



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

September 6, 2018

TO: The Honorable Catherine Payne
Chairperson, Audit Committee

FROM: Dr. Christina M. Kishimoto
Superintendent 

SUBJECT: **Committee Action on the Department of Education's Construction Process and Internal Controls Follow-Up Review**

1. RECOMMENDATION

Approval of the Department of Education's Construction Process and Internal Controls Follow-Up Review.

2. RECOMMENDED EFFECTIVE DATE

September 6, 2018.

3. RECOMMENDED COMPLIANCE DATE

Same as effective date.

4. DISCUSSION

a. Conditions leading to the recommendation:

Internal Audit has discussed our findings (observations) and recommendations with Management and they have submitted their management plans for inclusion in the report.

b. Previous action of the Board on the same or similar matter: N/A

c. Other policies affected: N/A

d. Arguments in support of the recommendation:

If the review is approved, Internal Audit will follow up with Management on their progress of completion for their action plans, and report accordingly through the audit committee quarterly updates.

e. Arguments against the recommendation: N/A

f. Other agencies or departments of the State of Hawaii involved in the action: N/A

g. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendations: N/A

h. Educational implication: N/A

i. Personal implications: N/A

j. Facilities implications: N/A

k. Financial implications: N/A

CMK:bs
Attachment

c: Internal Audit Office



Department of Education

Internal Audit

Construction Process and Internal Controls Follow-Up Review

Issue Date: June 2018

Report Number: FY2018-03

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

AUDIT OF: Construction Process and Internal Controls Follow-Up Review	DATE: Fieldwork performed February 2018 – April 2018	AUDIT RATING: Acceptable [] Marginal [X] Unacceptable []
---	--	--

INTRODUCTION:

In connection with the Department of Education’s (DOE) Updated Risk Assessment and Internal Audit Plan approved on May 2, 2017, Internal Audit (IA) performed a “*Construction Process and Internal Controls Follow-Up Review*.” The purpose of this review was to assess the implementation of the recommendations presented by Deloitte & Touche LLP’s “*Construction Process and Internal Controls Review*” reports issued in April 2012 and July 2013.

BACKGROUND:

The Facilities Development Branch (FDB) was formed in 2005 when responsibility for the DOE construction and construction-related activities was transferred by the authority of Act 51 from the Hawaii State Department of Accounting and General Services (DAGS) to the DOE Office of School Facilities and Support Services (OSFSS).

FDB is responsible for the planning, coordination, and management of the capital improvement program (CIP) projects on Oahu and the neighbor islands. The CIP projects include the construction of new facilities, facility improvements, and large scale repair and maintenance (R&M) activities. Small R&M jobs for the neighbor islands are handled by DAGS via a Service Level Agreement (SLA) that defines the support services required for small R&M jobs at schools and DOE facilities.

The Facilities Development Branch is composed of three sections:

- Planning Section – Evaluates the project requests, develops the initial cost estimate, prepares the biennium budget requests, and prioritizes / schedules the CIP projects. The Planning Section includes the Building Inspection Planning Unit who visits the schools annually to discuss and determine the large scale R&M needs of the schools.
- Project Management – Manages the design phase of the CIP projects, procures the services of and manages the architectural and engineering design consultants, and oversees the projects through the completion of construction.
- Construction Management – Manages the construction phase of the CIP projects. Procures the services of and manages the construction management consultants.

The Auxiliary Services Branch provides staff services support for FDB which includes contract administration and project accounting in the Financial Management System (FMS) (e.g. payment processing, closing projects in FMS). They monitor the neighbor island DAGS Service Level Agreement related to the repairs and maintenance work orders.

The State of Hawaii Executive Branch budgets on a biennial basis using the Planning, Programming and Budgeting System (PPBS) adopted in 1970. The biennial budget is submitted to the Legislature in odd numbered years and the supplemental budget is submitted in even numbered years. The DOE, with the approval of the Board of Education, submits a CIP budget proposal to the Department of Budget and Finance for the Governor’s consideration in the preparation of the executive budget proposal. The executive budget proposal is submitted to the Legislature where a bill is introduced. The budget bill is reviewed and deliberated by the various committees, and after the bill is passed and certified by both

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

houses, it is presented to the Governor for approval and signature into law.

