



**AUSTIN INDEPENDENT SCHOOL DISTRICT  
INTERNAL AUDIT DEPARTMENT  
CONSTRUCTION AUDIT PROGRAM**

AUDIT PROGRAM	W/P REF	AUDITOR INITIALS
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<p><u>GENERAL:</u></p> <p>Some of the Districts largest capital expenditures are from new construction, facility upgrades, and renovations. A single project can run into the millions of dollars, involving engineering, design, contractors, materials, and construction. The Construction Management Department is responsible for the design, construction and maintenance of the District's buildings and grounds and the management of its real property.</p>		
<p><u>AUDIT OBJECTIVES:</u></p> <ol style="list-style-type: none"> <li>1) Comprehensive policies and procedures for Construction Management have been established;</li> <li>2) The District is in compliance with all applicable laws and regulations;</li> <li>3) The District has an effective system of controls in place that assist in appropriately managing construction-related cost;</li> <li>4) Construction-related payments are made in accordance with contractual limitations or maximums;</li> <li>5) Construction project bids were awarded in compliance with applicable rules and regulations;</li> <li>6) Changes from the initial contract award amount and the final contract price were appropriately negotiated and documented;</li> <li>7) Determine that payments for various components of construction and development cost are not duplicated;</li> <li>8) Internal controls over change orders to the contract are appropriate and adequately documented.</li> <li>9) District facilities and construction projects are adequately protected from liability by insurance and bonding programs;</li> </ol>		



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10) Project close outs (e., punch lists, certificates of occupancy and warranties) are conducted appropriately and documented;		
11) Information systems are reliable and timely and accurate information is available to district management and the Board of Trustees:		
12) Contractors (CG, CM, etc.) complied with the provisions stated in the contract.		

<p><b>AUDIT PROCEDURES:</b></p> <p>1) General</p> <p style="padding-left: 20px;">a) Obtain:</p> <ul style="list-style-type: none"> <li>i. Policies and Procedures</li> <li>ii. Prior Audit Reports</li> <li>iii. External Auditor Management Reports</li> <li>iv. Federal and State Laws governing construction and related information</li> <li>v. Job Descriptions and Organizational Chart</li> <li>vi. Minutes of the Board approving contracts</li> <li>vii. Significant Contracts</li> </ul> <p style="padding-left: 20px;">b) Review policies and procedures to determine adequacy. Ensure that all relevant policies and procedures have been communicated to appropriate personnel.</p> <p style="padding-left: 20px;">c) Review prior examination reports to determine whether corrective action has been implemented for noted deficiencies.</p> <p style="padding-left: 20px;">d) Become familiar with all laws and regulation impacting construction and construction management.</p> <p style="padding-left: 20px;">e) Document the procedures and flow of documents for construction project operations.</p> <p style="padding-left: 20px;">f) Review construction contracts (i.e. architect, engineer and construction company)</p>		
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<ul style="list-style-type: none"> <li>i. Contract written policies and procedures for completeness, adequacy, and proper approval</li> <li>ii. Take note of the special contract provisions, rates, clauses, etc.</li> <li>iii. Highlight significant and specific terms</li> <li>iv. Determine if fee and reimbursement guidelines appear reasonable.</li> </ul> <p>g) Obtain copies of all reports generated for each construction project, determine their use and distribution.</p> <p>h) Determine that adequate records are received from the contractor to monitor progress (daily inspection reports, job meeting minutes, job photographs, update schedules, material and equipment delivery schedules, drawing revisions, daily job progress reports/diaries, etc.)</p> <p>i) Review minutes of all construction meetings held. Identify unusual situations that may require additional testing or follow-up during the examination.</p>		
<p>2) Contract Formation</p> <p style="padding-left: 40px;">General Objective: Determine that the methods selected for design and construction of district facilities are appropriate and provide the best value and risk profile.</p> <ul style="list-style-type: none"> <li>a) Select construction projects for detailed testing.</li> <li>b) Review Bid and Award process</li> <li>c) Obtain a copy of the bid package for the project. This should include the following items: <ul style="list-style-type: none"> <li>i. Proposal</li> <li>ii. Agreement</li> <li>iii. General Conditions</li> <li>iv. Supplementary (Special) Conditions</li> <li>v. Technical Specifications</li> <li>vi. Drawings</li> </ul> </li> </ul> <p>Ensure that the bidders are requested to submit their proposals in a particular format that is designed to enhance comparison of bids. Determine if bidders are required to submit bid bonds and certificates of insurance.</p>		



