

**CITY OF CHARLOTTE
OFFICE OF INTERNAL AUDIT**

MEMORANDUM

To: City Manager's Office and Water Department
From: Greg McDowell, City Auditor
Re: RSM Audit of Charlotte Water Design-Build

May 6, 2021

Conclusion

Charlotte Water's plan to conduct more formal reviews of rates and fees will further improve controls over costs for qualification-based contract awards.

Charlotte Water Summary Response

Charlotte Water has proposed an audit of the Irwin Creek project to determine potential cost differences, and will use the results to continue process improvement efforts.

Background

The City of Charlotte's Internal Audit Department engaged the consulting firm RSM US LLP (RSM) to conduct an audit of Charlotte Water's use of the Design-Build contracting method. The scope of the audit focused on the assessment of the administration of controls over design-build contracts, including procurement, contracting, cost proposal evaluation and invoicing.



Results Summary

While RSM found no indication of fraud or non-compliance with North Carolina general statutes, they did make the following observations and recommendations:

1. *Contract language should be consistent and clearly state the type of contract intended, in order to avoid conflict over administration as cost-plus versus unit price.*

RSM supports the use of cost-plus contracts for qualifications-based selections, to provide the owner with transparency into the actual costs of construction, subcontractors, materials and supplies. This mitigates the risk of excess payments. Rather than reviewing actual costs to complete contract line items, monthly invoices are validated through the independent inspection process that confirms quantities installed.

Recommendation:

-  Improve future contract language
-  Exercise right to audit clause – reconcile actual costs to project billings


Management Response:

- ❖ Charlotte Water accepts process improvement recommendations and will clarify the right to audit with Legal
- ❖ Charlotte Water proposes an audit of the Irwin Creek project to determine potential cost differences
 - Note: The proposed audit was announced in May 2021.
- ❖ The City Attorney's Office has engaged an outside construction attorney to review and provide edits to the Design Build Institute of America (DBIA) templates.
- ❖ Charlotte Water will train project management staff on process improvements as a result of modifying the DBIA templates.
- ❖ Implementation goal by the end of CY 2021.

2. *For Design-Build projects, Charlotte Water should document its review of labor rates, labor multipliers, level of effort to complete design phase scope, and subconsultant quotes and/or contracts.*

Design-Build projects are procured through a qualifications-based competitive process. Assessment of cost is the primary control measure to evaluate the design builder's cost proposal. Charlotte Water could not provide RSM with evidence that an assessment of the reasonableness of labor rates, subconsultant fees, or the total proposed cost of design services was performed.

Recommendation:

-  In the future Water should perform and document its review of labor rates, multipliers and the level of effort to complete design phase scope, including subconsultant quotes and/or contracts.

Management Response:

- ❖ Charlotte Water will document the processes used to evaluate design services and has procured independent cost estimating services to assist with cost verification.
- ❖ Charlotte Water will review and validate above documented processes with project management staff.
- ❖ Implementation goal by the end of CY 2021.

3. *Design-Builders should be required to propose their guaranteed maximum price (GMP) amendments in a manner which separately states the costs of work and fee.*

As design phase work is nearing completion, design builders are tasked with preparing and proposing a GMP. Charlotte Water did not provide evidence to RSM that an assessment of the GMP amendment was performed to evaluate the reasonableness or accuracy of material and equipment quantities, labor rates and multipliers, and lump sum elements of work. However, Charlotte Water has indicated that project staff and management utilized their

experience in pipeline construction and cost trending analysis to determine the reasonableness of the GMP.

Recommendation:

- Perform and document an evaluation of the GMP amendment which should include:
 - a review of subcontractor bids and schedules of general conditions and general requirements costs
 - verification of quantities in conformance with project plan
 - an assessment of the reasonableness of unit prices

Management Response:

- ❖ Charlotte Water will document its assessment of GMP amendments going forward and will work with an independent cost estimating service to help document verification of project related costs, which may include scrutiny of bids and reasonableness of unit prices. Implementation goal by the end of CY 2021.

RSM Recommendations and City's Response

Detailed findings, recommendations, and management responses are addressed on pages 8-16 of RSM's attached report. Management has taken or planned actions to address the recommendations.

Actions Planned

Internal Audit will follow-up the RSM recommendations and management responses to determine that planned actions are completed timely. In addition, future audits will include detailed cost reviews of Water design-build contracts and a detailed review of standard clauses included in construction contracts throughout the City.



DESIGN-BUILD PROJECT ASSESSMENT

Irwin Creek Tributaries to Dewitt Lane and Yeoman Road Sanitary Sewer Replacement

January 2021

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Transmittal Letter

January 26, 2021

Greg McDowell, City Auditor
City of Charlotte, North Carolina
600 East 4th Street
Charlotte, NC 28202

Pursuant to our Statement of Work – Design-Build Project Assessment(s) dated September 4, 2020, we hereby submit the following report related to the Irwin Creek Tributaries to Dewitt Lane and Yeoman Road Sanitary Sewer Replacement (“Irwin Creek”) project. Our report is organized in the following sections:

Background	This provides an overview of the design-build process and Irwin Creek project contract award.
Objectives and Approach	The objectives of our procedures and our approach to the execution of those procedures are expanded upon in this section.
Observations and Recommendations	This section details the observations identified during our work and recommendations to management.

