



Washoe County School District

Every Child, By Name And Face, To Graduation

AUDIT OF CAPITAL PROJECTS DEPARTMENT

*INVESTIGATIVE
REPORT*

*Internal Audit
Department*

March 28, 2013

The **Internal Audit Department** (Department), at the direction of the Washoe County School District Audit Committee, provides independent analysis and specific recommendations to improve the operations of the Washoe County School District (District). To this end, the Department conducts performance audits of the District's 93 schools, 8 district-sponsored charter schools, District's offices and departments and the programs they administer.

As a committee to the Board of Trustees, the function of the Audit Committee is to assist the Trustees in fulfilling their oversight responsibilities related to the District's financial and other reporting obligations, internal control processes, and compliance with laws, regulations, and ethics.

The Washoe County School District Audit Committee is comprised of seven voting members to include three trustees and four community representatives:

Washoe County School District Audit Committee

Trustee **Barbara Clark**, Chair

Trustee **David Aiazzi**

Trustee **Howard Rosenberg**

Representative **Terri Avansino**

Representative **Charlene Hart**

Representative **Dan Reaser**

Representative **Catherine Thompson**

Investigative Staff

Jodi Quilici, Internal Auditor

Paula Ward, Chief Auditor



WASHOE COUNTY SCHOOL DISTRICT

INTERNAL AUDIT DEPARTMENT

March 28, 2013

Board of Trustees

Superintendent Pedro Martinez
Washoe County School District

Members of the Washoe County School District Audit Committee

The Internal Audit Department (Department) commenced an investigation of the Washoe County School District - Capital Projects Department for the period May 2009 through September 2012 to determine the amount of direct and indirect payments made to a certain vendor for work performed.

The investigation consisted primarily of inquiries and examination of selected financial records and other documentation. Therefore, the investigation was substantially less in scope than an audit conducted in accordance with generally accepted government auditing standards. Accordingly, the Department does not express an opinion on the adequacy of the financial records or the internal controls of the Capital Projects Department.

The accompanying Investigative Report describes the Department's findings and recommendations as a result of this investigation. After this report is distributed to the members of the Washoe County School District – Audit Committee, Board of Trustees, and Superintendent, it becomes public record.

Paula Ward, CPA

Chief Internal Auditor

Opportunities for Improvement

During our audit we identified certain policies, procedures, and practices that can be improved. Our audit was not designed, or intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvements may be needed.

REPORT RECOMMENDATIONS WITH POTENTIAL COST SAVINGS:

HIRE STAFF TO PERFORM DOOR HARDWARE REPLACEMENT	AMOUNT
ESTIMATED ANNUAL COST SAVINGS	\$162,000 to \$204,000

Capital Projects Department Response and Implementation Plan

We provided draft copies of this report to Department officials for their review and comments.

On March 15, 2013, the Chief Capital Projects Officer was asked to meet with the Chief Internal Auditor to discuss this report and its findings, and make corrections, if warranted. This process is done to ensure that information provided in this report is accurate in all material respects.

However, the Chief Capital Projects Officer declined the opportunity to meet prior to the Audit Committee meeting without further counsel. Therefore, discrepancies, if any, could not be corrected prior to the submission of this report to the Audit Committee.

AUDITOR NOTE:

As a result of the initial findings presented in draft report on September 27, 2012, the Superintendent requested the Human Resources Department and the Office of Legal Counsel perform an internal investigation. The results of this investigation found no wrongdoing related to regulations and laws. The underlying evidence leading to this conclusion was not disclosed to the Chief Internal Auditor for confidentiality reasons.

The Internal Audit Department, within six months after the Audit Committee releases the final audit report, shall evaluate the steps the Department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The Chief Internal Auditor shall report the six-month follow-up results to the Committee and Department officials.

The following report contains our findings, conclusions, and recommendations.

