



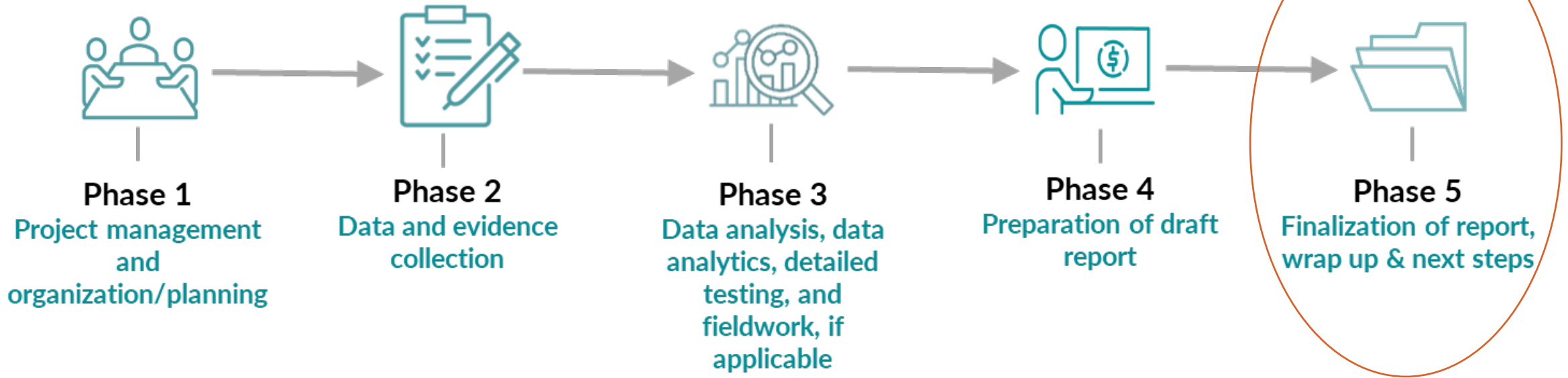
DeKalb County School District

*E-SPLOST IV and E-SPLOST V Audit
September 9, 2024*



Our Commitment to You

Five Phase Workplan





Agenda

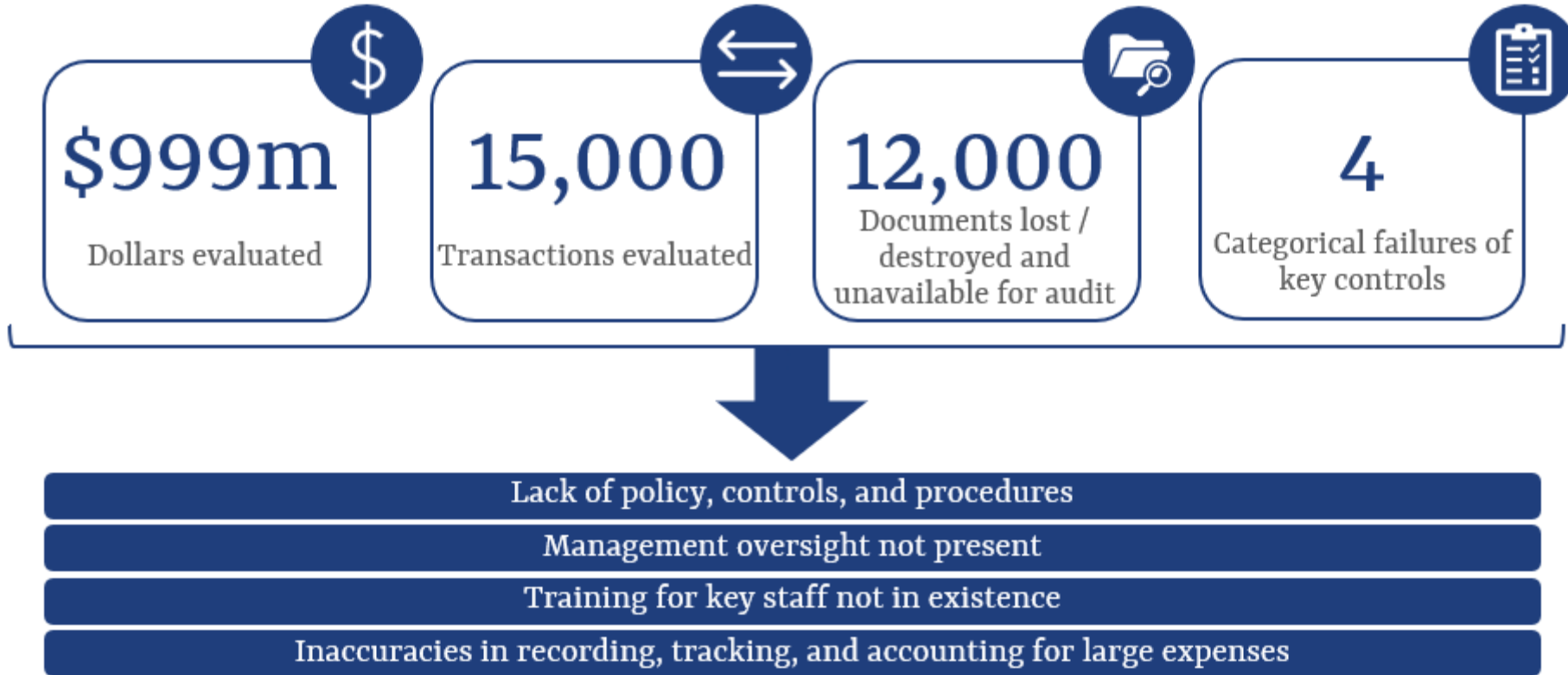
- I. Executive Summary and Engagement Background
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 - 1. Policies and Procedures Manual
 - 2. Project Spend Tracking
 - 3. Contract Execution and Monitoring
 - 4. Lost/Destroyed Records
 - 5. Vendor Selection
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Executive Summary and Engagement Background



Executive Summary





Engagement Background

Scope

E-SPLOST Program	Scope Period	Count of Transactions	Total Expenses (\$)
E-SPLOST IV	7/1/2012-4/25-2023	8,800	\$605M
E-SPLOST V	7/1/2017-8/15/2023	6,800	\$393M
Total		15,600	\$999M

Procedures

- 1) Project Accounting Analysis – comprehensive analysis of all transactions (where documentation was available) and review of procurement/project tracking/accounting processes
- 2) Project Management Analysis – analysis of contract terms, construction best practices, etc.
- 3) Forensic Analysis – analytical tests to identify risky transactions, background research, and email review



Project Accounting Analysis



#1 – Policies and Procedures

Finding: Lack of Enforceable Policy

Policies and Procedures Manuals (“PPM”) were not developed to align with District processes or communicated to District staff, as a result they were not adhered to by District staff.

Recommendation:

Engage a third party to develop a policy and tracking mechanism for future E-SPLOST programs that considers input from District personnel while considering any legal or regulatory requirements. Communicate, train, enforce, and monitor compliance with policy.

DCSD Response:

- Plan to leverage existing documentation (ACERM PPM, Kahua Workflows) and district personnel to expedite SOP development.
- Engage a third-party consultant for additional review and input.
- Implement regular review and updates for the SOPs.
- Ensure ongoing communication and training for SOPs adherence and updates.



#2 – Project Spend Tracking

Finding: Lack of Complete Project Spend Tracking

The District did not maintain a complete and accurate ledger of E-SPLOST-related transactions consisting of project, expense details, vendor, date, and amount.

Recommendation:

Reconcile detailed subledgers to the general ledger on a monthly basis, all variances should be investigated and resolved within 30 days.

DCSD Response:

- Conversion to Munis initiated in 2018, completed in 2024.
- Post-conversion, all financial details are consolidated within the Munis system.
- Monthly reconciliation of capital project subsidiary ledger with general ledger to be established.
- Management to implement training and support for financial record-keeping personnel.



