

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

*Review of the proposed Skanska change order #2 – Las Olas Blvd.
Corridor Improvements Project*

Report #18/19-02

December 17, 2018



Memorandum

Memo No: 18/19-02

Date: December 17, 2018

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO, CGMA
City Auditor

Re: Review of the proposed Skanska change order #2-Las Olas Blvd Corridor Improvement Project

My office has retained Carr Riggs & Ingram (CRI) to provide construction auditing services for the CRA projects at the beach. At my request they reviewed the change order proposed by Skanska for the Las Olas Blvd Corridor Improvement Project. Their full report is attached.

The purpose of the review was to determine whether procedures were followed, documentation complete, mathematical accuracy achieved and consistency with the contract. They were not asked to determine whether the change order itself is warranted, as that is a question better addressed by the engineer/project manager in charge.

CONCLUSION

There were a number of variances noted by CRI during their review. In addition, they have made several recommendations for staff to consider implementing to improve the process for reviewing and documenting requests for contract increases.

If the Commission approves the requested change order, we recommend making the approval contingent upon satisfactory resolution of the variances noted.

cc: Lee R. Feldman, City Manager
Alain Boileau, City Attorney
Jeff Modarelli, City Clerk
Stanley Hawthorne, Assistant City Manager
Christopher Lagerbloom, Assistant City Manager



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November 29, 2018

Mr. John Herbst
 City Auditor/Community Redevelopment Agency (CRA) Auditor
 100 N Andrews Ave
 Fort Lauderdale, FL 33301

Dear Mr. Herbst:

The following memo summarizes the procedures, results and recommendations from the review of Change Order No. 2 (CO 2) totaling \$1.5M for the Las Olas Blvd Improvement Corridor Improvement Project by Carr, Riggs & Ingram, LLC (CRI) pursuant to the scope of our agreement dated August 23, 2017.

Change order and contingency usage review is part of CRI’s contract with the City. We noted in our review of pay application No. 7 (12/1/2017 – 12/31/2017) that there were significant amounts included in the “Approved Changes” column. Beginning with pay app No. 7 and each month thereafter, we requested that the relevant change order logs and contingency allowance/report along with proper supporting documentation and approvals and a reconciliation to enable us to verify compliance with the contract and the reasonableness of the proposed changes be included in the respective pay applications. On October 13, 2017 and again on April 21, 2018, CRI met with the Construction Manager (CM) team along with the CRA Project Manager (PM). The CM PM stated that in addition to the monthly payment applications, he would include the Owner change log, contingency allowance/report, and buyout log for any applicable activity; however, these reports were not provided. He also said that all the change order and contingency allowance/report support (AR’s) would be provided on the CM Sharesite. Additionally, pay applications 13 – 16 (5/1/2018 – 9/30/2018) were not provided to us until November 2, 2018.

On November 6, 2018, CRI was first informed about change order 2 and provided with the following supporting documents related to CO 2:

- Change Order No. 2 CAM 18-1174 with four exhibits as noted below:
 - Change Order No. 2 – Exhibit 1 – AR Summary
 - Change Order No. 2 – Exhibit 2 – Skanska AR Backup
 - Change Order No. 2 – Exhibit 3 – Schedule Delay Backup
 - Change Order No. 2 – Exhibit 4 – Memo CRA to Feldman (CRA Memo)

On November 15, 2018, CRI was provided with following additional documents related to CO 2:

- Contingency Allowance/Report dated 10/17/18
- Authorized Request (AR) Log dated 11/14/18
- Cost Event (CE) Log dated 11/14/18
- Cost Event Markup Sheet Template (CM markup template) – provided by the CRA PM

On November 27, 2018, CRI was informed by the CRA PM that the buyout log was posted to CM sharesite.

Based upon the information provided, CRI is able to make the following recommendations:

Procedure	Result/Recommendation
1. We reviewed the ARs included with CO 2 and the underlying supporting documentation to determine if any items should be considered already within the scope of the original GMP or if any items should be considered design errors or omissions.	Based on our review, the backup documentation did not contain evidence that the changes were related to original scope items or due to design errors or omissions.
2. We reviewed CAM 18-1174 to confirm the proposed amount of CO 2.	We recommend the CRA Memo be reworded to clarify that the revised construction GMP with the approval of CO 2, would total \$50,896,810 before taking into account purchases made directly by the City reflected in CO 1.

