

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

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MICHAEL J. BURKE, SUPERINTENDENT

MEMORANDUM

TO: Honorable Chair and Members of the School Board
Michael J. Burke, Superintendent of Schools
Chair and Members of the Audit Committee

CC: Shawntoyia Bernard, Esq., General Counsel

FROM: Teresa Michael, Inspector General

DATE: November 18, 2022

SUBJECT: Contract Review (Report # 23-R-1): Program Management Support Services –
Project Reconciliations

OBJECTIVE

Pursuant to the *Office of Inspector General's (OIG) 2021-2022 Work Plan*, we reviewed the project closeout reconciliation process related to the Program Management Support Services contract awarded to AECOM Technical Services, Inc. The primary objective of this review was to determine the extent of compliance with the project reconciliation payment provisions outlined in the contract including:

- (1) Whether the required reconciliations were performed to determine the final amounts due the Program Manager; and
- (2) Whether the reconciliations and related payment adjustments were appropriately based on actual costs and calculated correctly.

SCOPE AND METHODOLOGY

This review was performed in accordance with the *Principles and Standards for Offices of Inspector General, Quality Standards for Inspections, Evaluations, and Reviews*, as promulgated by the Association of Inspectors General.

The scope of our review covered Projects managed by AECOM from June 22, 2017, through January 31, 2022, and included interviewing staff and reviewing:

- Relevant statutes, rules and policies including:
 - *Florida Statute 255.103 (2) Construction management or program management entities*
 - *School Board Policy 6.14 - Purchasing Department*
 - *AECOM Project Fees Reconciliation and Financial Closeout procedures*
 - *AECOM's Program Manager Procedures Manual*
- *The Contract Between the School Board of Palm Beach County, Florida And AECOM Technical Services, Inc. For Program Management Support Services, RFP# 17C-020W*
- Contractor final payment applications and supporting documentation
- *OIG Contract Review (Report #21-R-2) – Program Management Support Services*

We identified 127 purchase orders in PeopleSoft totaling \$16,251,315.90 assigned to the Program Manager (AECOM) to schedule, monitor and manage capital improvement projects. Each purchase order represents a District Facility Condition Assessment (FCA) project. For our testing, we identified all projects managed by AECOM since contract inception (June 22, 2017) and judgmentally selected a sample of four projects to review. (See Table 1.)

Table 1: Sampled Projects

Project No.	Project Description	Purchase Order No.
19817100	Bear Lakes MS - Facility Renewal	9201800022
19317100	Lighthouse ES - Facility Renewal	9201800027
20517100	New Horizons ES - Facility Renewal	9201800028
16617390	Verde ES – Modernization – Main Campus	9201800008
16617390H	Verde ES – Modernization – Holding School	9202000127

Draft findings were sent to the Facilities Management Department, as well as AECOM, for review and comments, and their management responses are attached. We appreciate the courtesy and cooperation extended to us by District staff during this review. The final Memorandum was presented to the Audit Committee at its November 18, 2022, meeting.

BACKGROUND

The School District contracted with AECOM Technical Services, Inc. to serve as the Program Manager to act on behalf of the School Board for the delivery of the District’s Capital Improvement Program. The original term of the contract with AECOM was from June 22, 2017, through June 21, 2022, with an option to renew for additional one (1) year periods, up to a total of five (5) additional years. The contract was amended on March 2, 2022, and renewed for one additional year (thru June 21, 2023). The amendment allows AECOM to provide the District additional

project-specific support staffing to supplement the administrative team’s design and construction efforts.

