

**Audit of**  
**Construction Contract for**  
**Glade View Elementary Modernization**

**May 19, 2017**

**Report #2017-04**



## **MISSION STATEMENT**

The School Board of Palm Beach County is committed to providing a world class education with excellence and equity to empower each student to reach his or her highest potential with the most effective staff to foster the knowledge, skills, and ethics required for responsible citizenship and productive careers.

Robert M. Avossa, Ed.D.  
Superintendent of Schools

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**Audit of  
Construction Contract for  
Glade View Elementary Modernization  
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**Audit of  
Construction Contract For  
Glade View Elementary Modernization**

**Executive Summary**

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Pursuant to the *Office of Inspector General's (OIG) 2015-16 Work Plan*, we have audited the Construction Contract for Glade View Elementary Modernization Project. The primary objectives of this audit were to (1) assess the adequacy of internal control for the project's expenditures, and (2) determine whether the expenditures were paid in accordance with terms and conditions of the contract. This audit produced the following major conclusions.

**1. Procedures for Payment to Contractor Not Codified**

OIG's June 11, 2015, *Audit of Fees Paid to Construction Managers (Report #2015-07)* recommended the Division of Support Operations to initiate the creation and development of a *School Board Policy* that adequately addresses the requirement of *State Requirements for Educational Facilities (SREF)*. Although a draft *School Board Policy 7.229, Construction Contractor Payments* had been developed since May 2015, this *Policy* had not been presented to the School Board for review and approval as of January 31, 2017.

*Management's Response: Management concurs. A draft of policy 7.229 Construction Contractor Payment was approved by the Construction Oversight and Review Committee (CORC) at their February 9, 2017 meeting. The policy is scheduled to begin the process of Board review and adoption, along with other revisions to construction policies, at the next available Board workshop.*

**2. \$23,763.29 in Duplicated Billings Detected and Avoided**

The Construction Manager submitted a total of 25 *Payment Applications*, totaling \$13.5 million, for this project. OIG reviewed 12 (48%) sample *Payment Applications* (totaling \$5.7 million and 42%). The review found that *Payment Application #24* included \$23,763 from 16 duplicated invoices that had already been paid by the District through prior *Payment Applications*. The District was able to avoid the duplicated payment after the billing errors were identified.

*Management's Response: Management concurs. Additional procedures will be put in place to ensure duplicate invoices are not submitted for payment.*

### 3. \$2.4 Million in Sub-Contractor Payments Without Release of Claim/Lien

79 (34%), totaling \$2,367,966 (42% of the total \$5,602,642), of the 229 *PBSD 1620 Forms (Partial Release of Claims and Waiver of Lien and/or Verification of Payment)* were missing from five of the 12 sample *Payment Applications*. *PBSD 1620 Form* should provide assurance that the subconsultants, subcontractors, and suppliers have received the payments for *Payment Applications* submitted by the Construction Manager. Without the form, it could subject the District to claims/lien from subcontractors for non-payments, although the prime contractor has been paid.

**Management's Response:** *Management does not concur. Sub-contractors and sub-consultants sign a release (Form 1620) only after receipt of payment from the Construction Manager (CM). The CM issues payment to its subs after receiving payment from the District. Usually, the next pay application is finalized before previous pay application is paid. Therefore, it is not unusual for the releases to lag behind one, and sometimes two, pay applications.*

**OIG's Comment:** *After receipt of the Management's Response. OIG requested the 79 specific Waiver Forms (PBSD 1620), which were not available for our review during the fieldwork. Our review found that 73 (92%), totaling \$2,301,674.28 (97%), of the 79 (totaling \$2,367,965.97) Waiver Forms were not signed by the sub-contractors within the 10-day requirement after the District paid the Construction Manager. Delays ranged from three to 348 days, with an average of 62 days beyond the 10-day requirement. Apparently, the Construction Manager did not pay the sub-contractors within the 10-day requirement after receiving payments from the School District as required by Section 00510, Article 11.5 of the RFP, which is incorporated into the contract.*

### 4. Contingency Use Without Prior Approval

As of August 10, 2016, a total of 78 *Construction Contingency Use Authorizations (CCUAs)*, totaling \$275,120, have been approved by Program Management. Our review of 22 sample CCUAs (totaling \$233,267) found that CCUA #88 (for \$47,937) was for work conducted during November 2014 and June 2015. However, this CCUA was neither submitted by the Construction Manager nor approved by the Superintendent until January and February 2016 respectively, or 15 months after the work had begun and eight months after the work had completed.

