

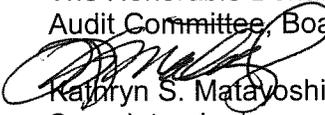


STATE OF HAWAII
DEPARTMENT OF EDUCATION
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OFFICE OF THE SUPERINTENDENT

August 6, 2013

TO: The Honorable Donald G. Horner, Chairperson
Audit Committee, Board of Education

FROM: 
Kathryn S. Matayoshi
Superintendent

SUBJECT: **Response by Facilities Development Branch to the Deloitte & Touche Findings**

We are submitting under separate cover, the response to the Deloitte and Touche findings in the Construction Process and Internal Controls Review. Deloitte's findings were not received in a timely manner to incorporate our response into their Report of Findings.

KSM:jl

Attachment

c: Office of School Facilities and Support Services

**Response to the Construction Process and Internal Controls Review Findings
Prepared by the Facilities Development Branch**

Finding 1. Facilities Development Branch has outdated and decentralized policies governing the Repair & Maintenance Program and Capital Improvements Program.

Corrective Action Plan

In order to improve efficiency in this area Facilities Development Branch (FDB) has implemented the following:

Adoption of a new priority matrix system that more accurately accounts for FDB facilities need. These “key performance indicators” (KPIs) categorizes FDB needs and priorities in a more broad-based and flexible manner. FDB was successful in the last legislative session in obtaining Capital Improvements Program (CIP) funding that was aligned with our KPIs. These KPIs are:

1. Condition (includes R&M, electrical upgrades, structural assessments, etc.)
2. Capacity (includes classroom buildings and portable or temporary facilities)
3. Program Support (includes Libraries, Cafeterias, Offices, and other similar support spaces)
4. Equity (includes gender equity, ADA, etc.)

We believe that this change will enable FDB to more effectively respond to school needs and also help to improve forecasting capabilities.

Finding 2. Facilities Development Branch does not sufficiently leverage technology to streamline the planning and project management process.

Corrective Action Plan

FDB has instituted a number of initiatives to use technology more effectively. These initiatives include:

1. Sharepoint: Adoption and implementation as FDB’s primary interface.
2. FACTRAK: Significant upgrade to the system underway to improve usability and effectiveness. This effort is scheduled to be completed in June 2014.
3. E-Plan Room: Scanning complete on approximately 65 percent of documents. Completed documents have been uploaded to FDB’s Sharepoint site.
4. Asbestos Hazard Emergency Response Act (AHERA): All documents are now digital and available on FDB’s Sharepoint site.

Finding 3. Inconsistency in document retention may lead to compliance violations.

Corrective Action Plan

FDB has created a number of project checklists to assist staff in consistently retaining documents. These checklists include:

1. Insurance Requirements
2. Contract Documents
3. HePS Solicitation (Supporting Bid Documents)
4. Project Closing Documents

Finding 4. Locating Facilities Development Branch's resources in multiple facilities constraints inter-section communication and knowledge sharing.

Corrective Action Plan

The Office of School Facilities and Support Services proposes to address this by moving the Planning Section, Project Management Section, Construction Management Section, Project Control, and the Network Support Services Branch (NSSB), of the Office of Information & Technology Services to the former Liliuokalani Elementary School. This school has been closed for over a year. By having all parts of FDB co-located in the same location in close proximity to each other as well as NSSB, we anticipate that there should be a marked improvement in inter-section communications.

The plan is to begin this move on or about September 1, 2013. Currently, a staff architect has been tasked with designing the office space for the sections.

Finding 5. Insufficient master planning leads to inefficient use of Department of Education resources.

(Because this finding specifically addresses situations on the neighbor islands, FDB response is limited to addressing this specific issue)

Corrective Action Plan

There are short-term fixes and some longer-term fixes that are being considered.

In the short term, one initiative recently begun is to temporarily dispatch staff from Facilities Maintenance Branch (FMB) to the neighbor islands. Currently, because management believes that it is current on repairs for the island of Oahu, FMB is able to send maintenance crews to the neighbor islands. This roving crew of repair people could move through the schools on the neighbor islands and clean out the backlog of repairs. Another initiative being implemented is to dispatch the Building Inspection Planning Services (BIPS) inspectors and have them authorize contractors to come in and work on the schools. These, however, are only short-term fixes and cannot be supported in the long term.

