

HAWAII STATE DEPARTMENT OF EDUCATION
OFFICE OF SCHOOL FACILITIES AND SUPPORT SERVICES
FACILITIES DEVELOPMENT BRANCH

Construction Process and Internal Controls Review – Summary Report

Project Prioritization; Budgeting and Needs Forecasting; Funding of Projects and Project Initiation; and Procurement of Professional Services

APRIL 2012

CONSTRUCTION PROCESS AND INTERNAL CONTROLS REVIEW – SUMMARY REPORT
APRIL 4, 2012

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Executive Summary

FDB PROJECT: OBJECTIVE, SCOPE, AND TIMING

At the request of the Hawaii State Department of Education Office (“DOE”), Deloitte & Touche LLP performed a current state assessment of selected DOE’s Facilities Development Branch (“FDB”) functional activities. The objective of the assessment was to evaluate FDB’s processes and controls related to specific construction and repair and maintenance activities against leading industry practices, and to provide observations and recommendations for improvement to FDB management.

The scope of the assessment covered the following specific functional activities:

1. Project Prioritization;
2. Budgeting and Needs Forecasting;
3. Funding of Projects and Project Initiation; and
4. Procurement of Professional Services.

The assessment focused on current FDB practices, which were evaluated considering specific internal control objectives and leading industry practices. Our assessment was based on a review of current policies and procedures in place during fiscal year 2012, discussions with personnel regarding FDB practices, and a sampling of projects in progress or completed during the current and previous fiscal years to review actual practices employed.

Our findings and recommendations are summarized in the following sections, and are presented for management’s consideration to improve current practices and operational efficiencies. Detailed discussions of each of our findings are presented in the Detailed Report – Observations: Findings and Recommendations section following the Executive Summary.

Note: FDB management has planned for assessments of additional construction and repair and maintenance activities in fiscal year 2013, as listed below; however these areas were not included in the scope of this review, and are not addressed in this report:

1. Design and Project Management;
2. Procurement of Construction Services;
3. Construction Management and Administration; and
4. Project Closeout and Asset Inventory.

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FDB: BACKGROUND

The Hawaii State Department of Education's Facilities Development Branch was formed in 2005 when responsibility for DOE construction and construction related activities was transferred from the Hawaii State Department of Accounting and General Services ("DAGS") to the DOE.

At DOE, FDB is responsible for all construction and construction related activities for the DOE including: construction, repair and maintenance projects, and architectural and engineering assistance (also called "consultant" or "professional services"). FDB's budget for fiscal year 2012 was approximately \$150 million. FDB performs approximately 200-250 projects per year, most of which are for repairs and maintenance. Projects range in size from repair and maintenance projects costing less than \$1,000, such as repainting jobs, to the \$65 million, 168,000 square foot Ewa Makai Middle School new construction project.

FDB operates in a complex and challenging environment. FDB is responsible for 258 public schools statewide. The majority of DOE's facilities are more than 20 years old and require ongoing repairs and maintenance. In addition, new construction often involves work on suboptimal sites that pose topographic challenges, which may require environmental or other remediation, or which may involve cultural or historical considerations or constraints. The FDB organization is composed of three sections, the Planning Section, the Project Management Section, and the Construction Management Section. For staffing, FDB has 66 approved positions and 14 vacancies. FDB personnel are located in multiple office locations on O'ahu including the Kalanimoku Building and temporary facilities at Kalani High School.

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SUMMARY OF FINDINGS

FDB has baseline processes and controls that enable FDB to develop, build, and maintain educational facilities for the State of Hawaii Department of Education. However, based on our assessment and comparison to leading industry practices, FDB policies, procedures and controls are outdated. Additionally, policies and procedures are not consistently applied, leading to inefficiencies and weakened internal controls, and increased potential risk of errors and exceptions. FDB management should consider the following recommendations to reevaluate and update its policies, processes, and controls to improve efficiencies in operations, and strengthen the system of internal controls. Each of the findings summarized below are discussed further in the Detailed Report – Observations: Findings and Recommendations section.