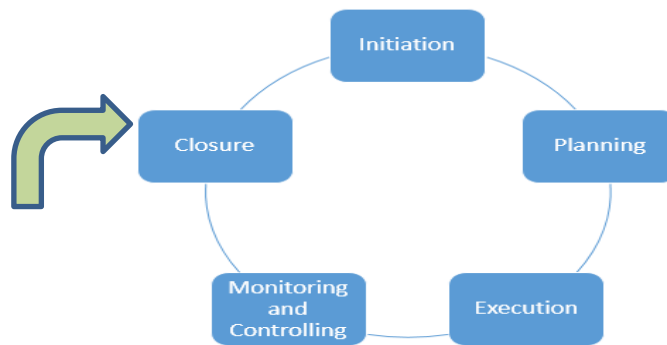
Diagram 1 demonstrates an overview of the relationship between the Owner (School District), Program Manager (AECOM), architects/engineers, and construction managers (CM). The Program Manager works on behalf of the School District to schedule, monitor, and manage projects.

Diagram 1: Program Manager Relationships



Diagram 2 provides an overview of the Program Manager’s activities, from project initiation to closure. The closure phase includes preparing project reconciliations and final project accounting and closeout reports.

Diagram 2: Program Management Activities Overview



Cost of Services and Payments

The contract stipulates the Program Manager is to receive a total of 2.2% (.022) of actual expenditures for design/planning and construction activities (.5% (.005) for design/planning services, and 1.7% (.017) for construction services). An estimate of these fees is established at the beginning of the project based on the estimated project budget, and are paid in equal monthly installments based on the duration of the project and as noted on the Notice to Proceed. At the conclusion of the project, the contract requires a project reconciliation be conducted to true-up the fees and adjust them as necessary so that they are ultimately based on the actual final cost of the project, rather than the originally estimated budget.

CONCLUSION

1. Project Reconciliations Have Not Been Performed as Required by the Contract

Schedule 4.2 – Project Reconciliation of the contract states, in part,

“At the conclusion of each project and upon the SCHOOL BOARD’s issuing a Notice of Financial Closeout to the Program Manager, School Board shall conduct a project reconciliation to determine whether the School Board is required to make adjustments to the Design/Planning Phase and/or Construction Phase payments under the Contract Documents. Any project reconciliation payments due to the Program Manager or the School Board shall be paid on the 25th day of the month after the School Board issues its Notice of Financial Closeout to Program Manager.” [Emphasis added.] (See Exhibit 1.)

However, District staff did not issue any *Notices of Financial Closeout* to the Program Manager as required by the contract. Although several construction projects had been concluded, project reconciliations were not conducted to determine whether any Design/Planning Phase or Construction Phase payments to the Program Manager needed to be adjusted.

After our inquiries, Facilities Management staff began performing the required project reconciliations for concluded projects. As of June 30, 2022, District staff’s reconciliations showed a total of \$287,260 due to the School District from the Program Manager for 26 concluded projects. Three of the four sampled projects evaluated in this review account for \$150,370 (or 52%) of the total estimated amount due. (See Table 2.)

Table 2: Estimated Amounts Due to the District for 26 Concluded Projects (as of 6/30/22)

Project No.	Project Description	Purchase Order No.	Estimated Amount Earned by Program Manager	Total Amount Invoiced by Program Manager	Estimated Amount Due District
19817100	Bear Lakes MS - Facility Renewal	9201800022	\$182,110	\$272,551	\$90,441
19317100	Lighthouse ES - Facility Renewal	9201800027	Pending Reconciliation	Pending Reconciliation	Pending Reconciliation
20517100	New Horizons ES - Facility Renewal	9201800028	\$120,871	\$147,896	\$27,025
16617390	Verde ES - Modernization	9201800008 9202000127	\$976,282	\$1,009,186	\$32,904
Estimated amount due to the District for three of the four sampled projects					\$150,370
Estimated amount due to the District for 23 other concluded projects					<u>\$136,890</u>
Total estimated amount due to the District for 26 concluded projects					<u>\$287,260</u>

Reconciliations Not Completed/ Not Timely

As of June 30, 2022, 12 (or 46%) of the 26 projects were concluded (final payments were made) more than a year ago, but the required financial reconciliations were not completed. As a result of not reconciling Program Manager fees at the time of project conclusion, any monies due (to either the District or the Program Manager) are not being determined, requested, nor paid timely as required by the contract. Conducting project reconciliations timely helps ensure both compliance with the contract and prompt payment of amounts due.

