

TOWN OF WESTPORT
OFFICE OF THE INTERNAL AUDITOR



INTERNAL AUDIT REPORT

CAPITAL PROJECTS

IA 14-01

NOVEMBER 14, 2014



LETTER OF TRANSMITTAL

NOVEMBER 14, 2014

CHAIRMAN PINCAVAGE AND MEMBERS OF THE TOWN OF WESTPORT'S BOARD OF FINANCE:

I respectfully submit the enclosed internal audit report of the Town of Westport's capital projects. I greatly appreciate the time, patience and cooperation of all parties involved in this audit.

As a result of feedback on an earlier draft of this report, this report has been significantly revised to include:

1. information regarding the construction of Staples High School Tennis Courts (the Library Transformation Project has been removed), and
2. a closer look at the King's Highway HVAC project, which exceeded its approved budget by \$1.65 million.

The findings and recommendations included in Section D. are intended to assist Town of Westport and Westport Public Schools in identifying opportunities for strengthened controls and efficiencies associated with accounting for capital projects and for increased transparency for the public throughout the term of any capital project.

A PowerPoint presentation specific to the King's Highway HVAC project, *IA 14-01a Review of King's Highway School Heating, Air Conditioning and Ventilation (HVAC) Project of Westport Public Schools (WPS)* is included as Appendix A of this report.

Thank you for the opportunity to provide this information to the Board of Finance.

Very Truly Yours,

Lynn Scully

Internal Auditor, Town of Westport

CC: JAMES MARPE, FIRST SELECTMAN
GARY CONRAD, DIRECTOR OF FINANCE
EILEEN FLUG, RTM CHAIR
JEFFREY WEISER, CHAIRMAN, RTM FINANCE COMMITTEE

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A. INTRODUCTION

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES:

The objectives of this audit were to:

1. Review and assess existing budgetary and accounting procedures employed for capital projects.
2. Document an understanding of these systems, identifying key controls.
3. Conduct research for the purpose of determining guidelines, comparisons and best practices.
4. Identify opportunities for improvement, for the purpose of strengthened controls and increased efficiencies.

SCOPE:

This audit included a review of the following capital (construction) projects in various stages of completion:

- Kings Highway School Ventilation
- Levitt Pavilion
- North Avenue Bridge
- Staples High School (SHS) Tennis Courts

(NOTE: during the draft phase of this audit, the Westport Public Library Transformation Project was removed from the scope and replaced by the SHS Tennis Courts.)

The field work associated with the King's Highway School ventilation project was expanded to include a review of expenditure information provided by the Westport Public Schools (WPS) Business Office for the fiscal years ended 2008 through 2013. A separate presentation associated with the closer review of this project is attached to this report as Appendix A.

METHODOLOGY:

Meetings were conducted with several town administrators and appointed members of the Public Site and Building Commission to gain an understanding of how the Town of Westport manages and accounts for capital (construction) projects. Research was conducted to determine guidelines, comparisons and best practices. Analysis of financial records, including a review of supporting documentation was conducted.

With respect to the more focused look at the Kings Highway School HVAC Project, the following steps were taken:

- Obtained detailed reports and supporting documentation from WPS Business Office
- Reviewed Board of Education Agendas and Minutes
- Reviewed transcripts and/or video recordings of original presentation to funding bodies in 2009
- Reviewed other project information available through the WPS and Town websites
- Reviewed transactional information from the Town's MUNIS system and supporting documentation
- Conducted analyses of the information provided from the WPS Business Office and the MUNIS system
- Results were communicated to various Town officials via a PowerPoint presentation (attached to this report as Appendix A).

B. OVERVIEW OF WESTPORT’S CAPITAL PROJECTS

Capital Projects

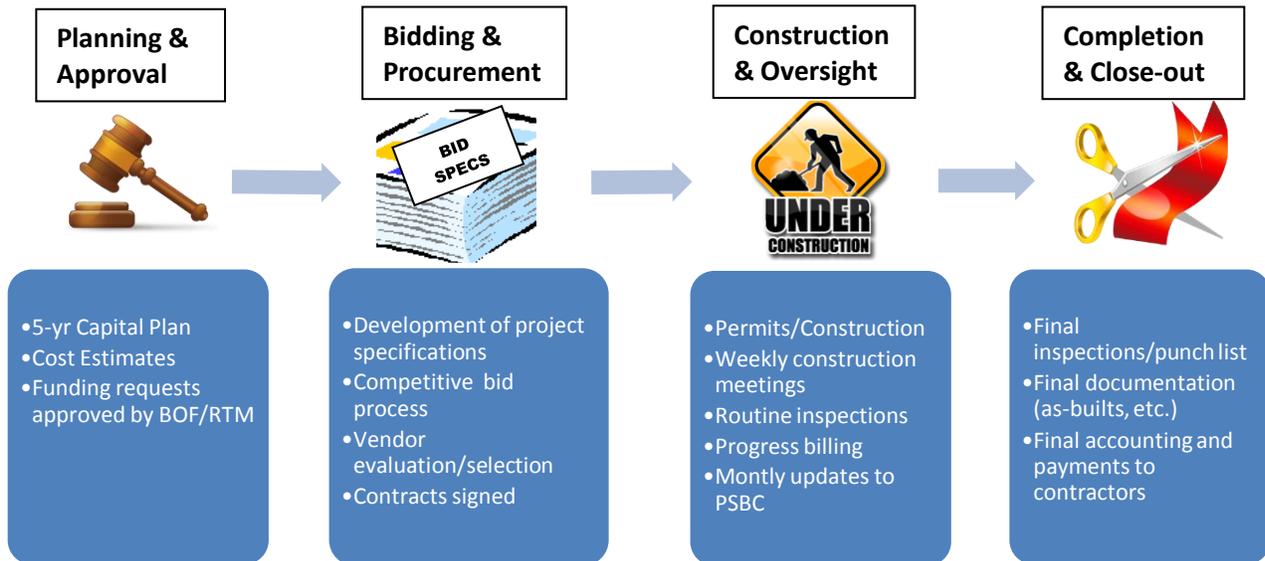
Capital assets, as defined by the Government Finance Officers Association (GFOA) are assets that are:

1. used in operations and
2. have a useful life in excess of one year.

This would include tangible assets such as land, buildings, building improvements, vehicles, machinery, equipment and infrastructure. Intangible assets such as easements and software would also be included in this definition.

A capital project, for the purposes of this report, would therefore be defined as the process and cost to acquire, construct or improve a capital asset of the Town of Westport.

The normal capital project process for the Town of Westport (including WPS) can be broken down as follows:



