

Independent Accountant's Report
On Applying Agreed-Upon Procedures

Comprehensive Needs Project at Metrowest Elementary School
December 23, 2011

The School Board of Orange County, Florida
Orlando, Florida

We have performed the procedures enumerated below, which were agreed to by The School Board of Orange County, Florida ("OCPS" or the "District"), solely to assist you in certifying the final contract value (contract dated October 15, 2007) to The Morganti Group, Inc. (the "Construction Manager"), based upon the total costs of construction for the Comprehensive Needs Project at Metrowest Elementary School (the "Project") and to certify certain other Project costs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures applied and the related findings are as follows:

1. We obtained copies of the contract documents between OCPS and the Construction Manager and read the documents noting items of financial and attestation significance, including provisions relative to the cost of work, fee arrangements, bonds and insurance, owner direct purchases, and the owner controlled insurance program ("OCIP").
2. We inquired of the contracting parties to determine if there were any disputed provisions relative to the Project, or if there are any other unresolved disputes, including disputes between the Construction Manager and their subcontractors. There were none noted.
3. We reviewed the construction costs, as documented by the Construction Manager for compliance with the contract documents, including the following:
 - vouched all costs in excess of \$50,000.
 - for subcontract costs that qualify, examined the subcontract and all the change orders to the subcontract, comparing the adjusted contract amount to the amount in the Construction Manager's job cost and the total of the Construction Manager's payments to the subcontractor. Additionally, traced owner direct purchase amounts per OCPS to deductive change orders to the subcontractor to ensure that such subcontracts had been reduced for the purchases.
 - for reimbursable labor costs, chose a sample from the payroll line items in the Construction Manager's job cost and traced each line item selected to time sheets and pay rate authorizations. There were no reimbursable labor charges on this Project, except for those included in the lump sum general conditions.
 - for other items that qualified, traced the charge to vendor invoices and evidence of payment.

- reviewed the costing of change orders between OCPS and the Construction Manager for conformity to the contract documents. Reconciled the owner direct purchases, per the "ODP Log" to deductive change orders to the guaranteed maximum price. Also, obtained the summary of OCIP results from the insurance carrier and traced the OCIP credits to deductive change orders.
- reviewed Construction Manager labor burden percentage, if applicable, for appropriateness as well as conformity to the contract documents. The Construction Manager's labor burden rate for this project was fixed at 35%.
- reviewed and inquired of the Construction Manager regarding related party charges to the Project. Per our inquiry of the Construction Manager there were no charges from related parties.
- reviewed Construction Manager fees and general conditions for conformity to the contract documents. Additionally, we reviewed the Construction Manager's actual compensation for a sample of general conditions labor (included in the lump sum general conditions) for accuracy of base salary, application of contracted labor burden percentage, and personnel appropriateness to the Project. We found that the actual compensation was less than the base rates included in the general conditions, ranging from 5% to 45%, and averaging approximately 26% for the sample.
- reviewed contingency usage for proper authorization and resolution of final balances.
- recalculated the contract guaranteed maximum price and actual costs of construction based upon the Construction Manager's records.

The results are shown in Exhibit A – Project Costs.

4. Regarding the completion of the Project, we performed the following:
 - we inquired and examined support that the Project was completed within the time constraints stated in the contract.
 - we examined the Certificate of Substantial Completion and the Certificate of Final Inspection, signed by the Architect, verifying that the Project was completed in accordance with the contract.
5. We obtained evidence of the SAP/Purchase order reconciliation from OCPS and ensured the final contract value to the Construction Manager was accurate and reflected final pre-attestation adjustments.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Carla Riggis | STHOM LLC

December 23, 2011

**Orange County Public Schools
Comprehensive Needs Project at Metrowest Elementary School**

Exhibit A - Project Costs

Calculation of the construction cost plus fee:

Construction Manager job costs	\$ 9,830,628
Adjustments, including general conditions included in costs and excess markup on subcontractor change order	(2,019)
Costs incurred prior to notice to proceed	(4,374)
	9,824,235

Original lump sum general conditions

Amendment #1	73,800
Amendment #2	1,120,313
Amendment #3	88,458
	1,282,571

Calculation of construction management fee:

Amendment #1	11,622
Amendment #2	649,403
Amendment #3	42,583
Reduction in construction management fee for return of contingency	(2,134)
	701,474

Construction cost plus fee

\$ 11,808,280

Calculation of adjusted guaranteed maximum price:

Amendment #1	\$ 286,882
Adjustments from change orders per the Construction Manager	(48,550)
	238,332

Amendment #2	15,417,056
Adjustments from change orders per the Construction Manager	(4,545,468)
	10,871,588

Amendment #3	1,022,553
Adjustments from change orders per the Construction Manager	(277,260)
	745,293

Adjusted guaranteed maximum price

\$ 11,855,213

Construction cost, lesser of construction cost plus

fee and guaranteed maximum price	\$ 11,808,280
----------------------------------	---------------