3. We noted that the CM must submit a Consent of Surety to the City increasing the Payment and Performance bond for the amount of the change order (Article 9.2)	We recommend that if the City approves the change order, its approval be contingent upon the CM obtaining a Consent of Surety to increase the Payment and Performance bond for the amount of the change order.
4. We reviewed the ARs included as part of CO 2 and the underlying support for evidence of EDSAs review and recommendations of the proposed changes in accordance with the contract, Exh 1 GC 55.10.	Given the magnitude of CO 2, we recommend EDSA review the AR proposals (over \$30K), or if they have already done so, forward their recommendation to the City Commission as part of the CO 2 proposal support.
5. We reviewed the ARs for evidence of approval by all three parties (PM, CM and EDSA).	We found none of the ARs included as the support for CO 2 were approved by all three parties.
6. We checked the mathematical accuracy of the ARs and support and recalculated the various CM markups per the mark-up template provided by the CRA PM.	CRI found one exception in the mathematical accuracy of the ARs and underlying support. See Variance 1 in table below.
7. We reviewed the ARs and support to determine if the subcontractor proposed pricing was in accordance with the contract requirements and recalculated the subcontractor OHP and the CM markup accordingly.	CRI found several instances where the subcontractor Overhead and Profit exceeded the allowable 10% per Exh 1, para 55.5e. See our proposed adjustments in Variance 2 in the table below.
8. We noted that the CM markup template included CM Overhead & Profit (OHP) in the markup for SDI and Contingency which only should be applied to the Subcontractor Pricing (cost of work). Also, we noted that the contingency markup included OHP and SDI rather than based on the subcontractor pricing only. We recalculated the CM markup accordingly.	We recalculated the CM markup as described in procedure 8 utilizing the adjusted subcontractor pricing as recalculated in procedure 7 above. See our proposed adjustments in Variance 3 in the table below.
9. We noted that the CM applied OHP of 5% to the Subcontractor's Price and an additional 3% Fee in CO 2. Article 9 provides for a 3% CM fee markup for net increases to the GMP. However, Exh 1, GC 55.5d specifies that the CM is limited to an OHP of 5%. We recalculated the CM markup accordingly.	We recalculated the CM markup as described in procedure 9 to exclude the additional 3% CM fee utilizing the adjusted amount as recalculated in procedure 8 above. See our proposed adjustments in Variance 4 in the table below.
10. We compared the ARs and their respective amounts included with CO 2 to the Contingency logs to determine if any of the ARs were previously funded from contingency (either CM or Owner).	CRI found evidence the ARs in CO 2 also appear on the Contingency logs (CM and Owner) totaling \$663,758 . Refer to the table below. If CO 2 is approved as an increase to the GMP, then this amount needs to be returned (replenished) to the respective contingency accounts and reflected on the City's and CM's logs respectively. Additionally, if the work has been completed, the 3% contingency markup included in CO 2 should be removed. See Item 9 for follow-up below.
11. We reviewed the detail AR backup noting that some of the subcontractors did not provide any or sufficient breakout of material, labor and/or OHP.	See the respective AR's identified for follow-up below.
12. We requested a detailed reconciliation of the contingency log items to the "Approved Changes" column on the most recent pay application provided to us (Pay Application 16).	We have not been provided with this reconciliation. Thus, we were unable to verify whether there were other changes already funded via contingency or sales tax savings that may have also been included in CO 2.

The amounts in the **Variance** columns reflect potential overbillings and are cumulative. The results of our analyses are subject to a comprehensive cost verification performed as part of our close-out compliance audit at the end of the project which could result in additional variances/adjustments.

AR No.	Original amount	Variance 1	Variance 2	Variance 3	Variance 4	CM Contingency	Owner Contingency
1	43,335	0	0	15	207		(42,377)
2	35,729	0	1,553	1,631	2,612	(30,600)	
3	120,588	0	406	680	4,130	3,137	(124,757)
4	3,613	0	0	9	112	(3,094)	
14	612,129	0	0	1,395	18,964		(264,774)
18	44,471	0	0	101	1,378		(38,088)
19	160,405	0	0	0	0		(160,405)
30	3,269	0	0	7	101		(2,800)
33.001	370,767	0	1,561	2,402	13,000		
45	10,656	573	573	584	875		
58	71,352	0	0	163	2,211		
62	41,172	0	0	94	1,276		
Total	\$1,517,486	\$572	\$4,093	\$7,081	\$44,866	\$(30,557)	\$(633,201)

Items requiring follow-up and clarification by CRA that may result in additional potential variances (Some responses, noted in red, where obtained during our onsite meeting with the CM on 11/29/18):