**Management's Response:** *Management does not concur. Current policy requires approval of contingency funds usage prior to payment of work. Contingency funds were not used prior to securing approval. Although the work commenced prior to authorization of the "Contingency Use", it was performed at the CM's own risk, and payment to the CM was made after the proper approvals were secured.*

***OIG's Comment:*** *Unauthorized work could result in adverse impact on the School District, such as noncompliance with District's requirements, unacceptable quality and workmanship, noncompliance with safety codes, etc. Proactive approach should be taken to protect the School District's best interest.*

## **5. Maintenance of Construction Documents**

Our ***2011 Audit of Two Construction Projects (Report #2011-05)*** revealed that construction contract files and documents were not adequately maintained. Program Management Department's ***Procedure Number PM-301, Project File Audit Procedures***, requires the senior projects administrator to verify that all required documents are in the Major Construction Project files. This includes both the hardcopy "Master" and electronic "Image Quest" files. Our review of the Image Quest records found that some of the project documents were missing or mislabeled in the system. As a result, the completeness and usefulness of the Image Quest records is questionable.

***Management's Response:*** *Management partially concurs. The audit was conducted prior to project closeout. A final review of the filing systems is performed at the close of a project. Missing document issues are resolved at that time; however, additional training will be implemented to avoid mislabeling going forward.*

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## M E R O R A N D U M

TO: Honorable Chair and Members of the School Board  
Robert M. Avossa, Ed.D. Superintendent of Schools  
Chair and Members of the Audit Committee

FROM: Lung Chiu, Inspector General

DATE: May 19, 2017

SUBJECT: Audit of Construction Contract for Glade View Elementary Modernization

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### PURPOSE AND AUTHORITY

Pursuant to the *Office of Inspector General's (OIG) 2015-16 Work Plan*, we have audited the Construction Contract for Glade View Elementary Modernization Project. The primary objectives of this audit were to (1) assess the adequacy of internal control for the project's expenditures, and (2) determine whether the expenditures were paid in accordance with the terms and conditions of the contract.

### SCOPE AND METHODOLOGY

The audit was performed in accordance with *Generally Accepted Government Auditing Standards* promulgated by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve the audit objectives, this audit included (a) interviewing related department staff, (b) reviewing control procedures, and (c) reviewing the following documents and relevant information:

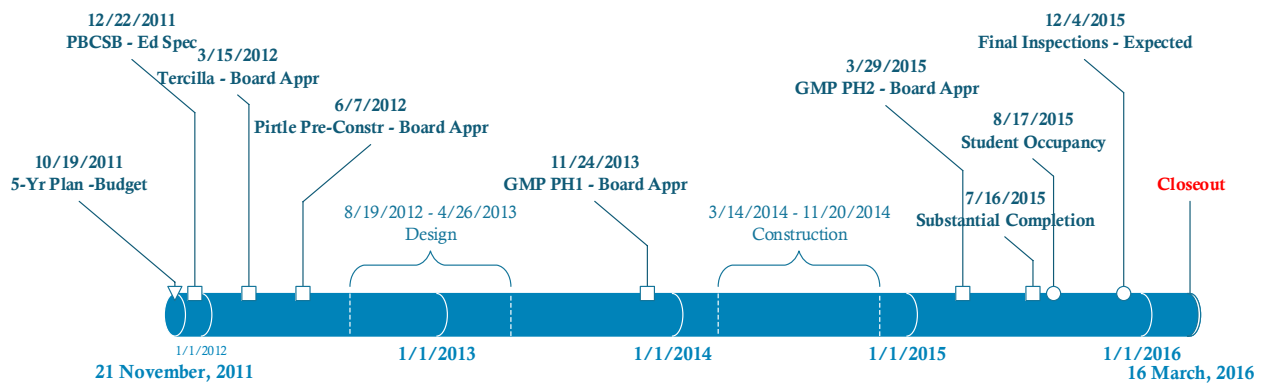
- Applicable laws, regulations, and *School Board Policies*
- Architect and Construction Manager at Risk Contracts
- Schedule of Values/GMP
- Program Management, Construction Management, and Treasury Procedures
- Applications for Payment
- Change Orders, contingency use and credits
- Project closeout documentation

Draft audit findings were sent to Program Management for review and comments. Management response is included in the Appendix. We appreciate the courtesy and cooperation extended to us throughout this engagement. The final draft report was presented to the Audit Committee at its May 19, 2017, meeting.