Key Controls over Capital Projects

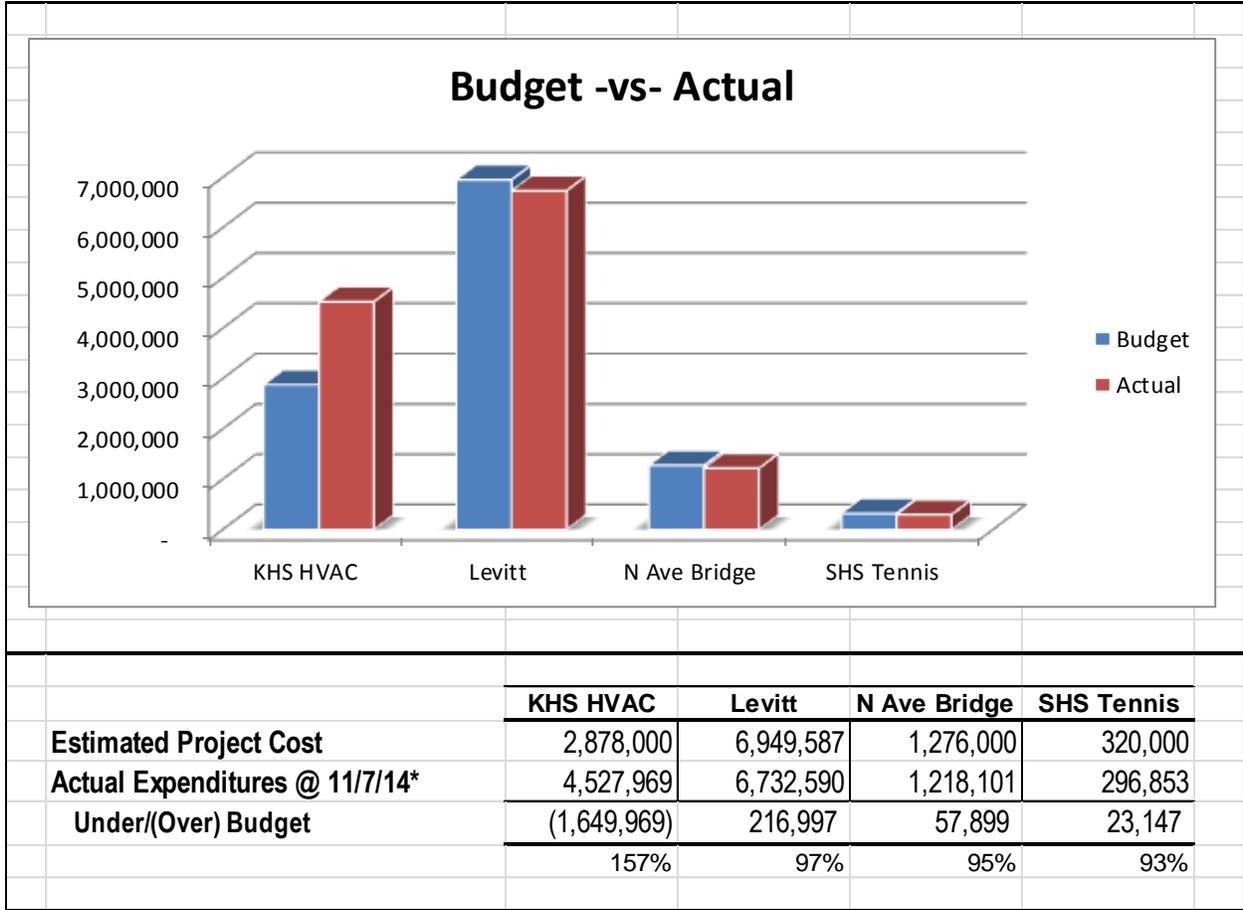
Budgetary	Policies & Procedures	Other Controls
<ul style="list-style-type: none">• Most projects brought before the funding bodies have been previously discussed within the context of the Town's Five-Year Capital Forecast.• Expenditures cannot exceed budgeted funds on a per project basis without proper management approvals.	<ul style="list-style-type: none">• Competitive bidding is required for all expenditures in excess of \$10k.• Vendor payments require a sign-off by the project engineer.	<ul style="list-style-type: none">• <i>Performance Bonds</i> – guarantee of contractor performance*• <i>Prevailing Wage Law</i> – applies to new construction over \$400k and renovations over \$100k*• <i>Safety Requirements</i> – OSHA compliance*• <i>Insurance Requirements</i> – contractors must provide proof of adequate insurance*• <i>Grant requirements/restrictions</i>*• <i>Public Site and Building Commission</i> – appointed board that has oversight responsibilities for certain projects assigned by the First Selectman

*These requirements are generally included in bid specifications, which become part of the vendor contract.

C. CAPITAL PROJECT SUMMARIES

Of the four projects reviewed, three were closed out and one is in the final phases of close-out. One project, the Kings Highway School HVAC Project, came in significantly over budget.

Exhibit 1



	KHS HVAC	Levitt	N Ave Bridge	SHS Tennis
Estimated Project Cost	2,878,000	6,949,587	1,276,000	320,000
Actual Expenditures @ 11/7/14*	4,527,969	6,732,590	1,218,101	296,853
Under/(Over) Budget	(1,649,969)	216,997	57,899	23,147
	157%	97%	95%	93%

NOTES:

A separate, more detailed audit was conducted of the KHS HVAC project as a result of the preliminary findings in this audit. That report, *IA 14-01a Review of King’s Highway School Heating, Air Conditioning and Ventilation (HVAC) Project of Westport Public Schools (WPS)* is attached to this report as **Appendix A**.

Balances for projects that came in under budget are transferred back into the Town’s Undesignated Fund Balance from the originating fund. The savings on the Levitt, North Avenue Bridge and the Staples Tennis Courts should not be considered offsets to the King’s Highway HVAC project overrun.

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Exhibit 2 below provides additional comparative information about the projects under review.

Exhibit 2

	KHS HVAC	LEVITT	N AVE BRIDGE	SHS TENNIS
Project Phase	Closed	Closed	Closed	Closed
Initiated By	WPS	Friends of The Levitt	Public Works	Parks & Rec/WPS
Managed By	PSBC	PSBC	Public Works	Parks & Rec
Sources of Funding	Bonding, Operating Funds (WPS)	Friends of the Levitt - \$4.65million Grants - .95million Town - \$1.1million Bond	State of CT - \$1.02 million Town - \$255,200	Bonding
Estimated Project Cost (original)	2,878,000	6,700,000	1,276,000	320,000
Transfers In		249,587		
	2,878,000	6,949,587	1,276,000	320,000
Actual Expenditures at 11/7/14*	4,527,969	6,732,590	1,218,101	296,853
Difference	(1,649,969)	216,997	57,899	23,147
% of Estimate	157%	97%	95%	93%
Project Commenced	June 2010	July 2012	Mar 2013	July 2013
Project Complete	Nov 2012	July 2014	Oct 2013	Sept 2013
Construction Time Estimate	2 yrs	2 yrs	6 mos	3 mos
Actual Time	2 yrs, 5 mos	2 yrs	7.5 mos	3 mos
Difference	(5 mos)	0	(1.5 mos)	0
*This amount includes encumbrances				

The initial planning for the Levitt Pavilion project was performed by an outside organization, Friends of the Levitt Pavilion. With the approval of the various funding bodies, the Town assumed responsibility for overseeing the construction of the new facility in August 2012.

Final accounting for the Levitt Pavilion project is still in process as of 11/7/2014, but it appears that the project will come in slightly under budget.

