Construction Performance Audits:
How to Achieve Compliance and Program Goals

Presenters:
Curtis Matthews, Partner
Shirley Komoto, Senior Manager

October 7, 2010
Agenda

≡ Current Situation
≡ Why Construction Programs Are So Risky
≡ Common Construction Program Exposures
≡ Performance Audit Definitions
≡ Compliance Performance Audits
≡ Economy, Efficiency and Internal Control Performance Audits
≡ Q&A
The Current Situation
Current Situation with Education Facilities

- Aging facilities and increase in facilities use
- Demographic population shift to western and/or sun belt states
- Significant public interest and internal stakeholder impact
Current Situation with Education Facilities

- Statutory requirements (e.g. CA Proposition 39)
- Senate Bill No. 1473 requiring GAGAS compliance
- Changing curriculum requirements impacting facilities
- Fluctuating material and labor costs, and exceedingly competitive contractor bids
Current Situation with Education Facilities

≡ Narrowly defined Bond Compliance requirements
≡ Shortage of available funds (restricted state funding)
≡ Severe consequences for the perception of failure
Risk
Why Construction Programs are So Risky

- Significant expenditures
- High profile projects/programs receive extra scrutiny
- Misunderstanding of compliance requirements
- Construction is not your core competency
- High reliance on outside architects, engineers and contractors
- Problems can lead to huge losses, significant litigation issues
- Construction delays could affect readiness for classes
Why Construction Programs are So Risky
Program Exposures
Common Construction Program Exposures: Financial and Audit Compliance

≡ Bond monies allocated and used for general fund purposes
≡ Bond fund expenditures used for projects not listed in the Bond
≡ Audit firm not qualified or work does not comply with GAGAS
Common Construction Program Exposures: Operations Effectiveness and Efficiency

≡ Excessive requirements and scope creep
≡ Excessive change order costs
≡ Project delays and disruptions
≡ Cost escalation, overcharges and costly practices
≡ Construction quality issues
What is a Performance Audit?
What is a Performance Audit?

State of California Definition:

“to ensure that the funds are expended only on specified projects listed in the proposition authorizing the sale of bonds.”

(California Constitution, Proposition 39)

“conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States for financial and performance audits.”

(Senate Bill 1473, approved September 23, 2010)
What is a Performance Audit?

Generally Accepted Government Auditing Standards (GAGAS) Definition:

“engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specified requirements, measures, or defined business practices.”

An objective analysis that enables management and those charged with governance and oversight to use the information to “improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, contribute to public accountability.”

(GAGAS, paragraph 1.25)
What is a Performance Audit?

Types of GAGAS Performance Audits:

- **Compliance** – Audit against compliance criteria established by laws, regulations, contract provisions and other requirements.

- **Economy and Efficiency** – Focuses on resource consumption and how organizations acquire, protect and use resources.

- **Effectiveness and Results** – Measures the extent to which a program is achieving its goals.

- **Internal Control** – Assess internal controls to determine if they provide reasonable assurance of achievement of specified goals.

- **Prospective Analysis** – Provides analysis or conclusions about information that is based on assumptions about future events along with possible actions.
What is a Performance Audit?

GAGAS Performance Audit Types – Proposition 39 Examples:

- **Compliance** – Verifies the bond funds were used on projects listed with the bond issuance. (Most common performance audit.)

- **Economy and Efficiency** – Analysis of whether projects were properly bid, change orders did not duplicate project work scope or correct contractor errors, etc. (Often seen on larger programs.)

- **Internal Control** – Assessment of internal controls design and operational performance to achieve bond program goals. (Often seen on larger programs.)

- **Effectiveness and Results** – Assessment of whether bond program educational and building life objectives were achieved. (Uncommon)

- **Prospective Analysis** – Analysis of future economic impact on forecasted bond program costs. (Uncommon)
Proposition 39
Compliance
Performance Audits
Focus

Compliant use of funds
Example Compliance Audit Scope

- **Audit Planning** – Review background information and conduct a high level risk assessment to plan the audit.

- **Confirm Bond Program Internal Controls** – Review authorization and oversight over bond listed projects/master plan reconciliation, contracts execution, payments made, accounting for bond funds use and close-out activities.

- **Obtain District Annual Expenditures** – Reconcile expenditures to district bond fund books and records, and obtain management representation letter.

- **Validate Expenditure Approvals** – Test bond program purchase orders and contracts for approval per district policy and validate inclusion in the district master plan.

- **Sample and Test Expenditures** – Sample and test expenditures for compliant use on projects listed with the bond.
GAGAS Auditor Requirements

≡ **Auditor Qualifications** – Competence, integrity, objectivity and independence.
   - Performance audit experience
   - Knowledge of GAGAS, the community college environment and construction programs
   - Written and verbal communication skills
   - Sampling, information technology, engineering and construction audit skills that may be required
   - CPE requirements – 80 hours CPE, 24 hours government audit required every two years
   - Firm quality control system
   - Peer review once every three years
   - Not perform management functions or audit their own work

≡ **Fieldwork Standards Compliance** – Planning, supervision, evidence, documentation and reporting.
Noncompliance Examples

Here are some examples of what not to do with bond funds:

- Pay for administration salaries
- Lease school buses
- Perform routine maintenance work
- Transfer bond monies for use in the general fund
Proposition 39
Economy, Efficiency and Internal Control Performance Audits
Covers All Phases of the Construction Program

- **Planning**
  - Project scope definition sessions
  - Communications process and progress meetings

- **Programming**
  - Staffing model
  - Procurement practices
  - Project control structure
  - Contractual controls
  - Project scheduling

- **Design**
  - Project objectives and plans
  - Project management processes, reporting and change order controls
  - Design and planning performance

- **Construction**
  - Project progress and quality
  - Cost measurement and payment controls
  - Contractor cost records, financial/budgetary reporting and control processes
  - Safety program and insurance best practices

- **Completion & Close-out**
  - Final cost and contract compliance
  - Learning for improvement on future projects
Provides:

- More complete and balanced performance audit reporting to address stakeholder perceptions
- Efficiencies to better achieve program goals
- Adaptation of good practices from other programs
Focus Areas

Change order and close-out controls to prevent litigation
Focus Areas (cont.)

Stakeholder communication and equitable use of funds
Focus Areas (cont.)

Staffing needed to deliver projects on time and within budget
Focus Areas (cont.)

Consistent application of construction program policies and procedures
Focus Areas (cont.)

Construction productivity and efficiency management
Focus Areas (cont.)

Completeness and integrity of construction program reporting
Focus Areas (cont.)

Project management information systems use and data integrity
Focus Areas (cont.)

Construction contract controls
Focus Areas (cont.)

Contractor billing compliance controls
Focus Areas (cont.)

Contractor solvency monitoring
Example Benefits

**ACTION**

Provided staffing benchmarks to make needed resources available

**RESULT**

$16 million savings

MOSS ADAMS LLP
Example Benefits (cont.)

**ACTION**

Identified excessive change order charges

**RESULT**

$4.5 million savings
Example Benefits (cont.)

**ACTION**

Identified duplicated change order work scope

**RESULT**

$4 million savings
Other Benefits of a Performance Audit

≡ Provides best practice construction program master planning controls
≡ Implements best practice policies and procedures for successful programs
≡ Better stakeholder understanding of program good practices and exposure areas
Moss Adams Contacts

Curtis Matthews
(503) 704-6943
curtis.matthews@mossadams.com

Shirley Komoto
(562) 618-7993
shirley.komoto@mossadams.com