## BACKGROUND

Glade View Elementary Modernization Project. Glade View Elementary Project #1251-8438 is a modernization of the +/- 85,000 square foot school campus located in the City of Belle Glade. Glade View Elementary was built in 1964 and consisted of 360 student stations. The scope of the project included demolishing buildings 1-7, 10 and 12. The new School Buildings 1 and 2 were constructed to replace the existing buildings. Other buildings on the campus were also renovated according to the educational specifications. The project was to be designed and constructed to qualify for the Leadership in Energy and Environmental Design (LEED) Silver Certification. LEED designs are green building certification programs that assist building owners to be environmentally responsible and use resources efficiently.

The timeline for the project is below.



What is Construction Manager At-Risk Contract? Construction Manager At-Risk is a project arrangement that entails contractual commitment by the Construction Manager to deliver the project within a Guaranteed Maximum Price (GMP). The Construction Manager acts as a consultant to the owner in the pre-construction stage, and as a General Contractor during the construction stage, fostering teamwork between parties. When a construction manager is bound to a GMP, the Construction Manager must monitor and control construction costs, progress, and completion to stay within the GMP and time budget. One advantage of a Construction Manager at-Risk arrangement is that the contract allows ongoing transparency throughout the project. Work in progress is billed and reimbursed proportionately to the ratio of work completed within the period, allowing the District to pay as-you-go during the project. The difference between the GMP and the actual cost is returned to the School District at the completion of the project. Unused funds were usually identified in General Requirements, unused scope, contingency, allowances, bonds, and sales tax savings.

The project consisted of three stages: (i) pre-construction, (ii) phase 1 construction (modernization of the campus), and (iii) phase 2 new construction of building #2. The Construction Manager At-Risk Contract to modernize Glade View Elementary was agreed for a Guaranteed Maximum Price (GMP) of \$17,438,661, based on the architect design. The School Board approved the Notice to Proceed (NTP) on April 11, 2012. Subsequently, the School Board approved to revise the contract amount to \$17,786,436.41.

\$140,584.83 in Savings. According to the Project Modification approved by the School Board, this construction project had a total savings of \$140,584.83:

Unused General Requirements	\$6,977.53
Unused Scope Adjustment	6,479.84
Unused Buyout Savings	990.00
Unused Owner Contingency	24,879.69
Unused Allowances	57,941.37
Unused Bonds and Insurances	12,750.72
Sales Tax Savings	30,566.68
<b>Total Savings</b>	<b><u>\$140,584.83</u></b>

Audit Samples. As of August 10, 2016, the School District processed and approved a total of 34 *Payment Applications*, totaling \$14,618,888.25, which were submitted by the Architect and Construction Manager. This audit reviewed 21 sample *Payment Applications*, totaling \$6,868,509.79.

**Payment Applications Submitted by the Architect and Construction Manager  
As of August 10, 2016**

	Total		Audit Sample	
	Number	Amount	Number	Amount
Construction Manager	25 (100%)	\$13,476,275.28 (100%)	12 (48%)	\$5,725,893.81 (42%)
Architect	9 (100%)	\$1,142,612.97 (100%)	9 (100%)	\$1,142,612.97 (100%)
<b>Total</b>	<b>34 (100%)</b>	<b>\$14,618,888.25 (100%)</b>	<b>21 (62%)</b>	<b>\$6,868,509.79 (47%)</b>

*Source: Program Management.*

## CONCLUSIONS

This audit produced the following major conclusions.

### 1. Procedures for Payment to Contractor Not Codified

During the audit, we noted that a draft *School Board Policy 7.229, Construction Contractor Payments* had been developed. However, the proposed *Policy 7.229* had not been presented to the School Board for review and approval as of January 31, 2017.