Exhibit 3

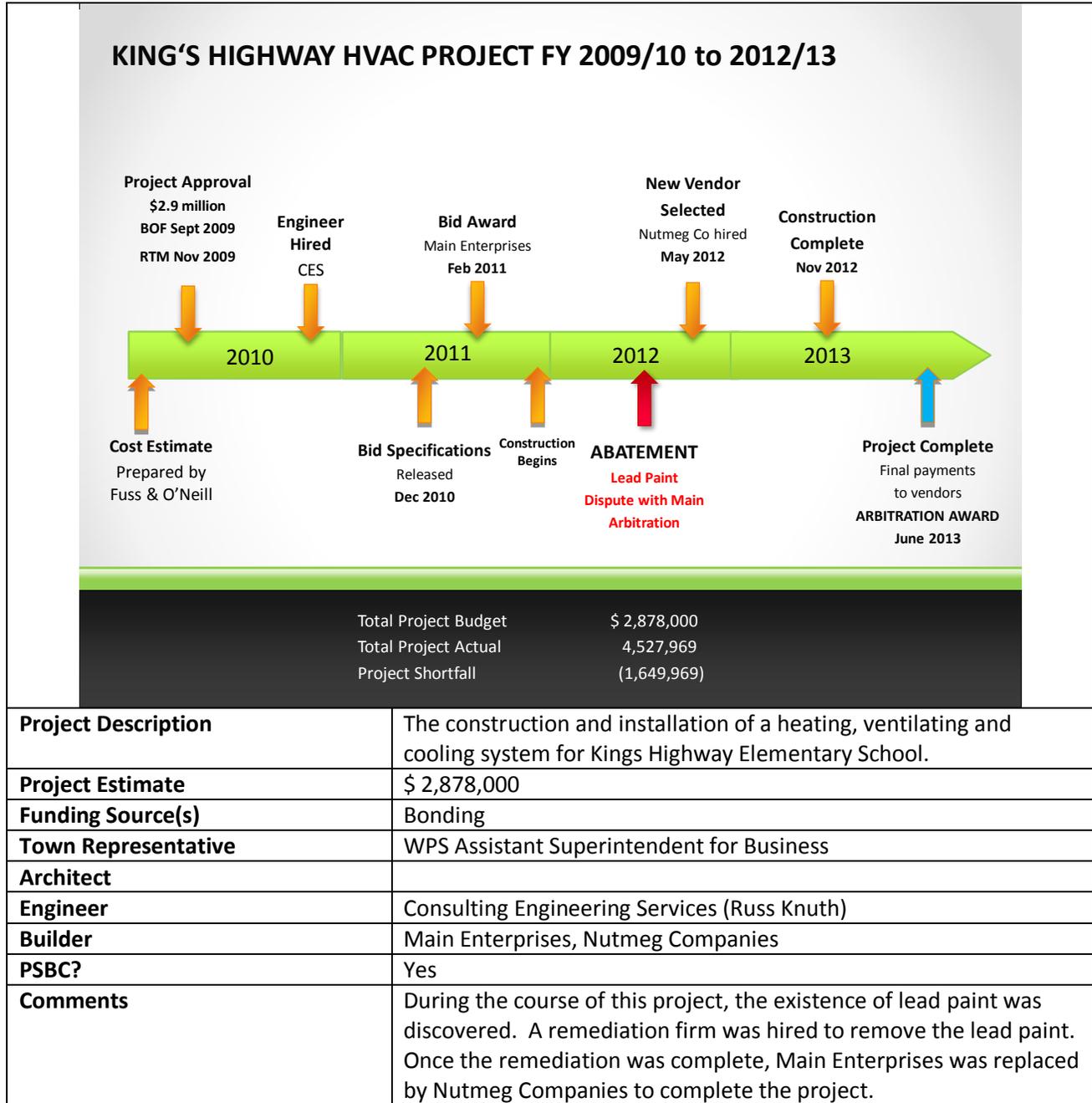
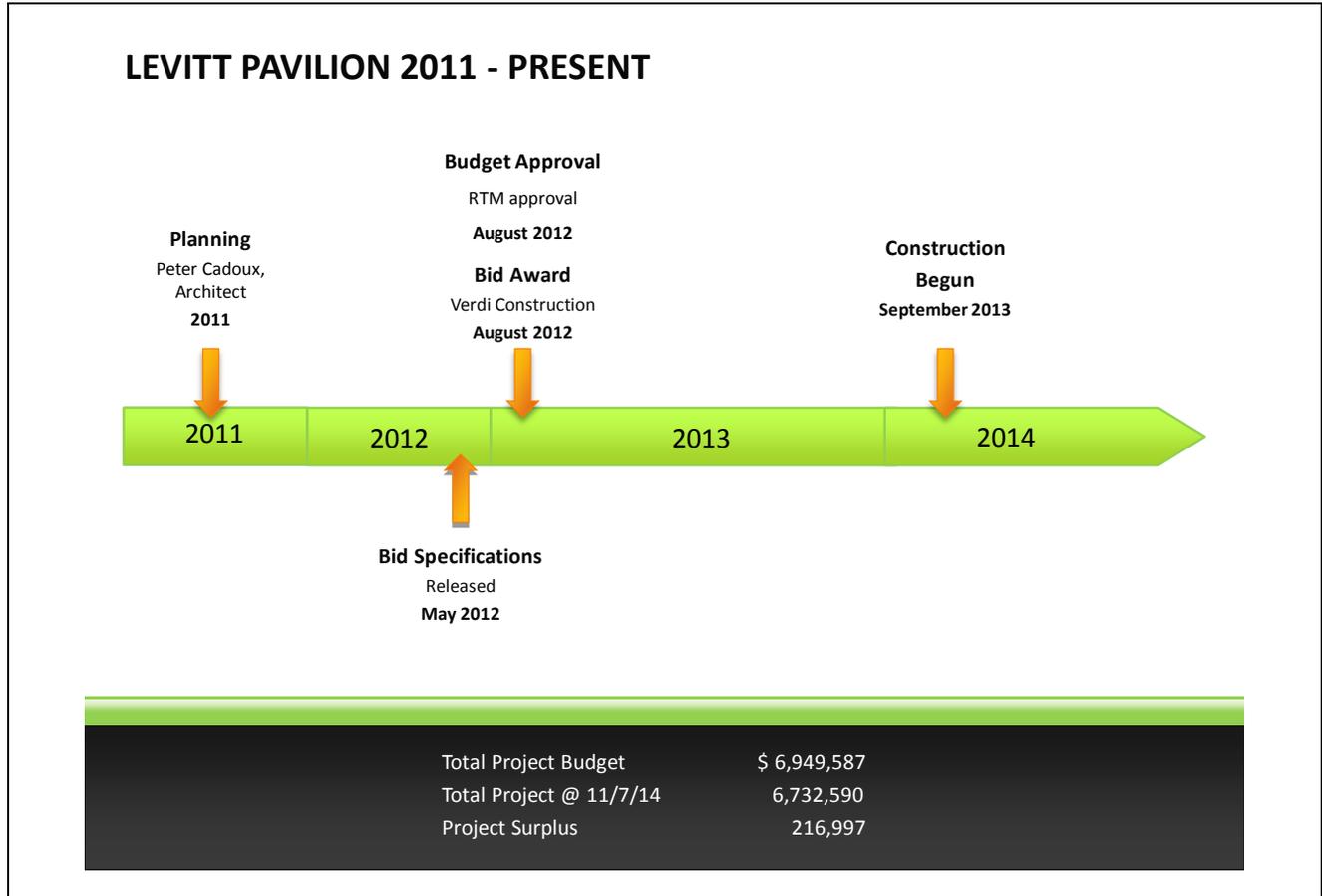


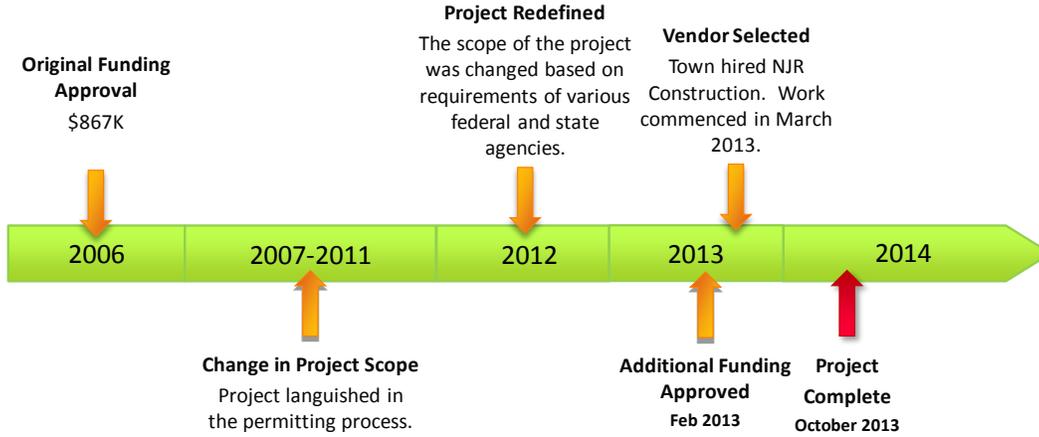
Exhibit 4



Project Description	New facility construction. Because this building is being constructed on a landfill, contingency funds were also budgeted.
Project Estimate (Revised)	\$6,949,587 (originally \$6.7 million)
Funding Source(s)	Friends of the Levitt, \$4.65 million plus \$249,587; Grants .95 million; Town, \$1 million with \$0.1m contingency (Bonding)
Town Representative	Stuart McCarthy, Director of Parks and Recreation
Architect	Peter Cadoux
Engineer	John Broadbin (Town Employee)
Builder	Verdi Construction
PSBC?	Yes
Comments	After some delays related to fundraising, the construction began in October, 2013. Early in construction, it was determined that additional pilings would be required to support the new structure. The Friends of the Levitt contributed an additional \$250k in Jan 2014 to the project's contingency.

