

**Independent Accountant’s Report
On Applying Agreed-Upon Procedures**

**The School Board of Osceola County, Florida
New High School Construction Project (FFF) –
Pay Application 3 (Revised)**



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRlcpa.com | blog.cricpa.com

INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES

New High School Construction Project (FFF) – Pay Application 3 (Revised)

The School Board of Osceola County, Florida
Kissimmee, Florida

We have performed the procedures enumerated below, which were agreed to by The School Board of Osceola County, Florida (“SBOC”), to assist you in analyzing certain project costs of Gilbane Building Company (the “Construction Manager”), based upon the Construction Manager’s presentation of costs on New High School Construction Project (FFF) – Pay Application 3 (Revised) (the “Project”). The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures applied and the related findings are as follows:

1. We obtained copies of the contract documents between SBOC and the Construction Manager relative to the construction of the Project. We read the contract documents provided by SBOC noting items of financial and attestation significance.
2. We analyzed the particular pay application for the following:
 - a. analyzed the schedule of values and agreed the amounts to the guaranteed maximum price proposal submitted by the Construction Manager.

Results:

- In total the schedule of values on the pay application agrees to the total of the guaranteed maximum price (“GMP”), including both GMP #1 and #2. However, the net allowances of \$2,622,665 have been broken out into a few line items for scopes of work that have been contracted, and the remaining allowance amount is \$1,751,251.
- b. we vouched to invoices or other supporting documentation all charges to general conditions and general requirements in excess of \$250.

Results:

- These items were vouched to supporting documentation without exception.

- c. we obtained from the Construction Manager supporting documentation for all items that reflect internal charges, such as vehicles, computers, and other equipment, and reviewed the supporting documentation for reasonableness and allocation methodology.

Results:

- We identified adjustments to be made relative to charges for auto allowances. First, there were auto charges for certain employees that went through payroll, and also went through direct auto charges. Secondly, there were adjustments necessary for certain auto allowances that were charged to the project at amounts that exceeded the Construction Manager's internal policy.

Recommendation:

- CRI has discussed the adjustments with SBOC staff. The Construction Manager will provide credits on the next pay application submitted for the amounts identified, and any other similar charges since Pay Application 3 (Revised). We recommend that SBOC review the subsequently received pay applications to confirm the inclusion of the credits, and monitor all future pay applications to ensure the auto allowance charges are proper and not duplicated.

- d. we searched the job cost for charges to the Project for items incurred prior to the Notice to Proceed.

Results:

- No charges incurred prior to the Notice to Proceed were noted.

- e. we traced a sample of 15 payroll items to the Construction Manager's payroll records to ensure the charges reflect actual compensation.

Results:

- For some of the employees selected, the payroll amounts included auto allowances as mentioned in c. above. Additionally, we noted that the payroll charges included paid time off in accordance with the note added to GMP Amendment #1, Exhibit B, Attachment 2, Proposed Construction Phase Personnel & Expense. The note read as follows, "Field staff to be billed 2,080 hours/annually, PTO to be billed as incurred to the project for field staff."

Recommendation:

- We recommend SBOC look back at any existing documentation of the components of the fixed labor burden percentage of 40% to ensure that the percentage does not include a component for paid time off.

- f. we reviewed the Construction Manager's labor burden charges for reasonableness and compliance to the terms of the contract documents.

Results:

- The labor burden percentage was fixed at 40%, and a detail of the components of that percentage was not available for our analysis.

- g. we traced subcontract amounts to subcontractor bid amounts and compared the subcontracted amounts with the schedule of values to assist the District in identifying buyout funds. Additionally, we agreed the amounts requested on the pay application to the pay applications from the subcontractors and interviewed District staff to ensure the Construction Manager did not front-load the billings.

Results:

- The amounts subcontracted to the date of Pay Application 3 (Revised) agreed to the schedule of values and, therefore, there was no buyout identified. Additionally, we reconciled the amounts on the pay application to the corresponding pay application from the subcontractors without exception. Also, we interviewed Mark Scheuer, the Project Manager for SBOC, who stated there was no evidence of advance or front-end billing through Pay Application 3 (Revised).

- h. we examined supporting documentation for insurance charges, including the payment and performance bond and general liability insurance. We determined the basis for charges that are internal allocations from the Construction Manager, if applicable.

Results:

- CRI vouched the bond invoice and the invoice for the calculation of subguard ("CDI") charges and agreed them to the amount included to date in Pay Application 3 (Revised). The CDI was entirely billed for GMPs #1 and #2 in Pay Application 3 (Revised) based on the estimated amounts to be subcontracted. There was no billing to date for general liability insurance as that coverage is included in the Contractor Controlled Insurance Program ("CCIP"), and there were no billings for CCIP through the date of Pay Application 3 (Revised). The CDI rate was agreed to be 1.3% of subcontracted work originally (in GMP #1), but when SBOC committed to the CCIP, that rate was dropped to 1.2%. The 1.2% rate was used for the billing of the subcontract costs for GMP #2, but the subcontracted amounts included on GMP #1 were not adjusted down to 1.2%. Therefore, SBOC will receive a credit of the difference, which is approximately \$8,550.

