

**The School Board of Broward County
Construction Closeout Audit
Boyd H. Anderson High School**

August 21, 2015

Prepared By:



TABLE OF CONTENTS

SECTION	PAGE
Transmittal Letter	1
Executive Summary	2
Scope of Work.....	3
Description of Results	4 – 9
Appendix – Office of Facilities and Construction Response	



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August 21, 2015

Patrick Reilly
Chief Auditor, The School Board of Broward County ("SBBC")
600 S.E. 3rd Avenue
Ft. Lauderdale, Florida 33301

Dear Mr. Reilly:

Pursuant to our engagement letter dated May 2, 2014, we have conducted a Construction Closeout Audit of the Boyd H. Anderson High School construction project.

Our report is organized into the following sections:

Executive Summary	This section provides a high-level summary of the results of our audit.
Scope of Work	The objectives and specific procedures are expanded upon in this section.
Description of Results	Detailed description of the results of the procedures is described more fully.
Appendix	The response from the Office of Facilities & Construction is included as this appendix.

As described in our objectives and specific procedures outlined below, the observations included in this report are based on our analysis of the processes, documents, records, and information provided to us by management and the Construction Manager. In considering our results and recommendations, the SBBC should consult with its legal counsel.

We would like to thank everyone at the SBBC for their assistance and cooperation afforded to us throughout this engagement.

Respectfully submitted,

McGladrey, LLP

Executive Summary

EXECUTIVE SUMMARY

The objective of our post construction audit services was to determine contractor compliance with specific contract terms related to inclusive costs and procedures for proper usage of SBBC funds, allowances, change orders, contingencies and other applicable provisions as they relate to the Boyd H. Anderson High School construction project.

To align with the objective noted above, and as detailed in the Scope of Work section of this report, the following areas related to the Boyd H. Anderson High School construction project were included within our detailed testing:

- Contract Documentation
- Construction Manager (CM) Job Cost Report
- Construction Manager Applications for Payment
- Construction Manager Fees
- Construction Manager Self Performed Work
- Labor and Burden Charges

Scope Limitation

As of the date of this report, final payment had not been made to the Construction Manager, or many of the subcontractors who worked on the project. As a result, testing procedures typically performed as a part of a construction closeout audit for validating final payments to subcontractors and reconciling final job cost records to total project billings was not executed. McGladrey conducted our sample basis subcontractor payment validation testing as of the Construction Manager's Job Cost report provided October 31, 2014.

In addition, the following information requested from the Construction Manager was not provided, further limiting the scope of our typical closeout audit procedures:

- Final subcontractor pay applications
- Change orders and contingency change requests
- Certain supporting documents related to self performed work (See **Description of Results** section below)

Results Summary

The following section provides a summary of the observations identified. Amounts determined to be disallowable based on the terms and conditions of the contract have been presented in the chart below. The details of these observations can be found on pages 4 - 9 of this report.

#	Description	Amount
1	Billings in Excess of Self Performed Cost of Work	\$ 51,980
2	Mark-Up on Self Performed Work	108,299
3	Unsupported Project Operating Expenses	161,628
4	Unsupported Miscellaneous Costs	11,329
5	Sales Tax Savings Not Deducted	58,613
6	Overcharges in Excess of 2% of Contract Billings	45,000
	Total	<u>\$ 436,849</u>

Recommendations / Follow Up

We recommend, in consultation with its legal counsel, the SBBC review the details of the observations noted herein to identify the course of action most suited to the interests of the School Board.

Scope of Work

SCOPE OF WORK

Objectives

The objective of this construction closeout audit was to determine contractor compliance with specific contract terms related to inclusive costs and procedures for proper usage of Owner funds, allowances, contingencies and other provisions as applicable, and to quantify any identified contractor overcharges as applicable.

Specific Procedures Performed

We have performed the following procedures:

- We reviewed the applicable agreement in order to facilitate contractor compliance with the terms of the contract.
- We performed sample basis testing where applicable, for the following cost classifications:
 - Construction Manager fees (Overhead and Profit)
 - Labor and labor burden charges
 - Construction Manager self-performed work
 - Other costs
- We reviewed the calculation of sales tax savings and any usage of the savings for appropriateness in accordance with the provisions of the contract, proper approval and mathematical accuracy.
- We reconciled the Pay Applications and sample project disbursements to Finance records for completeness and accuracy.
- We compared a sample of payments made by the Construction Manager on the larger subcontracts to the payments made by the Owner to the Construction Manager for those contract line items and vouched to cancelled checks obtained from the CM (Validate payments to the subcontract - Compare the CM Guaranteed Maximum Price (GMP) vs. actual payments to subcontractors).