Exhibit 5

NORTH AVENUE BRIDGE RECONSTRUCTION 2006 - 2014

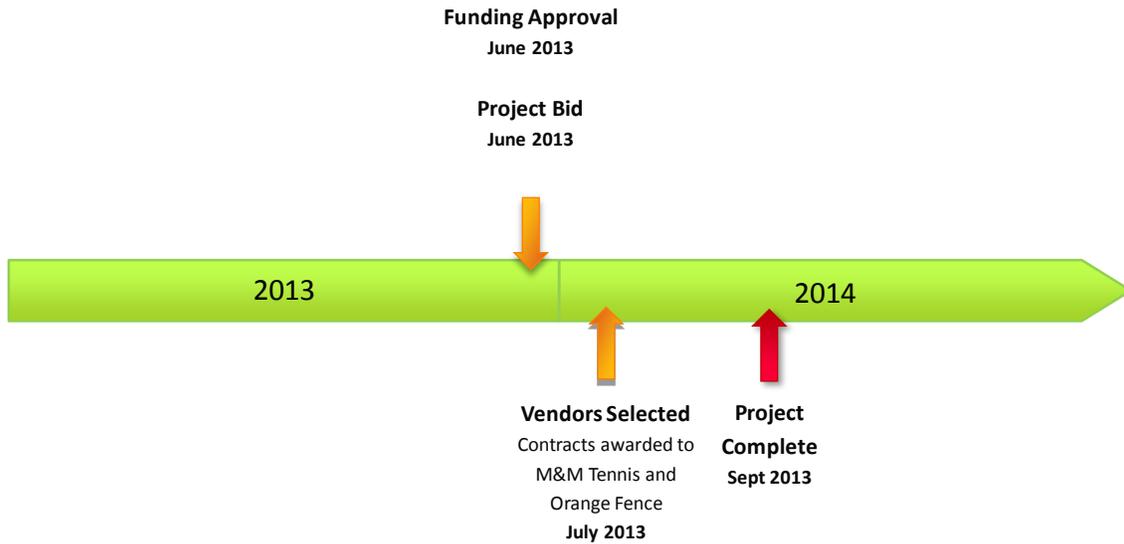


Total Project Budget	\$ 1,276,000
Total Project Actual	1,218,101
Project Surplus	57,899

Project Description	Removal of the 56-year-old concrete bridge deck and steel superstructure, the replacement with a pre-cast concrete box beams and a new concrete bridge deck. The existing bridge abutments remain in place with scour protection added underneath the river bed.
Funding Source(s)	State of CT \$1.02 million; Town \$255,200
Town Representative	Stephen Edwards, Public Works Director
Architect	N/A
Engineer	Peter Ratkiewich (Town Employee)
Builder	NJR Construction
PSBC?	No
Comments	(none)

Exhibit 6

STAPLES HIGH SCHOOL TENNIS COURTS 2013 - 2014



Total Project Budget	\$ 320,000
Total Project Actual	296,853
Project Surplus	23,147

Project Description	Replacement of existing tennis courts at Staples High School.
Project Estimate	\$ 320,000
Funding Source(s)	Bonding
Town Representative	Stuart McCarthy, Director of Parks and Recreation
Architect	N/A
Engineer	N/A
Builder(s)	M&M Tennis, Orange Fence
PSBC?	No
Comments	(none)

D. FINDINGS AND RECOMMENDATIONS

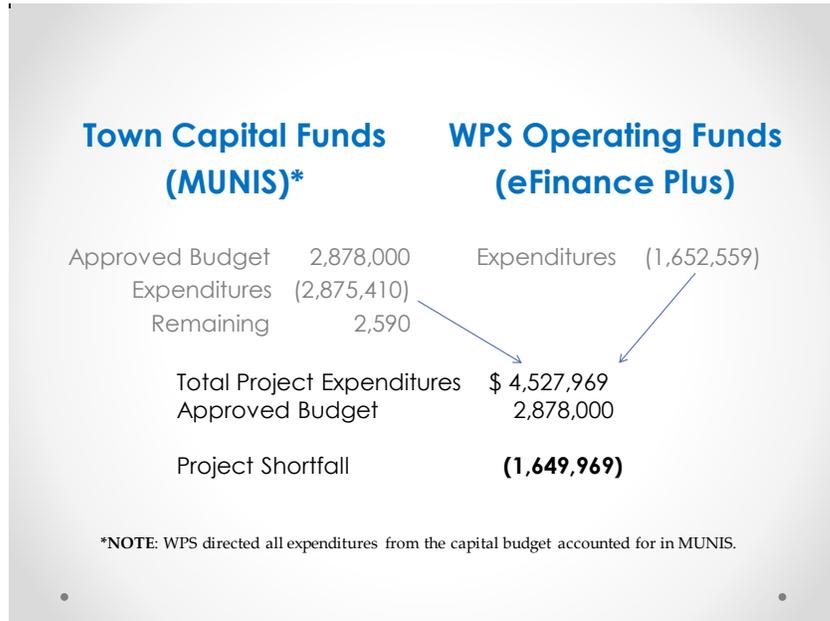
It should be noted that some internal control issues were identified as a result of this review. The following findings and recommendations are operational in nature and are intended to assist Town and WPS administrators in identifying opportunities for strengthened controls and efficiencies.

1. King’s Highway School HVAC Project & Related WPS Issues

a. Finding: Capital Expenditures Paid From Two Funding Sources: - *Needs Improvement*

In the later phases of this audit, it was determined that the KHS HVAC project had exceeded its approved budget by \$1.65 million. These additional expenditures were largely the result of unbudgeted costs for lead paint abatement and a related arbitration with the original general contractor.

Expenditures were accounted for in both the Town’s MUNIS system and the WPS eFinance Plus system as illustrated below:



Certain vendors were paid from the Town’s capital account and/or WPS operating funds. There did not appear to be any duplication of vendor payments, but several vendor billings were paid partially by the Town and partially by WPS. This appears to have been done at the discretion of WPS’ Assistant Superintendent for Business.

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This \$1.65 million was spent by WPS over several fiscal years, as illustrated below:

KHS HVAC Expenditures by Year					
<u>Fiscal Year</u>	<u>WPS</u>	<u>Town</u>	<u>Total</u>	<u>To Date</u>	<u>% Bud</u>
2007-2008	10,570	-	10,570	10,570	0.4%
2009-2010	40,459		40,459	51,029	1.8%
2010-2011	120,246	296,080	416,326	467,355	16.2%
2011-2012	604,814	1,339,948	1,944,762	2,412,117	83.8%
2012-2013	848,259	1,246,957	2,095,215	4,507,333	156.6%
2013-2014	28,211	(7,575)	20,636	4,527,969	157.3%
	1,652,559	2,875,410	4,527,969		

In a review of periodic financial reports generated by WPS for the Board of Education, there was no mention of operating expenditures for the KHS HVAC project. Therefore, it is not clear that the nature and extent of these additional expenditures were ever properly communicated by the WPS administration to the Board of Education.

These additional costs were also not communicated to the Town’s Finance Department as part of the annual process of updating the value/inventory of town assets.

Recommendation:

Capital projects should be accounted for in one financial system. In Westport, accounting for capital expenditures has been the responsibility of the Town’s Finance Director. In the event that unanticipated costs on a project arise, proper funding approvals should be sought in the form of supplemental appropriation requests, with source of funding to be identified.

While it is within the statutory rights of the Board of Education to manage its budgeted funds in the manner that best serves the needs of the district, any and all capital expenditures made by WPS should be communicated to the Town promptly, so that town assets are properly valued in its financial reports.

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b. Finding: Mid-Year Transfers: - *Needs Improvement*

The majority of the WPS extra capital expenditures for the KHS HVAC project were recorded to the district's 431 Building Maintenance and 435 Building Projects accounts. As was mentioned in finding 1.a., BOE approved budgets did not include KHS HVAC expenses, so the balances in these particular accounts were initially insufficient. In order to cover these expenses, mid-year transfers into these accounts were initiated by the administration from other 400-series accounts with the majority coming from WPS utility accounts (413 Electricity and 414 Natural Gas).

These administrative mid-year transfers were not presented to the BOE in a transparent manner for the time period under review. Rather, the mid-year transfers are only summarily reflected in the "adjusted budget" column of quarterly reports, with no detail provided.

