



Internal Audit Committee of
Brevard County, Florida

Construction Compliance Review of
Brevard County Parks and Recreation - Pritchard House Project

Prepared By:
Internal Auditors of Brevard County
March 11, 2010

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March 11, 2010

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the approved 2009/2010 internal audit plan, we hereby submit our internal audit report covering our review of the contract and related documents for the Brevard County Pritchard House Renovation project ("Pritchard"). We will be presenting this report to the Audit Committee at the next scheduled meeting on March 26, 2010. Our report is organized in the following sections:

- **Objectives and Approach** – The internal audit objectives and approach are expanded upon in this section, which provides a review of the various phases of our audit.
- **Background** - This provides an overview of Purchasing and Contract Compliance Services for Brevard County ("County"), timeline of events for the Pritchard project, common definitions used throughout this report.
- **Summary of Results** – This provides a detail of the specific results based on our review.
- **Specific Procedures and Results** – Provides a detail of procedures and respective results for the contract review. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

While we performed certain substantive procedures on information provided by the Parks and Recreation Department ("Department") we were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the schedules and financial information accompanying this report. 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.

Our report is intended solely for the information and use of the Internal Audit Committee and its designees and is not intended to be and should not be used by anyone other than these specified parties. We would like to thank the Parks and Recreation, Purchasing and Finance Departments for their assistance during this Construction Contract Compliance Review of the Pritchard project.

Respectfully submitted,

INTERNAL AUDITORS

Objectives and Approach

Objectives and Approach

Objectives

Objectives of the construction contract compliance review include the following:

- To determine contractor compliance with specific contract terms related to inclusive costs and procedures for usage of Owner funds, allowances, contingencies and other provisions as applicable.
- To determine, on a sample basis, the propriety and validity of payments to date and whether payments were in concert with the project budget.
- To identify, during the course of the procedures designed to meet the stated objectives, process improvement opportunities and recommend internal control enhancements to improve the overall construction project management process.

Approach

Our approach consisted of the following test procedures:

Scoping and Analysis of the Project

In our *Contract Compliance Reviews Report* presented to the Brevard County Internal Audit Committee at the December 2, 2009 meeting, we identified potential cost recovery due from the Construction Manager totaling \$202,366. Additionally, we presented various compliance and control recommendations for the County to implement and/or improve upon to enhance the internal contract compliance and review process. In light of these findings and recommendations, we selected another construction contract for review.

The Department in concert with the Internal Auditors selected the Pritchard project for the purposes of a construction contract compliance review since it is a construction manager at risk contract and due to its ongoing nature. This contract was executed under the Construction Management delivery model with a Guaranteed Maximum Price.

Detailed Testing

We planned the scope of procedures based on our understanding of risk and controls related to each construction project, given the type of contract used and method of delivery and based on our experience gained from previous construction project reviews. We conducted facilitated sessions among team members and interviewed members of management at the Department. The results of the procedures for the construction contract compliance review, detailing the steps performed and results for the specific project are included within this report. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

Objectives and Approach - continued

Approach – continued

Detailed Testing - continued

The audit plan for this review included the following test procedures:

- We obtained copies of the contracts between the Brevard County Board of County Commissioners and the contractor (Construction Manager) and analyzed the contract noting items of significance related to costs and payment requirements.
- We performed an analysis of contracts to validate invoices were submitted in accordance with contract terms and amounts were complete and accurate. This included, but was not limited to, the following:
 - Review all change orders and contingency change requests for proper approval and conformity to the contract and/or policies and procedures manual.
 - Review the contractor fees and general conditions against the provisions of the contract.
 - Review general conditions payments for appropriateness and adequate support.
 - Evaluate the guaranteed maximum price, where applicable, and actual costs of construction based upon contractor's records, if available.
- 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.
- There were no owner direct purchases (ODP) made. We calculated the potential sales tax savings had the Owner taken advantage of ODP.
- We reconciled the Pay Applications and sample project disbursements to Finance records for completeness and accuracy of project coding.
- We compared the payments made by the Construction Manager for all the subcontracts to the payments made by the Owner to the Construction Manager for those contract line items. We also tested a sample of subcontractor payments made by the Construction Manager comparing payer, payee and amount to the cancelled checks.

