

**Independent Accountants' Report  
On Applying Agreed-Upon Procedures**

**The School Board of Osceola County, Florida  
Michigan Avenue Elementary School Comprehensive Renovation  
Selected Pay Application**



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

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## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

### Michigan Avenue Elementary School Comprehensive Renovation Selected Pay Application

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 ("Osceola County Public Schools", the "District" and the "specified party"), solely to assist you in determining compliance with certain contract provisions through payment application #9 dated November 26, 2018, of Clancy & Theys Construction Company, Inc. (the "Construction Manager" and the "responsible party"), based upon the costs of construction and payment application #9, as presented by the Construction Manager, for the Michigan Avenue Elementary School Comprehensive Renovation (the "Project"). The sufficiency of these procedures is solely the responsibility of the specified party. 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. Obtain a copy of the Construction Management Agreement (the "Agreement"), dated August 1, 2017, between the District and the Construction Manager, and exhibits, attachments, and amendments to the Agreement (collectively referred to as the "contract documents"), relative to the Project.

**Results:**

- Carr, Riggs & Ingram ("CRI") obtained the contract documents without exception.

2. Obtain the pay application as selected by Osceola County Public Schools and perform the following:

- a. Agree the schedule of values on the selected pay application to the guaranteed maximum price proposal submitted by the Construction Manager.

**Results:**

- CRI agreed the schedule of values on payment application #9 to the guaranteed maximum price summary in the contract documents without exception.

- b. Vouch to invoices or other supporting documentation all charges to general conditions and general requirements in excess of \$250.

**Results:**

- Only labor was included in general conditions. CRI vouched invoices for items over \$250 within general requirements without exception.

- c. Identify any items that represent internal charges from the Construction Manager.

**Results:**

- CRI observed internal charges for cell phones included in the selected pay application. No other internal charges were identified.
- Obtain from the Construction Manager supporting documentation for all items that reflect internal charges, such as vehicles, computers, and other equipment.

**Results:**

- As cell phone charges were the only costs considered internal charges, CRI obtained cellular invoices and a listing of the employees and hours worked on the project without exception.
- Compare the supporting documentation to the charges included in the pay application.

**Results:**

- CRI compared the supporting documentation to the internal charges in the selected pay application without exception. The allocation percentage of cellular charges to the Project was in accordance with the hours worked on the Project by the employee.

- d. If the pay application includes payroll amounts for the Construction Manager, select a sample of payroll items (at least 15 items) and compare with the Construction Manager's payroll records to ensure the charges reflect actual compensation.

**Results:**

- CRI selected 15 payroll items from the selected pay application. All selected payroll records reflected actual compensation without exception. However, CRI noted the following:
  - Vacation and holiday time was being charged to the Project as direct labor.
  - Premium overtime charged to the Project did not appear to have prior written approval from the District as required per Article 3.7.3 (p) iii. of the Agreement.

3. If the labor burden is not a fixed percentage, obtain a detail of the components of the labor burden rate from the Contractor.

- a. Compare the components of the labor burden rate with the terms of the contract documents.

**Results:**

- The labor burden rate is set at a fixed 40% in the contract documents.

- b. If the labor burden percentage is fixed, compare the fixed labor burden rate with the labor burden being applied to the labor in the pay application.

**Results:**

- CRI compared the fixed labor burden rate with the labor burden being applied to the labor in the pay application without exception.

4. Obtain the Project's Notice to Proceed ("NTP") from the District and inspect the dates of the charges in the current job cost provided on April 23, 2019, for recorded costs with dates prior to the date on the NTP.

**Results:**

- CRI did not identify any charges included in the construction costs prior to the NTP date.

5. Trace the highest 10 subcontract amounts to the related subcontractor bid documents and compare the subcontracted amounts with the original schedule of values to assist the District in identifying buyout funds.

**Results:**

- CRI identified the 10 largest subcontract amounts in the selected pay application and compared the related subcontractor's original bid amounts, per the bid worksheet, to the original schedule of values. No buyout funds were identified. See Exhibit A for Schedule of Bid Comparison. Additionally, CRI noted that for 5 of the 10 selections, the subcontractor selected was not the lowest bidder per the summary spreadsheet of the original bids.

6. Agree the amounts requested by subcontractors on the selected pay application to the corresponding pay applications from the subcontractors.

**Results:**

- CRI agreed the amounts requested by subcontractors on the selected pay application to the corresponding pay applications from the subcontractors without exception.

7. If such items are not charged at an agreed upon amount or percentage, obtain from the Construction Manager supporting documentation and/or allocation calculations for insurance charges (payment and performance bond, general liability insurance, subguard, etc.).