#3 – Contract Execution/Monitoring

Finding: Improper Contract Execution and Monitoring

The District's contractual and financial processes for implementing capital improvements from procurement and planning through construction and close-out can be significantly improved. This includes procurement documentation, establishing and tracking the budget-to-actual costs from the planning phase through construction (including contingencies), and close-out activities.

Recommendation:

Review and update procurement processes to align with current market trends and conditions. The District should conduct a comprehensive overview of its procurement of Construction Management services in alignment with its contract documents and incorporate industry "best practice" processes.

DCSD Response:

- DCSD to hire a third-party consultant for construction management improvements.
- Consultant will collaborate with the Office of Legal Affairs to enhance Standard Operating Procedures.
- Aim is to align with top industry standards for managing project expenditures.
- Focus will be on minimizing overall project costs and maximizing budget savings.
- Collaboration will optimize the use of Munis' contract management module for fiscal efficiency.



#4 – Lost/Destroyed Records

Finding: Lack of Retention Requirements

Over 12,000 records (~25% of expected documentation) were either lost or destroyed. District staff were not aware of records retention requirements.

Recommendation:

Develop and execute training over records retention policies. Stand-up an oversight function and monitoring program to ensure compliance with records retention policies.

DCSD Response:

- Division of Information and Instructional Technology (DIIT) creating a District-wide Records Retention Policy.
- Policy complying with the Georgia Records Retention schedule.
- DIIT leads the digitization of all paper records within the retention period.



#5 – Vendor Selection

Finding: Lack of Vendor Score Compliance

223 out of 328 (68%) vendor score sheets were not in compliance regarding selection committee composition.

Recommendation:

Implement a monitoring program to prevent and detect deviations from policy regarding selection committee composition. A combination of preventive procedures and an oversight function should be in place to review composition prior to award and detect deviation via routine internal audits.

DCSD Response:

- DCSD to hire a third-party consultant for developing a monitoring program.
- Program to ensure selection committees align with policy and best practices.
- Internal Audits & Compliance to review vendor evaluations for policy adherence.



#6 – Purchase Approval

Finding: Lack of all Purchase Approvals

3,677 transactions (23%) did not have a purchase order or transmittal form that contained all approvals as required by policy. Often, purchase orders were approved after an invoice was sent by the vendor.

Recommendation:

Implement a management oversight program to review compliance with purchase order requirements. Enforce the policy that purchases are not to be made without a fully approved purchase order in Munis.

DCSD Response:

- DCSD's previous ERM system, CrossPointe, lacked the ability to create/manage "blanket" POs.
- E-SPLOST program has ceased "after the fact" POs since Munis supports "blanket" POs for entire project costs.
- Munis' workflow records necessary approvals and employs a 3-way match for the final approval of purchase payments, aligning with best practices.



#7 – Accounting Errors

Finding: Accounting Errors

Accounting errors including duplicate invoices, incorrect payment amounts to vendors, and incorrect general ledger coding were noted throughout E-SPLOST IV and V.

Recommendation:

Develop and execute a training program to ensure team members have the tools and resources needed to effectively track long-term projects and reduce error frequency.

DCSD Response:

- E-SPLOST program has ceased "after the fact" POs since Munis supports "blanket" POs for entire project costs.
- Utilization of Munis' approval workflow and reporting features
- Establishment of new Standard Operating Procedures aimed at rectifying remaining deficiencies.
- Enhancement of construction management's expense tracking and reporting capabilities within the E-SPLOST program.



#8 – Internal Controls

Finding: Inadequate Internal Controls

Of the 18 key controls identified during our review of the Policies and Procedures Manuals (“PPM”), we noted District procedures were not designed effectively for 7 controls to effectively provide oversight and management of E-SPLOST funds.

Recommendation:

Employ a suite of preventive and detective controls that aid in reducing the risk of misstatement or fraud. These controls can leverage the capabilities of the ERP system, with manual controls layered in as an extra line of defense.

