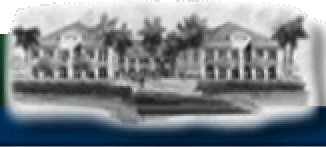




*Office of the Inspector General*



# **Florida Gulf Coast University Office of the Inspector General**

## **Major and Minor Construction Audits**

**January 1, 1998 through December 31, 2000**

**Report Issue Date: August 31, 2001  
Report Number: FGCU-01-02**

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**Florida Gulf Coast University**  
**Office of the Inspector General**  
**Major and Minor Construction Audits**  
**January 1, 1998 through December 31, 2000**

**BACKGROUND**

In 1997 the former Board of Regents (BOR) of the Florida State University System began to delegate administrative authority for construction projects to the universities. Consequently, the Inspector Generals were asked to review projects and practices at their respective institutions as part of a system-wide initiative during fiscal years 1999, 2000, and 2001. This report includes the results of reviewing major and minor construction projects at Florida Gulf Coast University.

As a new university, FGCU has been, and will continue to be, in a constant state of construction. During the first phase, the BOR was extremely active in the entire process. Now with increased responsibilities through delegation, the Facilities Planning office continues to operate with a minimum of staff, until such time that additional positions become available.

Major Project

In March 1998, Florida Gulf Coast University (FGCU or Owner) entered into an agreement with Centex Rooney Construction Company, Inc. to serve as the Construction Manager (CM) for the new Campus Support Facility (State Project BR-1008).

In accordance with the construction management agreement, the CM performed pre-construction services during the design phase of the project and subsequently submitted a Guaranteed Maximum Price (GMP) proposal. The CM was paid the agreed upon lump sum amount of \$58,481 for pre-construction services.

In September 1998, amendment number 2 to the CM agreement established the construction phase GMP for the project at \$5,788,303, subject to adjustment for change orders. The total amount billed to and paid by FGCU for the construction phase of the project amounted to \$5,664,463. The total savings under the GMP accrued to the benefit of FGCU.

#### Minor Projects

We reviewed both new construction and renovation projects costing less than \$1,000,000. The Information/Security Kiosk was a new construction project during 1999 and 2000 that had a final cost of approximately \$178,000. The renovation of the former purchasing area in Howard Hall cost approximately \$77,000, and was completed by the end of 2000.

## **METHODOLOGY**

Due to the lack of audit staff, President Merwin agreed to outsource the major project review to R. L. Townsend & Associates, Inc., a professional auditing firm specializing in construction and real estate cost control. The consultants also assisted with the fieldwork of the minor project review.

Following initial discussions, the auditors reviewed the contracts and background information and met with the CM to tour the facilities. The CM agreed to grant the auditors access to the records pertaining to the Campus Support Facility project stored in Fort Lauderdale, Florida. Fieldwork began in February 2001 but was delayed several times as the auditors made repeated requests for additional documentation from the CM.

## **SCOPE AND OBJECTIVES**

#### Major Project

The primary objective of the audit was to determine that construction costs billed by the Construction Manager were actually incurred, appropriate, properly supported, and accurate. The scope of the audit included an examination of the CM's records related to reimbursable general conditions and subcontract costs. The scope of the audit also included a review of FGCU's administrative files and payment records related to the project.

### *Scope Limitation*

We requested information from the CM to verify the accuracy of the cost and pricing information used to develop their “non-reimbursable general conditions” fee estimate. However, they did not provide auditable, verifiable actual cost information that would permit an evaluation of the accuracy and appropriateness of the cost factors they used to develop general conditions staff labor rates, labor burden cost factors, general liability and information technology support cost factors used by quoted by the CM in their GMP proposal. (More specific details regarding the amounts billed and potential overcharges resulting from the use of these unverified cost factors are discussed later in this report.)

### Minor Projects

The objectives in reviewing minor construction projects were to determine if:

- Internal controls over the current construction process for minor projects are adequate and effective.
- Applicable Chancellor’s Memoranda; State laws, rules and regulations; and University policies and procedures, were complied with.
- Construction costs billed by the contractor were properly supported, appropriate, and recorded properly by the university.
- The construction process for minor projects is efficient, effective, and economical.

*Note: Because of inherent limitations in the application of such controls, errors or irregularities may, nevertheless, occur and not be detected. Also assurances regarding the adequacy of internal controls cannot be projected to future periods due to the risk that procedures may become inadequate because of changes in conditions or deterioration of compliance.*

## SUMMARY

### Executive Summary of Issues Discussed in the Report

Item	Issue	Potential Excess Charge to FGCU	Page #
A.	General Conditions Billed in Excess of Line Item Maximums	\$ 60,012	6
B.	Labor Burden Billed at 58.33% Exceeds Probable Actual Labor Burden Costs of CM for the Personnel Working on this Project	\$ 62,369	11
C.	General Liability Insurance Billed at 1.0097% of Contract Value Exceeds Typical Reimbursable General Liability Insurance Costs	\$ 29,944	16
D.	Labor Rates and Related billing Method Used to Charge for General Conditions Labor Results in Excess Charges	\$ 28,150	18
E.	Charges for Information Technology Support are not Typically Considered Reimbursable Job Costs	\$ 20,259	19
F.	Charges for Critical Path Scheduling Were Unsupported and Incorrectly Calculated	\$ 9,076	20
	Subtotal	\$ 209,810	
	Add 5% Fee	\$ 10,491	
	Total Potential Excess Charges to FGCU	\$ 220,301	

The above listed issues indicate the potential opportunities for FGCU to be overcharged for construction unless better contracting and related cost verification methodologies are employed when contracting for future CM-at-Risk construction projects. In addition, FGCU may want to discuss the issues with the CM for this project to determine if any of the above potential excess charges should be refunded to the University.