No Written Project Reconciliation Procedures at the Commencement of our Review

At the commencement of our review, there were no written procedures that provided guidance to staff as to when or how to perform the contractually required project reconciliations. During our review and after our inquiries, we were provided with newly drafted project fee reconciliation procedures dated March 31, 2022. The procedures were created to guide District staff through the reconciliation process and financial closeout of each project managed by the Program Manager. (See Exhibit 2.)

Newly Drafted Procedures Inconsistent with Contract Language

Our review of the newly drafted *AECOM Project Fees Reconciliation and Financial Closeout* procedures (Exhibit 2) revealed inconsistencies with the contract language. More specifically, the contract states (1) the District is to issue a *Notice of Financial Closeout* to the Program Manager, and (2) the District is to conduct the project reconciliation. On the other hand, the written procedures (1) do not require that a *Notice of Financial Closeout* be issued to the Program Manager, and (2) establish a “task force team” that includes Program Manager staff, to conduct the District’s project reconciliation.

Also, the written procedures require invoicing to stop, stating, “*when the AECOM invoice amount for the Construction PO Fee gets around 80%, invoice stops, waiting for the final fee cost reconciliation for each corresponding project.*” However, stopping invoicing does not appear to be consistent with the contract.

Standard operating procedures should align with contractual requirements.

Recommendations:

1. As stipulated in the contract, under **Section 4.2 Project Reconciliation**, we recommend Facilities Management issue a *Notice of Financial Closeout* to the Program Manager at the conclusion of each project; and, upon issuance of the Notice of Financial Closeout, independently conduct a timely project reconciliation to determine whether the Design/Planning Phase and/or Construction Phase payments need to be adjusted. Any monies due should be paid by the 25th day of the month after management issues its *Notice of Financial Closeout* to Program Manager.

If staff does not intend to adhere to the **Project Reconciliation** provision outlined in the contract, or if the parties desire to implement an alternative process, the contract should be amended accordingly, as outlined in Section 12.1 of the contract.

2. We recommend staff expeditiously complete the reconciliations for all completed projects, and ensure all amounts due are promptly paid.
3. We recommend the draft *AECOM Project Fees Reconciliation and Financial Closeout* procedures be revised so they align with the terms of the contract.

District Management's Response:

1. Facilities Management concurs with the recommendation to issue a Notice of Financial Closeout and agrees timely project reconciliations are necessary to ensure both compliance with the contract and prompt payment of amounts due. All completed projects have been reconciled. The remaining payments due to AECOM, as well and credits due from AECOM, have been approved and processed through Finance.

2. Facilities Management agrees with the recommendation and has finalized the reconciliations for the 26 completed projects. The remaining payments due to AECOM, as well and credits due from AECOM, have been approved and processed through Finance.

3. The contract requires payment to AECOM for construction management fees in equal monthly increments, over the construction contract term based on the project budget. The project budget includes contingencies, which means the full amount of the project will not be spent in most instances. Based on the current contract, AECOM will almost always owe the District money at the end of a project. AECOM agreed to stop billing at 80% of project completion and estimate if the remaining payments are warranted or if billing should stop to reduce the credit that will be owed to the District at final completion. Facilities Management will work with the Office of General Counsel and AECOM to prepare a contract amendment to codify the process in the contract. Facilities Management will also review, revise and distribute the AECOM Project Fees Reconciliation and Financial Closeout procedures, in alignment with the new contract terms, by the end of January 2023.

(Please see Attachment A for full management response).