OIG's June 11, 2015, *Audit of Fees Paid to Construction Managers (Report #2015-07)* recommended the Division of Support Operations to initiate the creation and development of a *School Board Policy* that adequately addresses the requirement of *State Requirements for Educational Facilities (SREF)*. Specifically *SREF Section 4.2(3)*, requires

*"Each Board shall adopt policies and procedures to be followed for all construction contracts and for making payments to the contractor..."*

In response to the audit recommendation, staff indicated that

*"Management concurs the District needs to develop a policy for making payments to contractors, as is required by SREF Section 4.2(3). Board review and adoption of the new policy is projected for completion by December 2015."*

### Recommendation

Lack of formal policies and procedures for making payments to contractors can result in inconsistencies and oversights during construction manager's pay application review and approval. To ensure all construction manager's pay applications are properly reviewed and approved in accordance with *SREF* requirements, the proposed *Policy 7.229* should be presented to the School Board for review and adoption accordingly.

*Management's Response: Management concurs. The promised deadline of December 2015 was not met. A draft of policy 7.229 Construction Contractor Payment was approved by the Construction Oversight and Review Committee (CORC) at their February 9, 2017 meeting. The policy is scheduled to begin the process of Board review and adoption, along with other revisions to construction policies, at the next available Board workshop. (Please see page 11.)*

### 2. \$23,763.29 in Duplicated Billings Detected and Avoided

The Construction Manager submitted a total of 25 Payment Applications, totaling \$13.5 million, for this project. OIG reviewed 12 (48%) sample *Payment Applications* (totaling \$5.7 million and 42%). The review found that *Payment Application #24* included \$23,763.29 from 16 duplicated invoices that had already been paid by the District through prior *Payment Applications*. The District was able to avoid the duplicated payment after the OIG identified the billing errors as follow:

On March 14, 2016, the Construction Manager submitted *Payment Application #24* requesting a total payment of \$475,985.25 in construction expenditures. On March 31, 2016, Program Management approved this *Payment Application*.

We reviewed the documentation for this *Payment Application* prior to payment by Accounts Payable, and found that *Payment Application #24* also included 13 duplicated invoices, totaling \$22,491.98, that had been paid through prior *Payment Applications*. We informed District staff of the duplicated billing and consequently Program Management denied the March 14, 2016, *Payment Application #24*.

On April 11, 2016, the Construction Manager submitted a *Revised Payment Application #24*, by removing the duplicated invoices and added other new invoices to it, totaling \$461,726.02. However, our review of the April 11, 2016, revised submission found another three duplicated invoices, totaling \$1,271.31. As a result, total duplicated billings could be as much as \$23,763.29 (\$22,491.98 + \$1,271.31).

Subsequently, on April 13, 2016, the Construction Manager submitted a second *Revised Payment Application #24*, totaling \$470,928.50. Our review of the documentation for the final *Payment Application #24* identified no more duplicated billings.

**Duplicated Billings on  
Payment Application #24**

Date	Total		Duplicated Billings		
	# of Invoices	Amount	Description	Billing Was Included In Payment Applications #	Amount
3/14/2016 (Original)	117	\$475,985.25	Tropic Fence Change Order-2014079	#8	\$2,287.50
			Edens Construction 201402.202-temp fencing	#20	7,500.00
			FPL dated 7/13/15 duplicate invoice	#22	6,982.72
			Palm Beach Utilities -Meter drop fee	#22	2,100.00
			Henderson's Sani Services 70370	#22	625.96
			Henderson's Sani Services 70233	#22	525.00
			GL Staffing Services 3336096	#22	524.00
			Henderson's Sani Services 70188	#22	425.00
			Henderson's Sani Services 70190	#22	425.00
			Henderson's Sani Services 70581	#22	425.00
			GL Staffing Services 3366686	#22	419.20
			GL Staffing Services 3336621	#22	209.60
Aerial Innovations	#22	43.00			
4/11/2016 (1st Revision)	111	\$461,726.02	Henderson's Sani Services 66447	#15	511.00
			GL Staffing Services 3336504	#22	524.00
			Paid directly to Lake Hardware - as requested, not Tony Siciango CC	#3	236.31
4/13/2016 (2nd Revision)	98	\$470,928.50	(No duplicated billings)		
<b>Total</b>			<b>16 Duplicated Invoices</b>		<b>\$23,763.29</b>

Note: The original submission included two credits, totaling \$12,750.72. The 2<sup>nd</sup> Revision for *Payment Application #24* had removed the two credits, which were included in the subsequent *Payment Application #25*.

**Recommendation**

Program Management should thoroughly review all the billings submitted by the Construction Manager and ensure all billings/invoices were legitimate and contained no duplicated billings.

