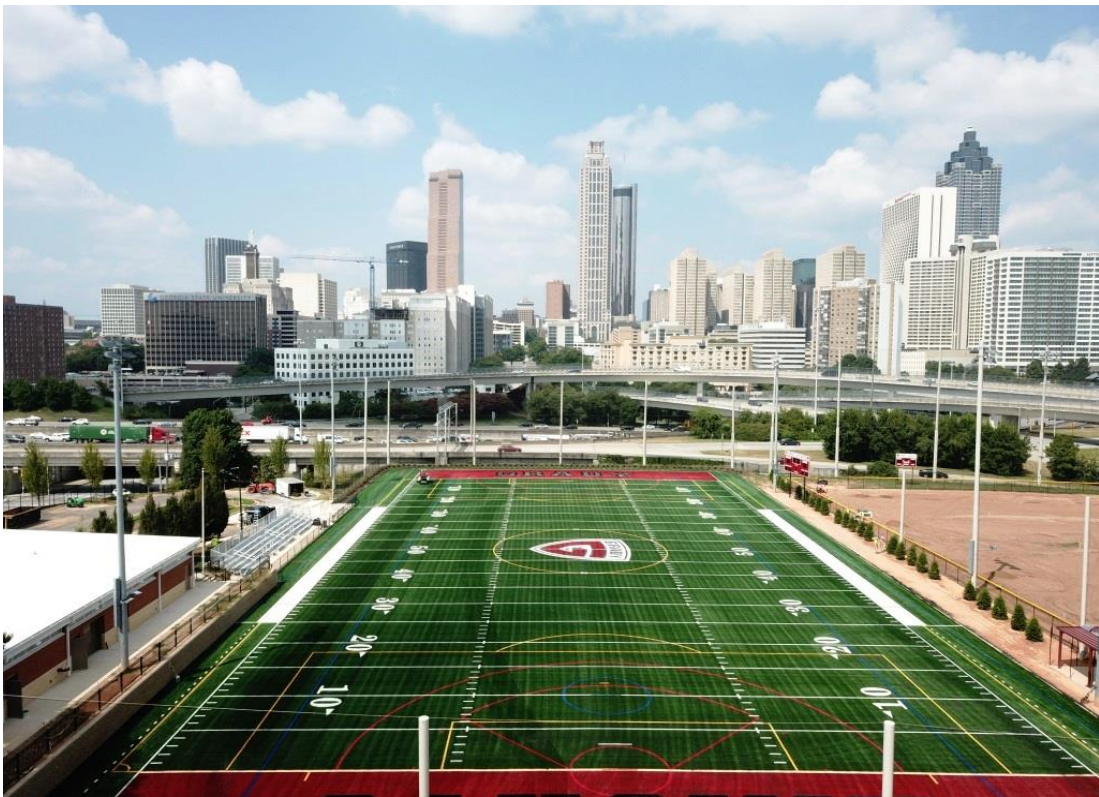




## **Construction Projects Risk and Control Assessment (FY19-13)**

Atlanta Public Schools (APS) Internal Compliance and  
RGP Governance, Risk & Compliance (GRC) Team

July 31, 2019



*Walden Athletic Complex – Atlanta, Georgia*

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## **Background**

Resources Global Professional (RGP) was engaged by the Internal Compliance Department of Atlanta Public Schools (APS) to assess the current state risk and controls of the Construction Project Lifecycle. RGP performed the assessment between March 3, 2019 and April 26, 2019. The Facilities Services management team is responsible for all construction and maintenance activity within the Atlanta Public Schools.

## **Assessment Objective, Scope and Approach**

Key activities of the assessment included:

- Assessing the Construction Lifecycle including the following Sub-Processes:
  - Planning Process
  - Competitive bidding practices
  - Change Order Processing
  - Capital approvals/expenditures
  - Payment applications
  - Project scheduling
  - Project Close Out Process
  - Monitoring/Reporting
- Identifying risks and controls in the processes
- Testing a select group of internal controls
- Reporting results of testing and observations for improvement

Financial auditing of any specific project was deemed out of scope.