Reporting

At the conclusion of our review, we summarized our results and conducted an exit conference with the Department's Director, and other Department personnel and Finance Personnel to discuss our findings.

While we performed certain substantive procedures on information provided by The Department, we were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the schedules and financial information accompanying this report. 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.

Our report is intended solely for the information and use of the Internal Audit Committee and its designees and is not intended to be and should not be used by anyone other than these specified parties.

Background

Background

Overview

On October 31, 2008, the Brevard County Board of County Commissioners ("Owner") and Howell's Construction Group, Inc. ("Construction Manager") entered into an *Agreement Between Owner and Construction Manager* for the construction of the Pritchard House Renovation. The provisions of this agreement require a Guaranteed Maximum Price (GMP) for approval by the Owner. See Timeline below.

Roles and Responsibilities

The following departments play key roles:

Parks and Recreation

The Parks and Recreation department is responsible for providing project management services during all phases of construction, from pre-construction and design to inspection and close-out for certain types of construction projects such as restoration projects. This is generally accomplished by contracting with professional firms for all design, construction and other contract services and monitoring the projects until completion.

Purchasing

The Purchasing department assists with construction by administering the competitive bid process for contractual services, as well as processing requests for procurement of services and goods to be received.

Finance

The Finance department oversees all the processes and record keeping of the financial transactions and safeguards assets in accordance with generally accepted accounting principles and applicable regulatory requirements.

Common Definitions

Some common definitions for construction terminology used throughout this report are as follows:

- Owner – refers to the Owner of the completed construction project (i.e., the Brevard County Board of County Commissioners). We may utilize Owner interchangeably with "County" throughout the report. Where we specifically want to refer to the Internal Audit Committee or a specific department within Brevard County, such as Facilities, we use the specific name.
- Project Budget – refers to the Owner's funds budgeted for the project including the construction budget and all other fees, land acquisition costs, furnishings, equipment and other costs necessary to complete the project.
- Construction Budget – refers to the Owner's budget for construction of the project, including Construction Manager (CM) management fees, costs of the work and contingencies. This also includes direct purchases made by the Owner. The construction budget is not the same as the contractor's Guaranteed Maximum Price.
- Guaranteed Maximum Price (GMP) – refers to a written estimate by the contractor of the maximum price the Owner will pay for construction of the planned project.
- Owner Direct Purchases (ODP) – refers to direct purchase of materials by the Owner for the purpose of sales tax savings. The Owner may choose to purchase various construction materials, supplies and equipment that may be part of a subcontract directly from the vendor. The subcontract amounts, and subsequently the GMP, are reduced by the undiscounted purchase order amount, plus all applicable sales taxes, resulting in savings to the Owner.
- Contingency – refers to funds included in a budget to allow for defraying the expense of unforeseen circumstances in a construction project.
- General conditions – refers to direct cost items paid by the contractor that are not included in subcontracts or the negotiated fixed fees. Typical items include direct labor, equipment rental, office expenses, insurance, telephone service, utilities, etc. These costs are also referred to as "general requirements".

Background - continued

Common Definitions - continued

- Payment Application (Pay App) – the invoice submitted by the contractor for payment, including a detailed Schedule of Values (SOV) of the approved GMP and the various components of the costs of the work.
- Retainage – refers to funds withheld from a construction contract until completion of the project, or some other agreed upon date. The amounts are held back to provide the Owner with assurances for the quality of the work. Florida Statute 218.735 and 255.078 outline the requirements for payment of construction contracts for local government entities and for public lands and property, including allowable retainage.

Timeline – Phases 1 and 2

The project began in FY2008 and construction was completed in FY2009. Below is a timeline of major events for the project.

Date	Event Description	GMP
October 31, 2008	On October 31, 2008, the Brevard County Board of County Commissioners (“Owner”) and Howell’s Construction Group, Inc. (“Construction Manager”) entered into an <i>Agreement Between Owner and Construction Manager</i> for the construction of the Pritchard House Renovation. The provisions of this agreement require a Guaranteed Maximum Price (GMP) for approval by the Owner, which was submitted and approved with the signing of the Agreement.	\$273,000
February 25, 2009	There was a GMP realignment for roof, chimney and porch structural changes totaling \$29,126 (Change Order 1).	
April 28, 2009	The GMP was increased due primarily to the following: lead based paint abatement, window reglazing, and additional external painting (Change Order 2).	\$38,260
October 23, 2009	Upon completion, there was a minor amount of credit back to the owner per the final pay application	(\$198)
	Final GMP	\$311,062

Summary of Results

Summary of Results

Results

Below is a summary of our results, as detailed in the Specific Procedures and Results section of this report. This information has been provided to the Department for review and comment prior to submission to the Internal Audit Committee.

