

SUBJECT: Audit of Capital Construction and Projects Department

TO: Caddo Parish School Board  
Superintendent of Caddo Parish Schools

SUBMITTED BY: Jeff Howard, Chief Auditor

AUDITED BY: Allison May, Internal Auditor

DATE: August 7, 2015

---

### **AUTHORITY FOR THE AUDIT**

This audit was conducted under the authority granted by policy DID of the Caddo Parish School Board.

### **BACKGROUND**

The Capital Construction and Projects Department employs a director, four project managers, two secretaries and a bookkeeper. They are responsible for planning, bidding and monitoring capital construction and special projects approved by the Board and requested by the administration. Renovation, repair and improvement projects are funded by a 10 year 5.56 mills property tax and a 10 year 6.86 mills property tax. The District maintains a threshold for capitalization of building improvements of \$100,000. The capital projects budget for the 2014/15 fiscal year was approximately \$20 million, and the District had an \$11.8 million capital project fund balance as of 4/27/15.

### **SCOPE OF THE AUDIT**

The objective of our review was to determine if the department is operating in accordance with Board policy, state law and in an efficient and effective manner. Our review included the 2014/15 projects.

### **OPINION**

The Capital Construction and Projects Department should improve compliance with public bid law and Board policy. The findings and recommendations outlined in the attached report should improve compliance with state law and Board policy and management of the department.

The assistance provided by the department was greatly appreciated. Their cooperation was an asset to this process. Management's responses are included at the end of the report.

**Caddo Parish School Board  
Capital Construction and Projects Department Audit  
Findings and Recommendations**

**Special Projects (1)**

Board policy FEF states “bids and quotations will be awarded consistent with the provisions of the Louisiana Public Bid Laws, which allows entities to use contractors of choice for projects under \$100,000.” The policy has not been updated to include the formal required bid amount of \$150,000.

At the time of our audit, the Department had 138 special projects for 2014/15. These projects are not typically approved by the Board. We reviewed twenty of these projects to determine if the Department was managing them consistent with the provision of the state bid law as required by Board policy. The following was noted:

- There was no documentation in the file indicating who requested or approved the project or why it was needed.
- Only five projects had any design cost allocated to the project.
- Only two projects had quotes in the files.
- There were no contracts in the files.
- There was no proof of insurance in the files.
- There were no performance bonds in the files.

**Recommendation (1):** Board policy FEF should be updated to address the approval process for projects under \$150,000 and those not included in the annual capital project list. The policy should provide guidelines on when quotes must be received and the documentation that is required. It should also provide guidelines on when contracts, proof of insurance and performance bonds are required.

The District should be listed as a named insured with a waiver of subrogation for the specific project with all required limits. Such documents and language are necessary to reduce the District’s liability in the event of a claim.

**Response:** La. Public Bid Law does not apply until projects exceed \$150,000. All CPSB policies are in the process of being reviewed by an outside contractor. Bids and Quotations are awarded consistent with La. Public Bid Law.

Special Projects are requested by Board Members and supported by Administration, requested by Administration, requested by the Maintenance Department, Emergency Repairs, Compliance issues and Health & Safety issues. I am unaware of any requirement documenting who authorized projects.

The overwhelming majority of special projects are small and do not need formally designed plans and specifications to complete the project. It is not advantageous to the School System to add 10-20 percent additional cost to the project for design that is not needed.

Most special projects are very small and completed in a very short period of time, generally before a contract can get through the approval process. Projects over the state defined contract limit do have a contract with projects.

Generally special projects are started and completed in a time frame where paperwork can lag behind the actual project. We do keep certificates of insurance in a general file for the typical contractors that we perform special projects with.

Special projects fall below the state defined limit for bidding. Public bid law requires that all projects that are bid are bonded. Previous Caddo Parish School Boards have instructed me to support the "Opportunity Caddo" program by utilizing the small and economically disadvantaged contractors, many of which cannot obtain a bond.

This department does require that all formally designed and bid projects do comply with the La. Public Bid Law. Special projects are unanticipated and need to be completed while children are not at school. This is to prevent a distraction from the learning environment and prevent safety issues. If all projects which fall below the "contract limit" are held to the same criteria as projects that are required to be formally designed, advertised, bid and awarded, the ability of this department to complete unanticipated but needed projects in an expeditious manner, will be greatly reduced or eliminated.

## **Special Projects (2)**

While reviewing special projects, we noted six of the projects were for office renovations at central office. The same contractor was used for all projects. At the time of our review, approximately \$337,700 was paid to this contractor. This contractor was on the Opportunity Caddo list.

While reviewing the special projects, we noted 17 special projects for Lakeshore. Therefore, we ran an account analysis on this location and noted the following:

- The District spent \$2,043,000 renovating this location when it was repurposed for a middle school.
- After reviewing the Board minutes, we could not find where the administration presented any capital project cost associated with changing this location from an elementary school to a middle school.
- The paving project that cost approximately \$379,000 was the only project approved by the Board.
- Eight of these projects were related to the locker room, and the total cost associated with renovating the locker room was approximately \$755,000.