Recommendation:

- We recommend that SBOC review future pay application to ensure this credit is received.

- i. we obtained the schedules of values for a sample of 7 subcontractors to determine there were no subcontractor bond costs included. Additionally, we reviewed bid instructions to see if the instructions specifically directed the subcontractors to bid without bond costs. If the bid documents include bond costs that were not included in the schedule of values, we calculated the rate implicit in the bond costs and compared that rate with the subguard rate. We requested confirmation from the Construction Manager that the subcontractors had not included bond costs in their subcontracts.

Results:

- There were no bond costs included in the schedule of values for the 7 subcontractors tested.

- We were unable to identify in the bid instructions a provision that stated that bond costs were not to be included in the subcontractor's bid. However, we did read the subcontract agreement for the subcontractors tested, and the agreement specified that bond costs were not included.
 - Because bond costs were not included in the subcontractor's bid, we were not able to calculate the bond rate the subcontractor would have charged, had they not been included in the subguard program.
 - We received confirmation from the Construction Manager that the subcontractors did not include bond costs in their subcontract costs.
- j. we reviewed the methods used by the Construction Manager for charging any applicable lump sum fees for reasonableness.
- Results:**
- The only lump sum included in Pay Application 3 (Revised) is the fee, which agrees to the amounts included in the amendments.
3. We requested documentation from SBOC relative to owner direct purchases to date, and agreed the amounts purchased, plus the related sales tax savings, to deductive change orders to the guaranteed maximum price.
- Results:**
- There were no change orders to date for owner direct purchases.
4. We inquired of the contracting parties to determine if there are any disputed provisions in the contract, or if there are any other unresolved disputes, including disputes between the Construction Manager and the subcontractors.
- Results:**
- Per our inquiry of the Construction Manager and SBOC, we were not made aware of any disputed provisions in the contract.
5. Since the Project utilizes a Contractor Controlled Insurance Program ("CCIP"), we performed the following procedures:
- a. we reviewed the CCIP documentation as provided by SBOC and identified coverages included in the CCIP.
 - b. we reviewed the documentation and/or calculations as provided by the Construction Manager supporting the rate/rates being charged to the Project.
 - c. we determined that the CCIP rates are being accurately applied to the pay application and job cost as per the contract documents or agreements between SBOC and the Construction Manager.
- Results:**
- CRI did not review the calculation of CCIP rates or the application of such rates to the pay application and job cost as there were no CCIP charges through Pay Application 3 (Revised).

Other comments and recommendations:

Comment:

While reviewing the subcontract agreements we noted the following items:

- In the subcontract for ThyssenKrupp (“TK”), we noted language that stated that TK can participate in the CCIP, but there are no deducts because their insurance is corporately purchased.
- The subcontracts allow for a 15% markup for overhead and profit, while the Agreement between SBOC and the Construction Manager only allows for a 10% markup when work is performed by the subcontractor (5% if the work is performed by a lower tier subcontractor). We noted in some cases the subcontract agreement was modified to reduce the markup percentage to 10%.

Recommendation:

We recommend that SBOC monitor the percentage charges on change work to ensure that the markup agrees with the provisions of the Agreement between SBOC and the Construction Manager. Additionally, charges for CCIP should be reviewed in detail to ensure that all subcontractors deducts are realized for amounts originally bid for coverages included in the CCIP.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the costs of construction presented through Pay Application 3 (Revised). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of The School Board of Osceola County, Florida, and is not intended to be and should not be used by anyone other than the specified party.

Carr, Riggs & Ingram, L.L.C.

Orlando, Florida
May 25, 2017

**Facilities Division Response to the Accountant's Report related to
Application for Payment #3 provided by Carr, Riggs & Ingram, LLC.**

New High School (FFF) Project

May 31, 2017

The following report includes "Results" and "Recommendations" provided by Carr, Riggs & Ingram, LLC (CRI) for the New High School (FFF) Project. This report also includes a response from the Facilities Division for each of CRI's "Recommendations".

1. (2.c) Auto Allowance Charges

Procedure applied:

CRI obtained from the Construction Manager supporting documentation for all items that reflect internal charges, such as vehicles, computers, and other equipment, and reviewed the supporting documentation for reasonableness and allocation methodology.