*Management’s Response: Management Concur. Additional procedures will be put in place to ensure duplicate invoices are not submitted for payment. (Please see page 11.)*

**3. \$2.4 Million in Sub-Contractor Payments Without Release of Claim/Lien**

- a) \$2.4 million in Payments Without Partial Release of Claims and Waiver of Lien and/or Verification of Payment Form (PBSD 1620).

*Section 00830, Article 14.9.1 of Request of Proposal (RFP) for Construction Services at Risk Services (CM@Risk RFP), which is incorporated into the contract, requires that each Payment Application submitted by the Construction Manager include Form PBSD 1620 - Partial Release of Claims and Waiver of Lien and/or Verification of Payment, properly notarized and completed by all the subconsultants and subcontractors to verify receipt of previous payments.*

Based on the payment records, the 12 sample *Payment Applications* should have a total of 229 *PBSD 1620 Forms*, totaling \$5,602,641.80. Our review of the payment records found that 79 (34%), totaling \$2,367,965.97 (42%), of the 229 *PBSD 1620 Forms* were missing from five of the 12 sample *Payment Applications*.

Without the required *PBSD 1620 Form - Partial Release of Claims and Waiver of Lien and/or Verification of Payment*, there was no assurance that the subconsultants, subcontractors, and suppliers received the payments for previous *Payment Applications* submitted by the Construction Manager, and it could subject the District to claims/lien from subcontractors for non-payments.

**Payment Applications with Missing PBSD 1620 Forms  
(For Confirmation of Subcontractors Receipt of Prior Payments)**

Payment Application #	Required PBSD 1620 Forms		Missing PBSD 1620 Forms	
	# of Forms	Amount	# of Forms	Amount
1	Not applicable	Not applicable	- 0 -	–
4	4	\$112,845.74	- 0 -	–
8	7	640,720.04	- 0 -	–
10	9	602,135.26	9	\$602,135.26
15	13	609,439.06	- 0 -	–
16	25	952,174.38	25	952,174.38
18	28	667,580.86	- 0 -	–
19	24	673,181.82	10	106,415.97
21	26	695,685.11	26	695,685.11
23	9	11,555.25	9	11,555.25
24	58	464,337.23	- 0 -	–
25	26	172,987.05	- 0 -	–
<b>Total</b>	<b>229</b>	<b>\$5,602,641.80</b>	<b>79</b>	<b>\$2,367,965.97</b>

b) \$5,788.79 Subconsultant Payment Without Supporting Document.

*Payment Application #20* included a \$5,788.79 payment to a subconsultant that did not have the required requisition/invoice from the subconsultant. Subsequently, the required subconsultant requisition/invoice was submitted by the Construction Manager with *Payment Application #21*.

**Recommendation**

To protect the School District from unwarranted claims and liabilities and ensure subconsultants/subcontractors/suppliers received payments from the Construction Manager, Program Management should ensure that *Payment Applications* submitted by the Construction Manager contain all the required documentation, including the required *PBSD 1620 Forms (Partial Release of Claims and Waiver of Lien and/or Verification of Payment)* properly completed by the subconsultants, subcontractors, and suppliers.

**Management's Response:**

a) *\$2.4 million in Payments without Partial Release of Claims and Waiver of Lien and/or Verification of Payment Form (PBSD 1620).*

*Management does not concur. Section 14.9.1 of the contract states, "the CM shall submit an executed and notarized or corporate sealed form PBSD 1528 and 1620 or 1621 from previous payments received less retainage." Current practice complies with this article. A 1620 or 1621 is not required every pay application; it is only required when payment has been received. Sub-contractors and sub-consultants sign a release (Form 1620) only after receipt of payment from the Construction Manager (CM). The CM issues payment to its subs after receiving payment from the District. Usually, the next pay application is finalized before previous pay application is paid. Therefore, it is not unusual for the releases to lag behind one, and sometimes two, pay applications. Revisions will be made to this article of the contract in order to keep the intent and the flow of the project payment process timely, along with protecting District interests. (Please see page 11.)*

b) *\$5,788.79 Sub-consultant Payment without Supporting Document*

*Management partially concurs. Although an invoice from the Sub-Consultant (MWBE Partner) is not required, it is good practice to include one with each pay application. The sub-consultant is paid the percentage of completion indicated on the schedule of values attached to each pay application. This is the same percentage of completion invoiced by the CM. Additional procedures will be put in place to ensure this additional documentation is submitted with each request for payment. (Please see page 12.)*