1. We noted on pay application no. 16 that there is an approved change in the amount of \$254,374 described as ODP Sales Tax – any sales tax savings is to be added the City’s contingency (Article 6.8). We noted that there was one entry for \$210,307 included in the City’s contingency log.
2. Per pay application no. 16 for work completed through 9/30/18, the schedule of values indicates buyout is complete. In accordance with the contract, have the 50/50 savings been allocated to the CM and Owner contingency accounts? There is no indication of this in the contingency logs.
Response: Per discussion with the CM PM and review of the buyout log provided to CRI on 11/28/18, there were subcontractor buyout overages – resulting in a net buyout overage of approximately \$608K. The CM PM stated the subcontractors were bid sometime around November 2016, and then there was a 5-6 month delay. When they went back to the subcontractors, some of them would not hold their prices. The overages incurred to date were taken from contingency. CRI noted that the contract appears to be silent as to how a net buyout overage is to be addressed.
3. AR 3 (subcontractor proposed price: \$103,279) – The subcontractor (WPM) includes equipment cost in its cost proposal with a markup of \$3,150 (page 32 of the Exhibit 2 – AR Backup). The subcontract specifies that there is no markup allowed for subcontractor owned equipment. It is not clear from the support provided whether the equipment is owned by the subcontractor or rented from a third party. If owned by the subcontractor, AR 3 would be need to be reduced by this \$3,150 plus related markups applied by the CM.
4. AR 14 (subcontractor proposed price: \$524,263) – The subcontractor (Meisner Electric) did not provide a detailed pricing breakout by materials, equipment, labor and markup as required by the

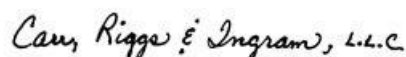
CM contract (GC 55.4) and the subcontract. The subcontract stipulates the labor rates to be used by respective trade and the specific markups to applied to labor (0%), materials (10%) and equipment if rented from a third-party (10%). Since this detail breakout was not provided, we are unable to determine whether the subcontractor proposal was properly supported or in compliance with the CM contract or subcontract terms and conditions.

5. AR 18 (subcontractor proposed price: \$38,088); AR 62 (subcontractor proposed price: \$35,262) – The subcontractor support for Meisner Electric does not breakout the OMP included in the labor rates; as such, we cannot determine if in the aggregate the OHP exceeds the 10% cap stipulated in GC 55.5 of the CM contract.
6. AR 19 (CM proposed price: \$160,405; for 35 additional days to the schedule) – Provide the support and calculation for determining the average CM labor per day for the categories included in AR 19.
7. AR 33.001 (subcontractor proposed price: \$317,547) – The subcontract pricing proposal includes backup that breaks out the labor, materials, equipment and markup. However, the executed subcontract with Brightview Landscape does not specify labor rates, or markup to be charged as do the other above subcontracts. As such, we are unable to determine the validity of the subcontractor’s proposed pricing.
8. AR 58 (subcontractor proposed price: \$61,110) - The subcontractor (WPM) did not provide a detailed pricing breakout by materials, equipment, labor and markup as required by the CM contract (GC 55.5) and the subcontract. The subcontract stipulates the labor rates to be used by respective trade and the specific markups to be applied to labor (0%), materials (5%) and equipment if rented from a third-party (10%). Since this detail breakout was not provided, we are unable to determine whether the subcontractor proposal was properly support or in compliance with the CM contract or subcontract terms and conditions.
9. As noted in procedure 10, approximately \$664K was previously funded via contingency. Per review of the CM sharesite, the following above AR’s indicate they were funded and approved by all three parties: CM PM, CRA PM, and the Architect/Engineer (ESDA): 1, 3, 4, 14, 18, 19, 30.

Response: We spoke with the CM PM and CRA PM who confirmed that approximately \$664K was previously funded via contingency to proceed with the work in a timely manner. The CRA PM indicated this amount included in CO 2 would then replenish the contingency.

The findings and conclusions are based on our analysis of the processes, documents, records, and information provided to us by management. If our scope had been expanded, including performance of additional procedures and / or sample sizes in the period under review, it may have resulted in findings of questionable or inappropriate transactions. We reserve the right to supplement our findings in the event of any of these circumstances. The procedures performed did not constitute an audit in accordance with generally accepted auditing standards. Accordingly, we express no opinion on any of the items assessed. Our procedures were performed in conformity with the Statements on Standards for Consulting Services of the American Institute of Certified Public Accountants. Additionally, we recommend that management consult with the City’s attorney for any of the above matters that may be subject to contractual interpretation or deemed to have legal implications.

Respectfully submitted,



CARR, RIGGS & INGRAM LLC