

The School Board of Miami-Dade County, Florida
Office of School Facilities
Rapid Assessment

Prepared:

November 26, 2013





McGladrey LLP

7351 Office Park Place
Melbourne, Florida 32940-8229
O 321-751-6200 F 321-751-1385
www.mcgladrey.com

November 26, 2013

Chairperson and Members of The School Board of Miami-Dade County,
Florida and Members of The School Board Audit and Budget Advisory Committee
1450 N.E. 2nd Avenue
Miami, Florida 33132

McGladrey LLP ("McGladrey") has performed a rapid assessment of two projects and processes within the The School Board of Miami-Dade County, Florida ("the School Board, "District") Office of School Facilities.

Objectives

- To obtain a high level understanding of the processes and controls related to the Construction Manager (CM) at Risk Contract / Guaranteed Maximum Price (GMP) development, pay application processing, as well as change orders execution and contingency usage; and
- To identify potential areas for process and internal control improvements, cost recovery / cost avoidance opportunities and areas for best practice implementation.

Scope and Approach

In order to achieve the objectives noted above, McGladrey conducted a facilitative session with members of the project management and contract negotiations team. In addition to this session, we performed limited documentation review related to two construction projects performed by the District's Office of School Facilities group. We reviewed the executed contract and amendments, the detailed GMP, the last processed application for payment, change order / contingency use request (if applicable), and made inquiries in regards to any buyout procedures for both projects selected.

Summary

Based on the details of the observations noted in this report, McGladrey has determined there are potential opportunities for improvements, cost savings, and best practice implementations within the Office of Facilities processes as they currently operate in the following areas:

- A. Construction Contract / GMP – Delivery Model and Negotiation
- B. Pay Application Processing – Billings Validation
- C. Post Construction Audits – Exercising the Right to Audit Clause

Details of the items noted above can be found on pages 2 - 3 of this report below. We look forward to further discuss and respond to any questions you have about this report.

Sincerely,

A handwritten signature in black ink, appearing to be "O. B. ...", written over a horizontal line.

McGladrey LLP

Observations and Recommendations

Observation	Recommendation
Construction Manager at Risk Contract Delivery Methodology	
<p><u>A. Contract Terms / GMP Negotiation</u></p> <p>During our review, we noted the District's Office of School Facilities is currently accounting for its CM at Risk contracts as a Lump Sum or a Firm Fixed Price upon execution. However, the GMP contract reviewed appears to contain contradictory language as to whether costs are reimbursable or to be billed as a lump sum. For example, the following statements are included in Article 1 – Definitions and the GMP Exhibit I (paragraph 8), respectively:</p> <p><i>The Term Construction Manager's General Conditions Costs shall mean the necessary and reasonable costs incurred by the Construction Manager directly attributable to the Work and the Construction Manager's overhead and profit. The Construction Manager's General Conditions Costs shall be a component of the Cost of the Work, and shall be a fixed amount during the entire Construction Phase for the project, as set forth in the GMP Amendment... The Construction Manager's General Conditions Costs plus the sum of the accepted Subcontract bids shall be the GMP. That amount plus the Construction Manager's Fee and Contingency shall be the total amount paid to the Construction Manager...</i></p> <p><i>The Guaranteed Maximum Price for Project No. __XX__ is hereby guaranteed by the Construction Manager not to exceed the sum of _\$YY__ (the "Project GMP"), based upon the entire Scope of Work...</i></p>	<p>Based upon our experience in the industry with other CM at Risk projects, we note that the standard CM at Risk with a GMP delivery method is typically contractually structured as a "Cost Plus Fee" engagement. Under this structure, costs are to be billed as incurred and supported with third-party source documents throughout the course of the project. This delivery method provides the Owner with the following benefits:</p> <ul style="list-style-type: none"> • The right to review original source documentation in support of each monthly application for payment (invoice). Including the review of pay stubs, invoices, executed subcontracts, subcontractor pay applications, check copies, etc. • The right to track, utilize within the project and collect upon completion, any project savings obtained should the total costs incurred by the CM fall below the not to exceed GMP amount. • The right to obtain cost recovery in the event a post construction audit results in findings to the benefit of the Owner. <p>We recommend the Office of School Facilities, through the School Board Attorney's office, consider reevaluating their current contract delivery methodology for CM at Risk projects to conform to the best practice, cost plus fee (reimbursable) method, utilized throughout the industry.</p>