The sample selected covered the new construction activity that is budgeted under the current Special Purpose Local Option Sales Tax (SPLOST). The current SPLOST cycle includes receipts collected from July 1, 2017 through June 30, 2022. RGP believes that the results of the meetings held and evidence obtained provides a reasonable basis for the findings and observations based on the assessment objectives.

## **Executive Summary**

RGP observed that, overall; the Construction Project Life Cycle was managed using industry best practices. A majority of the project managers are third party contractors who have long tenures working with the APS team and demonstrate significant knowledge and experience. Additionally, due to the size and complexity of the construction projects, the technical and school construction knowledge within the team is very high. The team's experience and expertise is considered as a valuable source of guidance as they frequently consult with other school districts around the state.

## **Areas Operating Effectively**

RGP observed several areas that were operating effectively.

- Purchase Requisitions – Purchase requisition procedures and approvals followed the current APS Procurement Policy
- Payment Application – The payment application information was traced back to the contract and the appropriate requisition, to ensure it was properly authorized. A recalculation of the amounts submitted was completed, verified and agreed to the final payment request.

## **Opportunities for Improvement**

Based on RGP's evaluation of the design and operating effectiveness of the existing controls, four (4) opportunities for improvement within the Facilities Services Construction Lifecycle and one (1) opportunity for the managing of excess cash balances, was observed.

## **Observations, Recommendations and Management's Responses**

### **1.) Overstatement of Guaranteed Maximum Price (GMP) Calculation and Construction Manager Fees**

#### **Observation**

The APS Project Managers Procedures Manual (PM Manual) calls for a cap of 8% for General Condition's costs and 4% for the Construction Manager's Fee. RGP recalculated GMP fees on a sample of two new construction projects. RGP noted errors in the amounts due for General Conditions (GC) fees and Construction Management Fees and the corresponding contingency amount on one of the projects.

The GC amount is applied to the total of specific costs from the awarded subcontractor contracts. From the GMP summary provided in the audited contract documents, the GC fees were inaccurately priced based on the total GMP amount, and not the subcontractor costs called for in the pricing formula. The audit revealed that the recalculated GC fees tested were higher at 9.12%. The difference in costs amounted to eighty-six thousand (\$86K) dollars. Compounding the GC calculation error, the construction manager's fee was therefore overstated by seventeen thousand (\$17k) dollars, for a total overstatement of one hundred three thousand (\$103K) dollars.

## **Risk**

Without specific checks and balances, there is a risk of errors and inaccuracies in the calculation of GMP, thereby overstating or understating GMP. This risk could be significant based on the specific calculations for GMP.

## **Recommendations**

Based on current controls and under the current Summary of Internal Project Management Responsibilities, it is the APS project manager's responsibility to finalize the contract specifications and to negotiate the final GMP. A formal financial review and certification of the amounts submitted by the APS Project Manager needs to be included in the process. This added control step would also validate that the GMP is consistent with the formula called for in the current PM Manual.

## **Management's Response**

As part of the review of the current Construction Project Management Procedures Manual suggested in item 3, below, the review of the finalized GMP will be further reviewed and checked by the SPLOST Accounting Supervisor and the Director of Administration and Management. Facilities Services reviewed multiple recent construction projects and it should be noted that this was found on only one project. This has been discussed with the specific project manager.

The miscalculation was discussed with the Construction Manager and was traced to the estimating software used to calculate the Guaranteed Maximum Price. We reviewed three (3) other projects with the same Construction Manager and found no duplication of this miscalculation. The Construction Manager will be refunding the miscalculated General Conditions and Fees to APS.

Implementation Date:

See implementation Date for Observation #3 APS Construction Project Management Procedures Manual, page 8.