Summary of Results	
The following is a summary of results related to the contract with the construction manager, Howell Construction Inc :	
Potential adjustments based on this report:	
Duplicate Project Manager Charges (# 4)	\$ 1,040
Unallowable General Conditions (#4)	3,051
Potential cost recovery amount due from CM*	<u>\$ 4,091</u>
<u>Project Manager as Direct Labor (procedure #5):</u> We noted a discrepancy between what the contract states concerning how the project manager is to be compensated and what was negotiated between the Owner and the CM via written correspondence. The contract specifies that the cost of the project manager is part of the CM fee and thus included in the \$36,000 CM fee. However, the Owner and CM structured the project so that the project manager charges (\$5,000) were made part of the General Conditions (direct costs). See recommendation below.	
*In Article 8, the contract specifies the following regarding the final price to be paid to the CM by the Owner: "The sum of the Cost of the Work and the CM's fee shall not exceed the GMP. The CM's fee shall constitute CM's total compensation for profit. All costs in excess of the final approved GMP are the responsibility of the CM. Any savings between the GMP and the sum of the actual cost of the Work, plus the CM's fees, will be returned to Owner."	
Note: The results of these procedures and potential cost recoveries are subject to the legal review and interpretation of the CM contract.	
In addition to the information above, and based on the testing we performed, we noted various compliance and control recommendations as noted below.	

Specific Procedures and Results

Specific Procedures and Results

Procedure	Results
1. Obtain and review the Construction Manager (CM) contract and amendments to determine if they were properly executed and approved by the Board.	We obtained a copy of the original contract. No amendments were noted. <u>Conclusion:</u> The original contract was properly executed and approved by the Clerk of the Brevard County of County Commissioners.
2. Determine the reasonableness of the timeline between entering into the Construction Manager contract and approving the Guaranteed Maximum Price (GMP) amount for construction.	The GMP was approved on 10/31/08. <u>Conclusion:</u> The GMP was approved with the original contract. Timeline is reasonable.

Specific Procedures and Results - continued

Procedure	Results																
<p>3. Obtain all change orders request related to contingency usage (Authorization to Initiate Work) that does not increase the GMP, and determine the following:</p> <ul style="list-style-type: none"> ▪ The Owner properly approved the request. ▪ The usage was reasonable in accordance with the provision of the contract. ▪ Usage was properly accumulated on the contractor's pay application and that supporting documentation was available and reasonable. 	<p>The following requirements are found in Articles 2.3.1 and 7.3 in defining and describing the use of the Contingency Fund:</p> <p>The Cost of the work shall include CM's contingency, a sum agreed to by all parties for their use to cover costs arising from unforeseen conditions in that phase of the project (2.3.2).</p> <p>Surplus funds from bids received below the applicable line items, including line items within the GC, in the GMP will be set aside for contingency. Construction contingency funds will be used for the purpose of defraying the expenses due to unforeseen circumstances relating to construction. The CM will be required to furnish documentation evidencing expenditures charged to this contingency prior to the release of funds by the Owner. Documentation for use of the Contingency shall be determined by the Construction Team. The Architect/Owner shall verify and approve the actual costs" (7.3).</p> <p>As part of the approved GMP, a CM contingency fund was separately established totaling \$20,000.</p> <p>During our analysis of contingency items, we noted the following relative to the usage of the fund:</p> <table border="1" data-bbox="865 834 1570 1143"> <thead> <tr> <th colspan="2" style="text-align: center;">Contingency usage:</th> </tr> </thead> <tbody> <tr> <td>Beginning Balance</td> <td style="text-align: right;">\$ 20,000</td> </tr> <tr> <td>Wood shingle removal</td> <td style="text-align: right;">(4,200)</td> </tr> <tr> <td>Chimney repairs</td> <td style="text-align: right;">(10,344)</td> </tr> <tr> <td>Porch repairs</td> <td style="text-align: right;">(13,912)</td> </tr> <tr> <td>Miscellaneous</td> <td style="text-align: right;">(1,232)</td> </tr> <tr> <td>Buyout Savings / GMP realignment transfer</td> <td style="text-align: right;">9,688</td> </tr> <tr> <td>Remaining contingency</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table> <p>Based on our review of the "Authorizations to Initiate Work" forms for contingency costs, the contingency usage was properly authorized and approved by the Owner and CM. Further, based our discussions with the Contract Administrator and Project Manager, there were no unresolved disputes with the CM regarding the use of the contingency fund.</p> <p><u>Conclusion:</u> No potential cost recovery was noted.</p>	Contingency usage:		Beginning Balance	\$ 20,000	Wood shingle removal	(4,200)	Chimney repairs	(10,344)	Porch repairs	(13,912)	Miscellaneous	(1,232)	Buyout Savings / GMP realignment transfer	9,688	Remaining contingency	\$ -
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Specific Procedures and Results - continued