Results:

CRI identified adjustments to be made relative to charges for auto allowances. First, there were auto charges for certain employees that went through payroll, and also went through direct auto charges. Secondly, there were adjustments necessary for certain auto allowances that were charged to the project at amounts that exceeded the Construction Manager's internal policy.

Recommendation:

CRI has discussed the adjustments with SBOC staff. The Construction Manager will provide credits on the next pay application submitted for the amounts identified, and any other similar charges since Pay Application 3 (Revised). We recommend that SBOC review the subsequently received pay applications to confirm the inclusion of the credits, and monitor all future pay applications to ensure the auto allowance charges are proper and not duplicated.

Facilities Response:

The Senior Facilities Manager, the assigned Project Manager, and the Facilities Services Bookkeeper is in the process of reviewing all Applications for Payment received to date to ensure the auto allowance charges are proper and not duplicated. The Facilities Services Bookkeeper is working with Gilbane Building Company's accountant to confirm the amount owed the School District. The credit will be applied to the General Conditions line item in the July 2017 Application for Payment.

2. (2.e) Paid Time Off (PTO)

Procedure applied:

CRI traced a sample of 15 payroll items to the Construction Manager's payroll records to ensure the charges reflect actual compensation.

Results:

For some of the employees selected, the payroll amounts included auto allowances as mentioned in #1 above. Additionally, we noted that the payroll charges included paid time off in accordance with the note added to GMP Amendment #1, Exhibit B, Attachment 2, Proposed Construction Phase Personnel & Expense. The note read as follows, "Field staff to be billed 2,080 hours/annually, PTO to be billed as incurred to the project for field staff."

Recommendation:

CRI recommends SBOC look back at any existing documentation of the components of the fixed labor burden percentage of 40% to ensure that the percentage does not include a component for Paid Time Off.

Facilities Response:

For all future construction contract negotiations with construction management firms, the negotiating team, which includes the Senior Facilities Manager and the assigned Project Manager, will first request detailed backup for the firm's labor burden. After negotiating the fixed labor burden allowed, the negotiating team will perform a thorough review of the firm's proposal(s) to ensure there is no reference to paid time off being allowed for the project.

3. (2.h) Contractor Default Insurance (CDI)

Procedure applied:

CRI examined supporting documentation for insurance charges, including the payment and performance bond and general liability insurance. CRI determined the basis for charges that are internal allocations from the Construction Manager, if applicable.

Results:

CRI vouched the bond invoice and the invoice for the calculation of subguard ("CDI") charges and agreed them to the amount included to date in Pay Application 3 (Revised). The CDI was entirely billed for GMPs #1 and #2 in Pay Application 3 (Revised) based on the estimated amounts to be subcontracted. There was no billing to date for general liability insurance as that coverage is included in the Contractor Controlled Insurance Program ("CCIP"), and there were no billings for CCIP through the date of Pay Application 3 (Revised). The CDI rate was agreed to be 1.3% of subcontracted work originally (in GMP #1), but when SBOC committed to the CCIP, that rate was dropped to 1.2%. The 1.2% rate was used for the billing of the subcontract costs for GMP #2, but the subcontracted amounts included on GMP #1 were not adjusted down to 1.2%. Therefore, SBOC will receive a credit of the difference, which is approximately \$8,550.

Recommendation:

CRI recommends that SBOC review future pay application to ensure this credit is received.

Facilities Response:

At the time the CCIP program was reviewed, Facilities Services staff did negotiate the CDI rate down from 1.3% to 1.2%. When reviewing all future proposals for changes to the work and when reviewing all Applications for Payment the Senior Facilities Manager, the assigned Project Manager, and the Facilities Services Bookkeeper will ensure the proper CDI rate of 1.2% is applied. The Facilities Services Bookkeeper is working with Gilbane Building Company's accountant to confirm the amount owed the School District. The credit will be applied to the CCIP line item in the July 2017 Application for Payment.

4. Other Comments and Recommendations:

Comment:

While reviewing the subcontract agreements CRI noted the following items:

- In the subcontract for ThyssenKrupp ("TK"), CRI noted language that stated that TK can participate in the CCIP, but there are no deducts because their insurance is corporately purchased.

Facilities Response:

Facilities Services staff has inquired with Gilbane as to why the above mentioned subcontractor, and any other subcontractor, would not provide a deduct if their insurance is corporately purchased.

- The subcontracts allow for a 15% markup for overhead and profit, while the Agreement between SBOC and the Construction Manager only allows for a 10% markup when work is performed by the subcontractor (5% if the work is performed by a lower tier subcontractor). CRI noted in some cases the subcontract agreement was modified to reduce the markup percentage to 10%.

Facilities Response:

When reviewing changes to the work proposals, the Senior Facilities Manager, the assigned Project Manager, and the Facilities Services Bookkeeper will ensure that only the agreed upon (contracted) markup percentage is applied.