Capital Projects Department Organizational Structure

The Capital Projects Department oversees the planning, design, management, and accountability of new construction, revitalization, and replacement projects for all of the District's new and existing school facilities. The Capital Projects Department consists of the Chief Capital Projects Officer, three directors, and staff to support each function: administration¹, construction, planning and design.

See Exhibit I.

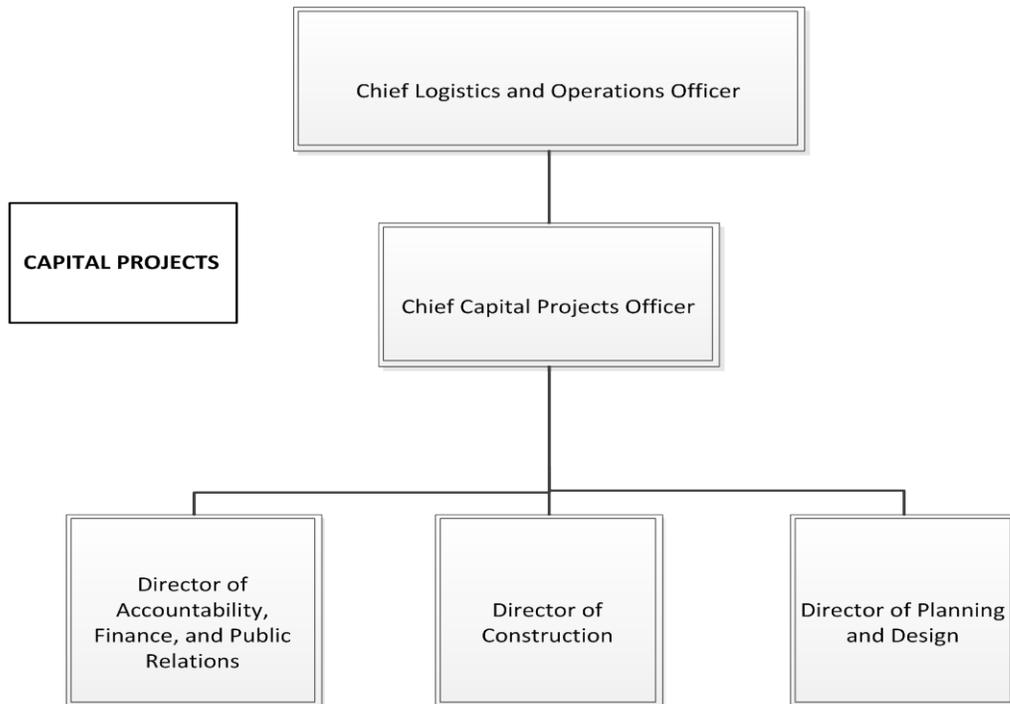


Exhibit I

The Capital Projects Department employs thirteen project managers (PM) at different levels from supervisors and managers (one - PM III, two – PM IIs, and four – PM Is) to quality control inspectors (six – assistant PMs). Project managers work under the Director of Construction.

The Capital Projects Department contracts with vendors and consultants for architecture, engineering, and construction. Capital Projects may augment its staff by hiring consultants in order to complete projects timely.

¹ The Director of Accountability, Finance, and Public Relations position is vacant as of January 2013.

PROCUREMENT PROCESS

In order to hire vendors, contractors, or consultants, the Capital Projects Department adheres to Nevada Revised Statutes, WCSD Board policy, and Capital Projects Department policy. See Exhibit II:

Annual Contract Amount or Type	Nevada Revised Statutes (NRS)	WCSD Board Policy and/or Capital Projects Policy (CPFM - P112)
\$ 500 - \$ 4,999	None	One quote
\$ 5,000 - \$ 9,999	At least one (1) informal solicitation from a properly licensed contractor	Two quotes
\$ 10,000 - \$ 25,000	At least one (1) informal solicitation from a properly licensed contractor [NRS 338.13862 1(b)]	Three quotes
\$ 25,001 - \$ 49,999	Three solicited bids [NRS 338.13862 1 (a)]	Follows NRS
\$ 50,000 - \$ 99,999	Three solicited bids [NRS 338.13862 1 (a)]	Follows NRS
\$ 100,000 and more	Formal solicitation process (Request for Proposal or RFP) (NRS 338.143)	Follows NRS and receives Board approval prior to implementation
Professional service or sole source (NRS 332.115)	Request for Qualifications	Statement of Qualifications (CPFM - P 108)

Exhibit II

In November 2002, Washoe County voters approved a rollover bond measure for Washoe County School District. As the District's only major source of revenue for capital projects, the bond measure allowed the District to fund necessary new schools, older revitalizations, technology infrastructure needs, and crucial capital renewal projects.

Funding associated with the upgrading of school facilities and bringing schools up to current standards for safety, health, comfort and accessibility included the replacement of door hardware.

DOOR LOCK REPLACEMENT

Funding

The original door lock replacement projects began in 2007 with total funding of \$262,000 and projected replacements for thirty-seven elementary schools. Under this allocation, only one elementary school was actually completed at an approximate cost of \$20,000.

An additional allocation of \$660,000 was approved for door lock replacement projects in 2009 and was planned for thirty-six elementary schools. Thirteen schools were completed under this allocation at an approximate cost of \$406,000.

In 2011, the School Works program, with a total budget of \$5.3 million, planned to address door lock replacements at fifty-five schools under the category of Safety and Security. Included in the total, was a \$486,000 matching federal grant for door lock replacement in middle schools. Several schools undergoing revitalizations will simultaneously receive door lock replacements and upgrades. Plans to complete these projects are set for March 2014. As of March 12, 2013, \$4.4 million has not been expended.

Contract Services

The Director of Planning and Design (Director) originally used the locksmith from Facilities and Maintenance on all door hardware replacement projects. As the number and scope of the projects increased to warrant full-time work, use of the in-house locksmith was no longer feasible.

The Director of Accounting, Finance, and Public Relations approached the Chief Capital Projects Officer (Chief) to apprise him that her husband, Gary Wright, member-owner of Elkhorn Consulting, LLC was interested in submitting a proposal for this project work as he had prior experience with building code.

In May 2009, the Capital Projects Department entered into a contract with Elkhorn Consulting, LLC to provide construction inspection coordination services on revitalization projects, specifically door hardware replacement projects. The Chief Capital Projects Officer considered this a professional service², and therefore, exempt from the solicitation process. However, it appears the Chief Capital Projects Officer may not have considered NRS 281A.430 prior to entering into the contract.

² A service that is considered sole source or professional service is exempt from the formal or informal solicitation requirements (i.e., architects, engineers, attorneys, and accountants). To develop a pool of qualified consultants, a request for qualifications (RFQ) is sent out to candidates or announced at the start of a project or on an annual basis.

When an employee has a “significant pecuniary interest” in a contract, the following must take place per NRS 281A.430³:

1. Disclosure
2. Rules of open competitive bidding

Prior to entering into a contract where there may be a potential conflict of interest, the Department should consult with Washoe County School District’s Office of Legal Counsel to determine if the situation requires a competitive bidding process. Failure to do so may increase the likelihood of improper contracting procedures, as well as, portray a negative image to the public, which may decrease the opportunity to obtain necessary capital projects funding.

RECOMMENDATIONS:

1. In the future, seek the District’s Office of Legal Counsel to determine if a potential conflict of interest may exist.
2. Follow NRS 281A.430 when the District’s Office of Legal Counsel determines a conflict of interest exists by:
 - a. Publicly disclosing any potential contracts where District employees or officers have a pecuniary interest.
 - b. Following the rules of open competitive bidding.
3. Establish procedures to document the process.