The following is an illustration of (computed) mid-year transfers for the fiscal year ended June 30, 2012*:

Facilities	Budget 2012	Mid Yr Transfers	Adjusted Budget	Actual	Balance Before Closeout	% of Approved Budget
411 Water & Sewer	83,000	1,181	84,181	84,181	-	101%
413 Electricity	1,999,162	(224,352)	1,774,810	1,774,810	-	89%
414 Heat Energy - Natural Gas	1,020,000	(202,314)	817,686	817,686	-	80%
415 Heat Energy - Fuel Oil	20,000	188	20,188	20,188	-	101%
421 Contracted Services	486,754	(45,825)	440,929	440,929	-	91%
431 Building Maintenance	258,500	176,318	434,818	450,718	(15,900)	174%
432 Grounds Maintenance	195,000	12,000	207,000	229,639	(22,639)	118%
433 Repairs to Instructional Equipment	117,749	(30,959)	86,790	86,790	-	74%
434 Repairs to Non Instructional Equipment	45,800	2,770	48,570	49,606	(1,036)	108%
435 Building Projects	49,000	268,928	317,928	543,673	(225,745)	1110%
436 Grounds Projects	30,750	(490)	30,260	30,260	-	98%
437 Restorative/Preventative Maintenance	83,000	(6,277)	76,723	80,961	(4,238)	98%
440 Copier & Equipment Rental	189,000	(5,562)	183,438	184,438	(1,000)	98%
450 Gasoline/Travel	13,000	1,405	14,405	14,405	-	111%
451 Custodial Supplies	226,000	357	226,357	226,357	-	100%
452 Maintenance Supplies	190,000	49,341	239,341	262,176	(22,835)	138%
490 Fire & Security	75,000	3,291	78,291	79,970	(1,679)	107%
	5,081,715	-	5,081,715	5,376,787	(295,072)	

*From 2011-2012 BOE End Of Year Financial Report

At year end, actual expenditures are compared to the "adjusted budget" amount rather than the "approved budget" amount (there was no "approved budget" included in the end of year reports reviewed). While the purpose of the end of year financial reports is to facilitate year-end transfers, the comparison of actual expenditures to adjusted budget numbers does not adequately demonstrate budgetary performance.

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Using the illustration above, 435 Building Projects expenditures for fiscal year-ending June 30, 2012 were actually 1,110% of their BOE-approved budget.

Recommendation:

For greater transparency, a detailed reconciliation of the approved budget to the adjusted budget for each line item within its spending categories should be included within each BOE quarterly report. In addition, actual expenditures should be compared to approved budgets by line item to better inform the BOE of budgetary performance.

c. Finding: Budgeting for Utilities: - Needs Improvement

It appears that WPS was over-budgeting for electricity and natural gas for the years under review, as indicated by the mid-year transfers out.

The following tables demonstrate the budget –vs- actual activity for 413 Electricity and 414 Natural Gas:

413 Electricity								
	Beginning Budget	Mid Yr Transfers	Adjusted Budget	Actual	% Bud	Bal Before Transfers	YEAR END BOE TRANSFERS	TOTAL TRANSFERS IN(OUT)
2010	2,145,630	-	2,145,630	2,005,862	93%	139,768	(139,768)	(139,768)
2011	2,057,550	(119,837)	1,935,283	1,934,775	94%	508	(508)	(120,345)
2012	1,999,162	(224,352)	1,774,810	1,774,810	89%	-	-	(224,352)
2013	1,742,628	(93,504)	1,649,124	1,649,123	95%	1	(1)	(93,505)
	7,944,970	(437,693)	7,504,847	7,364,570		140,277	(140,277)	(577,970)

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414 Natural Gas								
	Beginning Budget	Mid Yr Transfers	Adjusted Budget	Actual	% Bud	Bal Before Transfers	YEAR END BOE TRANSFERS	TOTAL TRANSFERS IN(OUT)
2010	1,319,821	(205,000)	1,114,821	876,472	66%	238,349	(238,349)	(443,349)
2011	1,171,821	(231,200)	940,621	939,664	80%	957	(957)	(232,157)
2012	1,020,000	(202,314)	817,686	817,686	80%	-	-	(202,314)
2013	1,019,000	(189,752)	829,248	829,247	81%	1	(1)	(189,753)
	4,530,642	(828,266)	3,702,376	3,463,069		239,307	(239,307)	(1,067,573)

NOTE: the 2010 Mid-Yr Transfer represents a transfer to 415 Heating Oil.

Recommendation:

While it is good to have favorable results in the area of utilities, to routinely budget above actual experience is not a sound fiscal practice.

A closer look at WPS utility spending is warranted and should result in more accurate budgetary projections.

d. Finding: Completeness of Information Provided to Funding Bodies: - Needs Improvement

Despite the engagement of engineering experts Fuss & O’Neil to estimate the costs associated with the Kings Highway School Heating, Ventilation and Air Conditioning (KHS HVAC) project, there is no specific mention of the abatement of lead paint in the information provided to the Board of Finance or the Representative Town Meeting for funding approval. This was a significant omission, as over \$714k was ultimately spent on the abatement of hazardous materials.

Recommendation:

As part of the estimating process, engineers should be *required* to provide information regarding the existence and extent of hazardous materials on the job site. To the extent possible, these potential remediation costs must be factored into every estimate involving existing town buildings.

e. Finding: Lead Abatement Not Bid: - Needs Improvement

The contract for lead abatement was awarded without a bid to Abatement Industries Group (AIG). AIG was paid \$673k for abatement.

This is in conflict with the following Board of Education’s procurement policy that clearly states that all expenditures over \$10k should be subject to competitive bid:

BOE Bidding Guidelines (R 3320(b), approved March 15, 2004)

1. *Under \$3,000 Pricing may be developed by comparing costs in current catalogs and should be confirmed with vendor.*
2. *\$3,000 - \$4,999 Three (3) verbal quotes are required.*
3. *\$5,000 - \$10,000 Three (3) written quotes must be obtained and attached to the requisition. Purchases should be made using the low quote. Any exceptions to low quote must be carefully explained.*
4. ***Over \$10,000 Formal bid(s) required.***

It is not clear why the competitive bid process was not followed in these circumstances, as evidence indicates that WPS was aware of the existence of lead paint as early as December, 2010 (abatement began in September 2011).

There is also no control reporting to demonstrate compliance with this board policy.

Recommendation:

To ensure compliance with existing procurement policy, an “over \$10k expenditure report” generated directly from the WPS financial system should be reviewed at least once per year, with exceptions to board policy noted. Further, the Director of School Business Operations should routinely review expenditure reports by vendor, to ensure that payments are not being broken into smaller amounts to avoid competitive bid requirements.

2. Planning and Approval

a. Finding re: Role of the Public Site and Building Commission (PSBC): - Needs Improvement

The PSBC serves at the pleasure of the First Selectman and its jurisdiction is limited to only those projects assigned to it. Commissioners are appointed by the First Selectman and confirmed by the Representative Town Meeting (RTM). Enabled by the charter, these commissioners are selected for their expertise in large construction projects.

The charter provisions related to the PSBC are as follows:

§ C21-1. Composition and Appointment.

The Public Site and Building Commission shall consist of 9 members, who shall be electors of the Town, appointed by the First Selectman and confirmed by the

Representative Town Meeting. Such members shall serve for four-year terms and until their successors are appointed and have taken office. In 1987, 5 members shall be appointed and 4 members shall be appointed in 1988 and thereafter alternately.

§ C21-2. Powers and Duties.

The Public Site and Building Commission shall manage and have control of those approved building projects specifically assigned to it by the First Selectman and may assist, upon the First Selectman's request, in planning all other building projects of the Town of Westport and in supervision of construction of such projects. Contracts in connection with all building projects, whether or not assigned to the Public Site and Building Commission and including but not limited to school building projects, shall be authorized by the Board of Selectmen. The Public Site and Building Commission may request the First Selectman to appoint an engineer to work at its direction. Unless otherwise expressly designated by the RTM with the concurrence of the First Selectman, the Public Site and Building Commission shall be designated as the school building committee as that term is defined by the General Statutes.

There does not appear to be a policy (dollar threshold, level of complexity) regarding when the PSBC should be assigned an advisory and/or supervisory role in a project.

Further, in meeting with the PSBC to discuss potential improvements to current procedures, it became clear that (in some projects) the PSBC has not had sufficient involvement in the planning/design phase of a project, despite being responsible for oversight of the construction. This increases the risks of unanticipated design flaws such as inadequate scope, incomplete data, poor estimating, etc.

Recommendation:

The administration should consider adopting a clear policy regarding when the PSBC is to be involved and the scope of responsibilities of the PSBC in all building construction projects assigned to it.

While it is often the case that a construction project is designed prior to the involvement of the PSBC, a policy should be adopted that requires a “constructability review” and sign-off by the PSBC on all construction contracts it will be assigned, prior to Board of Selectmen approval.

b. Finding re: Presentation to Funding Bodies: - *Needs Improvement*

There does not seem to be sufficient uniformity in how capital projects are presented to the funding bodies.

Recommendation:

In addition to providing an estimated project timeline and budget, ongoing operating costs should be estimated where possible, along with other associated costs (property management and emergency services, for example) and any projected savings (such as energy savings).