- a. Trace the bond and builder's risk cost to an invoice.

**Results:**

- The bond costs charged to the Project as of the pay application date were traced to a third-party bond invoice without exception. The builder's risk amount charged to the Project was traced to invoices. An accounting system error was found during this procedure which improperly added \$587 to the Project. The Construction Manager stated this amount will be credited to the Project.

- b. Trace the general liability insurance to the allocation calculation prepared by the Construction Manager.

**Results:**

- CRI inspected the liability insurance rate provided in writing by the insurance agent and recalculated the liability insurance costs based on the original schedule of values. It was observed that the Construction Manager had billed more to date than what insurance is expected to cost for the entire project.

Using the rate provided by the insurance carrier applied to the original contract value, CRI calculated liability insurance to be \$106,254. Pay application #9 indicates that \$124,183 has been billed to date. CRI will recalculate general liability insurance based on the adjusted guaranteed maximum price at the end of the project during our close out engagement and report any resulting adjustments at that time.

- c. If applicable, trace the subguard charges to the schedule prepared by the Construction Manager detailing the subcontracts included in the subguard program multiplied by the rate for subguard. Agree the subguard rate to third party supporting documentation.

**Results:**

- A subguard program was not utilized on the Project.

8. If the Construction Manager is using a subguard program, obtain the schedules of values for a sample of seven subcontractors and determine that there are no subcontractor bond costs included.

**Results:**

- A subguard program was not utilized on the Project.

9. Obtain documentation from the District relative to owner direct purchases to date and agree the amounts purchased, plus the related sales tax savings, to deductive change orders to the guaranteed maximum price.

**Results:**

- CRI observed that the owner direct purchase log amount did not exactly match to the deductive change orders related to owner direct purchases, plus the related sales tax savings. CRI did observe that the change orders stated on the first page of the selected pay application agreed to the deductive owner change orders. CRI will agree the final owner direct purchases, plus related sales tax savings, to the total related deductive change orders at the end of the project during our close out engagement.

10. Inquire of the District and the Construction Manager as to whether there are any disputed provisions between the two parties, relative to the contract documents, or if there are any other unresolved disputes. Inquire of the Construction Manager as to whether there are any disputes between the Construction Manager and its subcontractors.

**Results:**

- CRI inquired with the District and the Construction Manager regarding any disputed provisions between the two parties. No such disputes were stated by either party. CRI inquired with the Construction Manager as to whether there are any disputes between them and any subcontractors on the Project. Per the Construction Manager, there are no disputes between them and any subcontractors assigned to the Project.

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 on the Construction Manager's compliance with certain contract provisions through the date of payment application #9, November 26, 2018. Accordingly, we do not express such an opinion or conclusion. 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  
July 18, 2019

**The School Board of Osceola County, Florida  
Michigan Avenue Elementary School Comprehensive Renovation  
Selected Pay Application**

**Exhibit A – Schedule of Bid Comparison**

| <u>Division</u>  | <u>Contractor</u>                    | <u>Original<br/>Schedule of</u> | <u>Bid<br/>Document</u> | <u>Difference</u> | <u>Explanation for 'Difference' per<br/>Construction Manager</u>  |
|------------------|--------------------------------------|---------------------------------|-------------------------|-------------------|---|
| Sitework         | Riverstone<br>Construction           | \$ 3,147,550                    | \$ 3,100,000            | \$ 47,550         | Additional scope was added to this portion of the work after the original bid.  |
| Food Service     | Clark Food Services                  | 514,977                         | 1,207,377               | (692,400)         | Bid included a middle school and elementary school. The bid was corrected. The SoV reflects the corrected amount.   |
| Plumbing         | Heichel Plumbing                     | 1,401,860                       | 1,443,605               | (41,745)          | The bid included scope that was being completed by other subcontractors. This scope was taken out of the bid.   |
| Electrical       | Terry's Electric, Inc.               | 2,923,500                       | 2,920,000               | 3,500             | Difference is due to miscellaneous changes in scope.  |
| Roofing          | Hartford South                       | 912,000                         | 912,000                 | -                 | Agrees.   |
| Structural Steel | I.S.I. Steel, Inc.                   | 1,229,750                       | 1,178,700               | 51,050            | The SoV includes scope gaps not included in original bid.   |
| Concrete         | OLP Construction                     | 2,275,388                       | 2,468,800               | (193,412)         | There were modifications in scope after the initial bid which resulted in a much lower cost.  |
| HVAC             | Westbrook Service<br>Corporation     | 2,919,000                       | 2,919,000               | -                 | Agrees.   |
| VCT/Tile/Carpet  | P.K.<br>Flooring/Spectra<br>Flooring | 532,970                         | Not found               | N/A               | When the bids were opened, PK's bid was incorrectly attached to another bidder documentation. When PK's bid was discovered, PK was determined to be the low bidder with a complete scope. |
| Glass & Glazing  | Countryside Glass                    | 378,965                         | 347,474                 | 31,491            | There were items not identified in the bid that were needed to complete scope. These were added and included in the SoV.  |
| Drywall          | M.B. Drywall<br>Solutions            | 1,407,171                       | 1,296,304               | 110,867           | The bid amount assumed owner direct purchase credit. Owner direct purchases were included in the SoV.   |

