint Elementary School

Proof of insurance and a business license must be submitted for all subcontractors listed in Attachment "A" of the contract. Two subcontractors were listed; however, the required documents were not on file. The address was also missing in Attachment "A" for both subcontractors.

Windsor Forest HVAC Replacement Project

The contract requires documents to be submitted by the contractor prior to the issuance of the Notice to Proceed and within 60 days of the effective date of the contract. A few examples are as follows:

1. Construction Management Plan
2. Contractor's Quality Control Program
3. Contractor's Schedule of Rental and Wage Rates
4. Documents Review Report

The Notice to Proceed letter, which is a written notice from the owner authorizing the contractor to begin physical work at the site, was issued by the Purchasing Department on May 11, 2016. The required documents were not on file prior to the issuance of the notice. However, we did find that certain elements of the required documents were completed and submitted to the project manager during the project. For example, a safety program is required as part of the Construction Management Plan and it was completed on May 19, 2016. Another example is the Contractor's Schedule of Wage Rates. This schedule was submitted during a change order request.

We also found that some forms were not on file or thoroughly completed by the DP and Owner.

- Certificate of Final Completion – The form was completed by the DP, but it was not on file as required by the contract.
- Final Certification of Costs – The form was submitted by the contractor and was on file, but it was not certified/signed by the DP or owner.

Contract Requirements

Purchase and Installation of Cooling Tower at Marshpoint Elementary School

We found that the payment terms of the contract included a 2% discount if the payment is made within 10 days. The contract did not include details regarding the 10 days to determine when this timeframe begins. There was no additional information to indicate how the discount should be applied and who is responsible for ensuring the discount is taken if paid within the 10 day period.

Windsor Forest HVAC Replacement Project

The contract used for the Windsor Forest HVAC Replacement Project is the same contract used for other construction projects. Some requirements of the contract may not be applicable to a mechanical contractor.

Recommendations

Finance and Operations Division:

1. Reevaluate the current monitoring process to ensure all payments are processed within the contract terms.
2. Develop a process to ensure that all required documents are completed and on file within the timeframe specified in the contract.
3. Review payment terms in future contracts and consult with the Board Attorney to determine if the terms should be updated in the contract. There is an opportunity for cost savings if additional steps are taken to ensure discounts are applied.
4. Review the contract language in future construction contracts to ensure requirements are relevant to each project. Consult with the Board Attorney to review any updates as needed.

MANAGEMENT ACTION PLAN
Contract Compliance Audit of Mock Plumbing & Mechanical, Inc. (#18-02)
Management's Response and Action Plan

| Comment or Condition Description | Recommendation | Responsible Area(s) | Action | Current Estimated Completion |
|---|---|---|--|------------------------------|
| Condition | Monitoring of Contract Terms and Requirements | | | |
| <i>To: Finance and Operations Division:</i> | | | | |
| A.1. | Reevaluate the current monitoring process to ensure all payments are processed within the contract terms. | Operations (Senior Director of Construction) | The project manager will verify and approve or disapprove the final payment request after DP payment recommendation within 10 days of submittal. The project manager will also work with the DP on any outstanding issues that need to be resolved prior to the final payment request. If an application for payment has already been submitted and there will be a delay in payment, additional details and/or documentation will be included with the application. | Completed |
| | | Disbursements | This appears to be a random error where a signature page was missed by the technician. Compliance with established procedures will continue to be emphasized at staff meetings. | Completed |
| A.2. | Develop a process to ensure that all required documents are completed and on file within the timeframe specified in the contract. | Operations (Senior Director of Construction) | The project manager will check to make sure that all project's contract documents are on file before the project's pre-construction meeting. Once the project is completed all close out documents should be provided before DP final payment. | Completed |
| A.3. | Review payment terms in future contracts and consult with the Board Attorney to determine if the terms should be updated in the contract. There is an opportunity for cost savings if additional steps are taken to ensure discounts are applied. | Purchasing and Operations | Purchasing, Operations and our Legal team will review the current terms as written and develop a timeline that will allow for the approval process and the opportunity to capitalize on discounts. | May 2018 |
| | | Disbursements | This is being reviewed within the context of the Business System Replacement (BSR) Project. | July 2019 |
| A.4. | Review the contract language in future construction contracts to ensure requirements are relevant to each project. Consult with the Board Attorney to review any updates as needed. | Operations | We will consult with our legal team to determine if modifications to construction contracts are necessary. | May 2018 |

Note: A Contract Review Checklist and a Contract Review Workflow have been developed by the Operations Division to support A.1. and A.2. and are attached.