Auditor Note:

As a result of the initial findings presented in draft report on September 27, 2012, the Superintendent requested the Human Resources Department and the Office of Legal Counsel perform an internal investigation. The results of this investigation found no wrongdoing related to regulations and laws. The underlying evidence leading to this conclusion was not disclosed to the Chief Internal Auditor for confidentiality reasons.

In addition, the Office of Legal Counsel is currently writing policy to document the process.

³ See Appendix A – NRS 281A.430

Contract Payments

From May 2009 through September 2011 (two years and five months), Elkhorn Consulting, LLC received remuneration in the amount of \$123,090 at \$55/hour. See Exhibit III:

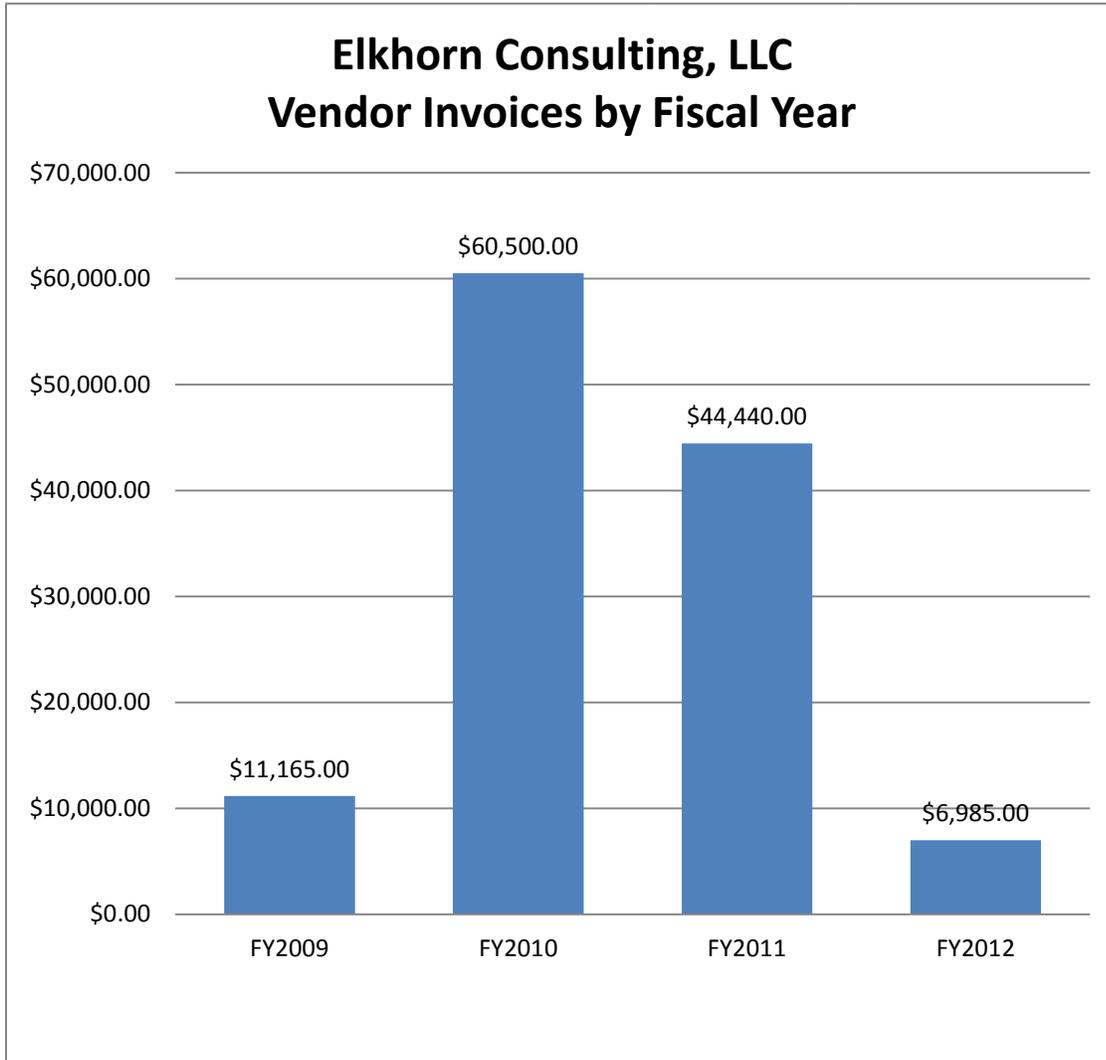


Exhibit III

A Change in Billing

After September 2011, no payments were made directly to Elkhorn Consulting, LLC. Instead, beginning October 2011, the Capital Projects Department contracted with six architects to provide construction management services for several projects which included door hardware replacement.

The Director told each architect to use Elkhorn Consulting, LLC exclusively for these projects. By requiring the architects to use only Elkhorn Consulting, LLC, it appears the Director

may have used his position to grant preferences to the Director of Accountability, Finance, and Public Relations and her spouse. NRS 281A.400(2)⁴ specifically states this shall not be done.

As a result of work performed on each project, Elkhorn Consulting, LLC was paid the following:

**ELKHORN CONSULTING, LLC
PAYMENTS RECEIVED THROUGH ARCHITECTS**

							TOTAL PAID TO ELKHORN CONSULTING	
	JR Romero		Collaborative Design Studios	Hershenow & Klippenstein	Van Woert Bigotti	GML Architects	Tate Snyder Kimsey	
Month	Hours	Amount						
October 2011	64.0	\$5,120.00		\$ 2,280.00				\$ 7,400.00
November 2011	47.0	3,760.00		2,204.00				5,964.00
December 2011	116.0	9,280.00		10,032.00				19,312.00
January 2012	198.0	15,840.00		-				15,840.00
February 2012	248.0	19,840.00	\$ 3,420.00	-				23,260.00