The key findings resulting from the process and internal controls review are as follows:

- **POLICIES AND PROCEDURES:**

FDB's policies and procedures have not been consolidated and updated to reflect current FDB activities and practices since they were adopted in 2005. (FDB adopted the Interim General Conditions issued by the Public Works Section of "DAGS," which was last updated in 1999, at the time DOE assumed education facilities responsibilities.) Comprehensive policies and procedures should be updated to reflect current industry practices, eliminate inconsistencies and conflicts, and help guide consistent and effective practices throughout the organization.

- **USE OF TECHNOLOGY:**

FDB is not effectively leveraging technology to manage construction planning and project management activities. Due to inconsistent use of the project tracking system, comprehensive management reports to inventory, track, and evaluate projects and performance across the portfolio are not available. In addition the lack of centralized tracking prevented the identification of a complete population of projects for portfolio analysis and sampling purposes for the current state assessment.

- **DOCUMENTATION AND RETENTION:**

FDB does not consistently retain project documents. Policies and procedures do not comprehensively define or provide guidance specifying which project documents Project Coordinators should retain, how documents should be retained, or the required retention periods. Because project documents were not consistently retained or filed, complete sets of project documents were not available for review. As a result the current state assessment team was unable to complete planned testing procedures across a sufficient sample size in order to conclude on the operational effectiveness of internal controls.

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SUMMARY OF FINDINGS

- **FUNCTIONAL OPERATIONS AND OPERATIONAL EFFICIENCY:**

Specific findings and improvement recommendations related to the functional activities covered in this assessment (Project Prioritization; Budgeting and Needs Forecasting; Funding of Projects and Project Initiation; and Procurement of Professional Services) are also included in the Detailed Report – Observations: Findings and Recommendations section. In addition, FDB operational efficiency could be improved. Key focus areas for improvement include leveraging technology, developing management and performance reporting at the portfolio level, improving contracting and administration efficiencies by bundling projects with similar scopes, and assigning projects to Project Coordinators on a complex (geographical) basis. Additional operation efficiency recommendations are include in the following detailed report.

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SUMMARY LIST OF FINDINGS
GENERAL FINDINGS AND RECOMMENDATIONS
Finding 1: FDB does not have consolidated, up-to-date policies and procedures.
Finding 2: FDB does not consistently retain project documents.
Finding 3: FDB does not sufficiently leverage technology to streamline the planning and project management process.
CATEGORY 1: ASSESSMENT OF HOW PROJECTS ARE PRIORITIZED
Finding 4: A decentralized planning approach hinders FDB's ability to prioritize projects appropriately.
Finding 5: The Project Management Section does not execute R&M projects with the same priorities as those originally determined by the Planning Section.
CATEGORY 2: BUDGETING AND NEEDS FORECASTING
Finding 6: The Planning Section develops and relies on unrealistic budgets that hamper prioritization efforts and lead to inefficiency in project execution.
Finding 7: The consultant fee validation process is insufficient to ensure that FDB gets the best pricing from its consultants.
Finding 8: FDB does not adequately track its assets across its campuses to aid in sufficiently forecasting when major repairs will be necessary.

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SUMMARY LIST OF FINDINGS
CATEGORY 3: FUNDING PROJECTS AND PROJECT INITIATION
Finding 9: Legislative budgeting and funding cycles contribute to an inefficient professional services contracting and construction bidding process.
CATEGORY 4: PROCUREMENT OF PROFESSIONAL SERVICES
Finding 10: The Planning Section provides the Professional Services Selection Committee and Project Management Section underdeveloped scopes creating inefficiency in the procurement process.
Finding 11: FDB should consider formalizing policies to help ensure that consultants with no prior experience working with FDB have opportunities to be selected for projects.
Finding 12: FDB does not consistently capitalize on opportunities to improve contracting efficiencies for projects with similar scopes.
Finding 13: FDB's Project Coordinator project assignment process contributes to inefficient project execution.
Finding 14: Staffing to support the contract review process is not adequate to ensure redundancy and continuity in the contract review and approval process.
Finding 15: Excessive levels of review and approval thresholds for professional service contracts prolong the professional service contract procurement process.