FDB's CIP budget for the biennium fiscal year FY 2017-18 was approximately \$455.8 million. CIP funds are appropriated into Lump Sum Key Performance Indicators (KPIs) and into specific projects initiated by the Legislature. FDB utilizes the Lump Sum KPI funds for various R&M and facility improvement needs based on the prioritization of projects from the FDB Planning Section. The Lump Sum KPIs offer some latitude as to how the funds are allocated for projects within each KPI. The funds appropriated for the Legislature initiated projects are dedicated solely to those specific projects. The table below is a summary of the CIP appropriations for FY 2017-18:

Category	Categories of Projects	Appropriation (000's)
Lump Sum - Project Positions	Costs related to project funded staff positions for the implementation of CIP projects	\$ 4,349
Lump Sum - Condition	Building, Electrical, Infrastructure Improvements Structural Improvements Hazardous Materials Removal Playground Equipment / R&M Minor Renovations and Improvements	\$ 90,000
Lump Sum - Program Support	Gender Equity ADA Compliance Master Plan / Land Acquisition New support facilities: Libraries, cafeterias, student support, faculty centers, restrooms, athletic / PE facilities	\$ 32,950
Lump Sum - Capacity	New schools New facilities for capacity New temporary facilities Repurposing existing facilities to create capacity	\$ 177,000
Lump Sum - Equity	Noise abatement New facilities for instructional programs SPED, Science, PE, Specialty classrooms Science facility upgrades Special Education renovations	\$ 32,950
Legislature Initiatives	Various construction, renovation and improvement projects identified for specific schools	\$ 118,515
	TOTAL	\$ 455,764

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

Dann Carlson is the Assistant Superintendent of the OSFSS. The FDB management staff includes John Chung, Public Works Administrator, Kenneth Masden, Public Works Manager - Planning Section, (Vacant) Public Works Manager - Project Management Section, and Jadine Urasaki, Public Works Manager - Construction Management Section. Riki Fujitani is the Auxiliary Services Director.

SCOPE and OBJECTIVES:

The scope of our review included a review of management actions implemented to address the findings and recommendations presented in the Deloitte & Touche LLP reports from 2012 and 2013, and the operating effectiveness of the following functional activities:

- Project Prioritization
- Design and Project Management
- Construction Management
- Procurement of Professional and Construction Services
- Project Accounting

The objectives of our review included the following:

1. Ensure Management adequately addressed the findings and recommendations from the “*Construction Process and Internal Controls Review*” reports issued in April 2012 and July 2013.
2. Evaluate the operating effectiveness and adequacy of the internal controls for the procedures related to the CIP construction processes.

OBSERVATIONS:

Based on our review, we found the controls related to FDB’s management of the Capital Improvement Projects are functioning at a “Marginal” level. A marginal rating indicates a number of observations, more serious in nature, related to the control environment. Corrective measures are required to bring these areas up to an acceptable status.

Please refer to the Risk Ratings section of this report (page 7) for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

There were a total of 32 findings and recommendations presented in the two Deloitte & Touche LLP “*Construction Process and Internal Controls Review*” reports, some of which were repeat findings from the original report or interrelated findings. IA consolidated the findings into 15 main topics and the status of management’s actions are as follows:

	Prior Finding	Status of Corrective Actions	Observation Reference
1	Lack of, or out of date, policies and procedures.	<p>Complete:</p> <ul style="list-style-type: none"> • Approximately 20 policies and procedures were documented or updated for various FDB areas. • Consultant firm was hired to document Project Control and Business Services process flow. 	No findings

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

	Prior Finding	Status of Corrective Actions	Observation Reference
2	Inconsistent retention of project files.	Complete: Construction management files were complete and well organized.	No Findings
3	Technology is not leveraged to streamline and manage processes.	In Progress: <ul style="list-style-type: none"> • Purchased 3rd party software from Caspio Enterprise that will replace the FACTRAK project management software. Currently pilot testing with the anticipated implementation in November 2018. • The Caspio system design should allow FDB to track the project portfolios from inception to completion and integrate the project's financial data. The system is projected to capture the following: <ul style="list-style-type: none"> ○ Project budgets, appropriations, and allotments. ○ Project scheduling, status, consultant and contractor documentation, and approval workflow. ○ Contract master and change order history. ○ Payment transactions interfaced from FMS and storage of invoices. 	Pending Implementation
4	Locating FDB resources in multiple facilities constrains inter-section communication and knowledge sharing.	Complete: <ul style="list-style-type: none"> • FDB centralized most of their operations into one location at the former Liliuokalani Elementary School. 	No Findings
5	Decentralized planning approach and ineffective prioritization efforts lead to inefficient project execution.	Incomplete: <ul style="list-style-type: none"> • There are insufficient funds and resources to adequately address all of the needs of the schools, and there is no strategic master plan to manage the imbalance. 	Observation 1