March 2012	195.0	15,600.00	7,530.00	6,612.00	\$ 3,000.00			32,742.00
April 2012	206.0	16,480.00	-	2,508.00				18,988.00
May 2012	181.0	14,480.00	-	6,156.00				20,636.00
June 2012	243.0	19,440.00	-	-		\$ 10,350.00		29,790.00
July 2012	150.0	12,000.00	3,800.00	10,108.00				25,908.00
August 2012	123.0	9,840.00	-	7,600.00				17,440.00
September 2012	134.0	10,720.00	-	-		8,970.00	\$ 1,252.50	20,942.50
Total Hours:	1905.0							
TOTAL PAID:		\$ 152,400.00	\$ 14,750.00	\$ 47,500.00	\$ 3,000.00	\$ 19,320.00	\$ 1,252.50	\$ 238,222.50

Exhibit IV

NOTE: At least two architects charged an additional 10-15% to the school district for billing on behalf of Elkhorn Consulting, LLC. (Current known charges are \$8,600)

In addition, Elkhorn Consulting, LLC submitted invoices to one architect for hours greater than normal work hours performed in a standard month (2080 hours/12 months = 173.33) at a 45% hourly rate increase from contract billings (from \$55 to \$80/hour). When combined with the billings from the other architects, Elkhorn Consulting, LLC far exceeded the normal annual hours available to work. ($\$238,222.50 / \$80 = 2,978$ hours billed in twelve months, estimate).

Increase Staff

As trustees of bond funds, the District should ensure all projects are completed in a transparent and cost effective manner. The District should evaluate the cost effectiveness of hiring staff rather than using consultants for door hardware replacement. The Capital Projects Department currently employs a locksmith at an hourly rate of \$15.75/hour. The cost to increase staff by one locksmith, including benefits, would be approximately \$43,000 $[(15.75 * 1.3) * 2080]$.

⁴ See Appendix A – NRS 281A.400(2) and NRS 281A.420(8)(a)(4)

If the Capital Projects Department used budgeted door hardware replacement funds to employ one to two full-time locksmiths it would reduce door hardware replacement expenditures by approximately \$162,000 to \$204,000 a year (includes architects' billing charges). This would free up money for other important and necessary projects.