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4. Obtain all change orders and determine the following: <ul style="list-style-type: none"> ▪ Change order was properly supported and approved by the Owner. ▪ The timeline for approval of the change order was appropriate. 	<p>The following represents a recap of the approved change orders:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Change Order</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>Initial GMP</td> <td style="text-align: right;">\$ 273,000</td> </tr> <tr> <td>Change Order #1 - GMP realignment totaling \$29,126</td> <td></td> </tr> <tr> <td>Change Order #2 - various scope changes and repairs*</td> <td style="text-align: right;">38,260</td> </tr> <tr> <td>Balance to finish - returned to Owner</td> <td style="text-align: right;">(198)</td> </tr> <tr> <td>Final GMP</td> <td style="text-align: right; border-top: 1px solid black;">\$ 311,062</td> </tr> </tbody> </table> <p>During our review of change orders, we noted that the change order #2 included some duplicate and unallowable costs:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2" style="text-align: left;">Description</th> <th colspan="2" style="text-align: center;">Change Order</th> <th rowspan="2" style="text-align: center;">Total</th> </tr> <tr> <th style="text-align: center;">Painting</th> <th style="text-align: center;">Abatement</th> </tr> </thead> <tbody> <tr> <td>Change Order</td> <td style="text-align: right;">\$ 16,940</td> <td style="text-align: right;">\$ 13,568</td> <td style="text-align: right;">\$ 30,508</td> </tr> <tr> <td colspan="4"><u>Additional charges:</u></td> </tr> <tr> <td>Project Manager (8 hrs @ \$65.00)</td> <td style="text-align: right;">520</td> <td style="text-align: right;">520</td> <td style="text-align: right;">1,040</td> </tr> <tr> <td>Jobiste General Conditions (GC)</td> <td style="text-align: right;">1,694</td> <td style="text-align: right;">1,357</td> <td style="text-align: right;">3,051</td> </tr> <tr> <td>Overhead and Bond fees - per Article 10.1 (5%, 2%)</td> <td style="text-align: right;">1,186</td> <td style="text-align: right;">950</td> <td style="text-align: right;">2,136</td> </tr> <tr> <td>Profit - per Article 10.1 (5%)</td> <td style="text-align: right;">847</td> <td style="text-align: right;">678</td> <td style="text-align: right;">1,525</td> </tr> <tr> <td>Total additional charges</td> <td style="text-align: right; border-top: 1px solid black;">\$ 4,247</td> <td style="text-align: right; border-top: 1px solid black;">\$ 3,505</td> <td style="text-align: right; border-top: 1px solid black;">\$ 7,752</td> </tr> <tr> <td colspan="4"><u>Disallowable / Duplicative Charges:</u></td> </tr> <tr> <td>Project Manager (8 hrs @ \$65.00)</td> <td style="text-align: right;">\$ 520</td> <td style="text-align: right;">\$ 520</td> <td style="text-align: right;">\$ 1,040</td> </tr> <tr> <td>Jobiste General Conditions</td> <td style="text-align: right;">1,694</td> <td style="text-align: right;">1,357</td> <td style="text-align: right;">3,051</td> </tr> <tr> <td>Potential Cost Recovery</td> <td style="text-align: right; border-top: 1px solid black;">\$ 2,214</td> <td style="text-align: right; border-top: 1px solid black;">\$ 1,877</td> <td style="text-align: right; border-top: 1px solid black;">\$ 4,091</td> </tr> </tbody> </table> <p>The contract does not provide for any separate GC mark-up for change orders. Rather, the GC mark-up is included in the mark-up on the Profit and Overhead and Bond costs (totaling 12%). These mark-ups address the CM's additional costs and labor – including the project manager. This treatment is also consistent with industry standard for GMP contracts.</p> <p><u>Conclusion:</u> The change orders were properly approved by the Owner; however, change order #2 included duplicate project manager charges and unallowable GC costs of \$1,040 and \$3,051 respectively. These amounts are included in the summary of results noted above.</p>	Change Order	Amount	Initial GMP	\$ 273,000	Change Order #1 - GMP realignment totaling \$29,126		Change Order #2 - various scope changes and repairs*	38,260	Balance to finish - returned to Owner	(198)	Final GMP	\$ 311,062	Description	Change Order		Total	Painting	Abatement	Change Order	\$ 16,940	\$ 13,568	\$ 30,508	<u>Additional charges:</u>				Project Manager (8 hrs @ \$65.00)	520	520	1,040	Jobiste General Conditions (GC)	1,694	1,357	3,051	Overhead and Bond fees - per Article 10.1 (5%, 2%)	1,186	950	2,136	Profit - per Article 10.1 (5%)	847	678	1,525	Total additional charges	\$ 4,247	\$ 3,505	\$ 7,752	<u>Disallowable / Duplicative Charges:</u>				Project Manager (8 hrs @ \$65.00)	\$ 520	\$ 520	\$ 1,040	Jobiste General Conditions	1,694	1,357	3,051	Potential Cost Recovery	\$ 2,214	\$ 1,877	\$ 4,091
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Specific Procedures and Results - continued