There are also two longer term solutions currently underway. One is to work with the Department of Accounting and General Services (DAGS) about reviewing and

revising the existing Service Level Agreement (SLA) to implement improved service levels and clearer definitions of roles and responsibilities between the Department of Education (DOE) and DAGS on the neighbor islands.

Another solution currently being implemented is the creation of the position of a Facilities Manager. This person would allow the Administrative Service Assistants (ASA) to give up their role of facilities management and concentrate on their duties as assigned by the Complex Area Superintendents.

The Facilities Manager would only work on facilities issues and would serve as FDB's "eyes and ears" in the complex. This person would be much stronger in facilities management than the ASAs were but would be assigned to each complex and FDB would be willing to invest continuously in their training. Currently, FDB is working on a pilot project of two facilities managers. One would be based in urban Honolulu and the second one would be based in West Hawaii. It is anticipated that this would give FDB a full-time presence in each complex. The Facilities Managers would be responsible to work with school within the complex, scope out each repair that needs to be done, and to work with the school staff to prioritize the work that needs to be done.

Finding 6. Inconsistency in soliciting user comments during design development leads to project complications during construction.

Corrective Action Plan

Two initiatives are currently underway that will help to address this issue. First, with the new position of Facilities Manager, FDB will have a person with greater training in basic construction, blueprint review, and interpretation of specifications as its point of contact. The Facilities Manager will be tasked with initially going over the plans with school staff. In addition to this, FDB plans to increase their staffing of their project coordinator positions. With the increase in staffing, FDB may have the resources to do a final review of the project with school personnel.

Finding 7. Facilities Development Branch does not consistently review consultant designs and evaluate consultant performance.

Corrective Action Plan

By increasing the staffing of project coordinators, it is anticipated that the project coordinators will have more time to review the project designs. In addition to this, the Facility Manager would be part of the design process. This person could act as a second pair of eyes to check the drawings to see if they make sense.

Finding 8. Consultant contract modification processing causes project delays

Corrective Action Plan

Prior to 2009, consultant contract modifications were processed through DOE Procurement in Waipahu and contract modifications were treated as new contracts. From 2009 they are being handled in Project Control and they are processed much faster. In addition, working with the Attorney General's Office, FDB has been able

to increase the value of consultant contracts that do not require prior attorney general review from \$25,000 to \$50,000 and construction contracts from \$250,000 to \$500,000

Finding 9. Delays in issuing notices to proceed (NTP) lead to increases in construction costs.

Corrective Action Plan

This issue is a complicated one to address in that each county has their own requirements for obtaining building permits and required certifications. For example, the City and County of Honolulu has allowed state agencies, including the DOE to receive “courtesy” inspections while the building permit is being processed. This is not the case for the neighbor island counties which requires a different approach to work with the specific county involved.

One of the adjustments being implemented is to better coordinate putting projects to bid and the approval of permits. For example, on Hawaii Island, we have changed the process to require permit approvals before putting a project out to bid.

Finding 10. Department of Accounting and General Services may be insufficiently staffed to proactively address small R&M projects on neighbor islands.

Finding 11. Department of Accounting and General Services may be insufficiently staffed to manage quality for neighbor island R&M projects and CIP.

Finding 12. Delays in the Department of Accounting and General Services addressing school-requested projects has led neighbor island schools to use their general education funds (Weighted Student Formula funding) to address selected R&M.

Finding 16. The standards set by the Service Level Agreement with the Department of Accounting and General Services do not appear to adequately meet the needs of neighbor island schools.

Findings 10, 11, 12, and 16 are basically the same finding. They underscore the point that DAGS has not been doing a satisfactory job of supporting the schools on the neighbor islands.

This is a serious problem and there are several things that FDB plans to do to address this. First of all, there has to be a discussion with DAGS as to how they can better support the schools. This will be part of the long-term fix. Second, FMB is looking at the possibility of organizing a mobile maintenance team or teams to be sent to the neighbor islands to clear out the backlog of repairs that needs to be done. This would be a one-time short-term fix of the problem. Third, FDB is planning on doing a pilot project of setting up two Facilities Manager positions. One position would be on the neighbor islands and the second one would be in urban Honolulu. This position would be that of a highly trained BIPS inspector. This person would have the authority to authorize immediate repairs up to certain dollar amounts and; on the neighbor islands, would be tasked with the responsibility of following up on work orders with DAGS and escalating the issue if

repairs are not being done in a timely manner. If this pilot is successful, then additional positions will be created.