Contract Review Checklist



Project _____ **Date** _____
Project Manager _____ **PO #** _____

CA - Contract Administrator L- Legal P- Purchasing PM - Project Manager RM - Risk Management

| | | <u>Date</u> | <u>Initial</u> | <u>Notes</u> |
|---|------|-------------|----------------|--------------|
| <u>Pre-Contract</u> | | | | |
| Procurement Request & Estimate | | | | |
| Funding Identified - Account | PM | | | |
| Funding Allocation | CA | | | |
| <u>Contract Review</u> | | | | |
| From Purchasing | P | | | |
| From Legal | L | | | |
| <u>Solicitation & Vendor Selection</u> | | | | |
| Project Advertised | P/PM | | | |
| Pre-bid Conference with Vendors | P/PM | | | |
| Bid Opening | P | | | |
| Project Awarded | P/PM | | | |
| Vendor Selected | P/PM | | | |
| <u>Vendor Verification</u> | | | | |
| Business License | P | | | |
| Insurance Certificate | P/RM | | | |
| <u>Contract Signatures</u> | | | | |
| Signed by Chief Financial Officer | | | | |
| Signed by Vendor | | | | |
| Signed by Superintendent | | | | |
| <u>Executed Contract</u> | | | | |
| Original to Purchasing | | | | |
| Original to Operations | | | | |
| Original to Vendor | | | | |
| Copy made; retained in Project file | | | | |
| <u>Pre-Construction</u> | | | | |
| Building Permits | PM | | | |
| Certificate of Insurance | PM | | | |
| Payment Bond | PM | | | |
| Performance Bond | PM | | | |
| Project Schedule | PM | | | |
| Schedule of Values | PM | | | |
| Specimen Certificate of Manufacturer | PM | | | |
| Submittal Approval | PM | | | |
| <u>Payment Requests Submitted</u> | | | | |
| _____ | PM | | | |
| _____ | PM | | | |
| _____ | PM | | | |
| _____ | PM | | | |
| Payment to Bond Company | PM | | | |
| Final Retainage to Contractor | PM | | | |
| <u>Close Out Documentation</u> | | | | |
| Contractor Affidavit under O.C.G.A. 13-10-9(b)(1) | PM | | | |
| Final Certification of Costs | PM | | | |
| Five Year Bond on Roofs and Walls | PM | | | |
| Material Completion Checklist | PM | | | |
| Non-Influence Affidavit - Construction | PM | | | |
| Statutory Affidavit | PM | | | |



SCCPSS-Operations

3 Months Contract Review Workflow

Originating Department

Department Head develops specifications for purchase/project and submits to Purchasing to begin the procurement process.



10 Days

Purchasing Department

Works with the Department Head to outline

- specifications and general conditions
- insurance requirements
- board requirements
- prepares the packet to forward to Board Attorney



Legal Department

Board Attorney corrects/reviews packet for accuracy. Return to Purchasing to begin advertising process



5 Days

Purchasing Department

Review contract, forward to Originating Department for final review



5 Days

Originating Department

Final review, return to Purchasing Department to begin procurement process (if corrections noted, Purchasing may return to Legal. Cycle back to Legal & Purchasing, then back)



10 Days

Purchasing Department

Upon receiving the authorization from Legal, Purchasing begins the advertising process. The length of time depends on the estimated cost of the project as described in Policy DJE

- Advertise project
- Pre-bid conference with vendors
- 2 weeks – 30 days bid period
- Bid Opening
 - In budget? Award bid.
 - Out of budget? Re-advertise or adjust. Award bid.
- Contract prepared for signatures

45 Days



SCCPSS-Operations

Contract

Obtain original copy of Contract and all attachments and exhibits

- Specifications and general conditions
- Certificate of Insurance
- Board Requirements

Send contract to Originating Department for final review and signatures

5 Days



Originating Department

Review Contract

Completes originating department's Checklist

Director places his/her initials beside the signature line (denoting to CFO his/her approval)

Set up project in LEAFS to assign a Purchase Order number

Forwards Contract and completed checklist to Finance



5 Days

Finance Department

Chief Financial Officer reviews

Signs Contract

Sends Contract and Checklist back to original department

5 Days



Originating Department

Obtains signature(s) from Contractor(s)

Obtains Superintendent/Board signatures (if required)

Retains a copy of fully executed Contract

Forward fully executed original Contract to Purchasing

5 Days