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

	Prior Finding	Status of Corrective Actions	Observation Reference
6	The Planning Section develops and relies on unrealistic budgets that hamper prioritization efforts and lead to inefficiency in project execution.	<p><i>In Progress:</i></p> <ul style="list-style-type: none"> The Planning Section’s preliminary cost estimates are intended to be “rough cost estimates” due to the number of project requests, limited scopes, and time. The Caspio system will integrate the financial data with the historical project specifications and is expected to improve the cost estimation process for future projects. 	Pending Implementation
7	The Project Management Section does not execute R&M projects with the same priorities as those originally determined by the Planning Section.	<p><i>Complete:</i></p> <ul style="list-style-type: none"> Current procedures limit the Project Coordinators to only work on projects that are prioritized and scheduled by the Planning Section and assigned by management. 	No Findings
8	Consideration to formalize policies to help consultants with no prior work experience with FDB to have opportunities to be selected for projects.	<p><i>Complete:</i></p> <ul style="list-style-type: none"> FDB is in compliance with HRS Chapter 103D-304 for the selection of consultants. All interested consultants are added to the pool of pre-qualified consultants if they meet the minimum qualification requirements. In order to mitigate favoritism, the number of projects the consultants are awarded is included as one of the consultant selection criteria. 	No Findings
9	Opportunities to improve contracting efficiencies for projects with similar scopes are not consistently capitalized.	<p><i>In Progress:</i></p> <ul style="list-style-type: none"> Implementation of Job Order Contracting (JOC), which uses competitively bid, multi-year construction contracts for small to medium size R&M projects, is expected to reduce the time and cost required to complete R&M CIP projects. Repair and maintenance projects have been bundled since 2014 and resulted in a reduction of the number of projects and improved project coordination at the schools. 	Pending Implementation

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

	Prior Finding	Status of Corrective Actions	Observation Reference
10	Staffing to support the contract review process is not adequate.	<p><i>In Progress:</i></p> <ul style="list-style-type: none"> Reorganization of the Auxiliary Services Branch will add a CIP Fiscal Services Section that is expected to improve cross training opportunities. 	Pending Reorganization
11	Inconsistency in soliciting user comments during design development.	<p><i>Complete:</i></p> <ul style="list-style-type: none"> The Project Coordinators and Planners include the School Administrators and the Administrative Services Assistants (ASA) in the design consultant scope meetings, and updates are provided to the Schools on the status of the project's progress. 	No Findings
12	Inconsistent review of the consultant designs and evaluation of the consultant's performance.	<p><i>Partially Complete:</i></p> <ul style="list-style-type: none"> The design consultants are evaluated by both the Project Coordinators and the Construction Managers, and the consultant's performance is one of the criteria in the selection process. Detailed reviews of the consultant designs are not consistently performed prior to bidding the construction contracts. 	Observation 2
13	Liquidated damages are not consistently incorporated or enforced.	<p><i>Complete:</i></p> <p>General contractors are placed on notice, and the liquidated damages are enforced whenever warranted.</p>	No Findings
14	Delays in construction project closeout increase risk.	<p><i>Incomplete:</i></p> <ul style="list-style-type: none"> Completed projects were not closed by Project Coordinators timely. Projects are not closed in the FMS accounting system timely. 	Observation 3

Department of Education
Construction Process and Internal Controls Follow-Up Review

Executive Summary

	Prior Finding	Status of Corrective Actions	Observation Reference
15	Excessive levels of review and approval thresholds	<p><i>Partially Complete:</i></p> <ul style="list-style-type: none"> • In June 2016, the delegation of authority for the Assistant Superintendent of OSFSS was increased to \$5 million for the execution of contracts and \$5 million for the execution of modifications, supplemental agreements, and change orders. • The contract change orders are not always executed within the delegated authority. 	Observation 4

Improvements were made or will be implemented; most significantly, the planned implementation of the Caspio system and the transition to the Job Order Contracting method of contracting that is expected to improve FDB's operational effectiveness and efficiency. IA noted additional findings that are detailed below.