3. Interim Project Reporting

a. Finding re: Project Updates to Funding Bodies: - *Needs Improvement*

There does not seem to be sufficient uniformity in how the status of capital projects is presented to the funding bodies.

Recommendation:

Quarterly budget status reports regarding project expenditures and timelines should be provided to the Town's Board of Finance, with explanations as to change orders and other pertinent details.

4. Completion & Close-out

a. Finding re: Project Close-Out: - *Needs Improvement*

There does not appear to be formal close-out procedures in place to ensure that final deliverables have been received (as-builts, manuals, warranties, certificates of completion, etc.) and no outstanding claims by the contractor (or subs/suppliers) exist.

Recommendation:

Once the site work is completed and required documents are provided (as-builts, etc.), there should be a final report of budget –vs- actual on a construction project, both in time and costs, with variances explained. An audit of billings and payments, along with confirmation of receipt of all final deliverables should be routinely conducted as part of the close-out. Projects closed out should be re-assigned to an “inactive status” during the annual closing of the books.

APPENDIX A

**IA 14-01a Review of King's Highway School
Heating, Air Conditioning and Ventilation (HVAC) Project of
Westport Public Schools (WPS)
September 30, 2014**

Slide 1

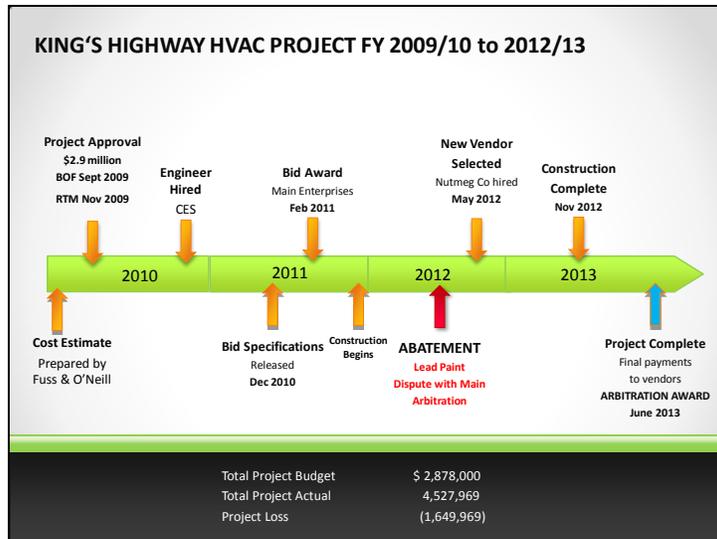
KHS HVAC Project Review



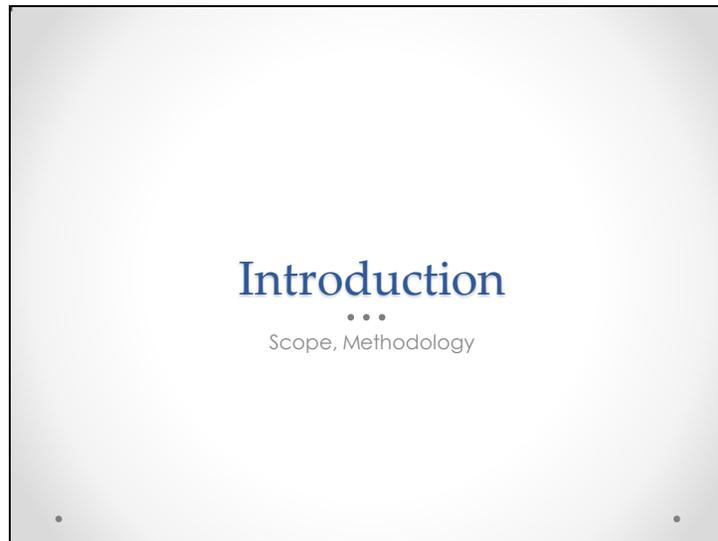
**IA 14-01a Review of King's Highway School
Heating, Air Conditioning and Ventilation (HVAC) Project of
Westport Public Schools (WPS)**

September 30, 2014

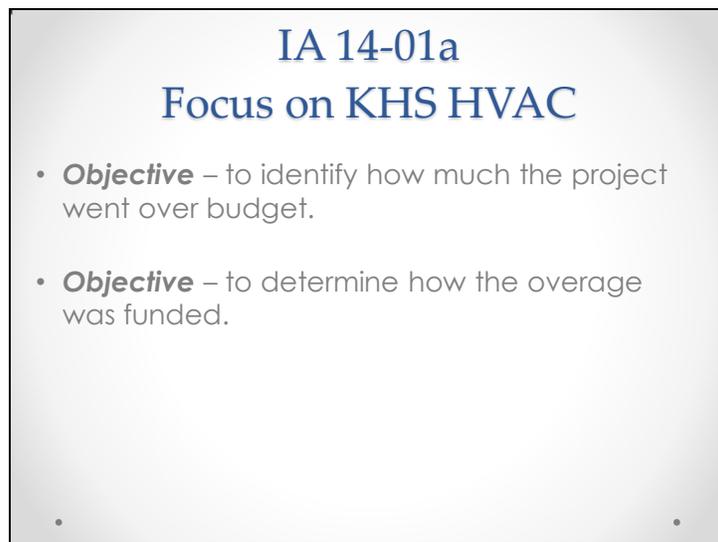
Slide 2



Slide 3



Slide 4



Slide 5

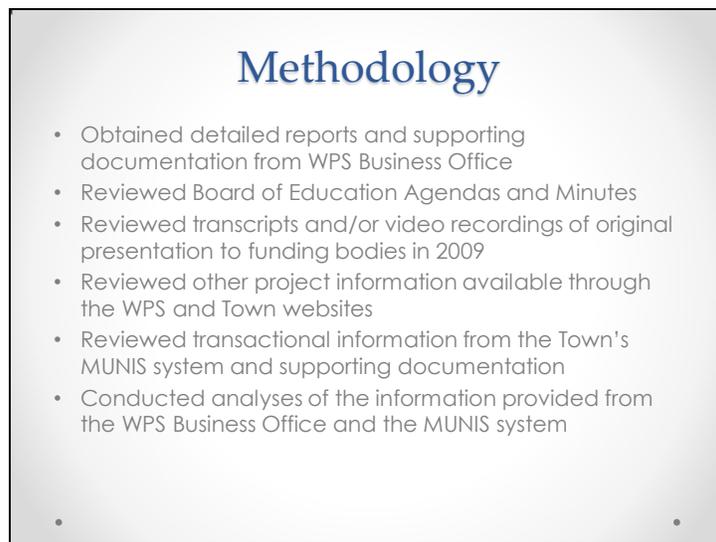


A presentation slide with a light gray background and a black border. The title "Scope" is centered at the top in a blue serif font. Below the title is a bulleted list of two items. At the bottom left and right corners, there are small black dots.

Scope

- WPS KHS HVAC project expenditures
- Town MUNIS HVAC project expenditures

Slide 6



A presentation slide with a light gray background and a black border. The title "Methodology" is centered at the top in a blue serif font. Below the title is a bulleted list of seven items. At the bottom left and right corners, there are small black dots.

Methodology

- Obtained detailed reports and supporting documentation from WPS Business Office
- Reviewed Board of Education Agendas and Minutes
- Reviewed transcripts and/or video recordings of original presentation to funding bodies in 2009
- Reviewed other project information available through the WPS and Town websites
- Reviewed transactional information from the Town's MUNIS system and supporting documentation
- Conducted analyses of the information provided from the WPS Business Office and the MUNIS system

Slide 7



Slide 8

A presentation slide with a light gray background and a black border. The title "Summer 2009 Fuss & O'Neill Estimate" is centered at the top in a blue serif font. Below the title is a table with two columns: item description and dollar amount. The table is enclosed in a thin black border. At the bottom of the table, there is a note in italics: "Note: Fuss & O'Neill was hired by WPS to conduct a study and provide cost estimates." There are small black dots in the bottom left and bottom right corners of the slide.