Scope Limitation

As of the date of this report, final payment had not been made to the Construction Manager, nor to many of the subcontractors who worked on the project. As a result, testing procedures typically performed as a part of a construction closeout audit for validating final payments to subcontractors and reconciling final job cost records to total project billings was not executed. McGladrey conducted our sample basis subcontractor payment validation testing as of the most recently executed pay application (#31, for the period ended April 30, 2010).

In addition, the following information requested from the Construction Manager was not provided, further limiting the scope of our typical closeout audit procedures:

- Final subcontractor pay applications
- Change orders and contingency change requests
- Certain supporting documents related to self performed work (See **Description of Results** section below)

Reporting

At the conclusion of our audit, we summarized our results into this report and conducted an exit conference with the Office of the Chief Auditor to discuss our findings, including:

- Calculation of any adjustments;
- Draft report – potential cost recoveries, recommendations for process and control improvements; and
- Identifying areas that may commend additional procedures and follow-up.

Description of Results

DESCRIPTION OF RESULTS

Description	Results								
1. Billings in Excess of Self Performed Cost of Work	<p>During our audit, we noted that billings for self performed work exceeded the actual costs of performing that work. The contract delivery method utilized for this project, Construction Manager at Risk with a Guaranteed Maximum Price (GMP), is cost reimbursable in nature and specifically states in Article 6.1 (emphasis added):</p> <p><i><u>“The GMP shall guarantee the maximum price for the construction cost of the project or designated part thereof, for phased projects, and shall be approved by the Owner. Such Guaranteed Maximum Price will be subject to modification for changes in the project as provided in Article 27 of the general conditions. However, the actual price paid for the Work by the Owner shall be the actual cost of all Work subcontracts, supply contracts, direct labor costs, direct supervision costs, and direct job costs as defined under Article 26 of the general conditions, plus the Construction Manager’s fees or the GMP, whichever is less when the Work is complete.”</u></i></p> <p>The following schedule is provided in support of the quantified variance noted herein:</p> <table border="1"> <thead> <tr> <th>Description</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>Billings for self performed work (per pay application #31)</td><td>\$ 1,230,232</td></tr> <tr> <td>Costs incurred (per contractor provided job cost records)</td><td>1,178,252 *</td></tr> <tr> <td>Total billings in excess of costs incurred</td><td>\$ 51,980</td></tr> </tbody> </table> <p>* See findings #2 & 3 below for additional potential credits derived from our testing of self performed costs incurred.</p> <p>Considering the reimbursable nature of the Construction Management agreement, and the results of our procedures, we recommend SBBC consult with its legal counsel, and consider requesting a credit of \$51,980 be provided to account for this potentially disallowable charge.</p>	Description	Amount	Billings for self performed work (per pay application #31)	\$ 1,230,232	Costs incurred (per contractor provided job cost records)	1,178,252 *	Total billings in excess of costs incurred	\$ 51,980
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2. Mark-Up on Self Performed Work	<p>During our audit we noted portions of the cost of work for this project were identified as self-performed by the Construction Manager. It is our understanding that the School Board's Office of the General Counsel previously expressed that based on Counsel's reading of the contract documents; self-performed work should be reimbursed only for those costs actually incurred by the Construction Manager. As such, any profit or mark-up applied to self performed cost of work would be considered non-reimbursable, due to the fact that it is not an actual cost incurred by the Construction Manager.</p> <p>During our testing procedures, we identified profit / mark-up in the amount of \$108,299 applied to the self performed portion of the cost work. Refer to the following schedule for a breakdown of the applied mark-up to self performed work:</p>																																								
	<table><tr><th>Pay App Line Num</th><th>Billing Line Description</th><th>Timberline Cost Code</th><th>Vendor</th><th>Actual Cost Amount</th></tr><tr><td>1</td><td>Concrete Slab and Foundations</td><td>1-220</td><td>Mark-up</td><td>\$ 89,253</td></tr><tr><td>7</td><td>Rough Carpentry</td><td>1-220</td><td>Mark-up</td><td>1,061</td></tr><tr><td>S-18</td><td>Sidewalks</td><td>1-220</td><td>Mark-up</td><td>869</td></tr><tr><td>S-32</td><td>Existing Cafeteria Demolition</td><td>1-220</td><td>Mark-up</td><td>7,033</td></tr><tr><td>33-11</td><td>Demo, Exc & Removal For Fire Lane</td><td>1-220</td><td>Mark-up</td><td>4,621</td></tr><tr><td>33-12</td><td>Grade, Compact & Conc for Fire Lane</td><td>1-220</td><td>Mark-up</td><td>5,462</td></tr><tr><td colspan="4">Total</td><td><u>\$ 108,299</u></td></tr></table>	Pay App Line Num	Billing Line Description	Timberline Cost Code	Vendor	Actual Cost Amount	1	Concrete Slab and Foundations	1-220	Mark-up	\$ 89,253	7	Rough Carpentry	1-220	Mark-up	1,061	S-18	Sidewalks	1-220	Mark-up	869	S-32	Existing Cafeteria Demolition	1-220	Mark-up	7,033	33-11	Demo, Exc & Removal For Fire Lane	1-220	Mark-up	4,621	33-12	Grade, Compact & Conc for Fire Lane	1-220	Mark-up	5,462	Total				<u>\$ 108,299</u>
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	<p>Based upon our understanding of the SBBC's position on self performance, and the results of our testing procedures, we recommend SBBC consult with its legal counsel, and consider requesting a credit of \$108,299 be provided to account for this potentially disallowable charge.</p>																																								