RECOMMENDATIONS:

4. Consult with the District's Office of Legal Counsel to determine possible improprieties.
5. Increase Capital Projects staff to perform door hardware replacement projects currently performed by consultants.
6. Ensure all business relationships are transparent to the District and to the general public.

Auditor Note:

As a result of the initial findings presented in draft report on September 27, 2012, the Superintendent requested the Human Resources Department and the Office of Legal Counsel perform an internal investigation. The results of this investigation found no wrongdoing related to regulations and laws. The underlying evidence leading to this conclusion was not disclosed to the Chief Internal Auditor for confidentiality reasons.

In addition, the vendor in this report was no longer utilized after October 1, 2012.

Management Oversight

When the District adopted a new organizational structure for 2011, the Chief Logistics Officer requested all Department consultants' proposals (architects) be approved by him. Documentation examined during the investigation revealed that an email request for approval was sent to the Chief Logistics Officer detailing the total dollar amount and scope of each consultant's proposal. However, the Chief Logistics Officer did not review and approve the actual proposals where detailed breakdowns would have revealed possible improprieties. Improprieties discovered can result in a loss of public support and positive image.

If the Chief Logistics Officer had reviewed individual proposals, the possible improprieties discovered during this investigation would have been addressed timely and the resulting ramifications greatly reduced.

RECOMMENDATION:

7. To establish an independent oversight and strengthen all contract procedures:
 - a. Centralize contracting process under the Business Office – Procurement.
 - b. Review detailed charges on proposals/invoices for appropriateness.
 - c. Document independent approval by signature.

Auditor Note:

As a result of the initial draft report dated September 27, 2012, the contracting process was moved to Business Office – Procurement.

The new Chief Operations Officer will oversee the contract/bidding process to ensure the appropriateness of proposals/invoices.

APPENDIX A

NRS 281A.430 Contracts in which public officer or employee has interest prohibited; exceptions.

1. Except as otherwise provided in this section and [NRS 281A.530](#) and [332.800](#), a public officer or employee shall not bid on or enter into a contract between a governmental agency and any business entity in which the public officer or employee has a significant pecuniary interest...

4. A public officer or employee, other than a public officer or employee described in subsection 2 or 3, may bid on or enter into a contract with a governmental agency if:

(a) The contracting process is controlled by the rules of open competitive bidding or the rules of open competitive bidding are not employed as a result of the applicability of [NRS 332.112](#) or [332.148](#);

If a public officer who is authorized to bid on or enter into a contract with a governmental agency pursuant to this subsection is a member of the governing body of the agency, the public officer, pursuant to the requirements of [NRS 281A.420](#), shall disclose the public officer's interest in the contract and shall not vote on or advocate the approval of the contract.

NRS 281A.400 General requirements; exceptions. A code of ethical standards is hereby established to govern the conduct of public officers and employees:

2. A public officer or employee shall not use the public officer's or employee's position in government to secure or grant unwarranted privileges, preferences, exemptions or advantages for the public officer or employee, any business entity in which the public officer or employee has a significant pecuniary interest, or any person to whom the public officer or employee has a commitment in a private capacity to the interests of that person. As used in this subsection:

(a) "Commitment in a private capacity to the interests of that person" has the meaning ascribed to "commitment in a private capacity to the interests of others" in subsection 8 of [NRS 281A.420](#).

(b) "Unwarranted" means without justification or adequate reason.

NRS 281.420 8. As used in this section:

(a) "Commitment in a private capacity to the interests of others" means a commitment to a person:

(4) With whom the public officer or employee has a substantial and continuing business relationship; or

(5) Any other commitment or relationship that is substantially similar to a commitment or relationship described in subparagraphs (1) to (4), inclusive, of this paragraph.