Procedure	Results
<p>5. Review pay applications and for a sample of payments on General Conditions (GC), determine the following:</p> <ul style="list-style-type: none"> ▪ Supporting documentation is available and reasonable for the costs incurred. ▪ Reimbursable costs are valid in accordance with the provisions of the contract. ▪ Direct labor charged is supported and calculated at cost plus the labor burden specified in the contract 	<p>During our initial review of the pay applications for General Conditions, we noted multiple instances where the supporting documentation was not included with the pay applications; however, the Owner still approved all the pay applications for payment. We were able to obtain the missing invoices and other supporting documentation directly from the CM. No exceptions were noted; however, see our recommended action below.</p> <p>During our review of the pay applications for General Conditions (GC), we noted that the direct labor billed by the CM included the project manager's (PM) time spent on the project. Per Article 8.1.1, sections (1) and (2) and Exhibit N, the PM's time is categorized as indirect labor and these types of costs and expenses are considered part of "Overhead and Profit" As such, they are considered to be already included in the CM's manager fee. We noted that Exhibit O (preliminary GMP) in the contract also includes direct labor charges for the PM. Finally, the approved GMP also includes direct labor charges for the PM totaling \$5,000 resulting in a apparent contradiction with Article 8.1.1, sections (1) and (2) and exhibit N which states that PM labor is included in the fixed overhead and profit fee of \$36,000.</p> <p><u>Conclusion:</u> Based on our review, we note that the \$5,000 does not appear to be a potential cost recovery given the negotiated understanding of its treatment as a direct cost; however as noted above the financial treatment does contradict the terms of the contract. This is included in the "Summary of Results" noted on page 5.</p>
<p>6. Recalculate the fixed fees per contract, including change orders and validate against the amounts paid. Determine that the appropriate amounts were proportionately paid based on the percentage of completion at the time of the payment request.</p>	<p>The project was completed at the time of testing. The fixed fees were recalculated in total based on the final pay application and not the percentage of completion throughout the project since any variances would be timing differences only.</p> <p><u>Conclusion:</u> The fixed fees charges appear reasonable and in keeping with the contract.</p>