DCSD Response:

- DCSD to utilize Munis for workflow and document verification enhancement.
- DCSD to hire a third-party consultant to establish a framework of robust internal controls in the E-SPLOST program.
- Initiation of an Enterprise Risk Management (ERM) framework by Internal Audits & Compliance.
- Implementation of preventive and detective controls through ERM to mitigate risks of material misstatement or fraud.



#9 – Change Orders

Finding: Possible Manipulation of the Bidding Process

Identified opportunities for contractors to exploit the procurement process. There were 30 instances of change orders over \$100,000 when the base contract value was less than \$1M. The total value of the base contracts was \$8M. After the change orders were applied, the total contract value including change orders was \$111.5M.

Recommendation:

Maintain an owner contingency within the overall budget and ensure strong controls exist, including implementing oversight procedures during the procurement process.

DCSD Response:

- District uses "Exhibit M" for submitting and approving partial Guaranteed Maximum Price (GMP) proposals.
- Auditors' observed Change Orders are actually "Exhibit M" components within the total construction contract.
- DCSD to hire a third-party consultant to align construction management with industry standards.
- Initiative in place to revise contract structures and approval processes to benefit DCSD.
- Office of Legal Affairs and DCSD Finance will maximize the use of Munis' contract management module.



#10 – Project Spending

Finding: Project Spending

Several completed construction projects had total expenditures that surpassed the budgeted amount approved by the Board. Due to incomplete retainage of approved change orders and a lack of a comprehensive record of all contracts and change orders, we could not confirm the expenditures that exceeded the budgeted amounts were approved by the Board.

Recommendation:

Maintain a detailed accounting ledger by project, with the supporting documentation behind it, in an organized fashion. This provides the opportunity to not only re-trace the project from inception to completion but also allow trends or anomalies to be detected and acted upon.

DCSD Response:

- DCSD Management utilizes Munis' contract management system.
- Detailed accounting ledger maintained by project with supporting documentation.
- Enables thorough expense reconciliation.
- Ensures accurate monthly reporting of project status and expenses.



#11 – Final Inspection Documents

Finding: Improper Maintenance of Final Inspection Documents

The final inspection documents for E-SPLOST IV and E-SPLOST V construction projects were not maintained to provide them in a timely manner for audit purposes.

Recommendation:

Establish a close-out checklist, with a final review of the checklist and supporting documentation performed by those charged with the management of the capital program.

DCSD Response:

- DCSD Management to utilize Munis for document retention.
- Integration of Records Digitization project with retention efforts.
- Establishment of District-wide document retention schedule and policy.
- Ensures availability of all key documents for future audits, assessments, or reviews.
- Focus on maintaining Final Inspection Documentation for financial and legal purposes.



Project Management Analysis



#1 - General Conditions Bridging Documents

Finding #1: Lack of Bridging Documents

Under normal industry standards, the document, “General Conditions of Construction,” governs the processes associated with administering the construction. It acts as a “Bridging” document between AE and CM/GC contracts to ensure the separate obligations of the AE and CM align for smooth administration of work. This document is not in place.

Recommendation:

For future capital projects, include “General Conditions of Construction” documents that will govern the processes associated with administering the construction.



#2 - Contract Forms

Finding #2: Lack of Specificity of Project Documents

Lump Sum contracts show that the scope of work was articulated by a general reference to the Drawings and Project Manual and addendum. It is best to be specific with the project documents, such as including the dates published, control version and/or having the AE provide their index of drawings and specifications (with dates of final issuance) for incorporation. This can avoid disputes over which documents formed the basis of the contract.

Recommendation:

For future capital projects, include more specificity of the project documents by including the dates published, control version and/or having the AE provide their index of drawings and specifications (with dates of final issuance) for incorporation.