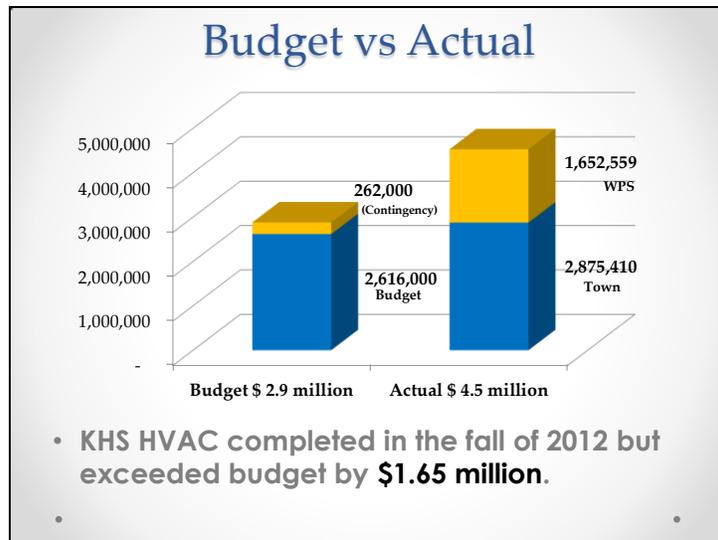
Architectural & General (14%)	\$ 369,852
Structural (2%)	48,288
HVAC (70%)	1,835,628
Electrical (14%)	<u>361,890</u>
Sub-Total	<u>2,615,657</u>
Contingency (10%)	<u>261,566</u>
Total Project Estimate	<u>2,877,223</u>
Budget Request (rounded to nearest thousand)	<u>\$ 2,878,000</u>

Note: Fuss & O'Neill was hired by WPS to conduct a study and provide cost estimates.

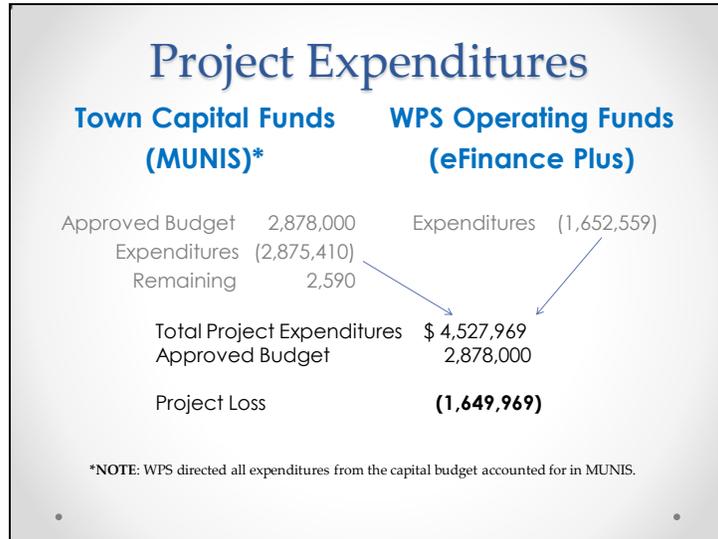
Slide 9



Slide 10



Slide 11

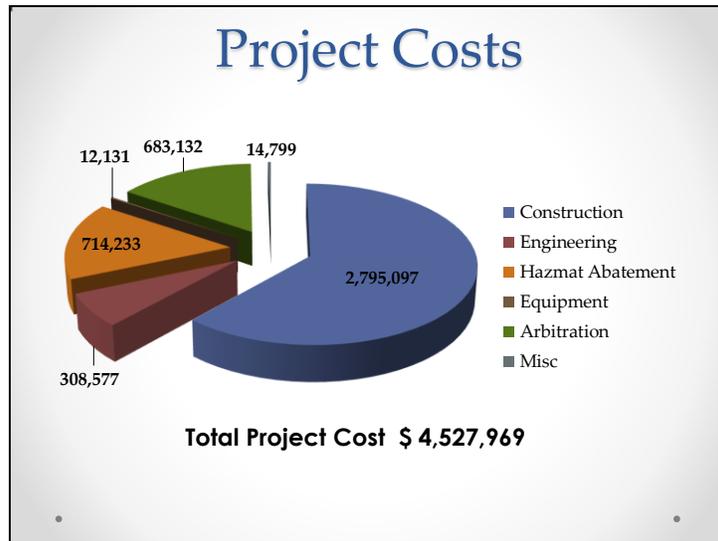


Slide 12

Expenditures By Year

Fiscal Year	WPS	Town	Total	To Date	% Bud
2007-2008	10,570	-	10,570	10,570	0.4%
2009-2010	40,459	-	40,459	51,029	1.8%
2010-2011	120,246	296,080	416,326	467,355	16.2%
2011-2012	604,814	1,339,948	1,944,762	2,412,117	83.8%
2012-2013	848,259	1,246,957	2,095,215	4,507,333	156.6%
2013-2014	28,211	(7,575)	20,636	4,527,969	157.3%
	1,652,559	2,875,410	4,527,969		

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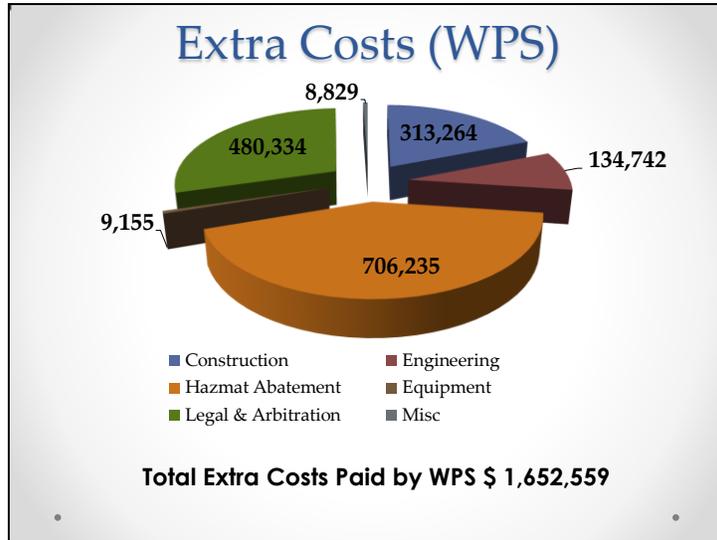


Slide 14

Accounting for WPS project expenditures

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2008-2014

Slide 15



Slide 16

WPS Project Expenditures FY 2008-2014

	330 Other Professional	331 Legal & Negotiation	431 Building Maintenance	435 Building Projects	550 Printing	WPS Totals By Year	
2008	10,570					10,570	1%
2010	40,459					40,459	2%
2011	22,884		88,207	9,155		120,246	7%
2012	22,563	-	102,320	479,694	238	604,814	37%
2013	47,551	220,877	95,188	484,644	-	848,259	51%
2014		28,211				28,211	2%
	<u>144,026</u>	<u>249,088</u>	<u>285,715</u>	<u>973,493</u>	<u>238</u>	<u>1,652,559</u>	
	8.72%	15.07%	17.29%	58.91%	0.01%		

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Source of Funds

- **WPS Operating Funds**
 - Mid-year transfers from other 400 accounts – mostly utilities
- **No Appropriation Request Submitted to Town**

Slide 18

Transfers From Electricity Account

413 Electricity								
	Beginning Budget	Mid Yr Transfers (Within Category)	Adjusted Budget	Actual	% Bud	Bal Before Transfers	YEAR END BOE TRANSFERS (Out of Category)	TOTAL TRANSFERS IN(OUT)
2010	2,145,630	-	2,145,630	2,005,862	93%	139,768	(139,768)	(139,768)
2011	2,057,550	(119,837)	1,935,283	1,934,775	94%	508	(508)	(120,345)
2012	1,999,162	(224,352)	1,774,810	1,774,810	89%	-	-	(224,352)
2013	1,742,628	(93,504)	1,649,124	1,649,123	95%	1	(1)	(93,505)
	7,944,970	(437,693)	7,504,847	7,364,570		140,277	(140,277)	(577,970)

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Transfers From Natural Gas Account

414 Natural Gas

(To Heating Oil Acct)

	Beginning Budget	Mid Yr Transfers (Within Category)	Adjusted Budget	Actual	% Bud	Bal Before Transfers	YEAR END BOE TRANSFERS (Out of Category)	TOTAL TRANSFERS IN(OUT)
2010	1,319,821	(205,000)	1,114,821	876,472	66%	238,349	(238,349)	(443,349)
2011	1,171,821	(231,200)	940,621	939,664	80%	957	(957)	(232,157)
2012	1,020,000	(202,314)	817,686	817,686	80%	-	-	(202,314)
2013	1,019,000	(189,752)	829,248	829,247	81%	1	(1)	(189,753)
	4,530,642	(828,266)	3,702,376	3,463,069		239,307	(239,307)	(1,067,573)