We reviewed the project file for 12 of the 17 Lakeshore projects and only found quotes for one project. There were no contracts, proof of insurance or performance bonds on file. Design costs were only applied to nine of the seventeen projects.

The administration reported to the Board in a memo dated July 29, 2014 that the cost for the Attendance Department to move to Central Elementary would fall below \$143,000; however, nine projects at a cost of approximately \$550,000 were created to renovate the school.

The value assigned to individual projects is what Accounting uses to determine if a project should be capitalized. Therefore, multiple individual projects like those completed at Lakeshore Middle, Central Elementary and Central Office renovations would not be capitalized by Accounting because some of them fall under the \$100,000, the amount used to capitalize a project.

Board policy DJED and state bid laws prohibit the division or separation of any public work project into smaller projects when division and separation would have the effect of avoiding the requirement of public work advertisement. However, in the case of extreme emergencies, the Board or Superintendent's designee may declare a public emergency and extend a contract without going out for bid. Notice of the emergency should be published in the Board's official journal within ten days of the emergency being declared by the Board or designee.

**Recommendation (2):** The Director must be involved in all discussion when the administration is considering repurposing buildings to ensure the cost to renovate the buildings is considered and projects are properly budgeted, planned, bid and categorized by Accounting correctly. If possible, projects should be grouped together even if it results in bids being required.

**Response:** The Administration determined the Central Office renovations were needed. The renovations were office suites and not individual offices. These renovations supported the changes in personnel which took place last year.

### **Bids and Board Approved Projects**

The Board approved approximately \$20 million in capital projects for the 2014/15 fiscal year in February, 2014. The District maintains a fund balance of approximately \$11.8 million as of 4/27/15. As of March 12, 2015, the District has exceeded the budgeted amount by \$1.5 million. This is net of the \$1.6 million anticipated from the BTW fire claim.

The Board approved projects for 2014/15 included \$550,000 for maintenance: \$200,000 was designated for painting, \$150,000 for Byrd elevator maintenance and \$200,000 for general maintenance. In reviewing other expenditures from capital projects, we noted that \$113,812 was disbursed from the fund for textbooks and instructional equipment. The propositions approved by the voters say the funds should be used for "renovation, repair and improvement."

We reviewed thirteen Board approved projects to determine if the projects were properly bid and if required documents were on file. We also compared the substantial completion date to the contract terms to determine if liquidated damages were obtained if the project was not completed

in accordance with the contract terms and change orders. Liquidated damages are funds the District can deduct from the final payment if the project is not substantially completed as agreed upon in the contract or change orders. According to the dates on the substantial completion forms and change orders, liquidated damages were due on the following projects but not claimed by the District:

- Lakeshore Paving project's substantial completion date on the certificate was 12/5, but the commencement date on the warranty was 8/25. A change order was approved to extend the substantial completion date to 8/14. The District was entitled to \$1,000 a day in liquidated damages. The project manager said it was completed in August, and the date on the substantial completion form was incorrect. This was the reason damages were not claimed.
- 81<sup>st</sup> Street restroom project's substantial completion date on the certificate was 8/26, but the punch card submitted was dated 8/6. According to the contract, the project should have been completed by 8/4. The District was entitled to \$200 a day in liquidated damages. The Director stated they were not claimed because the restrooms were usable when school started.

The following items were also noted:

- The required "Opportunity Caddo" forms were not submitted by the contractors who were awarded the bids. The Opportunity Caddo vendor list is no longer on the website for contractors to reference.
- The insurance certificates for 13 of the contractors did not have CPSB named as an additional insured, nor did they include a waiver of subrogation.
- The Board approved \$200,000 for parish-wide painting. At the time of the audit, \$638,700 had been spent to paint the Transformation Schools. There was no documentation in this project file.
- The Board approved \$400,000 for parish-wide t-building relocation, but over \$700,000 has been spent.

**Recommendation (3):** Capital project funds should not be used for the purchase of instructional materials. The Board should consider adopting a policy that governs the approval of capital projects to ensure capital outlays support the vision of the Board. The policy should differentiate between capital projects and maintenance projects. To ensure proper planning of capital projects, the policy should require Board approved projects to be presented to the Board in November of the preceding year.

Liquidated damages should be claimed on all projects unless there is sufficient documentation (properly approved change order) to support the delay in completing the project in accordance with the contract. The Opportunity Caddo vendor list should be updated, maintained and made available to the vendors on the website. The administration should ensure the required Opportunity Caddo forms are completed and the insurance certificates meet the requirements as recommended by the Risk Manager.

**Response:** The distribution of funds for textbooks and other instructional equipment has been in place prior to the year 2000. I do not know why text books and instructional

equipment are funded by the Capital Project funds. The annual disbursement is performed by CPSB Finance Department.