Person Responsible for Implementation:

Director of Capital Improvement and Director of Administration and Management.

## **2.) Subcontractor Bid Awards Documentation**

### **Observation**

APS policies and procedures indicate, “If the apparent low bidder is not awarded the subcontract, Construction Manager must provide in writing, a detailed explanation to the project manager, prior to executing any such subcontract.” Based on the sample of contract documents presented for testing, RGP noted missing explanations where a subcontractor awarded a contract was not the lowest bidder.

Further, the construction manager is required to provide a request letter stating the reasons for self-performed work. Based on current policies, the APS project manager is required to approve such work by a written approval prior to performing such services. There were no documents included in the final contract file indicating that a request had been submitted, and approval was granted.

Additionally, all bids are compiled from the bid submittal sheets, including the cost for the self-performed work by the construction manager. The audit identified an unreconciled difference after comparing the recalculated amounts to the final GMP. The documentation provided did not fully explain the unreconciled amount.

### **Risk**

Due to missing documentation for subcontracts bid awards, a higher risk exists of awarding a bid that is not the lowest, qualifying bid. Further, justification of the award may not be substantiated and evidenced in the event that the award is challenged. The lack of supporting documentation can also lead to unreconciled differences in the GMP calculations.

### **Recommendation**

As a compensating control, the APS procurement team should perform a secondary review to ensure justification for the awards are substantiated within the current PM Manual and APS Procurement Procedures.

### **Management’s Response**

As part of the review of the current Construction Project Management Procedures Manual suggested in item 3, below, the review of the GMP bid tabulations will be further reviewed and checked by the SPLOST accounting supervisor and the Facilities Services Procurement and Contracts Services Administrator. Facilities Services reviewed multiple recent construction projects and it should be noted that this was found on only one project. This has been discussed with the specific project manager.

The Bid tabulations provided by the Construction Manager included reasons for the selection of what appears not to be the lowest bid. In all cases, the Construction Manager, while performing scope compliance reviews with each bidder, found discrepancies with the bid submissions which, when corrected, resulted in a different apparent low bidder. The low bidder, after scope review, was taken in each case.

A further review of the documentation revealed that there were no unreconciled differences between the bid submittal sheets and the calculated amount of the final GMP. The auditor needed more information than was submitted during the auditors review.

The self-performed work in this project was identified under Division 6, Carpentry. A subsequent review of the Construction Manager's GMP tabulation of the costs in that Division showed a catch-all use for this division to include barricades, temporary access control, project signage, surveying, and other work not typically identified to General Conditions. It was an unorthodox use of Division 6. This will be monitored going forward.

Implementation Date:

See implementation Date for Observation #3 APS Construction Project Management Procedures Manual, page 8.

Person Responsible for Implementation:

Director of Capital Improvements and the Director of Administration and Management.

### **3.) APS Construction Project Management Procedures Manual**

#### **Observation**

The current manual was issued on July 1, 2011. Since that time, changes to personnel and operations have occurred. A review of the audit documentation identified the need to update the manual. For example, it was also noted that the standard construction management contract in the manual is not the same as the latest standard contract. It was also noted that chapters 30 and 31 cover the standard architect and construction management contracts, but the actual documents were not included with the on-line PDF of the manual.

#### **Risk**

Failure to update the Construction Project Management Procedures Manual on a regular basis can result in the manual missing important changes to the process, any new requirements or changes in the applicable laws covering the projects. Operational continuity is also a significant risk since any new project managers may be unfamiliar with current APS project management process, which could have the potential for following an outdated procedure or regulation.

### **Recommendation**

APS should update and revise the manual based on current practices and needs with version controls. The manual also need to have a section that documents that the manual has been reviewed and updated as needed, with the reviewer's sign-off on the current version. The updated manual should be distributed to the appropriate staff, along with an acknowledgement of any changes and their overall awareness of the current manual and the procedures covered.

