

Independent Accountant's Report  
On Applying Agreed-Upon Procedures

Comprehensive Needs Project at Princeton Elementary School  
March 2, 2014

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 (dated January 27, 2011) to Doster Construction Company, Inc. (the "Construction Manager"), based upon the total costs of construction for the Comprehensive Needs Project at Princeton 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 qualified, 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 and the related sales tax savings.
    - 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 costs to the Construction Manager for this Project.
    - 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. There were no related party charges noted to the Project.
- reviewed construction management fees and general conditions for conformity to the contract documents. 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 in most instances that the actual compensation was less than the base rates included in the general conditions, ranging from 2% to 19%. The average actual compensation was less than the base rates by approximately 6% 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. It was noted final inspection was not accomplished within 120 days of the date of substantial completion. The date of substantial completion was August 13, 2012, but the date the Architect signed off on the Certificate of Final Inspection was May 22, 2013.

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 have included additional comments for your consideration as Exhibit B to this report.

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.

Carole Riggs & DeNoma LLC

March 2, 2014

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

**Exhibit A - Project Costs**

Calculation of the construction cost plus fee:

Construction Manager job costs - Amendment #1	\$ 151,601
Construction Manager job costs - Amendment #2	8,989,861
Credit to bond costs	(1,534)
Remove labor burden on auto allowances	(2,550)
Subcontractor markup in excess of contractual limits	(18)
	9,137,360

Calculation of the lump sum general conditions:

Original lump sum general conditions - Amendment #1	39,126
Original lump sum general conditions - Amendment #2	647,966
	687,092

Calculation of the lump sum construction management fee:

Original lump sum construction management fee - Amendment #1	11,452
Original lump sum construction management fee - Amendment #2	596,328
Additional construction management fee through contingency	10,220
Reduction for construction material testing	(120)
	617,880

Construction cost plus fee	\$ 10,442,332
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Calculation of adjusted guaranteed maximum price:

Guaranteed maximum price - Amendment #1	276,585
Adjustments from change orders per the Construction Manager	(74,405)
Guaranteed maximum price - Amendment #2	14,284,297
Adjustments from change orders per the Construction Manager	(4,040,042)
	(4,040,042)

Adjusted guaranteed maximum price	\$ 10,446,435
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Construction cost, lesser of construction cost plus fee and adjusted guaranteed maximum price	\$ 10,442,332
Owner direct purchases	3,339,525

	\$ 13,781,857
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**Orange County Public Schools  
Comprehensive Needs Project at Princeton Elementary School**

**Exhibit B – Schedule of Comments and Recommendations**

Subcontractor selection - subguard

Comment:

During review of the subguard program for the Project, it was noted not all subcontractors were covered by the Construction Manager's ("CM") subguard program. Upon inquiry of the CM's personnel, it was discovered certain subcontractors are excluded due to financial factors or higher risk scopes of work – these factors increase the risk, and cost, of obtaining a bond. The CM also noted an agreement with OCPS not to subguard any subcontractor with an initial subcontract value of under \$100,000.

Recommendation:

It is recommended the subguard program of the CM be evaluated for cost efficiency to the Owner. Currently, the CM is able to cover the low risk subcontractors under its subguard program and charge the Owner actual bond rates for the higher risk subcontractors. Further, historical evaluation of subguard rates has shown that in many cases, a significant portion of the rate is devoted to reserves designed to cover possible losses within the self-insured deductible portion of the risk management program. The remainder of the rate consists of premium for purchased insurance above the deductible. The amounts relative to the reserves become the property of the CM if the paid claims are less than the reserve deposits received from project owners, but cannot be determined until sometime in the future after the statute of repose expires, or 10 years after the date of substantial completion. On this project, 62% of the subguard rate was designated for "program deductible retention".

## Management response to Audit Report for the Princeton ES

ISSUES NOTED	AREA	MANAGEMENT RESPONSE
<p>Comment:</p> <p>During review of the subguard program for the Project, it was noted not all subcontractors were covered by the Construction Manager’s (“CM”) subguard program. Upon inquiry of the CM’s personnel, it was discovered certain subcontractors are excluded due to financial factors or higher risk scopes of work – these factors increase the risk, and cost, of obtaining a bond. The CM also noted an agreement with OCPS not to subguard any subcontractor with an initial subcontract value of under \$100,000.</p> <p>Recommendation:</p> <p>It is recommended the subguard program of the CM be evaluated for cost efficiency to the Owner. Currently, the CM is able to cover the low risk subcontractors under its subguard program and charge the Owner actual bond rates for the higher risk subcontractors. Further, historical evaluation of subguard rates has shown that in many cases, a significant portion of the rate is devoted to reserves designed to cover possible losses within the self-insured deductible portion of the risk management program. The remainder of the rate consists of premium for purchased insurance above the deductible. The amounts relative to the reserves become the property of the CM if the paid claims are less than the reserve deposits received from project owners, but cannot be determined until sometime in the future after the statute of repose expires, or 10 years after the date of substantial completion. On this project, 62% of the subguard rate was designated for “program deductible retention”.</p>	<p>Facilities Services and Facilities &amp; Construction Contracting</p>	<p>The subguard vs subcontractor bond programs are being evaluated in an effort to determine which is better suited for the district. This analysis will likely need to be conducted on a project by project basis in order to determine its suitability. There are instances that the team has recommended the exclusion of a sub bond for particular trades. These are generally of low (&lt;\$100k) work value and for trades that are considered low risk related to the completion and functioning of the project. A recommendation as to whether or not this should continue is expected to be made to OCPS leadership prior to embarking upon the next round of GMP negotiations. Some of the pros and cons to be considered when conducting the evaluation for both methodologies will include but not be limited to:</p> <ul style="list-style-type: none"> <li>▪ Overall cost to the district</li> <li>▪ Claims response time</li> <li>▪ Number of policies and insurers</li> <li>▪ Limit of coverage</li> <li>▪ Length of protection</li> <li>▪ Indirect cost coverage</li> <li>▪ Reimbursement to contractor</li> </ul>