**OIG’s Comment:** After receipt of the Management’s Response. *OIG requested the 79 specific Waiver Forms (PBSD 1620), which were not available for our review during the fieldwork.*

*We reviewed these 79 Waiver Forms and compared the payment dates to the Construction Manager recorded in the District’s Accounts Payable system, and the dates of the sub-contractors’ signatures on the Waiver Forms. Our review found that 73 (92%), totaling \$2,301,674.28 (97%), of the 79 (totaling \$2,367,965.97) Waiver Forms were not signed by the sub-contractors within the 10-day requirement after the District paid the Construction Manager. Delays ranged from three to 348 days, with an average of 62 days beyond the 10-day requirement. Apparently, the Construction Manager did not pay the sub-contractors within the 10-day requirement after receiving payments from the School District as required by the RFP.*

**Section 00510, Article 11.5 of the RFP** requires that “The Construction Manager shall within 10 days after receipt of payment from the Owner, pay all the amount due Sub-Contractors...”

**4. Contingency Use Without Prior Approval**

**School Board Policy 7.225, Use of Contingency Funds for Construction Projects, Section 3.e.**, defines Construction Contingency Use Authorization (CCUA) as follows:

*“Construction Contingency Use Authorizations (CCUA) authorize the Construction Manager to use construction contingency on Construction Management at Risk projects to do work resulting from buyout, unforeseen conditions, design errors and omissions, and permitting agency decisions. CCUAs are used when the Architect, Construction Manager and District have agreed on compensation for the work.”*

As of August 10, 2016, a total of 78 Construction Contingency Use Authorizations (CCUA), totaling \$275,120.31, have been approved by Program Management.

**Approved Construction Contingency Use Authorizations (CCUA)  
As of August 10, 2016**

Type	Approved by Program Management		Audit Sample	
	# of CCUAs	Amount	# of CCUAs	Amount
Omissions	36	\$260,142.98	7	\$149,258.19
Agency Request	3	21,961.00	3	21,961.00
Errors	6	20,972.37	4	15,264.00
Unforeseen	5	15,950.76	2	13,169.30
Buyouts	28	(43,906.80)	6	33,615.30
<b>Total</b>	<b>78</b>	<b>\$275,120.31</b>	<b>22</b>	<b>\$233,267.79</b>



**School Board Policy 7.225, Section 5.d.**, states,

*“A Construction Contingency Use Authorization (CCUA), incorporated herein, or Construction Contingency Use Directive (CCUD), incorporated herein, shall be issued to the contractor for each authorized construction contingency use.”*

Our review of 22 sample CCUAs, totaling \$233,267.79, found that CCUA #88 (for \$47,937.25) was for work conducted during November 2014 and June 2015. However, this CCUA was neither submitted by the Construction Manager nor approved by the Superintendent until January and February 2016 respectively, or 15 months after the work had begun and eight months after the work had completed.

### **Recommendation**

To comply with **School Board Policy 7.225** and protect the best interests of the School District, all usage of contingency funds must be fully reviewed and approved by the District prior to the commencement of work by the contractor.

**Management’s Response:** *Management does not concur. Current policy requires approval of contingency funds usage prior to payment of work. Contingency funds were not used prior to securing approval. Although the work commenced prior to authorization of the “Contingency Use”, it was performed at the CM’s own risk, and payment to the CM was made after the proper approvals were secured. (Please see page 12.)*

**OIG’s Comment:** *Unauthorized work could result in adverse impact on the School District, such as noncompliance with District’s requirements, unacceptable quality and workmanship, noncompliance with safety codes, etc. Proactive approach should be taken to protect the School District’s best interest.*

## **5. Maintenance of Construction Documents**

Our **2011 Audit of Two Construction Projects (Report #2011-05)** revealed that construction contract files and documents were not adequately maintained. In response to the audit finding, Program Management indicated that *“the files have improved significantly over the last few years with the implementation of the Oracle document imaging system,”* and *“a new file maintenance audit procedure which requires quarterly audits of the project files by the assigned SPA will be complete by April 8, 2011. It should be noted that Project Controls has been doing a similar review for approximately the last four (4) years; however, Program Management will take on a greater responsibility for managing the documents.”*

Program Management Department’s **Procedure Number PM-301, Project File Audit Procedures**, requires the senior projects administrator to (1) verify that all required documents are in the Major Construction Project files. This includes both the hardcopy “Master” and electronic “Image Quest” files, and (2) use the File Audit Checklist to audit the project files on a quarterly basis. If documents are missing from the file(s), it is the senior projects administrator’s responsibility to retrieve the documents and verify they are in the file prior to completing the quarterly audit.