Slide 20

Transfers To Building Maintenance Account

431 Building Maintenance

	Beginning Budget	Mid Yr Transfers (Within Category)	Adjusted Budget	Actual	% Bud	Bal Before Transfers	YEAR END BOE TRANSFERS (Out of Category)	TOTAL TRANSFERS IN(OUT)
2010	250,000	(10,622)	239,378	386,894	155%	(147,516)	147,516	136,894
2011	268,500	245,096	513,596	551,204	205%	(37,608)	37,608	282,704
2012	258,500	176,318	434,818	450,718	174%	(15,900)	15,900	192,218
2013	258,500	159,512	418,012	418,011	162%	1	(1)	159,511
	1,035,500	570,304	1,605,804	1,806,827		(201,023)	201,023	771,327

Slide 21

Transfers To Building Projects Account

435 Building Projects							YEAR END BOE TRANSFERS (Out of Category)	TOTAL TRANSFERS IN(OUT)
	Beginning Budget	Mid Yr Transfers (Within Category)	Adjusted Budget	Actual	% Bud	Bal Before Transfers		
2010	30,000	11,470	41,470	78,984	263%	(37,514)	37,514	48,984
2011	45,800	18,175	63,975	63,975	140%	-	-	18,175
2012	49,000	268,928	317,928	543,673	1110%	(225,745)	225,745	494,673
2013	239,600	313,112	552,712	558,567	233%	(5,855)	5,855	318,967
	364,400	611,685	976,085	1,245,199		(269,114)	269,114	880,799

Slide 22


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Utility Accounts

Transfers

Building Accounts

“The savings in these energy accounts provided the funds to pay for a number of unanticipated indoor air quality (IAQ) projects throughout the school district.”

-2011-2012 END OF YEAR FINANCIAL REPORT Memo (excerpt), Aug 22, 2012
-2012-2013 END OF YEAR FINANCIAL REPORT Memo (excerpt), Aug 19, 2013

Slide 23

Mid-Year Transfers

“Adjusted Budget”

“The differences between the “Adopted Budget” column and the “Adjusted Budget” column reflect the administrative transfers made within each “line item” of the budget as the year has progressed and specific expenditures have been modified.”*

**2012-Present Quarterly Financial Reports to BOE (excerpt)*

Slide 24

BOE End of Year Transfers

End of Year Transfers
Per BOE Minutes (Agendas)

	2010		2011		2012		2013	
	From	To	From	To	From	To	From	To
Salaries		384,222	153,353		337,514			222,039
Employee Benefits	26,923		128,025		84,899			158,372
Contracted Services		111,110	21,306		40,785			5,846
Supplies & Materials	139,003		83,622		74,699		255,586	
Other Expenses	21,558		1,217		4,014		23,937	
Purchased Property Services	326,768			29,585	295,072			218,930
Other Purchased Services	4,315		348,565		211,884	353,331		
Equipment		23,235		9,373		34,955		27,667
TOTAL	518,567	518,567	387,523	387,523	541,911	541,911	632,854	632,854

Slide 25

Breakdown of the Loss

Project Loss	1,649,969
Unbudgeted Costs	
Hazmat Abatement (43%)	(714,233)
Arbitration Costs (41%)	(683,132)
Engineering (Pre-approval 3%)	(51,029)
Other Project Expenditures (12%)	<u>201,575</u>

Slide 26

Preliminary Findings

••••
KHS HVAC

Slide 27

Inadequate Reporting

- No specific mention of KHS HVAC costs in quarterly/end of year financial summaries provided to the BOE.
- Project not listed in Building Projects detail (annual budget).
- No communication to the Town regarding these capital expenditures (year end process).

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Slide 28

Budgetary Impact

- Inaccurate utility estimates provided to BOF and RTM for the fiscal years ended June 30, 2012 and June 30, 2013.

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Slide 29

Financial Statement Impact

- Buildings and improvements understated by \$1.65 million
- Accumulated depreciation understated (to be calculated)
- WPS operating costs overstated by \$1.65 million

Slide 30

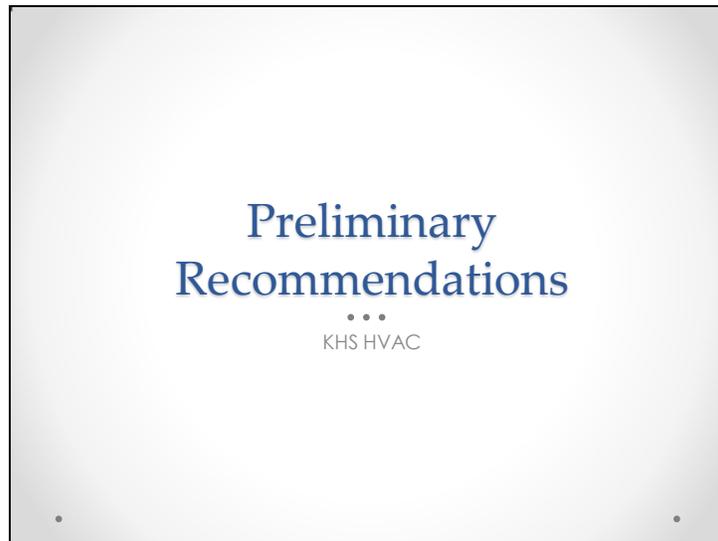
Abatement Not Bid

- Contract for lead abatement was awarded to Abatement Industries Group (AIG) without a formal bid process. Total paid to AIG \$673k.

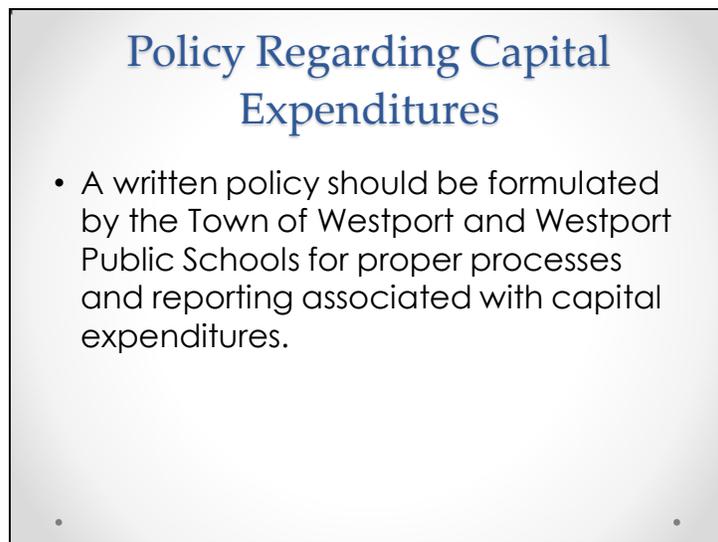
BOE Bidding Guidelines (R 3320(b), approved March 15, 2004)

1. *Under \$3,000 Pricing may be developed by comparing costs in current catalogs and should be confirmed with vendor.*
2. *\$3,000 - \$4,999 Three (3) verbal quotes are required.*
3. *\$5,000 - \$10,000 Three (3) written quotes must be obtained and attached to the requisition. Purchases should be made using the low quote. Any exceptions to low quote must be carefully explained.*
4. **Over \$10,000 Formal bid(s) required.**

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Slide 32



Slide 33

Policy about Construction Projects

- Additional policy language specific to Building Construction and Improvements should be developed by the Town that addresses:
 - Approval requirements
 - Project oversight requirements
 - Adherence to existing bidding/procurement requirements
 - Accounting and reporting requirements
 - **Process for handling budget variances.**

Slide 34

BOE Policy about Mid-Year Transfers

- For greater transparency, a detailed reconciliation of the **approved budget** to the **adjusted budget** for each line item within its spending categories should be included within each quarterly report.

Slide 35

BOE policy about Purchasing

- To ensure compliance with existing procurement policy, an “over \$10k expenditure report” generated directly from the WPS financial system should be reviewed at least once per year, with exceptions to board policy noted.

Slide 36

Financial Statement Corrections

- The Town’s Finance Director and external auditor should discuss how to best address the corrections within the Town’s Comprehensive Annual Financial Report, in consultation with the Board of Finance Audit Subcommittee