Owner direct purchases	3,272,408
------------------------	-----------

\$ 15,080,688

Orange County Public Schools
Comprehensive Needs Project at Metrowest Elementary School

Exhibit B – Comment and Recommendation

Clarification of Auto Allowance

In the past, OCPS included project vehicles and auto allowances as part of the lump sum portion of general conditions. More recently these costs have been included as reimbursable general requirements, and have been estimated in the establishment of the guaranteed maximum price. Relative to the Comprehensive Needs Project at Metrowest Elementary (the “Project”), the Construction Manager paid their employees an auto allowance under a “non-accountable” plan. As such, the payments are made directly to the employee through the payroll system, and then are charged to the Project in relation to the time charges for the particular employee. The components of the auto allowance are not specifically identified. It should be noted that other construction managers use other methods to cover vehicle costs, including rental or leasing of the vehicles from their own fleet or from third party vendors. Therefore, there is a potential for a wide variance regarding the cost of vehicles, as well as what costs are intended to be captured (cost of the vehicle, insurance, repairs, tires, fuel, etc.).

We recommend that OCPS identify the costs that are to be reimbursed to the construction managers relative to vehicles. Once the costs are identified in general terms in conjunction with industry standards, research should be done to determine what is considered to be reasonable vehicle costs (again with reference to industry standards), inclusive of only those costs that OCPS is willing to reimburse. We suggest that OCPS consider establishing an amount per month per project vehicle that will be allowed for any construction manager. The advantage is that this item is taken out of the negotiation process, and ensures that OCPS will only be paying for the vehicle costs they believe to be appropriate.

This comment is similar to the comment reported for the Comprehensive Needs Project at Palm Lake Elementary School. It is our understanding that the District is responding to this comment when it submits the Palm Lake Elementary School report to the School Board (anticipated date is currently February 28, 2012). We further understand that contracts which have recently been negotiated have incorporated the change referenced in the above mentioned recommendation.

AUDIT RESPONSE MATRIX

FISCAL PERIOD FY 11/12

DEPARTMENT/SCHOOL
ADMINISTRATOR/PRINCIPAL
CABINET REPRESENTATIVE.

Metrowest Elementary School Comprehensive Project
 Jeff Hart
 John Morris

Exception Noted What Is? What ought to be?	Management Response What needs to be done?	Responsible Person Who needs to do it?	Outcome Timeline When will action be completed? What evidence of completion?
<p>Clarification of Auto Allowance</p> <p>In the past, OCPs included project vehicles and auto allowances as part of the lump sum portion of general conditions. More recently these costs have been included as reimbursable general requirement, and have been estimated in the establishment of the guaranteed maximum price. Relative to the Comprehensive Needs Project at Metrowest Elementary (the "Project"), the Construction Manager paid their employees an auto allowance under a "non-accountable" plan. As such, the payments are made directly to the employee through the payroll system, and then are charged to the Project in relation to the time charges for the particular employee. The components of the auto allowance are not specifically identified. It should be noted that other construction managers use</p>	<ul style="list-style-type: none"> Currently OCPs requires Construction Managers to present a breakdown of vehicle reimbursements during the negotiation process. During the more recent negotiations we are allowing what is considered to be an acceptable rate per industry standards for an optimum number of vehicles. It is during the negotiation process that it is established what the appropriate amount of vehicles will be for each project based on its size and complexity. 	<ul style="list-style-type: none"> Roberto Pacheco Director-Contract Administration Jeff Hart Sr. Director - Construction 	<ul style="list-style-type: none"> Complete

Exception Noted	Management Response	Responsible Person	Outcome Timeline
What is? What ought to be?	What needs to be done?	Who needs to do it?	When will action be completed? What evidence of completion?
<p>other methods to cover vehicle costs, including rental or leasing of the vehicles from their own fleet or from third party vendors.</p> <p>Therefore, there is a potential for a wide variance regarding the cost of vehicles, as well as what costs are intended to be captured (costs of the vehicle, insurance, repairs, tires, fuel, etc.)</p> <p>We recommend that OCPS identify the costs that are to be reimbursed to the construction managers relative to vehicles. Once the costs are identified in general terms in conjunction with industry standards, research should be done to determine what is considered to be reasonable vehicle costs (again with reference to industry standards), inclusive of only those costs that OCPS is willing to reimburse. We suggest that OCPS consider establishing an amount per month per project vehicle that will be allowed for any construction manager. The advantage is that this item is taken out of the negotiation process, and ensures that OCPS will only be paying for the vehicle costs they believe to be appropriate.</p>			

Exception Noted	Management Response	Responsible Person	Outcome Timeline
What Is? What ought to be?	What needs to be done?	Who needs to do it?	When will action be completed? What evidence of completion?
<p>This comment is similar to the comment reported for the Comprehensive Needs Project at Palm Lake Elementary School. It is our understanding that the District is responding to this comment when it submits the Palm Lake Elementary School report to the School Board (anticipated date is currently February 28, 2012). We further understand that contracts which have recently been negotiated have incorporated the change referenced in the above mentioned recommendation.</p>			