Our review of the Image Quest records found that some of the project documents were missing or mislabeled in the system. As a result, the completeness and usefulness of the Image Quest records is questionable.

**Recommendation**

Program Management should comply with its ***Procedure Number PM-301*** to ensure that all project documents are properly maintained and available for future references.

***Management's Response:*** *Management partially concurs. The audit was conducted prior to project closeout. A final review of the filing systems is performed at the close of a project. Missing document issues are resolved at that time; however, additional training will be implemented to avoid mislabeling going forward. (Please see page 12.)*


– End of Report –

Management's Response

THE SCHOOL DISTRICT OF  
PALM BEACH COUNTY, FL

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CHIEF OPERATING OFFICER

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**RECEIVED**  
MAR 13 2017  
INSPECTOR GENERAL

MEMORANDUM

TO: Lung Chiu  
Inspector General

FROM: Donald Fennoy, II, Ed.D.  
Chief Operating Officer

DATE: March 12, 2017

SUBJECT: Management Response – Audit of Construction Contract for Glade View Elementary  
Modernization

Following is the Management Response to the Audit of Construction Contract for Glade View Elementary Modernization, dated February 7, 2017.

1. Procedures for Payment to Contractor Not Codified  

Management Concur. The promised deadline of December 2015 was not met. A draft of policy 7.229 *Construction Contractor Payment* was approved by the Construction Oversight and Review Committee (CORC) at their February 9, 2017 meeting. The policy is scheduled to begin the process of Board review and adoption, along with other revisions to construction policies, at the next available Board workshop.
2. \$23,763.29 in Duplicated Billings Detected and Avoided  

Management Concur. Additional procedures will be put in place to ensure duplicate invoices are not submitted for payment.
3. \$3.7 Million in Sub-Consultant Payments without Release of Claim/Lien
  - a) \$3.7 million in Payments without Partial Release of Claims and Waiver of Lien and/or Verification of Payment Form (PBSD 1620).

The School District of Palm Beach County, Florida  
A Top-Rated District by the Florida Department of Education Since 2005  
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## Management's Response

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March 12, 2017

Response to Construction Contract for Glade View Elementary Modernization Audit

Management does not concur. Section 14.9.1 of the contract states, "the CM shall submit an executed and notarized or corporate sealed form PBSB 1528 and 1620 or 1621 from previous payments received, less retainage." Current practice complies with this article. A 1620 or 1621 is not required every pay application; it is only required when payment has been received. Sub-contractors and sub-consultants sign a release (Form 1620) only after receipt of payment from the Construction Manager (CM). The CM issues payment to its subs after receiving payment from the District. Usually, the next pay application cycle overlaps the previous pay application payment, meaning that the new pay application is usually finalized before the previous pay application is paid. Therefore, it is not unusual for the releases to lag behind one, and sometimes two, pay applications. Revisions will be made to this article of the contract in order to keep the intent and the flow of the project payment process timely, along with protecting District interests.

b) \$5,788.79 Sub-consultant Payment without Supporting Document

Management partially concurs. Although an invoice from the Sub-Consultant (MWBE Partner) is not required, it is good practice to include one with each pay application. The sub-consultant is paid the percentage of completion indicated on the schedule of values attached to each pay application. This is the same percentage of completion invoiced by the CM. Additional procedures will be put in place to ensure this additional documentation is submitted with each request for payment.

4. Contingency Use Without Prior Approval

Management does not concur. Current policy requires approval of contingency funds usage prior to payment of work. Contingency funds were not used prior to securing approval. Although the work commenced prior to authorization of the "Contingency Use", it was performed at the CM's own risk, and payment to the CM was made after the proper approvals were secured.

5. Maintenance of Construction Documents

Management partially concurs. The audit was conducted prior to project closeout. A final review of the filing systems is performed at the close of a project. Missing document issues are resolved at that time; however, additional training will be implemented to avoid mislabeling going forward.

DEF/SEB/JK/SK/lm

cc: Steve Backhus, Acting Chief of Facilities Management  
James Kunard, Program Management Director