#3 - Payment Applications

Findings #3A: Lack of Certification, #3B: Lack of Sworn Statements, & #3C Lack of Lien Waivers

- Observed multiple instances where the architect of record did not certify the Application for Payment. The architect's certification is a critical control as an independent representation of the architect's belief that the work has progressed to the point of the requested payment and is in general conformance with the contract requirements.
- Did not observe any sworn statements included in payment applications. While not contractually obligated, inclusion of sworn statements are a best practice as it requires the CM/GC to attest that only the contractors listed are providing labor and materials and that the breakdown of costs is accurate.
- Sworn statements allow the Owner to monitor the flow of costs among the CM/GC and subcontractors, secure appropriate waivers, and identify all potential claimants, secure appropriate waivers. An industry standard AIA G907-2022 could be used.
- Not all payment applications included lien waivers/releases. Without a supporting sworn statement, it is impossible to determine if all waivers and releases were provided.

Recommendations:

- Prior to processing payment applications, confirm that the architect of record certified the Application for Payment and the work has progressed to the point of the requested payment and is in general conformance with the contract requirements.
- Require that all payment applications include sworn statements to allow the ability to monitor the flow of costs among the CM/GC and subcontractors and secure appropriate waivers.
- Require that all payment applications include lien waivers to allow the Owner to identify all potential claimants and potential associated costs.



#4 - Bonding and Default Insurance

Findings #4A: Double Bonding and #4B: Subcontractor Default Insurance (SDI)

- Bonding of the prime CM/GC is required by GA law for public contracts. CMs on a cost-plus contract often require their subcontractors to also provide a bond protecting the CM against a subcontractor's default at the Owner's cost.
- There is no meaningful benefit to the Owner provided by double bonding because the CM is already responsible for the subcontractor's performance. Observed instances of double bonding being listed in the Schedule of Values, but no bond information was provided to substantiate the procurement of a bond.
- Some CMs attempt to secure a subcontractor default insurance (SDI) policy or provide self-insurance, instead of a subcontractor bond.
- As with a subcontractor bond, SDI is a protection measure for the CM provided at the Owner's cost with no meaningful benefit being provided to the Owner. Observed instances of CM's seeking payment for SDI policies without backup demonstrating any policy was procured.

Recommendations:

- As part of the procurement process for CM services, indicate that double bonding will not be allowed to be included as part of the cost-plus contracts.
- As part of the procurement process for CM services, indicate that subcontractor default insurance will not be allowed to be included as part of the cost-plus contracts.



#5 - Cost Plus Contracts

Findings #5A: Contingency Governance and #5B: Owner Contingency

- It is best practice to have contractual terms governing the use of the contingency (e.g. specifying a procedure for the use, the allowable uses, and a drawdown schedule for the return of unused contingency to the Owner over the duration of the Project). Did not observe adequate contingency controls within the cost-plus contracts relative to the original budget to actual costs, cause of the contingency, reallocation of unused contingency, etc.
- It is best practice to maintain an Owner Contingency within an overall project budget, observed instances where the Owner Contingency was held within the CM GMP. This is not a preferred practice given;
 1. The lack of contingency controls
 2. The CM is entitled to charge a fee on it.
 3. If outside the CM contract, Owner contingency can be used for other contracts and costs at the owner's discretion

Recommendations:

- Review current governance documents, policies, and procedures relative to overall program contingency (owner as well as construction). Ensure that the proper review/approval from the Owner is conducted and reporting of contingencies are reported on a consistent and regular basis.
- As part of the procurement process for CM services, indicate that Owner contingency will not be allowed to be included as part of the cost-plus contracts and will be held separately by DCSD.



#5 - Cost Plus Contracts Cont.

Findings #5C: CM Lump Sum General Conditions and #5D CM Buyout Savings

- As is common with many industry standard cost-plus contracts, the CM's permissible general condition/staffing costs are proscriptively defined.
- Observed that the payment applications show that the CM's general condition costs were set as a fixed fee and no backup for the CM's own costs were provided.
- In the Cross Key Elementary project, it was observed that there was a line item in the G702 listed as "CM Buy Savings" for \$106,527.30. This should be discussed further to determine what this line item is and how the savings are allocated. Recommend obtaining a copy of the authorizing change order this line item.