### Executive Summary of Recommendations

- Revise contract documents for future CM “at risk” contract documents to specifically cover the intent of the administration with respect to line item maximums on general conditions GMP budgets.
- Review the specifics of the analysis presented in this report with respect to the CM’s billings for Non-Reimbursable General Conditions Costs and Fees to determine whether or not the University should receive a \$60,012 refund.
- If it is decided that a “line item” maximum does not apply to this particular CM contract billing situation, we recommend FGCU consider the next level of “maximum” that may apply to this general conditions fee budget for this project. The total billed for this category of general conditions costs exceeded the approved total GMP budget for this by \$42,863.

- Modify future GMP (CM-at-Risk) contracts to provide for reimbursement of actual verifiable labor and labor burden costs subject to mutually agreed upon maximums for hourly rates by position and maximums for labor burden.
- Require timesheets to be submitted to support billable time in accordance with the Chancellor's memo for administration of CM-at-Risk contracts.
- Require that labor rates used by CMs to bill for labor be audited to ensure that there are no flaws in the billing methods or the development of the rates that would result in overcharges to FGCU.

Refer to the Comments and Recommendations section for details relating to each issue and recommendation.

## CONCLUSION

### Major Project

In general, the project administration was well managed considering the available FGCU staff assigned to the project and given the standard construction management at risk contract documents provided for use by the state system.

The key opportunity for improvement identified as a result of the audit would be to modify the standard construction contract documents used for future construction management at risk contract situations to improve the university's ability to more effectively control construction costs incurred. This may require discussion and action on the part of the university system chancellor; therefore, university responses are not contained within this report.

### Minor Projects

Compliance and internal controls regarding minor construction projects appeared to be adequate. There was sufficient supportive documentation and records were arranged efficiently.

Appreciation is extended to the Facilities Planning director and his executive secretary for their assistance and patience during this review.



Linda C. Ciprich, CFE, CIA  
Inspector General  
August 31, 2001

## COMMENTS AND RECOMMENDATIONS

### A. Non-Reimbursable General Conditions Costs and Fee

The CM developed and presented the following Construction phase GMP budgets for "Non-Reimbursable General Conditions Costs" for Phase I and Phase II of the project:

FLORIDA GULF COAST UNIVERSITY						
CAMPUS SUPPORT FACILITY						
GUARANTEED MAXIMUM PRICE PHASE TWO - BUILDING						
AUGUST 18, 1998						
Personnel Hourly Billing rate breakdown						
Position	Hr Rate	Hours	Subtotal	PT&I 58.33%	Total	
Operation Manager	\$63.00	200	\$12,600.00	\$7,349.58	\$19,949.58	
Project Manager	\$52.23	800	\$41,784.00	\$24,372.61	\$66,156.61	
Project Engineer	\$21.25	800	\$17,000.00	\$9,916.10	\$26,916.10	
General Superintendent	\$48.00	1720	\$82,560.00	\$48,157.25	\$130,717.25	
Cost Accountant	\$15.00	1560	\$23,400.00	\$13,649.22	\$37,049.22	

The Chancellor's memo CM-N-08.01 1/99 indicates the following regarding the Non-Reimbursable General Conditions Fee estimates:

**Following the cost summary of the work, the construction manager's fee (as identified in Paragraph 7.2 of the Agreement) must be broken down further. This breakdown must include a detailed listing of home office support, field staff and all other items listed in the definition of "fee" in the Agreement between Owner and Construction Manager. Calculations made to arrive at cost extensions must be shown for each team member, i.e., actual salary rate times number of hours = subtotal, times personnel expense multiplier = total labor cost. A breakdown justifying the multiplier used for personnel expense must be included. The profit multiplier portion of the fee shall be shown on a separate line of the cost summary.**

It appears that the above instructions were followed to develop the CM's GMP proposals for the project.

The Chancellor's memo CM-N-08.01 1/99 also contains the following instructions regarding the invoicing for general conditions staff used on the project:

Fee and General Conditions Pay Request Documentation:

- a) The overhead and profit portion of the fee, approved during the negotiations as a percentage of cost of Work, may be invoiced in proportion to the percentage of Work completed. No backup documentation is required.
- b) General Conditions items which were awarded based on competitive bidding are paid based on percentage completed as supported by the schedule of values. No additional documentation is required.
- c) **Full-time site staff:** A calculation showing hours times the hourly rate for the days worked during the pay period. Line item amounts from the GMP for these costs shall not be exceeded without prior approval of the university.
- d) **General conditions and fee items not provided by the CM:** e.g. utilities to the site trailer, custodial service, office equipment rental or purchase, bonds, etc. A copy of the invoice or rental agreement from the provider must be included in the pay request.
- e) **Fee or General Conditions items provided by the CM:** e.g. home office labor support, site cleanup (if not provided by a subcontractor and if approved for self-performance under the procedures established herein). A calculation showing hours times the hourly rate for the days worked during the pay period. Include time sheets. Line item amounts from the GMP for these costs shall not be exceeded without prior approval of the university.

Please refer to paragraphs c) and e) above that state "Line item amounts from the GMP for these costs shall not be exceeded without prior approval of the university."

The following [page] is an excerpt from article 7.2 of the CM agreement regarding "Fee" to be paid to the CM:



7.2 Included in the Construction Manager's Fee are the following:

7.2.1 The cost of its home or branch office employees or consultants not at the Project site, including the cost of all pension contributions, hospitalization, bonus, vacations, medical insurance assessments or taxes for such items as unemployment compensation and social security, payroll insurance, and taxes attributable to wages and salaries and other company overhead expenses for said home office employees.