Specific Procedures and Results - continued

Procedure	Results						
<p>7. Obtain a listing of all ODP and, determine the following:</p> <ul style="list-style-type: none"> ▪ Recalculate sales tax savings and determine that amounts were properly accumulated on the contractor's pay application. ▪ Sales tax savings was appropriately credited to the Owner. ▪ Amounts paid agree to project detail records. 	<p>We noted that the Owner did not have any Owner Direct Purchases (ODP) for its material costs. Pursuant to the contract (Exhibit M), the CM is required to prepare and present a materials requisition form to the Owner for any materials estimated to be \$5,000 or greater (time allowing). Based on discussions with management, the material cost of the project was insignificant for two primary reasons: 1) this phase of the project was labor intensive; 2) the majority of the material cost related to roof materials which were donated.</p> <p><u>Conclusion:</u> The Owner's decision not to utilize ODP appears reasonable given reasons noted above.</p>						
<p>8. Obtain all contractor payment applications and determine the following:</p> <ul style="list-style-type: none"> ▪ Verify the mathematical accuracy of the invoice including the carry forward of the previous invoice's balances and calculation of retainage. ▪ The supporting documentation agrees to the summary invoice. ▪ The invoice was appropriately approved in accordance with the provisions of the contract. ▪ The subcontractor invoices agree to the detailed schedule of values. 	<p>The following represents a reconciliation of the GMP to actual amounts paid to the CM by the Owner exclusive of the potential cost recovery adjustments noted throughout this report:</p> <table border="1" data-bbox="884 737 1703 834"> <tr> <td>Final GMP as revised via change orders noted at procedure 4</td> <td style="text-align: right;">\$ 311,062</td> </tr> <tr> <td>Actual payments made to CM - (pay apps 1-6)</td> <td style="text-align: right;">(311,062)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ -</td> </tr> </table> <p><u>Conclusion:</u> We were able to reconcile amounts paid to the CM by the Owner to final pay application 7 schedule of values as noted above. During our testing, we noted that there were multiple occasions where no supporting invoices were included in pay applications 1-7 for the General Conditions charges; however, pay applications 1-7 were approved for payment (Also, see results of General Conditions testing in procedure 5).</p>	Final GMP as revised via change orders noted at procedure 4	\$ 311,062	Actual payments made to CM - (pay apps 1-6)	(311,062)		\$ -
Final GMP as revised via change orders noted at procedure 4	\$ 311,062						
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	\$ -						

Specific Procedures and Results - continued

Procedure	Results						
<p>9. Obtain the final subcontractor pay applications and determine the following:</p> <ul style="list-style-type: none"> ▪ Verify the mathematical accuracy of the final subcontractor invoice and pay application. ▪ The final invoice and subcontractor pay application was appropriately approved in accordance with the provisions of the contract. ▪ The subcontractor invoices agree to detailed schedule of values. ▪ The payment application amount agrees to the amounts paid per the CM supporting financial records. ▪ Vouch subcontractor payments to the cancelled checks determining the following: <ul style="list-style-type: none"> ○ Verify the check payee and amount agrees to the list provided by the CM. ○ Verify the endorsement agrees to the check payee. ○ Verify the amount paid agreed to the amount written on the face of the check. ○ Verify the check amount in dollars agrees to the check amount in words. ▪ Verify the check has not been apparently altered. 	<p>For subcontracts, we tested the CM's subcontractors' costs and payments by agreeing the original contract amounts, change orders, and total amount paid to the CM's "Subcontractor Status Report". No exceptions were noted. Additionally, we vouched CM contractor payments to the cancelled checks.</p> <p>The following represents a reconciliation of actual subcontractor costs billed to the Owner compared to actual payments made to the subcontractors by the CM:</p> <table border="1" data-bbox="806 467 1780 565"> <tr> <td>Subcontractor construction costs - per CM Pay App 7 SOV *</td> <td style="text-align: right;">\$ 222,729</td> </tr> <tr> <td>Actual payments made to Subcontractors - per cancelled checks</td> <td style="text-align: right;">(222,729)</td> </tr> <tr> <td>Variance</td> <td style="text-align: right;">\$ -</td> </tr> </table> <p>*This reconciliation was based on the CM's payments to subcontractors made through CM pay app 7. See additional explanation at summary of results noted on page 5.</p> <p><u>Conclusion:</u> Based on our testing, CM billings to the Owner for subcontractor construction costs correspond to the actual amounts paid to the subcontractors.</p>	Subcontractor construction costs - per CM Pay App 7 SOV *	\$ 222,729	Actual payments made to Subcontractors - per cancelled checks	(222,729)	Variance	\$ -
Subcontractor construction costs - per CM Pay App 7 SOV *	\$ 222,729						
Actual payments made to Subcontractors - per cancelled checks	(222,729)						
Variance	\$ -						