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<p>d) Examine advertising copy regarding the construction project to ensure that it met government requirement for notification.</p> <p>e) Document the process for qualifying bidders. Does the District determine in advance of bid opening whether or not the contractors responding are stable and have the financial wherewithal to complete the project? If this process is performed after bid opening, how do we ensure that the bid is not awarded to an unsatisfactory contractor simply because he is low bid?</p> <p>f) Determine which District administrator is responsible for replying to questions from bidders prior to bid opening. Is there a mechanism to ensure that no conflicting information is presented to bidders? If additional information is prepared for one bidder by request, is it automatically sent to all bidders?</p> <p>g) Does the District conduct pre-bid conferences and site visits for all bidders? Is this jointly or separately? Obtain a copy of the agenda for the pre-bid conference and copies of any minutes maintained.</p> <p>h) Document the process for receiving and controlling bids received prior to bid opening. Ensure that controls are adequate to prevent breaches of confidentiality. Ensure that a log is maintained listing the date and time of receipt of all bids. Determine that bids received after bid opening are returned unopened to the bidder after documenting the time and date of receipt.</p> <p>i) Obtain a copy of the bid tabulation. Review the accuracy with which the bids were transcribed, calculated, and awarded. Determine if a fair price estimate was determined in advance of bid opening. If so, comment if significant fluctuations were noted between the bids received and the price estimated.</p>		
<p>3) Contract Review: For selected contracts, perform the following:</p> <p>a) Conduct a review of all construction contract documents including:</p> <ul style="list-style-type: none"> <li>i. Specifications</li> <li>ii. Correspondence</li> <li>iii. Bids</li> <li>iv. Contractor Records</li> </ul>		



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<p>v. Contract billing</p> <p>vi. Change order documentation</p> <p>vii. Insurance certificates</p> <p>viii Shop drawings</p> <p>ix. Material certificates</p> <p>x. Signed Bond forms</p> <p>xi. Fabrication, shipping and construction schedules</p> <p>xii. Equipment Tagging procedures.</p> <p>xiii Subcontractor and material supplier bids.</p> <p>b) Document and analyze construction process controls which consist of:</p> <p style="padding-left: 20px;">i. <b>Planning and Scheduling Management Process</b> that plans project activities, monitors completion of those activities, predicts timing of future activities, and reports schedule status.</p> <p style="padding-left: 20px;">ii. <b>Cost Management Process</b> that estimates, monitors, predicts, and reports project costs.</p> <p style="padding-left: 20px;">iii. <b>Change Management Process</b> that estimates the impact of change, enables and documents the change decision, and integrates the change into the project scope of work.</p> <p><b><u>Planning and Scheduling Management Process</u></b></p> <p style="padding-left: 20px;">i. Determine how the District monitors, inspects, and documents progress of the project schedule. Determine how the District ensures component materials meet contract requirements.</p> <p style="padding-left: 20px;">ii. Determine if the contractor submitted a project schedule that contains a clear recognition of the task of work, the proper order of their appearance on the job, correct duration of work, complete resource allocations to task, and a clear purchasing and delivery register.</p> <p style="padding-left: 20px;">iii. Determine if receipt of documents from contractors is tracked on a log or check sheet to ensure items have been received.</p> <p style="padding-left: 20px;">iv. Determine if all the proper building permits were obtained.</p> <p style="padding-left: 20px;">v. Determine if an insurance certificate log is prepared. Review insurance certificates received and evaluate for propriety. Such insurance should</p>		