Recommendations:

- As part of the procurement process for CM services, indicate that the CM will be required to provide back-up and supporting documents to be included as part of the invoice process for the cost-plus contracts.
- As part of the procurement process for CM services, indicate that potential "buy savings" realized during the project will be reviewed and the reallocation of the buy savings will be mutually agreed upon accordingly. Supporting documents will need to be included as part of the invoice process for the cost-plus contracts.



#6 - General Cost Considerations

Finding #6A: Independent Testing and Inspections

On cost-plus contracts, observed independent testing and inspection services being listed within the CM's cost of the work.

Independent testing services provide a critical verification function independent of the CM. By rolling their services under the CM, their independence is impaired, and the CM is entitled to charge their fee on the cost of those services.

Recommendation:

As part of the procurement process for CM services, indicate that independent testing and inspections will be that of the Owner-directed scopes and costs.



#6 - General Cost Considerations Cont.

Finding #6B: Pandemic Cost Absorption

It is noteworthy that several of these projects occurred throughout the COVID pandemic. The pandemic saw unprecedented market escalation in construction as well as supply and labor disruptions.

DCSD should consider looking more closely to see how the projects absorbed these marked conditions (i.e. were the contracts budgets overinflated to absorb the market conditions, was scope reduced (reduced building area, less expensive infrastructure, etc.), or were change orders provided).

Recommendation:

Review pre-pandemic scope of work for projects and determine how the potential budgets absorbed the marker conditions of cost escalation.



#6 - General Cost Considerations Cont.

Finding #6C: GMP and Changer Orders

To more fully understand the project, we would like to see copies of GMP amendments for cost-plus contracts.

This is a critical document as it not only establishes the project cost limit, it also establishes the project's scope of work and time. Additionally, DCSD would like to see copies of all Change Orders.

Recommendation:

Obtain copies of the Change Orders associated with each project to determine the original budget, cost to date including project cost limit, and project's scope of work and time.



#6 - General Cost Considerations Cont.

Finding #6D: CM Fees and Costs

As a basis of comparison for CM Fees and Costs, the following are two cost-plus contracts compared to what PMR typically observes as common cost ranges;

	PMR	Cross Keys ES	McNair MS
1. Pre-Construction	0.50%-0.75%	0.07%	0.10%
2. CM Fee	2.0%-3.0%	2.76%	4.53%
3. CM Staffing	5.50%-9.50%	5.21%	8.60%
4. Insurance	1.10%-1.90%	1.61%	0.86%

Recommendation:

Review additional CM cost-plus agreements associated with each project to determine alignment with industry standards, original budget, and project's scope of work and time.



#6 - General Cost Considerations Cont.

Finding #6E: Certificate of Substantial Completion

Certificates of Substantial Completion are a critical document that should be issued by the AE certifying the project is ready for its intended use by the Owner.

This document typically signals the shift in control and responsibility for the work triggering the Owner's responsibility for utilities, insurance, etc. Substantial Completion is typically the commencement of warranties of capital assets (i.e. roof, windows, door, mechanical, electrical, plumbing, etc.)

Recommendation:

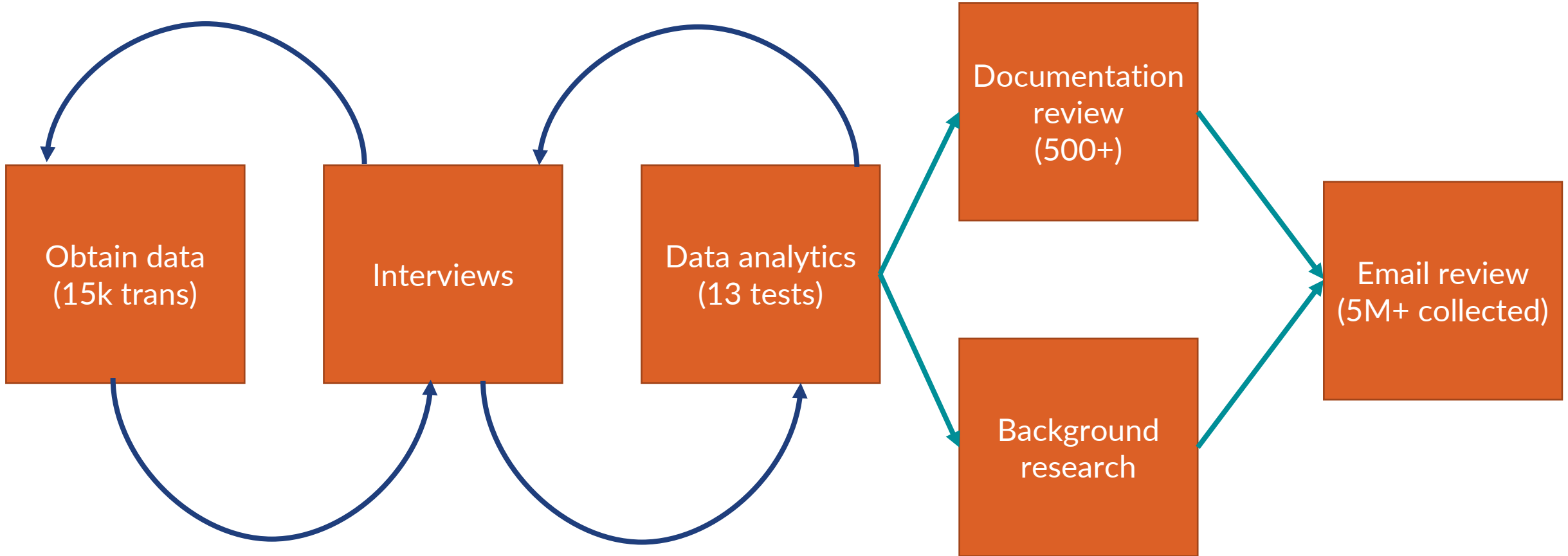
Obtain copies of the Certificate of Substantial Completion for each project identifying the "start date" as well as associated close-out documents for each project (i.e. as-builts, warranties, etc.)



Additional Risk-Based (Forensic) Procedures



The Forensic Process





Previously

23 Flagged Vendors

A flagged vendor or transaction **DID NOT** mean it was problematic.

Flagged vendors and transactions were vendors identified through our analytics to warrant further research, including a review of invoices, background research, and email review...but again, did not mean it was problematic.

The transaction activity and/or context involved some characteristics which problematic transaction often share.

I.e., it is **Risk-Based Testing Approach**

Example Red Flags:

- Lack of web presence
- Sequential invoice numbers
- Residential address
- Being the only vendor to bid on certain projects
- Unusual invoice numbers, such as low number and/or duplicates
- Invoices lack specific details



Conclusion

Findings:

16 of 23 vendors: **No evidence of fraud, waste, or abuse was identified.**

Information and/or evidence existed to substantiate that the transactions were reasonable, thoroughly reviewed by Dekalb, and/or mitigated/explained the reasoning for the transactional red-flags.

The other seven (7) vendors: **Unable to make a determination due to limited information.**

We did not find evidence to conclude that problematic activity occurred. However, we also did not identify evidence to substantiate the red-flag anomalies as we did for the other 16 vendors. This is primarily **due to the District not maintaining evidence**, nor having institutional knowledge of the transactions due to the length of time having passed since these transactions occurred, as previously explained in issues:

- #4 – Lost/Destroyed records
- #6 – Purchase approval
- #8 – Lack of internal controls

Recommendation:

More timely audits and/or transactional reviews are needed to ensure evidence and/or institutional knowledge exists to support the transactions. The District should caution not penalize the seven (7) vendors for its own lack of record keeping and/or staff turnover.



Q & A