Response from AECOM:

Overall, we are in concurrence with the report's findings, however we would like to provide the following update to item 1 of the report's conclusions:

As the audit report was conducted prior to the final reconciliation we recognize that your office was not privy to the developments after the draft report was issued. As a result of our subsequent discussions with the district's leadership team, we have come to an agreement with respect to a final credit amount of \$287,260.00 to date as shown via the following chart:

FINAL COST RECONCILIATION 27 PROJECTS (Group 1)

Item	Credit Amount Agreed by the District & AECOM
Initial District Analysis Resulting Credit	(\$720,165)
Adjustment related to the Verde ES Holding School (total \$ due to AECOM not included by the districts initial analysis)	\$198,875
Adjustment related to 9 out of 11 SPOE (Security) projects funded with grant money (not considered in the District's initial calculation - PNs xxxx-8499)	\$68,575
Adjustment related to PN1931-7100 Lighthouse ES FR originally included in the District and AECOM calculation but removed because open POs; reconciliation will be done in the future as soon as the open POs are closed.	\$35,670
Adjustment related to final amounts reconciled between the District amounts and AECOM amounts for 19 projects.	\$31,437
Adjustment related to MPO Pull Outs scope of work covered with 0.5% (not considered in the District analysis)	\$83,172
Adjustment related to other subprojects with scope of work related to the main project @ 0.5% (not considered in the District analysis - One Time Agreement for the 0.5%)	\$15,176
TOTAL	(\$287,260)

In addition, AECOM agrees with the report's recommendation that the draft AECOM Project Fees Reconciliation and Financial Closeout procedures be revised so they align with the terms of the contract. AECOM will make the appropriate revisions as outlined to those procedures. (Please see Attachment B for full response).

Exhibit 1
Schedule 4.2 of the Contract with AECOM

SCHEDULE 4.2

Program Manager shall receive total compensation of 2.2 percent (.022) of actual expenditures paid by School Board to Third Parties for design, planning and construction activities relating to any project for which the School Board issues a Design/Planning Phase and Construction Phase Notices to Proceed.

DESIGN/PLANNING SERVICES

Program Manager agrees and understands that it shall be paid $\frac{1}{2}$ of 1 percent (.005) based on School Board's estimated project budget for projects that Program Manager receives a Design/Planning Phase Notice to Proceed. *See* Design/Planning Phase Notice to Proceed attached as Exhibit 4.2-a. Given that the design and planning services are preliminary to the School Board incurring construction expenditure, the $\frac{1}{2}$ of 1% (.005) will be paid in equal monthly payments based upon the duration as stated in the Design/Planning Phase Notice to Proceed and beginning on the 25th day of the month after the Design/Planning Notice to Proceed has been issued for a project.

CONSTRUCTION SERVICES

School Board shall pay Program Manager 1.7 percent (.017) of its estimated project budget on projects for which Program Manager has received a Construction Phase Notice to Proceed, payable in equal monthly installments based upon the Estimated Project Duration set forth in the Construction Notice to Proceed. *See* Construction Phase Notice to Proceed attached as Exhibit 4.2-b. Equal monthly payments to Program Manager shall commence on the 25th day of the month after the Construction Notice to Proceed issues and on the 25th of each month thereafter.

PROJECT RECONCILIATION

At the conclusion of each project and upon the SCHOOL BOARD's issuing a Notice of Financial Closeout to the Program Manager, School Board shall conduct a project reconciliation to determine whether the School Board is required to make adjustments to the Design/Planning Phase and/or Construction Phase payments under the Contract Documents. Any project reconciliation payments due to the Program Manager or the School Board shall be paid on the 25th day of the month after the School Board issues its Notice of Financial Closeout to Program Manager¹. Both Program Manager and the School Board reserve all rights and claims against each other and against third parties relating to Construction and Design/Planning activities on the Project. The Notice of Financial Closeout issued by the School Board in no way prevents the School Board from pursuing any design, planning, construction, warranty or other issues relating to the project.

In the event Program Manager does not complete a project or projects for whatever reason, then for each applicable project Program Manager will be entitled to receive a total of 2.2% on all construction and design expenditures made by the School Board to Third Parties up to the date of

¹ By way of illustration, if Program Manager received a Design/Planning Phase Notice on School A with estimated budget of \$10,000,000.00 and the final cost was \$11,000,000.00 then Program Manager would be due an additional \$5,000.00 calculated as follows: Final cost \$11,000,000.00, minus estimated cost in the Design/Planning Notice to Proceed \$10,000,000.00 equals \$1,000,000.00 times $\frac{1}{2}$ of 1% (.005) equals \$5,000.00.