**Facilities Division Response to the Accountant's Report related to the  
Michigan Avenue Elementary School Comprehensive Renovation Project  
Review of Pay Application #9, dated November 26, 2019**

The following report includes Procedures Applied and Related Findings provided by Carr, Riggs & Ingram, LLC (CRI) for the Michigan Avenue Elementary Comprehensive Renovation Project, Pay Application #9 Review. This report also includes a response from the Facilities Division for each of the "Results" provided by CRI.

**Procedure 2d.** If the pay application includes payroll amounts for the Construction Manager, select a sample of payroll items (at least 15 items) and compare with the Construction Manager's payroll records to ensure the charges reflect actual compensation.

**Results:** CRI selected 15 payroll items from the selected pay application. All selected payroll records reflected actual compensation without exception. However, CRI noted the following:

- a. Vacation and holiday time was being charged to the Project as direct labor.
- b. Premium overtime charged to the Project did not appear to have prior written approval from the District as required per Article 3.7.3 (p) iii of the Agreement.

**Facilities Response:**

2d (a) CRI states that the vacation and holiday time should be accounted for in Labor Burden. The Construction Management Agreement does not detail what should be included in Labor Burden or charged to direct labor. Also, there is no written rule, guideline or statute that details what should be included in Labor Burden or charged to direct labor. In order to address this particular issue, on May 17, 2019 Facilities staff has added the following language to the Construction Management Agreement.

*The Owner will not pay for any labor burden costs that would cause the burden rate set to be exceeded; for example, none of the following labor burden items are separately reimbursable: payroll taxes, medical, vision and dental insurance, workers' compensation insurance, pension, stock and retirement plans, any adjustments to the base compensation, bonus or incentive pay, paid holidays, sick pay and vacation pay, and any other expenses for employee benefits.*

2d (b) CRI is referencing overtime for work that is identified in a specific line item, which was approved to be self-performed by the CM. Facilities staff does not require overtime approval for subcontractor line items; the referenced line item for the self-performed work is considered a subcontractor line item. Facilities staff does require approval for overtime work when it is specific to the approved General Conditions in the agreement. Per Article 3.7.3(p)iii of the Construction Management Agreement, *Night work and overtime work for the Construction Manager's non-salaried employees and subcontractors shall be subject to the Owner's Project Representative's written approval prior to performance of such work.*

**Procedure 5.** Trace the highest 10 subcontract amounts to the related subcontractor bid documents and compare the subcontracted amounts with the original schedule of values to assist the District in identifying buyout funds.

**Results:** CRI identified the 10 largest subcontract amounts in the selected pay application and compared the related subcontractor's original bid amounts per the bid worksheet to the original schedule of values. See Exhibit A for Schedule of Bid Comparison. Additionally, CRI noted that for 5 of the 10 selections, the subcontractor selected was not the lowest bidder per the summary spreadsheet of the original bids.

**Facilities Response:** Through the bidding process, the Construction Manager (CM) performs their due diligence to ensure the subcontractor with the lowest bid also includes the entire scope of work required. The CM is also required to review all bids to ensure that the scope of work meets the design intent as to ensure that bids are responsive. The lowest bid is not always the most complete bid.

#### **Bidder/Vendor Report Management.**

Per the Construction Management Agreement, the CM is required to provide a Bidder/Vendor Report with the Guaranteed Maximum Price (GMP) Proposal. This first report allows the CM to summarize the bids received, identify the bid amount for each trade while indicating which company the CM intends to contract with after the GMP Amendment is approved by the School Board. Within five (5) days after the complete execution of the GMP Amendment the CM is required to provide the Owner's Project Representative with an updated Bidder/Vendor Report that summarizes the final negotiations with each of the subcontractors and the amount of each contract. This second report is evidence of the CM's final negotiations with each of the subcontractors. The CM is then required to update the Bidder/Vendor Report during the construction process and submit a final report at Substantial Completion. This third report allows for the final update to the report to show any subcontractors that may have been replaced during the construction process.