We discussed our preliminary findings and recommendations with Management and they agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations to help ensure the control gaps are addressed and to mitigate the control weaknesses if enforced and monitored. In summary, our observations are as follows:

1. Lack of a strategic master plan to address the facility improvement needs with limited funds and resources.
2. Consultant designs are not consistently reviewed in detail before the projects are bid for construction.
3. Projects are not closed timely after the completion of the construction phase.
4. The approval of the contract change orders were not always executed within the approved delegation of authority.
5. Supporting documentation for blanket encumbrances were not kept on file.

PLANNED FOLLOW-UP BY MANAGEMENT AND INTERNAL AUDIT:

IA will follow-up with Management on their progress of completion for their action plans, and report accordingly through the audit committee quarterly updates.

Department of Education
Construction Process and Internal Controls Follow-Up Review
Rating Scale Definitions

OVERALL RATING SCALE	
<i>Acceptable</i>	No significant deficiencies exist and improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
<i>Marginal</i>	Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
<i>Unacceptable</i>	Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of Management and may require significant amounts of time and resources to implement.

OBSERVATION RATING SCALE	
<i>High (1)</i>	<p>1 - The impact of the finding is <i>material</i>¹ and the likelihood of loss is probable in one of the following ways:</p> <ul style="list-style-type: none"> • A material misstatement of the DOE’s financial statements could occur; • The DOE’s business objectives, processes, financial results or image could be materially impaired; • The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE’s financial performance, operations or image. <p><i>Immediate action is recommended to mitigate the DOE’s exposure.</i></p>
<i>Moderate (2)</i>	<p>2 - The impact of the finding is <i>significant</i>¹ and the likelihood of loss is possible in one of the following ways:</p> <ul style="list-style-type: none"> • A significant misstatement of the DOE’s financial statements could occur; • The DOE’s business objectives, processes, financial performance or image could be notably impaired; • The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE’s financial performance, operations or image. <p><i>Corrective action by Management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p>
<i>Low (3)</i>	<p>3 - The impact of the finding is moderate and the probability of an event resulting in a loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p>

¹ The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Each observation presented in this report is followed by recommendations and a management action plan that will improve and mitigate the control weaknesses. We discussed our findings and recommendations with Management and they developed a management action plan with an estimated completion date for implementation. In summary, our observations are as follows:

Obs. No	Description	Page #
1	Lack of a strategic master plan to address the facility improvement needs with limited funds and resources.	10
2	Consultant designs are not consistently reviewed in detail before the projects are bid for construction.	12
3	Projects are not closed timely after the completion of the construction phase.	14
4	The approval of the contract change orders were not always executed within the approved delegation of authority.	16
5	Supporting documentation for blanket encumbrances were not kept on file.	17

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Observation Number: 1	Rating: Moderate
Observation: Lack of a strategic master plan to address the facility improvement needs with limited funds and resources	
<p>This observation is a repeat finding from the “<i>Construction Process and Internal Controls Review</i>.”</p> <p>FDB does not have a strategic master plan to address all of the facility improvement needs with limited funding and resources available. The projects are identified and prioritized based on user requests, complex area reviews and new school and building prioritizations. The number of project requests has historically exceeded the number of projects that are completed. The benefits of strategic planning² are:</p> <ul style="list-style-type: none"> ➤ Establishes a vision and mission that allows an organization to be proactive rather than reactive to situations as they arise. ➤ Defines the direction and establishes realistic objectives that are in line with the organization’s vision. ➤ Aligns functional activities and guides management decision making in determining resource and budget requirements to accomplish objectives. <p>In conducting interviews with FDB staff and reviewing documents, IA noted the following:</p> <ul style="list-style-type: none"> ➤ There are approximately 900 CIP and R&M projects in progress, and the Project Coordinators are responsible for managing on average 50 – 60 projects concurrently. There is no standard for the number of projects a project managers should handle concurrently due the number of variables that must be considered; however, the number of projects assigned to FDB Project Coordinators are significantly higher than private sector organizations. ➤ There are over 4,000 project requests on the backlog list that date back to 2005, and will likely increase as the facilities age. The average age of the DOE facilities is over 50 years. ➤ The budget request proposals submitted to Legislature are not fully funded. FDB initial biennium budget request for the biennium fiscal year 2017-18 was \$705.5 million; however, only \$455.8 million was approved. ➤ The Legislature initiated add-on CIP projects are not always in line with FDB’s priority of backlog projects. For the 2017-18 biennium budget, the Legislature initiated add-on projects totaled \$118.5 million, or 25% of the total CIP funds appropriated. 	
Impact	
<p>Lack of planning, limited funds and resources may possibly lead to:</p> <ul style="list-style-type: none"> ➤ School’s facility needs not met ➤ Increase in backlog of projects ➤ Inefficient utilization of funds 	
Recommendation and Management Plan	
<p>Recommendation for insufficient funds and resources include:</p> <p style="text-align: center;">Recommendation: Management should develop a strategic master plan that takes into consideration the global facility needs, the evolving curriculum and the increasing facility needs to efficiently address the school’s facility needs and maximize the funding and resources that are available.</p>	