Conversely, if the final cost for a project is less than the cost originally estimated in the Design/Planning Phase Notice to Proceed or the Construction Phase Notice to Proceed based upon reductions in Project Scope, then Program Manager will repay the School Board under the same accounting framework above on the 25th of the month after the School Board issues a Notice of Financial Closeout to Program Manager.

Exhibit 1
Schedule 4.2 of the Contract with AECOM

termination minus any amounts previously paid on that project, which amount shall be payable on the 25th of the following month in full resolution of any claims for compensation detailed above. Program Manager will also be entitled to receive any applicable termination fee set forth in the Contract.

As to any payments due herein, Program Manager shall invoice the School Board for each project detailing the calculation of the amount requested to be paid within 5 days of the close of each month.

**Palm Beach County School District
AECOM Program Management
Contract No. 17C-020W**

AECOM Project Fees Reconciliation and Financial Closeout

1. PURPOSE

The AECOM Project Fees Reconciliation and Financial Closeout Procedure focuses on the activities that occur at the end of the project life, allowing the start of the AECOM Design and Construction cost reconciliation based on the original amount approved in each NTP/PO against the final actual amounts at the finalization of each project.

2. SCOPE

Pursuant to the Contract between the Palm Beach County School District and the Construction Manager, this Standard Operating Procedures outlines the procedural steps to complete the cost reconciliation and financial closeout of each AECOM PO that have been issued by the District to the Program Manager.

No.	Procedural Steps	Responsible	Document/ Form
1.	When the Construction GMP contract invoiced amount reaches the point of 80%, an AECOM fee preliminary true-up estimate of the total project reconciliation is done, which includes: <ul style="list-style-type: none"> a) Potential final amount of the GMP contract cost. b) Potential final amount of the Architect Design contract cost. c) Validation of estimated final cost of vendors POs. d) Confirmation of secondary sub-projects executed by other parties. This AECOM Fee preliminary true-up allows the team to know how close the final fee amount will be to the original approved POs amounts.	AECOM	AECOM Fee Preliminary True-Up Report
2	When the AECOM invoice amount for the Construction PO Fee gets around 80%, invoice stops, waiting for the final fee cost reconciliation for each corresponding project. The AECOM PO amount for Design is invoiced through 100%, without waiting for the final fee cost reconciliation.	AECOM	Invoice
3	When the GMP Construction contract is taken to the Board for final close out, and gets approved, that triggers the AECOM PO Fees final reconciliation effort, and a task force team gets together to review the PeopleSoft report for the specific project, looking actual cost by PO.	AECOM Facility Construction	Project Final Approved CO

**Palm Beach County School District
AECOM Program Management
Contract No. 17C-020W**

No.	Procedural Steps	Responsible	Document/ Form
4.	This task force team is integrated by: a) SPA in charge of the project b) District Finance Manager c) AECOM Project Controls Manager d) AECOM Construction Director e) Other members from the Finance and Controls teams as needed.	AECOM Facility Construction	
5.	PO's with encumber amount are validated to determine if future invoices will still be coming for payment or the remaining encumber amount is no longer needed. The Finance team takes the lead to request the adjustment of the POs, if required, and when full invoiced, proceeds with the close out of the PO's.	AECOM Facility Construction	PeopleSoft Report
6.	Remaining available budget by activity is validated and if not needed, it is returned to the project contingency by the Finance team.	AECOM Facility Construction	PeopleSoft Report
7.	Based on the final actual cost resulting from cost reconciliation, the final AECOM PO's amounts for the Design PO and the Construction PO is determine and compared to the original approved PO.	AECOM	PeopleSoft Report Original NTP and PO
8.	Based on the results from step 6, AECOM will issue the final invoice for each case, related to the Design PO or to the Construction PO or for both.	AECOM	Invoice
9.	After payment of the AECOM final invoice(s), the District Finance team will close the two AECOM POs for the specific project.	Finance Team	PeopleSoft Report
10.	The District Financial team with Treasury will move any unused project contingency to the Program contingency.	Finance & Treasury	PeopleSoft Report
11.	The District Financial team with Treasury close out the overall project in the Financial systems.	Finance & Treasury	Finance Systems