We would like to thank the staff and all those involved in assisting us in connection with this review.

Respectfully Submitted,

RSM US LLP

Background

Design-Build Contracting

Charlotte Water, a department of the City of Charlotte, (“Charlotte Water”) recently began using the design-build (“DB”) construction delivery method, for the purpose of increasing capacity to serve new development projects in dense and rapidly growing areas of the community. The DB contract method combines design and construction services with one vendor. Design-build contracts are procured through a Request for Qualifications (“RFQ”) and has the ability to streamline design and construction activities, and reduce the total project timeline. DB contracts are awarded pursuant to state law based on contractor qualifications and not price, increasing the risk of excessive, unreasonable or non-competitive costs.

Traditionally, Charlotte Water projects have been procured through the design-bid-build process. Using this method, design and construction services are procured separately and sequentially. The project design is complete before construction bids are solicited. Unit price construction contracts are common with this procurement method. This process requires a longer timeline, but provides the most cost competitive results at the time of bid. The traditional process is also contingent on a real estate acquisition process being completed before the time of bidding, which if not achieved will also extend the time-frame of the project.

Irwin Creek Tributaries Sanitary Sewer Replacement

Through RFQ FY19-DB-01, issued July 2018, Irwin Creek and 12 other Water projects were awarded to seven Design-Builders. The primary scope of the Irwin Creek Project is to increase sewer capacity to the Irwin Creek Interceptor. The agreement with the DB was executed using a Design Build Institute of America (“DBIA”) form 545 “Progressive Design-Build Agreement for Water and Wastewater Projects” contract template, a new process for Charlotte Water. The project was divided into design and construction phases. A guaranteed maximum price (“GMP”) amendment was issued for the construction phase work. Initially, the DB scope included the South area of work only; the construction price amendment ultimately included Main, North, and South areas of work. Contract value highlights are as follows:

Project Phase	Amount
Phase 1: Design	\$ 2,760,100
Phase 2: Construction GMP	\$ 29,349,846
Contract Total	\$ 32,109,946

Internal Audit Objective & Approach

Objective

The objective of our work was to assess whether the system of internal controls over the administration of design-build construction contracts was adequate and appropriate for promoting and encouraging the achievement of management's objectives for effective contract monitoring and administration. The scope of our work included the following as it relates to design-build contracts:

- Procurement
- Contracting
- Cost proposal preparation and evaluation
- Invoicing

Approach

Our approach consisted of the following phases:

Discovery: We conducted interviews with Charlotte Water, legal counsel, procurement, and project management to gain an understanding of the current processes and controls for procuring and administering design-build contracts. We reviewed the design-build solicitation, contract, cost proposals, invoices, and other information relevant to our scope of work.

Internal Audit Objective & Approach

Approach – continued

Project Evaluation: Our procedures for this phase included:

- Review of procurement documents for evidence for improvement, articles which include vague, missing, or inadequate controls;
- Review of the agreement and amendment to identify opportunities for improvement, articles which include vague or unclear language, omissions of key provisions, etc.;
- Evaluate the composition of preconstruction and construction phase cost proposals, labor rate sheets, and other cost elements;
- Evaluate the adequacy of the control environment as it relates to the review and approval of billings;
- Evaluate supporting documentation for adequacy and compliance with contract terms.

Reporting: We worked with Internal Audit to develop an appropriate reporting method to communicate any control deficiencies and improvement opportunities identified during our review.

Observation Summary

In our Design-Build Project Assessment, we did not identify any instances of fraud or non-compliance with North Carolina General Statutes. Design-Build contracting is a beneficial tool for expediting project schedules and providing transparency into the actual cost of the work, the latter of which was not fully achieved based upon our assessment. The observations and recommendations identified in this report are for the purposes of improving Charlotte Water's construction cost control environment, and to help more closely align the department's administration of its Design-Build contracts with industry leaders.

Observation #1 – Cost-Plus Contract Language

The process by which Charlotte Water project management is administering the contract does not align with certain articles of the DBIA agreement and GMP amendment.

Observation #2 – Evaluation of Preconstruction Rates

We noted there was no evidence that an assessment of the reasonableness of labor rates, subconsultant fees, or the total cost agreed upon for Phase 1 Design services was performed.

Observation #3 – Evaluation of GMP Amendment Pricing

We noted there was no evidence that an assessment of the GMP amendment was performed to evaluate the reasonableness or accuracy of the pricing and quantities included therein.

Observation 1: Cost-Plus Contract Language

Observation

The process by which Charlotte Water project management is administering the contract does not align with certain articles of the DBIA agreement and GMP amendment. Through discussions with Charlotte Water project management and review of documentation, we noted that the contract is being administered in a manner commensurate with a unit price arrangement. Monthly invoices are validated through an independent inspection process, absent supporting documentation that evidences actual cost of work incurred.