7.2.2 The cost of its field employees identified in Subparagraph 2.2.5 herein, or their approved replacements, including the cost of all pension, contributions, hospitalization, bonuses, vacations, medical insurance, assessments or taxes for such items as unemployment compensation and social security, payroll insurance, and taxes attributable to wages and salaries for said field employees.

7.2.3 General operating expenses of the Construction Manager's principal and branch offices other than the field office.

7.2.4 Any part of the Construction Manager's capital expenses, including interest on the Construction Manager's capital employed for the Work.

7.2.5 Overhead and profit, or general expenses of any kind, except as may be expressly included in Article 8, herein, as Cost of the Work.

7.2.6 All travel and per diem costs of Construction Manager's employees and consultants. All travel costs will be paid in accordance with Section 112.061, F.S.

7.2.7 The cost of estimating services which may be required during the construction phase in locations other than the Project site.

7.2.8 Minor expenses such as telegrams, long distance telephone calls, telephone service at the site, postage, office supplies, expressage, and similar items in connection with the Work.

7.2.9 Cost of equipment such as typewriters, cameras, radios, computers, pagers, copiers, facsimile equipment, dictating units, trailers, vehicles and furniture purchased or rented by the Construction Manager.

7.2.10 All costs incurred during the guarantee period after construction.

7.3 Adjustments in the fee will be made as follows:

7.3.1 Adjustments due to Changes in the Work shall be made as described in the Conditions of the Contract.

7.3.2 For delays in the Work caused by the Owner, the Construction Manager shall be entitled to additional fee to compensate the Construction Manager for its increased expenses. The amount of this increased fee shall be calculated at a daily rate derived by dividing the basic fee (excluding profit) established in the accepted GMP proposal by the Contract Time established in the GMP Amendment to the Agreement.

7.4 Invoices for fees or other compensation for services or expenses shall be submitted in detail sufficient for a proper preaudit and postaudit thereof.

The following is an excerpt from the CM's final billing for the project that details the line item billing for the general conditions costs covered by the contractor's GMP Fee estimates for Phase I and Phase II of the project:

ACCOMPANYING APPLICATION FOR PAYMENT NO. 15 FINAL  
 Campus Support Facility, Florida Gulf Coast University  
 CENTEX ROONEY CONSTRUCTION COMPANY  
 DATE: MAY 15, 2000

Line	Item	Unit	Amend #1 Contract Value (site)	Amend #2 Contract Value (building)	Change Order/ By Owner	Contract Adjustment	Adjusted Contract Value	Amount Requested/ Approved to Date	Billing Correction This Pay Application	Amount Requested/ This Pay Application	Total Completed to Date
<b>Nonreimbursable Gen'l Conditions</b>											
Home Office Support											
1	Operations Manager	WK	\$7,980.00	\$19,950.00		(\$1,470.00)	\$26,460.00	\$26,460.00			\$26,460.00
2	Safety Engineer	WK	\$2,723.00	\$5,446.00			\$8,169.00	\$8,169.00			\$8,169.00
Field Supervision											
3	General Superintendent	WK	\$42,559.00	\$130,717.00		(\$7,518.00)	\$165,758.00	\$165,758.00			\$165,758.00
4	Project Manager	WK	\$21,280.00	\$66,157.00		\$15,981.00	\$103,418.00	\$103,418.00			\$103,418.00
5	Project Engineer	WK	\$9,421.00	\$26,916.00		\$35,143.00	\$71,480.00	\$71,480.00			\$71,480.00
6	Cost Accountant	WK	\$12,350.00	\$37,049.00		\$1,134.00	\$50,533.00	\$50,533.00			\$50,533.00
Project Vehicles:											
7	Pickup Truck	MO	\$2,709.00	\$5,500.00		(\$108.00)	\$8,100.00	\$8,100.00			\$8,100.00
8	Fuel, Oil, Repair	MO	\$600.00	\$3,145.00		\$2,035.00	\$5,780.00	\$5,477.00		\$303.00	\$5,780.00
Field Office & Equipment:											
9	Reserved Storage Space	LS	\$0	\$4,800.00			\$4,800.00	\$4,800.00			\$4,800.00
10	Office Trailers	LS	\$1,050.00	\$3,150.00		\$1,336.00	\$5,536.00	\$5,536.00			\$5,536.00
11	Move in / Set up / Move out	LS	\$0	\$1,600.00		(\$1,526.00)	\$74.00	\$74.00			\$74.00
12	Office Furniture	LS	\$0	\$1,000.00		(\$210.00)	\$790.00	\$790.00			\$790.00
13	Office Equipment & Fax	MO	\$1,800.00	\$5,400.00		\$87.00	\$7,267.00	\$7,267.00			\$7,267.00
14	Copier	MO	\$1,500.00	\$3,150.00		(\$100.00)	\$4,550.00	\$4,550.00			\$4,550.00
15	Portable Radios	LS	\$1,200.00	\$3,600.00		(\$4,800.00)	\$0.00	\$0.00			\$0.00
16	Computer Equipment	MO	\$1,200.00	\$8,600.00		\$1,116.00	\$10,916.00	\$10,916.00			\$10,916.00
17	Postage	MO	\$1,500.00	\$4,500.00		\$1,371.00	\$7,371.00	\$7,371.00		\$171.00	\$7,371.00
18	Monthly Phone Charges	MO	\$2,700.00	\$8,100.00		\$1,829.00	\$12,629.00	\$12,629.00		\$329.00	\$12,629.00
19	Telephone System	LS	\$0	\$2,000.00		(\$816.00)	\$1,084.00	\$1,084.00			\$1,084.00
20	Raingear & Hardhats	LS	\$500.00	\$500.00		(\$500.00)	\$500.00	\$500.00			\$500.00
<b>Totals</b>			<b>\$111,072.00</b>	<b>\$341,280.00</b>		<b>\$0.00</b>	<b>\$435,352.00</b>	<b>\$435,203.00</b>	<b>\$0.00</b>	<b>\$799.00</b>	<b>\$495,215.00</b>

Note that some of the line item budgets were exceeded and others were not spent in their entirety. In meetings with FGCU project management, we were advised that no specific "prior approvals" were given to authorize the CM to exceed any on the specific line item budgets.