Attachment A: District Management's Response



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

LEANNE EVANS
TREASURER

HEATHER FREDERICK, CPA
CHIEF FINANCIAL OFFICER

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TO: Teresa Michael, Inspector General

FROM: Heather Frederick, Chief Financial Officer
Joseph Sanches, Chief Operating Officer

DATE: November 7, 2022

SUBJECT: **Response to Contract Review: Program Management Support Services - Project Recon**

Management reviewed the Contract Review: Program Management Support Services - Project Recon Report #23-R-1 and has the following responses to recommendations.

1. Issue a Notice of Financial Closeout to the Program Manager at the end of each project and prepare reconciliation to determine if payments need to be adjusted.

Facilities Management concurs with the recommendation to issue a Notice of Financial Closeout and agrees timely project reconciliations are necessary to ensure both compliance with the contract and prompt payment of amounts due. All completed projects have been reconciled. The remaining payments due to AECOM, as well and credits due from AECOM, have been approved and processed through Finance.

2. Staff should expeditiously complete the reconciliations for all completed projects and ensure all amounts due are promptly paid.

Facilities Management agrees with the recommendation and has finalized the reconciliations for the 26 completed projects. The remaining payments due to AECOM, as well and credits due from AECOM, have been approved and processed through Finance.

3. Revise AECOM Project Fees Reconciliation and Financial Closeout procedures so they align with the terms of the contract.

The contract requires payment to AECOM for construction management fees in equal monthly increments, over the construction contract term based on the project budget. The project budget includes contingencies, which means the full amount of the project will not be spent in most instances. Based on the current contract, AECOM will almost always owe the District money at the end of a project. AECOM agreed to stop billing at 80% of project completion and estimate if the remaining payments are warranted or if billing should stop to reduce the credit that will be owed to the District at

final completion. Facilities Management will work with the Office of General Counsel and AECOM to prepare a contract amendment to codify the process in the contract. Facilities Management will also review, revise and distribute the AECOM Project Fees Reconciliation and Financial Closeout procedures, in alignment with the new contract terms, by the end of January 2023.

HK/LE:dh

Teresa Michael
Inspector General
OFFICE OF INSPECTOR GENERAL
The School District of Palm Beach County
3318 FOREST HILL BLVD., C-306
WEST PALM BEACH, FL 33406

**RE: Contract Review (Report # 23-R-1): Program Management Support Services
Project Reconciliations – Draft Report Response**

Dear Inspector General Michael,

Via this letter, AECOM Technical Services, Inc. (AECOM) is providing our response to the above referenced draft report as requested. Please note, AECOM is only responding to those comments relevant to AECOM and we are not providing any response with respect to the report's comments directed to the Palm Beach County School District (the "District"). Overall, we are in concurrence with the report's findings, however we would like to provide the following update to item 1 of the report's conclusions:

As the audit report was conducted prior to the final reconciliation we recognize that your office was not privy to the developments after the draft report was issued. As a result of our subsequent discussions with the district's leadership team, we have come to an agreement with respect to a final credit amount of \$287,260.00 to date as shown via the following chart:

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Adjustment related to other subprojects with scope of work related to the main project @ 0.5% (not considered in the District analysis - One Time Agreement for the 0.5%)	\$15,176
TOTAL	(\$287,260)

In addition, AECOM agrees with the report's recommendation that the draft AECOM Project Fees Reconciliation and Financial Closeout procedures be revised so they align with the terms of the contract. AECOM will make the appropriate revisions as outlined to those procedures. We look forward to our continued collaborative work with the district and the ultimate success of the program.

Sincerely,



Jay Zayas, R.A., CCM, LEED AP
Program Director
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Facilities Construction Department
AECOM Program Management
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