### **Management's Response**

The Construction Project Management Procedures Manual will be reviewed and updated, as needed. The Construction Project Management team will review the manual on a monthly basis until the entire manual has been updated.

Implementation Date:

Monthly review meetings, until complete. To be completed by July 1, 2020.

Person Responsible for Implementation:

Director of Capital Improvements

### **4.) Payment Applications**

#### **Observation**

A sample of payment applications on new construction projects was selected and tested. The payment application was traced back to the contract and the appropriate requisition, to ensure it was properly authorized. A recalculation of the amounts submitted was completed, verified, and agreed to the final payment request. However, it was noted that some of the supporting documents submitted from the construction manager were not complete and referenced prior percentages used in the calculations.

#### **Risk**

As the procedures and approvals followed existing payment request procedures, no risks were detected in the process.



### **Recommendation**

The testing of the documents indicated there was no variance to the current policy. However, the review process should be enhanced to verify that all supporting schedules tie to documents that are being submitted as part of the payment application process.

### **Management Response**

Project Managers and the SPLOST Accounting Supervisor will be reminded of their responsibilities to verify the documentation presented with the applications for payment.

Implementation Date:

Immediately

Person Responsible for Implementation:

Executive Director, Facilities Services

## **5.) Investment Earnings Policy**

### **Observation**

As part of testing monitoring and reporting control, the review of the cash balance listed in the Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) revealed that as of June 30, 2018, there was one hundred and one million (\$101m) in cash held and available for SPLOST projects. The breakdown of the cash balances was as follows: approximately twenty-five million (\$25m) in the non-interest bearing SPLOT Revenue bank account, sixty-eight million (\$68m) was in the investment account held with the State of Georgia, and about eight million (\$8m) in a lower interest-bearing checking account for the Woodson Academy project.

Bank balances held in the investment account held with the State of Georgia produced the highest rate of return. At June 30, 2018, the yield on the Georgia Fund 1 was 1.86% while the rate on the interest-bearing checking account was 0.2%. Since the end of last fiscal year, yields on the Georgia Fund 1 had increased to 2.44% by the end of March 2019, while the interest-bearing checking account has remained at 0.2%. Holding cash balances in accounts with the highest rate of return at June 30, 2018 would have yielded approximately six hundred thousand (\$600K) in additional investment earnings.

### **Risk**

Earnings on invested funds are not optimized.

### **Recommendation**

The APS finance department should institute operational cash monitoring procedures to fully utilize cash balances. Proper reconciliation and management of cash in the appropriate accounts should be part of regular business practices to ensure these balances are invested to gain the highest rates of return allowable.

### **Management's Response**

All cash accounts are reconciled monthly. At this time, the District has chosen to invest funds only in GA Fund 1, thus limiting our rates of return to those available from that organization. In the future, Finance will also work with PFM, our financial advisors, on other options that will allow the district to maximize earnings. As stated above, the balance in the non-interest bearing SPLOST account was approximately \$25 million. As of June 29<sup>th</sup>, 2018, this balance consisted of approximately \$9 million in outstanding checks and \$8.3 million in funds that were just transferred to the account on the last working day of the month – leaving approximately \$7.7 million that could have been invested at a higher rate. In order to maximize future earnings, Management will investigate providing our banking-partner with access to the GA Fund 1 account – so that should funds need to be transferred to cover payments, the bank will have the authority to transfer funds on the District's behalf – thus maximizing amounts invested in GA Fund 1. Whether or not this option is exercised, Finance staff will review balances weekly to determine when excess funds can be transferred to GA Fund 1.

The Woodson Park SPLOST account was created to accumulate funds for the named project. At the time of creation, it was not clear how soon those funds would be needed for the project. Management will investigate the feasibility of creating a new GA Fund 1 account for Woodson Park SPLOST.

Implementation Date:

July 1, 2019

Person Responsible for Implementation:

Executive Director, Accounting Services

Respectfully Submitted

*Nader Sohrab*

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