

August 30, 2022

Audit Committee and
School Board of Manatee County
215 Manatee Ave. W.
Bradenton, FL 34205

RE: Construction Operations PAR Audit

Pursuant to the approved 2022/2023 internal audit plan, we hereby submit our Post Audit Review of the 2021 Construction Operations Audit. We will be presenting this report to the Audit Committee at the next scheduled meeting on September 7, 2022.

Our report is organized in the following sections:

DSC-1	Policies and Procedures
DSC-2	Pay Applications
DSC-3	Unforeseen Conditions
Best Practice	Pay Application Checklist
Best Practice	Payroll Support
Best Practice	Key Performance Indicators

We would like to thank all those involved in assisting the Internal Auditors in connection with the Post Audit Review.

Respectfully Submitted,

Carr, Riggs, & Ingram, LLC
Internal Auditors

Finding and Recommended Action <i>DSC-1 Policies and Procedures</i>	District Action Plan Steps	Audit Follow –Up Testing	Status
<p>Management should evaluate the processes documented in the Procedure Manual and implement any procedures that have been or are in the process of being finalized. Management should also consider enhancing procedures based on recommendations in this audit. Due to the turnover in the Department and changes in processes, such as procurement and implementation of Smartsheet, updated procedures would serve as valuable reference materials for new employees as well as ongoing guidance for existing employees.</p>	<p>The Director of Construction Services and the Chief Operations Officer are committed to bringing the Department of Construction Services Procedures Manual up to date to reflect the current Construction Management Agreement, the current Architect/Engineer Agreement, and any newly established procedures to insure appropriate project controls. Areas to be assessed include, but are not limited to, the protocols for the use of Share Point to archive critical project documents, appropriately revising the General Negotiations and Labor Burden Worksheets to reflect the most recent Construction Manager Agreement, Pay Application review procedures that enhance the accuracy in the assessment of field conditions and use of resources, and the establishment of enhanced internal controls through Smartsheet applications.</p>	<p>Obtained and reviewed the Department of Construction Services Procedures Manual to ensure areas noted in the Action Plan were updated accordingly. This included review of sections as it relates to audit recommendations in the areas of the procurement processes and implementation of Smartsheet for project management. The Department of Construction Services Procedures Manual is now memorialized in a single document, and contains Department information, procedures, forms, worksheets, checklists, and other documents to guide employees.</p> <p>Obtained the updated A/E and CM Agreements and noted that procedures in the Procedures Manual for the areas updated reflects the language in the current Construction Management Architect/Engineer Agreements.</p> <p>No exceptions noted.</p>	<p>Closed.</p>

Finding and Recommended Action	District Action Plan Steps	Audit Follow –Up Testing	Status
<p><i>DSC -2 Pay Applications</i></p> <p>For any project not completed that is being billed as a lump sum, as well as those projects closed under the right to audit clause, the District should request support for any previous lump sum charges.</p> <p>The District’s updated CM Contract does have additional language for reimbursable expenses, which include auto allowances. Any items that will be billed as a lump sum going forward should be clearly stated in future contracts.</p>	<p>The Director of Construction Services and the Chief Operations Officer will review the procedure associated with Pay Application review. In addition to enhancing the review process of the Project Director, the role of the Design Professional will also be assessed to ensure they are providing a thorough review in compliance with the revised Architect/Engineer (A/E) Agreement. The presentation of General Condition costs and requirements for itemized statements will be assessed to ensure the format is consistent across projects and Construction Managers. Initial steps have already been taken in the revised Construction Manager (CM) Agreement to be utilized on upcoming 2021-22 projects which clarifies the General Condition content and format in the Guaranteed Maximum Price Amendment and subsequent Pay Applications.</p>	<p>Obtained and reviewed the Department of Construction Services Procedures Manual for update to Pay Application review as it relates to General Condition and General Requirement Costs. Also reviewed the created Pay Application Checklist which instructs the reviewer to review the Pay Application for sufficient support for General Condition Costs. Obtained a recent Pay Application for a project and verified that the Pay Application Checklist was completed and General Condition costs supported.</p> <p>Obtained the updated A/E and CM Agreements and noted that procedures in the Procedures Manual reflects the language for Pay Application requirements in the agreements. The updated contracts have been executed for construction projects that are currently in their initial phases and will allow for the application of the new procedures.</p> <p>No exceptions noted.</p>	<p>Closed.</p>