Opportunity Caddo Forms are not submitted to the Capital Projects (CP) Department. CP will work with Purchasing to devise a method to alert them when an Opportunity Caddo form should be forthcoming.

The administration determined that painting of schools in the Transformation Zone was required to enhance the learning environment of the schools. The painting of the Transformation schools was funded with the \$200,000 approved by the Board and supplemented with contingency funds in the Capital Project Fund.

The administration determined that additional t-buildings would have to be utilized to support unanticipated change in student population. Additional t-buildings were funded utilizing the Capital Projects Contingency.

**CFO Response:** Various departments have Capital Project allotments. These should be used for equipment purchases only. Past administration most likely granted a broader allowance for the use of these funds. Finance will begin monitoring this to ensure that these funds are used more appropriately.

### **Project Cost Analysis**

Each project is assigned a project number. Purchase orders are created to encumber the estimated or approved cost for the project and to ensure the payments are properly approved within the SunGard system. The project managers' review invoices prior to them being submitted to Accounting for payment, but do not review the cost actually charged to the project. At the end of the year, the bookkeeper reviews the project list and compares this to the payments encumbered or paid.

The SunGard system has a Capital Project Transaction Details Report (CPTDR). This report can be generated for each project and reviewed for complete and accurate posting of payments to the project. This report is not being utilized by the project managers to manage the cost of projects or to ensure the accuracy of their recording.

We reviewed a list of purchase requisitions processed for Capital Projects. As of March 9, 2015 there were over 200, valued at \$5.6 million that were created after the invoice had been presented. Purchase orders should not be generated after the invoice date. This is an inefficient use of time and resources and provides a weakness in the internal control structure. Purchase orders are necessary to ensure funds are properly encumbered and approved. We noted the following Board approved projects had been created and the work completed, but no funds have been encumbered:

- Renovations to the Payroll Department were completed during the Christmas break; however, a purchase order was not processed to encumber the funds.

- The Oil City restroom project was approved by the Board at a cost \$150,000. Some designer fees have been paid. After further review, we noted the restroom was in a t-building, and \$28,300 in contractor costs were charged to the relocation of t-buildings project instead of the Oil City restroom project.
- The Midway Pre-K bathroom project was approved by the Board at a cost of \$150,000. Some designer fees had been paid. After further review, we noted \$44,500 in contractor costs were charged to a special project number for Midway handicapped restroom instead of the Midway Pre-K bathroom project.
- Judson flooring project was approved by the Board at a cost of \$100,000. No charges had been applied to this project.

**Recommendation (4):** Once a contract has been awarded or a quote has been accepted, a requisition should be created to ensure proper approval and encumbrance of funds. Project managers should be given access to generate the CPTDR. They should review this report at the end of the project to ensure all costs have been properly recorded. Any errors should be brought to the attention of the bookkeeper for correction.

Since the majority of the projects are completed by the end of the summer, the bookkeeper should review payments and encumbrances for these projects in January. She should notify the Director of any projects that do not have any payments or encumbrances.

**Response:** The SunGard system has experienced numerous problems since being brought on-line in being able to provide the services that SunGard stated they would be able to provide. I spoke with the then Director of Finance and we agreed that it would be best to get the basic services fully functional before we added any additional level of complexity to the SunGard System. I am not aware if all of the issues with the current system have been resolved by SunGard. If all issues have been resolved by SunGard, we will start utilizing the Capital Projects Transaction Details Report (CPTDR).

A mistake was made on listing the name of the Midway Pre-K Bathroom project as Midway Handicapped Restroom. Four unisex restrooms were created at Midway for use by Pre-K and Kindergarten classes. I apologize for the mistake in the name but the project was completed with a savings of \$105,500.00.

The Judson flooring project was postponed. The principal requested an office renovation in lieu of the approved flooring project. An office renovation is not in the scope of a flooring project. The project will be presented to the Board to determine if they wish to do a flooring project or an office renovation.

### **Advertisement**

Louisiana State Bid Laws require public works to be published in a newspaper in the locality, but Caddo's Board policy FEF states "to ensure that all contractors have adequate notice of requests for bid, all formal bids will be advertised in a major minority newspaper as well as the official journal approved by the Board." This policy adds additional costs. The District only pays \$235

to advertise in the *Shreveport Times* but pays \$635 to advertise in the *Sun*. During the current fiscal year, the District has paid \$11,632 to the *Sun* for capital project advertisements.

**Recommendation (5):** The Board should consider amending the policy to only require advertising in the official journal approved by the Board.

**Response:** We agree with this recommendation.

### **Miscellaneous**

The Capital Projects bookkeeper is physically located in the Accounting Department, which is in a different location than Capital Projects. There is a vacant office in the Capital Projects area.

**Recommendation (6):** To improve the efficiency and communication of the employees within the department, the bookkeeper should be physically moved to their location.

**Response:** The bookkeeper was recently moved to the CP office.