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<p>include general liability, automobile liability, workers compensation, and umbrella coverage. Verify the adequacy and authenticity of insurance coverage. Ensure that insurance was actually purchased. Determine how subcontractors insurance requirements are monitored.</p> <p>vi. Review various bonds received from the successful bidder, including the bid bond, payment bond, performance bond and possibly a maintenance bond. If possible, confirm the validity and adequacy of the bonds. Ensure the bonds were actually purchased.</p> <p>vii. Determine how the District maintains Document Control.</p> <ul style="list-style-type: none"> <li>• Project Directory</li> <li>• Shop Drawings</li> <li>• Architectural Drawings</li> <li>• Request for Information</li> <li>• Cost Event logs</li> <li>• Meeting Minutes</li> <li>• Schedules</li> <li>• Inspections, etc.</li> </ul> <p><b><u>Cost Management Process</u></b></p> <p>i. Determine and document the process used by the District to document, track and report cost incurred on construction projects. Determine if the District analyses these reports daily to ensure cost are in line with contract, or issues can be corrected quickly. Determine if controls are in place to properly monitor and document cost.</p> <p>ii. Determine and document the method used to calculate progress payments. Ensure that there is a clear correlation between the payment processed and the percentage of work completed.</p> <p>iii. Obtain the original schedule of values and all requests for payments. Schedule RFP's and compare to schedule of values. Investigate unusual differences.</p> <p>iv. Review the schedule of payment requests or progress billings. Examine underlying RFP's and ensure that necessary evidence inspections and approval is adequately documented. Ensure that sales tax has not been included on tax-exempt improvements.</p> <p>v. Verify that the contractor submits all necessary lien waivers with progress payment invoices.</p>		
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<p>vi. Document the method used to calculate retention. (Note: Retention amounts should be documented in the contract in order to be enforceable.) On the RFP selected for testing, ensure that the appropriate retention amounts were withheld.</p> <p><b><u>Change Management Process</u></b></p> <p>i. Determine and document the process used by the District to review, verify and document change orders. Determine if the District obtains independent estimates of cost for the changes.</p> <p>ii. Obtain the schedule of change orders (or change order log). Examine all change orders issued, documenting the reason for the change and the amount of the change. Ensure that necessary changes are identified promptly and properly confirmed and approved.</p> <p>iii. Examine supporting documentation for change order pricing and confirm the accuracy. Ensure that the change orders represent changed or added work, and not work covered under the scope of the base contract or previously issued change orders.</p> <p>iv. Perform a re-calculation of the change order to ensure the basic mathematics of the contractor is correct.</p> <p>v. Determine if change order work descriptions suggest engineering, construction, and/or manufacturing problems that should be charged back to another party.</p> <p>vi. Ensure that change orders were not split to avoid Board of Trustee approval requirements.</p> <p>vii. For Projects with significant contingency allowances, examine all contingent costs for approval prior to payment.</p>		
<p>4) Contract Close-out</p> <p>a) Document procedures for formally closing out construction contracts. Construction close-out should be a structured process involving final acceptance of the contractor's work, receipt of acceptable documentation required by contractual terms, and an evaluation of the contractor's performance.</p>		



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<p>b) Ensure that final payment of a construction contract and release of retention does not occur until the following documentation is received:</p> <ul style="list-style-type: none"> <li>i. Release of liens from the contractor and its suppliers and subcontractors</li> <li>ii. Titles to major equipment incorporated in the facility</li> <li>iii. Warranty documentation</li> <li>iv. As-built drawings</li> <li>v. Inspections and acceptance records</li> <li>vi. Operating and Maintenance Manuals</li> <li>vii. (Possibly) spare parts, special tools, and consumable supplies</li> <li>viii. Punch list clearance</li> <li>ix. Certificates of Occupancy (or equivalent)</li> </ul> <p>c) Ensure the final inspection is completed and the project meets standards before final payments.</p> <p>d) Ensure the "as-Built" final drawings are obtained, secured, filed, and protected.</p> <p>e) Determine who is responsible for preparing the post-performance evaluation. Examine the completed evaluation for adequacy.</p>		
<p>5) Budget</p> <ul style="list-style-type: none"> <li>a) Obtain the construction project's budget reports. Compare to the payment schedules maintained by the Construction Department. Review for unexplained differences, significant overdrafts or serious fluctuations from amounts initially budgeted, and unusual entries.</li> <li>b) Determine what procedures are followed by the Construction Department accountant and the Finance Department to ensure the accuracy and validity of invoices submitted for payment on construction projects. Ensure that controls are adequate to confirm approval and adequacy of funds available.</li> <li>c) As necessary, test a sample of transactions for accuracy, reasonableness, and adequacy of supporting documentation.</li> </ul>		