Item	Description	Ph I GMP	Ph II GMP	Total GMP	Actual or Max	Amt Billed	Difference
1	Operations Manager	\$ 7,980	\$ 19,950	\$ 27,930	\$ 26,460	\$ 26,460	\$ -
2	Safety Engineer	\$ 2,723	\$ 5,446	\$ 8,169	\$ 8,169	\$ 8,169	\$ -
3	General Supt.	\$ 42,559	\$ 130,717	\$ 173,276	\$ 165,758	\$ 165,758	\$ -
4	Project Manager	\$ 21,280	\$ 66,157	\$ 87,437	\$ 87,437	\$ 103,418	\$ 15,981
5	Project Engineer	\$ 9,421	\$ 26,916	\$ 36,337	\$ 36,337	\$ 71,480	\$ 35,143
6	Cost Accountant	\$ 12,350	\$ 37,049	\$ 49,399	\$ 49,399	\$ 50,533	\$ 1,134
7	Pick Up Truck	\$ 2,709	\$ 5,500	\$ 8,209	\$ 8,100	\$ 8,100	\$ -
8	Fuel, Oil, Repair	\$ 600	\$ 3,145	\$ 3,745	\$ 3,745	\$ 5,780	\$ 2,035
9	Storage	\$ -	\$ 4,800	\$ 4,800	\$ 4,800	\$ 4,800	\$ -
10	Office trailers	\$ 1,050	\$ 3,150	\$ 4,200	\$ 4,200	\$ 5,536	\$ 1,336
11	Move In/Move Out	\$ -	\$ 1,600	\$ 1,600	\$ 74	\$ 74	\$ -
12	Office Furniture	\$ -	\$ 1,000	\$ 1,000	\$ 790	\$ 790	\$ -
13	Office Equipment	\$ 1,800	\$ 5,400	\$ 7,200	\$ 7,200	\$ 7,267	\$ 67
14	Copier	\$ 1,500	\$ 3,150	\$ 4,650	\$ 4,550	\$ 4,550	\$ -
15	Portable Radios	\$ 1,200	\$ 3,600	\$ 4,800	\$ -	\$ -	\$ -
16	Computer Equipment	\$ 1,200	\$ 8,600	\$ 9,800	\$ 9,800	\$ 10,916	\$ 1,116
17	Postage	\$ 1,500	\$ 4,500	\$ 6,000	\$ 6,000	\$ 7,371	\$ 1,371
18	Monthly Phone Charges	\$ 2,700	\$ 8,100	\$ 10,800	\$ 10,800	\$ 12,629	\$ 1,829
19	Telephone System	\$ -	\$ 2,000	\$ 2,000	\$ 1,084	\$ 1,084	\$ -
20	Raingear & Hardhats	\$ 500	\$ 500	\$ 1,000	\$ 500	\$ 500	\$ -
<b>Totals</b>		<b>\$ 111,072</b>	<b>\$ 341,280</b>	<b>\$ 452,352</b>	<b>\$ 435,203</b>	<b>\$ 495,215</b>	<b>\$ 60,012</b>

The previous analysis indicates that the total billed to FGCU should have been less than the amount billed by \$60,012 if the line item budgets were intended to be individual maximums. Note that Article 7.2 of the CM agreement for the project is silent with respect to the individual line item maximum amounts. The Chancellor's Memo that has been excerpted in this report was dated January 1999 and the CM agreement for the project was dated March 1998. If earlier versions of the Chancellor's memo contained the same language, it would appear there is a gap in the coordination of the CM contract agreement language with the intent of the university administration.

**Recommendations:**

- Revise contract documents for future CM “at risk” contract documents to specifically cover the intent of the administration with respect to line item maximums on general conditions GMP budgets.
- Review the specifics of the analysis presented in this report with respect to the CM's billings for Non-Reimbursable General Conditions Costs and Fees to determine whether or not the University should receive a \$60,012 refund.
- If it is decided that a “line item” maximum does not apply to this particular CM contract billing situation, we recommend FGCU consider the next level of “maximum” that may apply to this general conditions fee budget for this project. The total billed for this category of general conditions costs exceeded the approved total GMP budget for this by \$42,863 as shown in the following analysis:

Item	Description	Ph I GMP	Ph II GMP	Total GMP	Amt Billed	Difference
1	Operations Manager	\$ 7,980	\$ 19,950	\$ 27,930	\$ 26,460	\$ (1,470)
2	Safety Engineer	\$ 2,723	\$ 5,446	\$ 8,169	\$ 8,169	\$ -
3	General Supt.	\$ 42,559	\$ 130,717	\$ 173,276	\$ 165,758	\$ (7,518)
4	Project Manager	\$ 21,280	\$ 66,157	\$ 87,437	\$ 103,418	\$ 15,981
5	Project Engineer	\$ 9,421	\$ 26,916	\$ 36,337	\$ 71,480	\$ 35,143
6	Cost Accountant	\$ 12,350	\$ 37,049	\$ 49,399	\$ 50,533	\$ 1,134
7	Pick Up Truck	\$ 2,709	\$ 5,500	\$ 8,209	\$ 8,100	\$ (109)
8	Fuel, Oil, Repair	\$ 600	\$ 3,145	\$ 3,745	\$ 5,780	\$ 2,035
9	Storage	\$ -	\$ 4,800	\$ 4,800	\$ 4,800	\$ -
10	Office trailers	\$ 1,050	\$ 3,150	\$ 4,200	\$ 5,536	\$ 1,336
11	Move In/Move Out	\$ -	\$ 1,600	\$ 1,600	\$ 74	\$ (1,526)
12	Office Furniture	\$ -	\$ 1,000	\$ 1,000	\$ 790	\$ (210)
13	Office Equipment	\$ 1,800	\$ 5,400	\$ 7,200	\$ 7,267	\$ 67
14	Copier	\$ 1,500	\$ 3,150	\$ 4,650	\$ 4,550	\$ (100)
15	Portable Radios	\$ 1,200	\$ 3,600	\$ 4,800	\$ -	\$ (4,800)
16	Computer Equipment	\$ 1,200	\$ 8,600	\$ 9,800	\$ 10,916	\$ 1,116
17	Postage	\$ 1,500	\$ 4,500	\$ 6,000	\$ 7,371	\$ 1,371
18	Monthly Phone Charges	\$ 2,700	\$ 8,100	\$ 10,800	\$ 12,629	\$ 1,829
19	Telephone System	\$ -	\$ 2,000	\$ 2,000	\$ 1,084	\$ (916)
20	Raingear & Hardhats	\$ 500	\$ 500	\$ 1,000	\$ 500	\$ (500)
<b>Totals</b>		<b>\$ 111,072</b>	<b>\$ 341,280</b>	<b>\$ 452,352</b>	<b>\$ 495,215</b>	<b>\$ 42,863</b>

**B. Labor Burden Totaling 58.33% Billed by CM**

When the CM submitted their GMP proposals in 1998, they submitted the following breakdown of the labor burden multiplier they used to develop their Non-Reimbursable General Conditions Fee estimates. This same labor burden percentage was also used to bill for reimbursable general conditions labor costs.

**Centex Rooney Construction Co., Inc.  
Administrative Payroll  
Payroll Burden Rate (PT&I)  
as of February, 1998  
Florida**

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<b>Types of Taxes and Insurance</b>	<b>Rates as a Percentage</b>
Social Security Tax	6.20%
Medicare Tax	1.45%
State Unemployment Tax	5.40%
Federal Unemployment Tax	0.80%
Life & Accidental Death Insurance	0.48%
Long Term Disability Insurance	0.32%
Workers comp & Employer's Liability Insurance	5.93%
Retirement fund	10.00%
Incentive Compensation Program	15.00%
Group Medical Insurance	7.75%
Employee Development	5.00%
<b>Total PT&amp;I Rate</b>	<b>58.33%</b>

Due to limitations of available time and staffing, FGCU project management did not perform any cost verification analysis on the cost factors presented by the CM at the time the GMP proposals were received.

As noted in the "Scope Limitation" section of this report, we requested access to appropriate CM records to audit the actual cost incurred for labor burden for the personnel assigned to this project. They did provide some background data to justify the labor burden percentage they charged and some of that information is presented in this report.

The following is a summary of the amounts included by the CM in the Phase I and Phase II GMP line item for the various Non-Reimbursable general conditions personnel broken down into estimated wages and estimated labor burden at 58.33%:

Item	Description	Wages	58.33%	GMP
1	Operations Manager	\$ 17,640	\$ 10,290	\$ 27,930
2	Safety Engineer	\$ 5,159	\$ 3,010	\$ 8,169
3	General Supt.	\$ 109,440	\$ 63,836	\$ 173,276
4	Project Manager	\$ 55,225	\$ 32,212	\$ 87,437
5	Project Engineer	\$ 22,950	\$ 13,387	\$ 36,337
6	Cost Accountant	\$ 31,200	\$ 18,199	\$ 49,399
Totals		\$ 241,614	\$ 140,934	\$ 382,548

The following is an excerpt of the Article 6 of the CM contract agreement that addresses the subject of “accurate complete and current” pricing data and potential adjustments that should be made to correct any significant sums charged due to in accurate incomplete, or non-current factual unit costs:

**6.4 By execution of this Agreement, the Construction Manager certifies that all factual unit costs supporting the fees specified in this Agreement are accurate, complete and current at the time of negotiations; and that any other factual unit costs that may be furnished the Owner in the future to support any additional fees that may be authorized will also be accurate and complete. The fees specified in this Agreement and any additional fees that may be authorized in the future shall be adjusted to exclude any significant sums by which the Owner determines the fee was increased due to inaccurate, incomplete, or non-current factual unit costs.**

A typical audit procedure to be used in contracts of this nature would be to calculate the actual labor burden costs incurred by the contractor for the personnel who actually worked on this project. Using this approach, the CM's estimated labor burden cost factor of 58.33% would be compared to the actual cost incurred during the project to determine the appropriateness of the CM's charges for labor burden.

The CM's interpretation of the contract language quoted above is addressed in their May 10, 2001 response to our audit request to audit the actual cost of labor burden incurred on the individuals working on the project: (see next page)

As stated on 04/03/01 to Mr. Milburn we do not agree with your interpretation of the contract language, intent, and actions of both parties as it relates to the billing and burden rates. The billing and burden rates are set as part of the fee and are therefore part of the negotiation. We feel that your interpretation of Article 6.4 is taken in context of a cost plus fee type of contract. This contract is a GMP (CM-at-Risk) contract and therefore CRCC is taking the risk of changes in staffing, utilization, escalation, and demands on labor to achieve complete owner satisfaction (which is part of our core values and utmost important to us). To demonstrate, had it been necessary to replace the project manager during the project and the cost for the new project manager was higher, the owner would not have let CRCC adjust the rate.