March 5, 2010

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Re: Internal Audit – Construction Compliance Review
Pritchard House Project
Parks and Recreation
Internal Auditor Recommendations

Based on the results of the specific procedures performed as noted in our March 2010 audit report, we recommend that the County put processes in place for the following areas:

Change Orders – Disallowable & Duplicative Costs

- Contract terms are adhered in order to prevent unallowable and duplicative charges associated with change orders for General Conditions including any additional labor costs. The contract does not provide for any separate General Conditions mark-up for change orders. Rather, the General Conditions mark-up is included in the allowable change-order mark-up on the Profit and Overhead and Bond costs (totaling 12%).

Project Manager - Overhead

- Contract terms are adhered to and / or properly modified so that there are no contradictions between the contract documents and the Guaranteed Maximum Price in keeping with the intent of the duly authorized approvers and signers of the contract.

Pay Applications Review – General Conditions

- Obtain and review actual labor and labor burden support from the Construction Manager to ensure that the amount being charged for direct labor is based on actual labor costs plus labor burden as defined in the contract
- Obtain and review all applicable supporting vendor invoices for General Conditions and check compliance with General Conditions contract provisions before releasing payment.

Pay Applications Review – Construction Costs

- Obtain an updated Schedule of Values and subcontractor pay request that includes the proper allocation of change order costs to the respective subcontractor, which reconciles with the respective Guaranteed Maximum Price line item in the Schedule of Values, prior to approval for payment.

Respectfully submitted,

INTERNAL AUDITORS



PARKS AND RECREATION ADMINISTRATION
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March 10, 2010

RSM McGladrey
Attn: Rob Broline, Manager
7351 Office Park Place
Melbourne, Florida 32940

Re: Internal Audit – Construction Compliance Review
Pritchard House Project
Parks and Recreation Response

Dear Mr. Broline,

The Brevard County Parks and Recreation Department has completed its review of the draft audit report provided on March 5, 2010. Based on the findings of the internal auditor and the language stipulated in the contract documents, we respond as follows:

- Item #1-Change Orders—Disallowable & Duplicative Costs in the amount of \$4,091.00. We mistakenly assumed since the County had requested additional work which increased the project schedule, the CM should be able to include the additional cost of general conditions and project manager's time. We agree the CM should not have included those costs in the change order. As recommended by Internal Audit, the Parks and Recreation Department will, for all future changes, review all change orders more closely to ensure that all charges are restricted to the total 12% mark-up for profit, overhead and bond costs only. Parks staff will request reimbursement of funds from the CM.
- Item #2 – Project Manager-Overhead—This cost was negotiated prior to the contract being executed; however, the process to add it to the contract should have been amended to reflect the negotiated price between both parties. We agree with the internal audit that, the contract terms should have been properly modified either by revising the original agreement and GMP or by amendment to the agreement. As recommended by Internal Audit, the Parks and Recreation Department will, for all future projects, ensure there are no contradictions between the contract documents and the GMP.

- Item #3 – General Conditions Unsupported Labor Charges in the amount of approximately \$22,000. We agree with the internal audit that, although the Agreement between Owner and Construction Manager (CM) match the approved Guaranteed Maximum Price (GMP), the CM did not bill for direct labor as specified in the contract documents. As recommended by Internal Audit, the Parks and Recreation Department will, for all future contracts, closely review “actual” labor and labor burden support from the CM to ensure that the amount being charged for direct labor is based on actual costs plus labor burden as defined in the contract. Additionally, Parks staff will review all payment applications closely to ensure that all applicable supporting documents/invoices for general condition costs are included before releasing payment.
- Item #4 – Pay Application not allocating Change order #2 to respective line items in the amount of \$38,260. We agree that the CM did not breakdown change order #2 into line items that should be monitored by county staff. As recommended by Internal Audit, the Parks and Recreation Department will, for all future contracts, review all payment applications more closely to ensure that all change orders are allocated to correct line items before releasing payment.

Very truly yours,

Larry Wojciechowski
Parks and Recreation Finance Officer