Finding and Recommended Action <i>DSC-3 Unforeseen Conditions</i>	District Action Plan Steps	Audit Follow –Up Testing	Status
<p>The Department should consider creating a cumulative log to track Unforeseen Conditions. In addition to ensuring that use is tracked on the Continuation Sheet, this would provide an overview of the funds as they are spent throughout the project with descriptions for each use. A reviewer could then go into a Budget Transfer Form if additional information is needed. Reference to tracking of Unforeseen Conditions, in both a Continuation Sheet and possible log, should be documented in the Budget Transfer Procedures.</p> <p>The Department should consider adding additional guidance and necessary documentation of support for Unforeseen Conditions. This would provide scenarios that are appropriate for the use of Unforeseen Conditions as well as to memorialize the reason that the situation qualified for the use of Unforeseen Condition Funds.</p>	<p>The Director of Construction Services and the Chief Operations Officer will evaluate the process associated with the expenditures of the Unforeseen Conditions Fund. The process if accurate executed should be supported by the creation of a Request for Information (RFI) from the Construction Manager (CM), response with direction (Architect's Supplemental Instruction of like Construction Document modification) by the Design Professional, estimating by the CM, and approval for expenditure by the Project Director. This will need to be tracked through multiple logs and eventually show an adjustment on the Pay Application Continuation Sheet. This process needs to be studied closely and appear in the Construction Management Agreement, Architect/Engineers Agreement, and the Department of Construction Services Procedures Manual including the use of the Budget Transfer Form if deemed appropriate.</p>	<p>Obtained and reviewed the Department of Construction Services Procedures Manual for update for procedures and guidance as it related to Unforeseen Conditions. Also reviewed the created Pay Application Checklist which instructs the reviewer to review the Unforeseen Conditions as part of the Pay Application procedure.</p> <p>Obtained a recent Pay Application for a project and verified that the Pay Application Checklist was completed and Unforeseen Conditions were documented through the Unforeseen Conditions Log. Obtained the most recent Unforeseen Conditions usage for the project and reviewed that the usage was documented, supported, and properly approved.</p> <p>Obtained the updated A/E and CM Agreements and noted that procedures in the Procedures Manual reflects the language for Unforeseen Conditions.</p> <p>No exceptions noted.</p>	<p>Closed.</p>

Finding and Recommended Action	District Action Plan Steps	Audit Follow –Up Testing	Status
Best Practice – Pay Application Checklist			
Through discussion with Management, as a best practice, the Construction Services Department would benefit from implementing a checklist for Pay Application Reviews. This would memorialize the review performed based on the Construction Manager Contract Pay Procedure. Any additional enhancements to the Procedures should be captured on the checklist. The checklist should provide for the ability to document the employee that performed the various steps and ability to add notes and references. The checklist should also capture and document if there are any discrepancies in the Pay Application and how the discrepancies were resolved.	The Director of Construction Services and Project Directors will work to develop a detailed checklist for Pay Applications which allows for the accurate tracking of General Conditions expenditures, confirms the accuracy of Change Order processing, accurately tracks the expenditures of the Unforeseen Conditions Fund, and tracking of errors when identified to correction.	Reviewed the updated Department of Construction Services Procedures Manual which contains guidance on completions of the Checklist as well as the sample checklist. Checklist contains elements as noted in the CM contract and those noted in the recommendation and summary of action. Reviewed a sample of a completed Pay Application Checklist at DSC-2 without exception. No exception noted.	Closed.