While we believe that the information requested goes beyond the scope necessary to test for reasonableness or to verify the "fee", we value FGCU as a continuing client. Therefore in the spirit of continued cooperation we are sending a Fed-x package to the Plano, Tx address, listed in your e-mail, to your attention with the following information:

- To document the billing rates for each job title we are sending a blind list of all operational employees for each of the categories of labor. This list will give you a statistical database to verify that the rates utilized are reasonable.
- Included in the package is a breakdown of the burden multiplier which was included in the GMP Proposal. We have included some additional notes and documentation for the line items that you questioned in your initial letter dated 03/05/01.

#### **Recommendation:**

We recommend FGCU modify their future GMP (CM-at-Risk) contracts to provide for reimbursement of actual verifiable labor and labor burden costs subject to mutually agreed upon maximums for hourly rates by position and maximums for labor burden. This precludes the CM from unfairly benefiting when actual costs incurred are less than the unaudited labor and labor burden rates "agreed upon" in the beginning of the contract. Provisions could be made where increases to the maximum rates may be made if approved in advance by the Owner.

The following page contains an estimate of potential excess labor burden charges totaling approximately \$62,000 as a result of the CM using labor burden cost factors that may have been in excess of the CM's actual cost incurred for the personnel who worked on the FGCU campus support facility project:

<b>Labor Burden Component</b>	<b>Charged by CM</b>	<b>Estimate Per Audit</b>	<b>Difference</b>	<b>Notes</b>
Social Security Taxes	6.20%	6.20%	0.00%	
Medicare Tax	1.45%	1.45%	0.00%	
State Unemployment Tax	5.40%	1.80%	3.60%	(1)
Federal Unemployment Tax	0.80%	0.27%	0.53%	(1)
Life & Accidental Death Ins.	0.48%	0.48%	0.00%	
Long Term Disability Ins.	0.32%	0.32%	0.00%	
Worker's Compensation	5.93%	2.00%	3.93%	(2)
Retirement Fund	10.00%	5.00%	5.00%	(3)
Incentive Compensation	15.00%	7.50%	7.50%	(4)
Group Medical Insurance	7.75%	5.00%	2.75%	(5)
Employment Development	5.00%	2.50%	2.50%	(6)
<b>Total Labor Burden %'s</b>	<b>58.33%</b>	<b>32.52%</b>	<b>25.81%</b>	
<b>Total Estimated Wages</b>	<b>\$ 241,614</b>	<b>\$ 241,614</b>	<b>\$ 241,614</b>	
<b>Total Labor Burden Billable</b>	<b>\$ 140,934</b>	<b>\$ 78,565</b>	<b>\$ 62,369</b>	

Notes:

(1) In Florida, state and federal unemployment taxes are only paid on the first \$7,000 in wages paid to an employee in a calendar year. Therefore, the 5.4% state unemployment tax and the .8% federal unemployment tax rates used by the CM would be overstated due to the impact of incurring no unemployment taxes on any employee's wages after they reach the \$7,000 annual maximum. For the type of salaried staff involved in this type of general conditions work, our experience shows that the effective rate of such payroll taxes is often less than 1/3 of the standard state and federal percentages.

(2) Worker's compensation rates for these types of general conditions salaried staff positions working mainly in the job site offices generally run less than 1% of wages. Worker's compensation insurance for the job site superintendent is typically incurred at rate closer to 5%. In addition, CM's typically carry favorable experience modifiers, schedule credits and other premium discounts off the standard manual percentages that further reduce costs. Therefore, we estimate that a composite rate of approximately 2% is a more likely estimate of the net cost to be incurred as opposed to the 5.93% used by the CM.

(3) Our experience has shown that most contractors do not fund retirement plans for all personnel at such flat percentages as 10% of wages. In addition, personnel who leave the employ of the company during a year, often do not have their pension plans funded. In other cases, an employee must be a full-time employee for as much as 3 years before they are eligible to have their pension plan contributions funded. If the pension plan is a 401K matching plan, some employees elect not to participate in the plan; therefore, the employer incurs no direct cost for pension for those individuals. Therefore, we estimate a more reasonable estimate of the CM's probable pension cost could be as low as 5% of wages rather than the 10% charged.

(4) Our experience has shown that not all employees are paid incentive compensation at flat rates such as 15% of wages. Again personnel leaving the company employee are often not eligible for bonuses. Therefore, we estimate a more reasonable percentage of probable incentive compensation cost for the staff assigned to the FGCU project would be 7.5% rather than the 15% charged by the CM.

(5) Our experience has shown that not all contractor employees are covered by the same type of medical insurance as that used by the contractor to develop their percentage rate. Therefore, we estimate a more reasonable percentage would be 5% rather than the 7.75% used by the CM.

(6) Employee development expense is usually considered an overhead expense versus a reimbursable labor burden expense. If the cost is considered a reimbursable labor burden component, we estimate a more probable representation of actual costs would be 2.5% rather than 5%.