#### **Buyout Savings Management.**

As an added process for the management of the direct cost of work, which is mostly the cost of the subcontractors performing the work, the CM is responsible for the tracking and reporting of Buyout Savings to the Owner's Project Representative. After the GMP Amendment has been approved and has been "bought out", the Construction Manager is required to modify the Schedule of Values to include a "Buyout Savings" line item. Prior to the use of Buyout Savings, the Construction Manager must submit a request to the Owner's Project Representative for approval. All remaining Buyout Savings are returned to the District as Project Savings.

#### **New Process- Subcontractor Bid Review Management.**

Facilities Services staff members are currently in the process of implementing a new process for the management of the subcontractor costs. This new process will require the Construction Manager to submit a form that summarizes the subcontractor bid details. The form will include the following fields: Construction Division, Description, Bidders, Bid Amount, Scope Adjust, Reason, Bond, Total Bid, CM Selection, Dollar Amount, SDOC Comments. See attached Subcontractor Bid Review Form. This form is required to be submitted with the Monthly Report and/or Application for Payment. The following language has been added to the Construction Management Agreement and replaces the previous Bidder/Vendor Reporting Process.

*The Construction Manager's "Subcontractor Bid Review Form" that summarizes the subcontractor bid details shall be provided at the time the GMP is submitted to the Owner's Project Representative. The Subcontractor Bid Review Form shall include the following fields: Construction Division, Description, Bidders, Bid Amount, Scope Adjust, Reason, Bond, Total Bid, CM Selection, Dollar Amount, SDOC Comments. The Construction Manager must submit all supporting documentation when a detailed explanation for the "reason for scope adjust" is necessary or required by the Owner's Project*



*Representative. The Subcontractor Bid Review Form must be updated as changes occur and the form must be submitted along with the Monthly Report and/or Application for Payment.*

**Procedure 7.** If such items are not charged at an agreed upon amount or percentage, obtain from the Construction Manager supporting documentation and/or allocation calculations for insurance charges (payment and performance bond, general liability insurance, subguard, etc.).

7(a) Trace the bond and builder's risk cost to an invoice.

**Results:** The bond costs charged to the project as of the pay application date were traced to a third-party bond invoice without exception. The builder's risk amount charged to the Project was traced to invoices. An accounting system error was found during this procedure which improperly added \$587 to the Project. The Construction Manager stated this will amount will be credited to the Project.

**Facilities Response:**

7(a) We agree with the finding and understand that the \$587 along with any additional bond and builder's risks costs that are not in compliance with the Contract Documents will be returned to the District during the final reconciliation of the Project, which is completed by the Facilities Division Accountant.

**Procedure 7 (cont.)**

7(b) Trace the general liability insurance to the allocation calculation prepared by the Construction Manager.

**Results:** CRI inspected the liability insurance rate provided in writing by the insurance agent and recalculated the liability insurance costs based on the original schedule of values. It was observed that the Construction Manager has billed to date more than what insurance is expected to cost for the entire project. Using the rate provided by the insurance carrier applied to the original contract value, CRI calculated liability insurance to be \$106,254. Pay application #9 indicates that \$124,183 has been billed to date. CRI will recalculate general liability insurance based on the adjusted guaranteed maximum price at the end of the project during our close out engagement and report any resulting adjustments at that time.

**Facilities Response:**

7(b) We agree with the finding and understand that CRI will recalculate general liability insurance based on the adjusted guaranteed maximum price at the end of the project. Also, as is typical with all construction projects, the Facilities Services Accountant completes a final reconciliation when the project has been completed, and the final Application for Payment has been received and approved. No line item in the Schedule of Values is exceeded without proper approval. Final reconciliation of the project is only completed after all line items in the Schedule of Values have been vetted and all cost event processes have been completed.

**Procedure 9.** Obtain documentation from the District relative to owner direct purchases to date and agree the amounts purchased, plus the related sales tax savings, to deductive change orders to the guaranteed maximum price.

**Results:** CRI observed that the owner direct purchase log amount did not exactly match to the deductive change orders related to owner direct purchases, plus the related sales tax savings. CRI did

observe that the change orders stated on the first page of the selected pay application agreed to the deductive owner change orders. CRI will agree the final owner direct purchases plus related sales tax savings agrees to the total related deductive change orders at the end of the project during our close out engagement.

**Facilities Response:** The Construction Manager is required to submit a copy of the Owner Direct Purchase (ODP) Log with each monthly Application for Payment. ODPs are processed only when required and not once a month. Each Change Order for ODP includes the required summary of costs for the project and is presented to the School Board for approval. The ODPs are reviewed and summarized along with the final reconciliation of the project.