Finding and Recommended Action	District Action Plan Steps	Audit Follow –Up Testing	Status
<i>Best Practice – Pay Application Payroll Support</i>			
<p>All Pay Applications reviewed during our testing contained an itemized breakdown of hours worked for each of the employees that were included in the billing. There were some pay applications that also contained system payroll records to support the itemized hours. As a best practice, additional documentation, such as system payroll records, should be obtained for all Pay Applications to support labor costs submitted in Pay Applications. It should be noted that the updated CM Contract contains additional language in regards to labor costs which includes the District’s right to audit the CMs Payroll.</p>	<p>The Director of Construction Services and the Chief Operations Officer will determine the potential for a process to review the Construction Manager’s system payroll records as part of the monthly Pay Application certification. Similarity of format across Construction Managers and the level of intelligible detail provided will be assessed. Note that this assessment will include a review of staff resources and expertise required to undertake this field accounting review against the Project Directors primary function of overseeing construction to ensure that a building structure meets all established life safety criteria.</p>	<p>Obtained and reviewed the Department of Construction Services Procedures Manual for update for procedures and guidance as it related to payroll records. Also reviewed the created Pay Application Checklist which includes review of General Condition Costs and payroll records.</p> <p>Obtained the updated A/E and CM Agreements and noted that procedures in the Procedures Manual reflects the language for payroll records. The updated CM Contract contains additional language in regards to labor costs which includes the District’s right to audit the CMs Payroll.</p> <p>Based on discussion with Management, the request for system records are necessary when work performed is in question or for other required reasons. The review of the Pay Application would note if the records were needed on the Pay Application Checklist</p> <p>Additionally, the District will engage an external CPA firm to perform Close Out Audits of projects starting with the Witt Elementary School Project, which will include review of payroll records. Management noted that any project over \$4 million will have a Close Out Audit.</p> <p>No exceptions noted.</p>	<p>Closed.</p>

Finding and Recommended Action	District Action Plan Steps	Audit Follow –Up Testing	Status
<p>Best Practice – Key Performance Indicators</p> <p>As Management has already identified the need of KPIs, a best practice recommendation will be for Management to continue the pursuit of developing KPIs. KPIs would allow for reporting to the Board on key construction measurements (cost of projects, volume of activity performed) and could help identify the need for additional staff based on volume and project sizes. Below are some examples of KPIs that the department could establish.</p> <ul style="list-style-type: none"> • Cost of new construction per sq. ft. • Cost of new construction per student station • Cost of renovation per sq. ft. • Number of building permits issued by the department • Number of inspections completed by the department • Inspection pass rates • Number of staff compared to total \$ managed 	<p>The Director of Construction Services and the Chief Operations Officer will evaluate Key Performance Indicators (KPI's) which assess Project and Facility Related issues both during construction and post construction. Possible KPI's to be developed may include:</p> <p>Construction Cost (SF/Student Stations) District's Position Statewide/Bay Area</p> <p>Performance of Construction Managers</p> <ul style="list-style-type: none"> • Inspection Pass Rate, Safety, Schedule Adherence, Change Orders, Percentage of Local Sub-Contractors, Accuracy of Budgeting from Stage 1 through GMP <p>Building Performance</p> <ul style="list-style-type: none"> • Utility Cost/SF, Maintenance Cost/SF, Warranty Call Backs, Customer Satisfaction <p>SDMC Construction Department Staffing</p> <ul style="list-style-type: none"> • Project Workload, Staff Satisfaction, Turnover Rate <p><i>Note that 2021-22 and 2022-23 will be baseline years since much of this data has not been previously collected.</i></p>	<p>Operations Strategic Plan Draft, which includes construction goals and metrics, outlines the KPIs and other areas that will be evaluated during construction and post construction. Currently the Plan is in Draft status and will be presented for review and approved by the Board. The Department will be using the 2022/2023 School Year to establish a baseline for measuring KPIs.</p> <p>Therefore this Best Practice is partially closed as KPIs have not been fully established and tracked. We will follow up once this process has been fully implemented.</p>	<p>Partially Closed.</p>