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3. Unsupported Project Operating Expenses	<p>During our testing of self performed portions of the cost of work, we noted transactions in the Construction Manager’s job cost records with the descriptors; “Project Operating Expense” and “Equipment”. In order to confirm the contractual allowability of these charges, McGladrey requested the Construction Manager provide invoices, check copies, or other supporting documentation as evidence these were in fact costs incurred pursuant to the cost of work for the Boyd Anderson project.</p> <p>The Construction Manager elected not to provide support for \$161,628 of Project Operating Expenses included in their build up of self performed costs of work. Refer to the following schedule for a breakdown of unsupported Project Operating Expenses included with the self performed cost work:</p>																																																							
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4. Unsupported Miscellaneous Costs	As a part of our audit procedures and through discussions with the SBBC’s Office of the Chief Auditor, McGladrey identified certain transactions included in the Construction Manager’s build up of self performed costs of work for further testing. Refer to the following schedule for a breakdown of these transactions:																																																		
	<table><tr><th>Date</th><th>Vendor</th><th>Invoice Num</th><th>Acct Description</th><th>Amount</th></tr><tr><td>05/15/2009</td><td>AMEREXPG</td><td>051509-42001</td><td>MISC MATERIALS</td><td>\$ 111</td></tr><tr><td>08/14/2009</td><td>AMEREXPG</td><td>081409-42001</td><td>MISC MATERIALS</td><td>1,621</td></tr><tr><td>10/12/2008</td><td>John Deere</td><td>1058737</td><td>Rental-Bobcat/Loader/Crane</td><td>1,371</td></tr><tr><td>02/09/2009</td><td>John Deere</td><td>1084111</td><td>Rental-Bobcat/Loader/Crane</td><td>2,742</td></tr><tr><td>04/11/2009</td><td>John Deere</td><td>1097191</td><td>Rental-Bobcat/Loader/Crane</td><td>1,371</td></tr><tr><td>05/12/2009</td><td>John Deere</td><td>1103748</td><td>Rental-Bobcat/Loader/Crane</td><td>1,371</td></tr><tr><td>06/11/2009</td><td>John Deere</td><td>1110482</td><td>Rental-Bobcat/Loader/Crane</td><td>1,371</td></tr><tr><td>09/11/2009</td><td>John Deere</td><td>1130035</td><td>Rental-Bobcat/Loader/Crane</td><td>1,371</td></tr><tr><td colspan="4">Total</td><td>\$ 11,329</td></tr></table>	Date	Vendor	Invoice Num	Acct Description	Amount	05/15/2009	AMEREXPG	051509-42001	MISC MATERIALS	\$ 111	08/14/2009	AMEREXPG	081409-42001	MISC MATERIALS	1,621	10/12/2008	John Deere	1058737	Rental-Bobcat/Loader/Crane	1,371	02/09/2009	John Deere	1084111	Rental-Bobcat/Loader/Crane	2,742	04/11/2009	John Deere	1097191	Rental-Bobcat/Loader/Crane	1,371	05/12/2009	John Deere	1103748	Rental-Bobcat/Loader/Crane	1,371	06/11/2009	John Deere	1110482	Rental-Bobcat/Loader/Crane	1,371	09/11/2009	John Deere	1130035	Rental-Bobcat/Loader/Crane	1,371	Total				\$ 11,329
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The Construction Manager elected to not provide support for these specific transactions. As such, we recommend SBBC consult with its legal counsel, and consider requesting a credit of \$11,329 be provided to account for these potentially unsupported charges.																																																			