² Strategic Management Resources

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Management Plan:

1. Refocus FDB project development and delivery processes
 - replace the current prioritization system with a facility condition rating system
 - abandon the KPMG fund allocation formula
 - focus funds and resources on the most pressing needs
2. Increase transparency in reporting of project status and funding requirements
 - Caspio reporting system
3. Improve accuracy of project budgeting
 - Develop project cost budgeting tools based on historical project costs
 - System will utilize data in the Caspio / FMS / and GIS environments
 - Publish unit cost values for DOE and Legislature use in preparing budget estimates
4. Adjust the facility development process to better incorporate operations, maintenance, and regulatory compliance aspects.
 - Provide improvements that can be reasonably maintained by our maintenance staff
 - Better schedule routine maintenance to minimize long term replacement costs
 - Procure additional resources to augment DOE staff where needed
 - Address regulatory requirements more rigorously to avoid penalties and fines
5. Develop a building replacement program
 - Assess the asset inventory identifying opportunities for replacement in lieu of continued maintenance

Anticipated Completion Date: 1 and 2 - 12/2018; 3, 4, and 5 - 12/2019.

Contact Person: Dann Carlson, Assistant Superintendent, OSFSS
John Chung, Facilities Development Branch Administrator

Responsible Party

Facilities Development Branch, OSFSS

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Observation Number: 2	
Observation: Consultant designs are not consistently reviewed in detail before the projects are bid for construction	Rating: Moderate
<p>This observation is a repeat finding from the “<i>Construction Process and Internal Controls Review.</i>”</p> <p>A quality assurance process is essential to ensure the accuracy and completeness of the consultant designs. Examples of items to review in an effective project assurance process³ includes the following:</p> <ul style="list-style-type: none"> • Compliance to codes and regulations (e.g. local and State building codes, fire safety requirements, Americans with Disabilities Act (ADA) Architectural Guidelines). • Completeness and accuracy of the plans and scheduling of trades and phases of construction. • Coordination of designs between the disciplines (e.g. architectural, structural, civil, electrical, mechanical, plumbing, telecom). • Compliance to DOE design standard technical specifications. <p>FDB has a quality assurance process in place; however, it is not consistently performed. The Project Coordinators are responsible for performing the assurance process, but their work load includes managing multiple projects concurrently. Due to the limited amount of time, Project Coordinators’ primary focus is to coordinate the project’s progress, address/resolve issues, and perform other administrative tasks over the design review. In addition, a less detailed review is performed when time is of the essence to proceed with the bidding of the projects for construction (e.g. the appropriation lapsing period).</p>	
Impact	
<p>Insufficient review of design consultant reviews may result in the following:</p> <ul style="list-style-type: none"> ➤ Inaccurate or incomplete designs ➤ Increased change orders ➤ Complications in construction ➤ Delays in construction and project completion 	
Recommendation and Management Plan	
<p>Recommendation for consultant designs not consistently reviewed include:</p> <p>Recommendation: Management should improve their quality assurance process to ensure consistent detailed reviews of the consultant’s designs are performed before the projects are bid for construction.</p> <p>Management Plan: Adjust our processes to reduce the effort required to review plans.</p> <ol style="list-style-type: none"> 1. Implement selective plan review system based on value, scope, and experience with consultant team. Reviewers will include PWA, PWM PMS, and key A/E staff with applicable technical expertise. Consider requiring a review charrette to ensure all parties are present in the same location and reviewing the documents. 	