An example of the possible overstatement of labor burden percentage projections by the CM is illustrated by the following analysis of “Employee Development Expenses” as a percentage of 1999 total CM labor costs estimated to be approximately \$16 million. The contractor has provided the following summary of “Employee development Expenses” totaling approximately \$1.6 million over the 2000 and 2001 two fiscal year period. Using \$1.6 million divided by \$32 million (\$16 million per year in wages for two years) yields approximately 5% which is the factor the CM used in their 58.33% labor burden breakdown. The following is an excerpt from the information provided by the CM to support their “Employee Development Expense” labor burden percentage:

**Centex Rooney Construction Co.**  
**Summary of Employee Development Expenses**

<b>GL Acct No.</b>	<b>GL Account Description</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>TOTAL</b>
7660.106	Seminars/Training	\$231,431.04	\$309,026.70	\$540,457.74
7670.106	Training Travel	\$56,283.62	\$27,856.61	\$84,140.23
7680.106	Training Meals & Ent. 80%	\$13,833.90	\$11,902.50	\$25,736.40
7690.XXX	Manager's Meetings	\$1,932.58	\$8,047.85	\$9,980.43
7700.XXX	Employee Meetings	\$268,000.63	\$679,483.57	\$947,484.20
	<b>TOTAL</b>	<b>\$571,481.77</b>	<b>\$1,036,317.23</b>	<b>\$1,607,799.00</b>

Most Owners consider such “Employee development Expenses” to be overhead that should be covered by the contractor’s fee. Even if direct “training” expenses were allowed as a labor burden, the “Manager’s Meetings” and the Employee Meetings” expenses would be highly unusual to be considered as reimbursable labor burden expense.



We also noted that FGCU was charged directly for the costs to travel to a safety training seminar as part of the reimbursable general conditions "Safety Supplies" line item as follows:

Invoice # 1163

Date 04/01/99

Bill To:  
 Centex Rooney Construction Co. Inc.  
 ATTN: Dick Wolf  
 6300 N.W. 5<sup>th</sup> Way  
 Ft. Lauderdale, Florida 33309

LINE ITEM # B-12

TERMS: Upon Receipt

P.O. Number: N/A

Description of Service Provided:

560.00 - 801 SAFETY TRAINING  
 560.00 - 238 SAFETY TRAINING

Date                      Description

03/12 and 03/19/99    Travel to Ft. Meyers to provide the OSHA 10 safety training course at Sunshine Masonry facilities.

Fees = 2 days @ \$560.00 per day

ok to pay  
 4/21/99  
 DW

Total:

\$1120.00

C. General Liability Insurance Charged at 1.0997% of the Contract Value

The CM included a statement in their GMP proposal the "General Liability Insurance will be charged at 1.0097% of the contract Value." Again, due to staffing limitations, FGCU did not attempt to verify the CM's proposed general liability cost factor. The CM provided the following information in response to our request to verify the accuracy of the cost factor as part of our audit:

We have also included a breakdown of the insurance rate by cost classification that we are recovering under the General Liability category of the GMP. This breakdown should enable you to compare with industry standards and verify reasonableness. We are sure that you are aware that the cost of insurance goes beyond just the premium cost as you have requested, especially for larger corporations which take on more risk onto their balance sheets to lower premium payments. Hopefully this breakdown will give you the information you need to complete the audit.

**MARKET COST OF RISK BASED UPON \$1,000,000,000.00 OF REVENUE**

<b>Risk/Coverage</b>	<b>Limits(M)</b>	<b>Allocation Cost</b>		<b>Notes</b>
Primary CGL	6.0	0.3460%	3,460,000	"No Deductible" Quote
Primary Auto	6.0	0.0542%	542,000	"No Deductible" Estimate
Excess Liability	144.0	0.1034%	1,033,959	Fixed Premium
Professional Liability	20.0	0.2000%	2,000,000	"No Deductible" Estimate
Pollution Liability	20.0	0.1295%	1,295,230	"No Deductible" Quote
Directors & Officers	10.0	0.0067%	67,192	"No Deductible" Estimate
Crime Insurance	40.0	0.0031%	31,250	"No Deductible" Estimate
Contractors Equipment	5.0	0.0030%	30,000	"No Deductible" Estimate
Property	8.7	0.0032%	32,000	"No Deductible" Estimate
Contingent Builder's Risk	Unlimited	0.0500%	500,000	Loss not covered by BR
Debris Removal	125%	0.0025%	25,000	Fixed Premium
Legal Administration		0.0250%	250,000	Department Expenses
Risk Management Administration		0.0470%	470,000	Department Expenses
Safety Administration		0.0360%	360,000	Department Expenses

**TOTAL** **1.0097%** **10,096,631**

The above list of "market cost of risk based" insurance costs contains several line items of administrative expense and other insurance costs not related directly to commercial construction projects that most Owners would consider to be non-reimbursable contractor overhead expense.

Our experience indicates that reimbursable general liability insurance typically costs less than 1/2 of 1% of the contract value. Therefore, the potential overcharge to FGCU for this excessive cost factor is summarized in the following table:

Phase I General Liability Insurance Billing by CM	\$ 8,926
Phase II General Liability Insurance Billing By CM	\$ 49,518
Total CM Billing for GL Insurance	\$ 58,444
Estimate of Actual Reimbursable GL Insurance Costs at 1/2% of \$5.7 million	\$ 28,500
<b>Estimated Excess Charge for General Liability Insurance</b>	<b>\$ 29,944</b>

D. Labor Rates Used to Bill for Non-Reimbursable General Conditions Labor

The CM used standard (or average) labor rates to bill for the various staff positions in the non-reimbursable general conditions labor cost line item budget. We requested to review the actual payroll records for the employees working on the project to verify the appropriateness of the estimated wage rates proposed by the CM in their GMP proposal. The CM provided us with a worksheet without names showing a representative sample of positions with a calculation of sample billing rates. The following is a summary of the CM's calculation of those rates for the positions billed to the FGCU job:

Position	Operation Manager/VP	Project Manager	General Super.	Project Engineer	Cost Accountant
Billing Rate Before Burden	\$ 63.00	\$ 52.23	\$ 48.00	\$ 21.25	\$ 15.00
Annual Salary	\$ 107,500	\$ 78,000	\$ 71,000	\$ 39,000	\$ 28,000
Hourly Billing Rate at 1,920 hours	\$ 55.99	\$ 40.63	\$ 36.98	\$ 20.31	\$ 14.58
Add Car Allowance per hour	\$ 4.71	\$ 4.71	\$ 4.71	\$ -	\$ -
Hourly Billing Rate at 1,920 hours	\$ 60.70	\$ 45.34	\$ 41.69	\$ 20.31	\$ 14.58
Escalation factor at 4%	\$ 2.43	\$ 1.81	\$ 1.67	\$ 0.81	\$ 0.58
Subtotal Hourly Billing Rate	\$ 63.13	\$ 47.15	\$ 43.36	\$ 21.13	\$ 15.17
Utilization Factor	100%	90%	90%	100%	100%
Billable Rate Total	\$ 63.13	\$ 52.39	\$ 48.17	\$ 21.13	\$ 15.17

No timesheets were maintained by the CM personnel for this project. The CM billed the project manager and the superintendent at a standard 160 hours per month (or portion thereof) that would result in a yearly billing of 1,920 hours. (Note: This calculation would allow a total of 20 days per year for holiday, vacation and sick time per person.) Therefore, the CM's calculation of billing rates for those positions at a 90% utilization factor would result in an overcharge of approximately \$5 per hour for the project manager and superintendent hours billed. In addition, the project was also billed directly for the rental (\$8,100) and operating expenses (\$5,780) for a pick up truck. The \$4.71 per hour charge for the car allowance in the general superintendent rate would be a duplication of other expenses that were charged directly to the project.

The potential overcharge due to the CM's application of the 90% utilization factor in developing billing rates for these positions is summarized in the following table:

<b>Position</b>	<b>Hours Billed</b>	<b>Approx. Overcharge Per Hour</b>	<b>Estimated Overcharge</b>
Project Manager	1,280	\$ 5.00	\$ 6,400
General Superintendent	2,240	\$ 9.71	\$ 21,750
<b>Totals</b>	<b>3,520</b>		<b>\$ 28,150</b>

**Recommendations:**

- Require timesheets to be submitted to support billable time in accordance with the Chancellor’s memo for administration of CM-at-Risk contracts.
- Require that labor rates used by CMs to bill for labor be audited to ensure that there are no flaws in the billing methods or the development of the rates that would result in overcharges to FGCU.

E. Charges for Information Technology Support at .35% of Contract Amount

The CM indicated in their GMP proposal that they would charge for “Information Technology Support at .35% of the contract amount. The CM’s payment applications billed a total of \$20,259 as a line item charge for this Information Technology Support as shown in the following excerpt from the CM’s final payment application:

	<b>Subtotal</b>		<b>\$5,224,963</b>
<b>49</b>	<b>Information Tech Support</b>	LS	<b>\$20,259</b>
<b>50</b>	<b>Contingency/(return in co#7)</b>	LS	<b>\$0</b>
<b>51</b>	<b>Builder’s risk insurance</b>	LS	<b>\$33,628</b>
<b>52</b>	<b>Performance bond</b>	LS	<b>\$51,730</b>
<b>53</b>	<b>General liability insurance</b>	LS	<b>\$58,444</b>
	<b>Subtotal</b>		<b>\$164,061</b>
<b>54</b>	<b>Buyout</b>		<b>\$0</b>
<b>55</b>	<b>Fee</b>		<b>\$275,439</b>
<b>56</b>	<b>Project total cost</b>		<b>\$5,664,463</b>

In addition, the general conditions line item budget included a charge for \$9,800 for computer equipment to be used at the field office. Most Owners only pay for the cost of computer equipment at the field office as a reimbursable job cost item. Any other home office provided Information Technology Support is normally considered to be covered by the contractor’s fee.

It should be noted that the CM's fee for this contract was established at 5% of job cost. This is a normal fee percentage for this type and size of job. In this case the CM's fee amounted to more than \$250,000 to cover their home office overhead and profit. Most Owners consider this level of fee covers such home office support costs.

F. Unsupported Charges for Critical Path Scheduling

The CM charges reimbursable job costs a total of \$9,076 for Critical Path Scheduling services. However, the person who performed the services was not identified. Timesheets were not provided, etc. In addition, the math on the CM's internal invoice does not calculate correctly as shown in the following excerpt from the internal invoice:

<b>Centex Rooney Construction</b> 10501 FGCU Blvd., South Ft. Myers, FL 33965  Phone: 941-454-7073 Fax: 941-454-7935 E-mail: kyeamans@ccgmail.com URL: www.centex.com		INVOICE NO. 1 INVOICE DATE 04/26/99 OUR ORDER NO. CUSTOMER ORDER NO. TERMS SALES REP. SHIPPED VIA F.O.B. PREPAID/COLLECT		
<b>SOLD TO:</b> Florida Gulf Coast University 10501 FGCU Blvd., South Ft. Myers, FL 33965		<b>SHIPPED TO:</b> Same		
QUANTITY	UNIT	DESCRIPTION	UNIT PRICE	AMOUNT
		CPM SCHEDULING		\$3,781.97
		x PT& I AT 58.33%		\$5,294.03
			SUBTOTAL	\$9,076.00
			TAX	
			FREIGHT	
			TOTAL	\$9,076.00
Questions concerning this Invoice? Call: K. Yeamans 941-454-7073		<b>MAKE ALL CHECKS PAYABLE TO:</b> Centex Rooney Construction Co., Inc. 10501 FGCU Blvd., South Ft. Myers, FL 33965		

[It appears as though an arbitrary total amount of \$9,076 was used and then broken down into percentages of 58.33 and 41.67, rather than an actual CPM cost and 58.33% of that cost added.]