Observations and Recommendations - continued

Observation	Recommendation
Construction Manager at Risk Contract Delivery Methodology - continued	
<p><u>B. Pay Application Processing</u></p> <p>Based on the lump sum treatment, and the results of GMP negotiations, management validates monthly billings for CM at Risk construction projects through onsite observation and inspection of the physical percentage of completion of the project and applicable monthly subcontractor lien releases. Because management is applying the CM at risk contract as a fixed price contract, management does not request nor require the CM to provide source documentation for individual charges in the respective pay applications to validate the billings. Based on our experience, industry practice is to validate the billings with source documentation for CM at risk cost reimbursable contract delivery methods.</p> <p><u>C. Post Construction Audits</u></p> <p>As a result of the Fixed Price treatment applied by the Office of School Facilities, the Owner's (District's) right to audit may be limited and put the Owner at risk to lose their right to recover any cost savings / recovery that might result from the CM's total costs incurred coming in below the negotiated GMP identified in a post construction audit.</p>	<p>This recommendation includes implementing detailed source documentation review procedures in both the GMP development and pay application review phases of their CM at Risk projects, as well as review their CM at Risk contract template to identify opportunities for increased specificity where current contract language appears to be ambiguous, contradictory or instances where industry best practice language could be included.</p> <p>We noted that the District exercises the right to audit for construction projects on a selective and sample basis. As a best practice, we recommend the District adopt the process of exercising their right to audit on all future CM at Risk major construction projects.</p> <p>The implementation of these recommendations can be done with limited loss of operational efficiency and will significantly benefit the Office of Facilities, the Schools and Miami - Dade taxpayers. Based on our industry experience in performing post construction audits and / or pay application reviews, the associated benefit in improved internal control structure, cost savings / cost avoidance and cost recovery far exceeds the cost to implement and perform.</p>



Miami-Dade County Public Schools

giving our students the world

Superintendent of Schools

Alberto M. Carvalho

Miami-Dade County School Board

Perla Tabares Hantman, Chair
Dr. Martin Karp, Vice Chair
Dr. Dorothy Bendross-Mindingall
Susie V. Castillo
Carlos L. Curbelo
Dr. Lawrence S. Feldman
Dr. Wilbert "Tee" Holloway
Dr. Marta Pérez
Raquel A. Regalado

November 27, 2013

Mr. Donovan Maginley, Partner
McGladrey LLP
801 Brickell Avenue, Suite 1050
Miami, FL 33131

SUBJECT: MANAGEMENT RESPONSE TO RAPID ASSESSMENT REPORT – OFFICE OF SCHOOL FACILITIES

Dear Mr. Maginley:

Upon reviewing the above-subject report prepared by McGladrey LLP, dated November 26, 2013, we offer the following observations:

- A. Contract Terms / GMP Negotiation
Although CM at-Risk Agreements based on "sum certain" Guaranteed Maximum Price (GMP) are typical within the local market area, staff will explore the benefits to the owner of the "cost plus fee" method recommended by the auditors. Regarding the observation of "contradictory language," the District's Construction Management (CM) at-Risk Agreement defines the GMP as a "sum certain" amount and the definition of Reimbursable Expenses states that they "shall only be considered in connection with the Pre-Construction Phase Services." In our opinion, this language is not contradictory.

- B. Pay Application Processing
Current payment documentation requirements will be reviewed and, where appropriate, contract language may be modified to implement additional requirements and facilitate auditing. A review of additional compliance monitoring costs will also be performed.

Page 1 of 2

Office of School Facilities


Mr. Jaime G. Torrens, Chief Facilities Officer • 1450 N.E. 2nd Avenue, Suite 923 • Miami, Florida 33132
305-995-1401 • 305-995-1489 (FAX) • officeofschoolfacilities@dadeschools.net

C. Post Construction Audits

The Office of School Facilities will collaborate with the Office of Management and Compliance Audits regarding potential cost recovery opportunities through adoption of best practices related to post construction audits.

The observations and recommendations of McGladrey staff during the Rapid Assessment are appreciated. If you any questions or require additional information you may contact me, at 305-995-1401.

Sincerely,



Jaime G. Torrens
Chief Facilities Officer

JGT:dlam
L149

cc: Mr. Alberto M. Carvalho
Mr. Walter Harvey
Mr. Jose Montes de Oca
Ms. Ana Rijo-Conde
Mr. Raul Perez

Our Promise to YOU

At McGladrey, it's all about understanding our clients -

Your business,

Your aspirations,

Your challenges.

**And bringing fresh insights and
tailored expertise to help you succeed.**

McGladrey LLP is the largest U.S. provider of assurance, tax and consulting services focused on the middle market, with more than 6,500 professionals and associates in 75 offices nationwide. McGladrey is a licensed CPA firm and a member of RSM International, the sixth largest global network of independent accounting, tax and consulting firms.

McGladrey, the McGladrey signatures, The McGladrey Classic logo, The power of being understood, Power comes from being understood and Experience the power of being understood are trademarks of McGladrey LLP.

For more information, join our Facebook fan page at McGladrey News, follow us on Twitter @McGladrey, and connect with us on LinkedIn and YouTube.



© 2013 McGladrey LLP. All Rights Reserved.