Below is DAGS' response to these findings:

DAGS Response: The comments on lack of staffing resources in findings 10 and 11 are appropriate. Since the economic downturn in 2008 our districts have lost vacant positions in this program. The 2013 legislative session was no different and another vacant trade position and funds were lost. Our efforts to increase staff have not been successful and again during the current fiscal biennium budget cycle for fiscal years 2014 and 2015, our requests to fund a central services engineer, plumber, and electrician in Kona, our most challenging area was not approved. We have requested that the legislative money committees visit our district offices so they can see first hand the challenges we are faced with so our budget requests for additional staff and funds are approved so there is a positive impact on the schools.

For finding 16, we agree that the service level agreement (SLA) may not be meeting the needs of the schools and we are willing and open to meeting with representatives of the Department of Education (DOE) to understand what the expectations are and revise the SLA accordingly. The SLA was executed in 2005 and eight years has passed during which time no changes have been made to the SLA but the economic environment and administrations have changed resulting in an outdated SLA. A good example is finding 12 as the schools see projects as a priority item but the current SLA addresses only work orders and construction management of CIP projects and does not include projects. Currently, projects are prioritized and budgeted by the DOE. We could see a possible alternative to amend the SLA to allow DAGS to identify and complete projects up to set dollar limit to expedite the completion of smaller projects. A revised SLA is appropriate to address new expectations and outcomes.

The DOE facilities branch and the DAGS Hawaii District Office facilities operations have begun monthly meetings since March to address operational issues such as work order back logs at the Hawaii District Office. As a result of these meetings, each district office sent a representative to visit the DOE facilities branch in Honolulu in May. Subsequently in July, each district and the DOE facilities branch met in Hilo to review the operations there. These groups have been meeting to move towards a consistent operational model. On July 31, this same group will begin the preliminary review of changes we are contemplating making to the SLA so that services provided and performance levels move towards being consistent Statewide.

Finding 13. Facilities Development Branch does not adequately work through Administrative Services Assistants (ASAs) to keep school stakeholders apprised of project status.

Corrective Action Plan

FDB is proposing doing two things that will improve this situation. The branch is proposing hiring more Project Coordinators. Currently, there is not enough office space available to allow FDB to hire more Project Coordinators. Moving the branch to Liliuokalani Elementary School will allow the branch to hire more Project Coordinators. This will spread the existing work over more project coordinators so that they can spend more time on each project.

In addition to this, FDB plans create the position of Facilities Manager. The plan is that this position will spend time working with the school leadership to determine what is needed for the school, where these improvements should be placed, how the projects should be prioritized, and when the project should start. This should go a long way to getting more input from the schools.

Finding 14. Facilities Development Branch does not incorporate and consistently enforce effective liquidated damages clauses for construction contracts.

Corrective Action Plan

Generally, the Construction Management Section tries to get liquidated damages for construction contracts. However, the problem that FDB has is that it is very hard to establish what the damages should amount to. In the private sector, if the contractor is building a store, then the construction delays can be related to lost sales due to the late opening of a store. For the DOE, the lost revenue concept doesn't work. If a track and athletic field are not finished then the students are deprived of the use of the facility until it is finished, but it is difficult to quantify a dollar amount attributable to the students' loss of the use of the unfinished facility.

As a result of the Legislature's actions in the 2013 session, it is now possible to consider past performance in determining whether a contractor is qualified to bid on a project. FDB is working on implementing a protocol to include consideration of past performance in construction contracts.

Finding 15. Project contingency may be insufficiently developed to address common unforeseen conditions.

Corrective Action Plan

Generally, project contingencies are set at 5 percent or 7 percent of construction costs. Although adequate as a "Rule of Thumb," it does not adequately account for project specific issues that may be known but not necessarily accounted for in the "Rule of Thumb" estimate.

FDB believes that with the addition of more Project Coordinators and the hiring of Facilities Managers, more time will be spent vetting projects so that project scopes are better developed. This should allow FDB to cut down on the problems of insufficient contingency balances for projects.

Finding 17. Delays in construction project closeout increase Facilities Development Branch risk.

Corrective Action Plan

FDB acknowledges that this is a problem and stems from the fact that Construction Management staff is handling as many as 100 projects each at any one time. With this workload, Construction Management staff has little choice but to start the next project instead of closing out the old ones.

A big part of the problem is that office space for Construction Management staff, as well as all of FDB staff is inadequate. The space issue will be solved when FDB moves into the former Liliuokalani School in Kaimuki.