³ PC Associates

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

2. Enforce requirements for basis of design documents from our consultants. Clear articulation of the scope of work and the design strategies to be employed to solve the design challenges should focus the design effort and provide reviewers a means to efficiently review documents.

3. Revamp the design process to streamline the preparation and review processes. Publish standard specifications and details which are referenced in design documents. Project specifications will only include deviations or amendments to the standard specifications rather than repeat the entire specification. This will build consistency across the system and allow reviewers to quickly identify project specific changes to the specifications. Preparation of standard specifications will be coordinated with specifications needed for the JOCs program.

Anticipated Completion Date: 1 and 2 - 12/2018; 3 - 12/2019.

Contact Person: Dann Carlson, Assistant Superintendent, OSFSS
John Chung, Facilities Development Branch Administrator

Responsible Party

Facilities Development Branch, OSFSS

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Observation Number: 3
Observation: Projects are not closed timely after the completion of the construction phase Rating: Moderate
<p>This observation is a repeat finding from the “<i>Construction Process and Internal Controls Review</i>.”</p> <p>Executive Memorandum No. 97-07 Section III.B.4 stipulates “After the objectives of the appropriations for CIP projects have been met, all surplus or unrequired general obligation bond funds and State Educational Facilities Improvement special funds from the General Appropriations Act shall be transferred into the appropriate project adjustment fund within 45 days.” The DOE project adjustment fund is no longer available, so any unused funds will be returned to the State.</p> <p>In conducting interviews with FDB staff and reviewing documents, IA noted the following exceptions:</p> <ul style="list-style-type: none"> ➤ Completed projects were not closed by Project Management on a timely basis. Project Management allows a period of time after the construction is completed and the final invoice has been issued to gather close out documentation and settle any outstanding issues for the projects. Project Management closes the projects and notifies Project Control to close the projects in FMS. There were 110 completed projects that Project Management did not close within six months after the construction process was completed. ➤ Outstanding encumbrances are not closed in the FMS accounting system as the projects were completed. When a project is completed, an accounting close in FMS is required to release any unused encumbered funds in order to make the funds available for other projects or return the unused funds to the State. FDB did not close these projects timely in FMS, and instead released the unused encumbered funds by responding to the DAGS Comptroller annual memo by reviewing prior lapsing period’s outstanding blanket encumbrances. While this method did release the funds, it is not timely and is an ineffective use of unused funds.
Impact
<p>Untimely project closures by the Project Management Section and Project Controls may result in unused appropriated funds left outstanding and not returned to the State.</p>
Recommendation and Management Plan
<p>Recommendation for projects not closed timely after construction is completed include:</p> <p>Recommendation: FDB should ensure the projects are closed timely. Project Management should improve the timeliness of closing the projects and advising Project Control. Project Control should ensure the completed projects are closed in FMS shortly thereafter.</p> <p>Management Plan: FDB established and filled a new CIP Planner position that will oversee a Fiscal Section pending a reorganization. The Fiscal Section will be responsible for closing projects in FMS when the Project Management Section and Construction Management section have verified that all appropriation objectives have been met.</p> <p>FDB is currently working with DOE Accounting to define a process in which projects should be closed on FMS. Once that process is finalized, the employees assigned to the pending new Fiscal Section along with DOE Accounting will be closing CIP projects in FMS.</p>

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

<p>Anticipated Completion Date: 12/2018</p> <p><u>Contact Person:</u> Dann Carlson, Assistant Superintendent, OSFSS John Chung, Facilities Development Branch Administrator Riki Fujitani, Auxiliary Services Director</p>
<p>Responsible Party</p>
<p>Facilities Development Branch, OSFSS Auxiliary Services Branch, OSFSS</p>