DESCRIPTION OF RESULTS

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5. Sales Tax Savings Not Deducted	During our testing of sales tax savings related to Direct Owner Purchases, we noted the Construction Manager did not properly include a deduction on the pay application for sales tax savings related to the SBBC’s direct purchase of Foodservice Equipment.
	The following schedule is provided in support of the quantified variance noted herein:

DESCRIPTION OF RESULTS

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6. Overcharges in Excess of 2% of Contract Billings	<p>Article 44 – Right to Audit provisions, subparagraph 44.5 states:</p> <p><i>“If an audit inspection or examination in accordance with this Article, discloses overcharges (except negotiated fees) by the Construction Manager to the Owner in excess of 2% percent of the total contract billings, the actual cost of the Owner’s audit shall be paid by the Construction Manager. If the audit discloses contract billing or charges to which the Construction Manager is not contractually entitled Construction Manager shall pay over to Owner said sum within 20 days of receipt of a written demand unless otherwise agreed to by both parties in writing.”</i></p> <p>Based upon the findings identified herein, and current SBBC payments made to date per the Purchase Order Payments Log, we note that the current overcharges identified exceed 2% of the total contract billings. The following calculation is provided to support this position:</p> <table border="1"> <thead> <tr> <th>Description</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>Total Contract Billings (Completed and Stored to Date from Pay Application #31)</td><td>\$ 11,668,826</td></tr> <tr> <td>2% of total Contract Billings</td><td>\$ 233,377</td></tr> <tr> <td>Summary of Audit Findings Identified Above</td><td></td></tr> <tr> <td>1. Billings in Excess of Self Performed Cost of Work</td><td>\$ 51,980</td></tr> <tr> <td>2. Mark-Up on Self Performed Work</td><td>108,299</td></tr> <tr> <td>3. Unsupported Project Operating Expenses</td><td>161,628</td></tr> <tr> <td>4. Unsupported Miscellaneous Costs</td><td>11,329</td></tr> <tr> <td>Total of Audit Findings Identified Above - (2.9% of total Contract Billings)</td><td>\$ 333,236</td></tr> <tr> <td>Findings in Excess of 2% Total Contract Billings</td><td>\$ 99,859</td></tr> </tbody> </table> <p>We recommend SBBC consult with its legal counsel, and consider requesting a credit from the Construction Manager for the actual cost of the Owner’s audit as stated in the Construction Agreement Article 44.5, in the amount of \$45,000.</p>	Description	Amount	Total Contract Billings (Completed and Stored to Date from Pay Application #31)	\$ 11,668,826	2% of total Contract Billings	\$ 233,377	Summary of Audit Findings Identified Above		1. Billings in Excess of Self Performed Cost of Work	\$ 51,980	2. Mark-Up on Self Performed Work	108,299	3. Unsupported Project Operating Expenses	161,628	4. Unsupported Miscellaneous Costs	11,329	Total of Audit Findings Identified Above - (2.9% of total Contract Billings)	\$ 333,236	Findings in Excess of 2% Total Contract Billings	\$ 99,859
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Appendix

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
OFFICE OF FACILITIES & CONSTRUCTION


SHELLEY N. MELONI, R.A., NCARB, LEED® AP
DIRECTOR, PRE-CONSTRUCTION

Telephone: (754) 321-1515

Facsimile: (754) 321-1501

September 17, 2015

TO: Patrick Reilly, Chief Auditor
Office of the Chief Auditor

FROM: Shelley N. Meloni, R.A., NCARB, LEED® AP 
Director, Pre-Construction

SUBJECT: CONSTRUCTION CLOSE-OUT AUDIT - BOYD H. ANDERSON HS

The Office of Facilities & Construction (OFC) has reviewed the Final Draft Audit Report by McGladrey, LLP for Boyd H. Anderson, Kitchen Cafeteria Replacement, dated August 21, 2015. We agree with the findings outlined in the report that the contract should be credited in the amount of \$436,849. Pursuant to the recommendation on Page 2 of the report, OFC shall consult with Legal counsel regarding a course of action.

Should you have any questions, please feel free to contact me.

SNM:ma

cc: Jeff Moquin, Chief of Staff
Sonja Coley, Senior Project Manager
Greg Boardman, Project Manager III
Project File