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Observation Number: 4	
Observation: The approval of the contract change orders were not always executed within the approved delegation of authority	Rating: Moderate
<p>To address a finding in the “<i>Construction Process and Internal Controls Review</i>” regarding excessive levels of review and approval thresholds for contracts, the DOE in June 2016, issued a memo increasing the procurement of contracts delegation of authority threshold for the Assistant Superintendent of OSFSS to \$5 million for the execution of contracts and \$5 million for the execution of modifications, supplemental agreements, and change orders.</p> <p>Although the delegation of authority was increased, it did not allow for further delegation of authority from the Assistant Superintendent to a designee, except for when the AS is out of the office for an extended length of time. Per the June 22, 2016 memo, “<i>Delegation of Procurement and Contracting Authority for Chapters 103D and 103F, Hawaii Revised Statutes Regarding Expenditures by the Office of School Facilities and Support Services</i>”, it states, “The authority delegated subject to this document may not be delegated further and shall remain in effect until such time as it is cancelled by the Superintendent. This authority does not rescind or cancel any prior delegations, with the exception of the matters detailed herein and subject to the fiscal expenditures of the OSFSS.” In addition, the September 17, 2012 memo, “<i>Delegation of Procurement and Contracting Authority for Chapter 103D Hawaii Revised Statutes</i>”, stated, “This authority may not be further delegated except when the AS is out of the office for an extended length of time.”</p> <p>IA reviewed thirty five (35) project files, and noted two (2) change orders were approved by the Public Works Manager and not the AS of OSFSS.</p>	
Impact	
<p>Non-compliance with the authorized delegation of authority may result in the following:</p> <ul style="list-style-type: none"> ➤ Unauthorized contract expenditures. 	
Recommendation and Management Plan	
<p>Recommendation for not approving change orders within the delegation of authority include:</p> <p>Recommendation: FDB should ensure compliance with the Delegation of Procurement and Contracting Authority for Hawaii Revised Statutes, Chapters 103D and 103F, and have the Assistant Superintendent, OSFSS approve all change orders.</p> <p>Management Plan: The delegation of authority to the Public Works Manager level is necessary to ensure project schedules are adhered to. OSFSS will recommend such delegation of authority to the Superintendent.</p> <p>Anticipated Completion Date: 08/2018</p> <p>Contact Person: Dann Carlson, Assistant Superintendent, OSFSS John Chung, Facilities Development Branch Administrator</p>	
Responsible Party	
Facilities Development Branch, OSFSS	

Department of Education
Construction Process and Internal Controls Follow-Up Review

Observations

Observation Number: 5
Observation: Supporting documentation for blanket encumbrances were not kept on file. Rating: Moderate
<p>DAGS Comptroller’s Memorandum No. 2005-12 indicates blanket encumbrances will be accepted for contracts that are not fully executed by the end of the appropriation lapse date, but the requests requires the following documentation:</p> <ul style="list-style-type: none"> • For competitive sealed bidding – bid tabulation sheets opened on or before the end of the quarter or June 30 that reflect all bidders and proposed amounts. Recommendations of contract awards for bids opened on or before the end of the quarter or June 30 will be accepted. • For competitive sealed proposals – the intent to award letter containing the amount of the proposal dated on or before the end of the quarter or June 30. • For professional services – the intent to award letter dated on or before the end of the quarter or June 30 and the selection committee’s ranking that is sent to the head of the purchasing agency. If the ranking does not contain prices, the intent to award letter must contain the amount of the proposal. <p>Through our testing, IA noted there was no documentation on file for the blanket encumbrances submitted for contracts that were not fully executed by end of the lapsing period.</p>
Impact
Unsupported blanket encumbrances may result in inappropriate and improper use of the blanket encumbrances.
Recommendation and Management Plan
<p>Recommendations for the lack of documentation for blanket encumbrances include:</p> <p>Recommendation: FDB should ensure the requirements for submitting blanket encumbrances are met before submitting the encumbrance request. The required documentation should be kept on file.</p> <p>Management Plan: FDB will comply with the requirements of DAGS Comptroller Memorandum No. 2005-12 for FY 2016 and FY 2017 lapsing funds on 06.30.18.</p> <p>FDB now has the required documentation for blanket encumbrances on its internal server. In addition, a ERFBP010 report provided by DOE Accounting will be prepared on lapsing years to identify contract numbers for projects that are still in process and to identify which accounting manual section the blanket encumbrance relates to.</p> <p>Anticipated Completion Date: 6/29/2018</p> <p>Contact Person: Dann Carlson, Assistant Superintendent, OSFSS</p>
Responsible Party
Auxiliary Services Branch, OSFSS

Department of Education
Construction Process and Internal Controls Follow-Up Review

Acknowledgements

IA wants to acknowledge FDB for the improvements they've made and the action plans they agreed to implement to improve the CIP process. We wish to express our appreciation for the cooperation and assistance afforded to the review team by management and staff during the course of this review.