For example, the DBIA Phase 1 Design agreement for the Irwin Creek project provides for two pricing options: lump sum or cost-plus (DBIA 2.3.1.1). Further, we noted the DBIA Phase 1 Design agreement includes redlines removing reference to the lump sum option (DBIA 7.2) for the Phase 2 Construction indicating the use of cost-plus methodology (DBIA 7.5). As shown in Appendix A, the following articles further support cost-plus methodology:

- DB fee and cost of the work (DBIA 2.3, 7.1.2)
- Actual cost of wages and salaries and other incurred costs (GMP 7.5.1)
- Shared savings (GMP 7.6.3)
- Actual cost of allowance line items (GMP 7.7)
- Right to audit cost of work (DBIA 8.6)

By administering the contract using a unit price approach, management is unable to enforce the cost-plus terms and conditions referenced above. Cost-plus contracting provides the Owner with transparency into the actual costs of construction, the subcontractors, materials, and suppliers utilized by the DB and mitigates the risk of unjust enrichment of the DB.

Observation 1: Cost-Plus Contract Language

Recommendation

Management, in consultation with legal counsel, should evaluate the opportunity to exercise the right to audit clause, and enforce the cost-plus provisions noted in the observation above. Should management pursue this option, Charlotte Water or a representative of the City should obtain the DB's detailed report of the actual cost of the project and reconcile to the project billings.

For future projects utilizing the standard DBIA agreement, we recommend Charlotte Water consider removal of all reference to the contracting approach not being utilized (lump sum or cost-plus). The construction phase price amendment language should align with the DBIA agreement and only the allowable pricing method referenced in the DBIA agreement.

Further, we recommend the application of cost-plus-fee methodology on future projects. This approach will allow project management more insight into the actual costs of construction, provide for more transparency into subcontracts and suppliers utilized by the DB, and create the opportunity for Charlotte Water to identify credits and savings that are not available under a lump sum approach.

Observation 1: Cost-Plus Contract Language

Management Response

- The City Attorney's Office has engaged an outside construction attorney to review and provide edits to our DBIA templates with a mid-March deadline for completion.
- Charlotte Water is always open to process improvements and proposes an audit of the Irwin Creek project to determine the potential cost differences. Our plan is to use the results to continue or process improvement efforts.
- Although all previous proposers/vendors have been aware of Charlotte Water's cost approach through the lump sum amount and have yet to object to any contractual language regarding this cost approach, the City Attorney's Office will remove all references to one of the two cost approaches going forward.
- Implementation expected to be complete by the end of 2021.

Observation 2: Evaluation of Preconstruction Rates

Observation

We noted there was no evidence that an assessment of the reasonableness of labor rates, subconsultant fees, or the total cost agreed upon for Phase 1 Design services was performed.

For example, the Phase 1 Design fee for Irwin Creek was \$2,760,100, including a contingency of \$131,434. The fee summary was provided in Exhibit F to the DBIA agreement and included DB personnel hourly rates, estimated hours, and subconsultant fees. The labor rates were inclusive of overhead and burden and range from \$88 for administrative personnel to \$250 for project management. The DB estimated 8,200 hours to perform the stages of design and planning. Subconsultant costs made up half of the Phase 1 Design fee and included services for surveying and monitoring, easement and real estate activity management, and other planning coordination.

Due to the fact that design-build projects are not procured through a competitive pricing process but based on a competitive qualifications process, an assessment of cost is the primary control measure available to evaluate the reasonableness of the DB's cost proposal.

Observation 2: Evaluation of Preconstruction Rates

Recommendation

For design-build projects currently in progress and for future contracts, we recommend Charlotte Water perform and document a review of DB design and preconstruction labor rates, labor multipliers, level of effort to complete the design phase scope, and subconsultant quotes and/or contracts.

Observation 2: Evaluation of Preconstruction Rates

Management Response

- Charlotte Water agrees that documenting the process used to evaluate the design phase services as mentioned is necessary and will develop that documentation.
- To better document cost verification, as a pilot, Charlotte Water will work in conjunction with Storm Water and General Services to use independent cost estimating services under a recently procured contract.
- Implementation expected to be complete by the end of 2021.

Observation 3: Evaluation of GMP Amendment

Observation

We noted there was no evidence that an assessment of the GMP amendment was performed to evaluate the reasonableness or accuracy of the following:

- Material and equipment quantities
- Labor rates and multipliers
- Lump sum elements of the work

For example, on the Irwin Creek project, we understand upon receipt of the GMP, a Charlotte Water project engineer reviewed the plans and performed an undocumented assessment of line items included therein. The following are example line items in the Irwin Creek GMP:

Description	Qty	Units	Unit Price (Average)	Project Total	% Total
60" Steel Casing Installed via MicroTunnel	1580	LF	\$ 5,547	\$ 8,318,985	30%
General Conditions (Project management & Mobilization)	1	LS	\$ -	\$ 2,388,589	9%
Tunnel Launch Shafts	6	EA	\$ 302,000	\$ 1,917,000	7%
Environmental Remediation	1	LS	\$ -	\$ 2,000,000	7%

Due to the fact that design-build projects are not procured through a competitive pricing process but based on a competitive qualifications process, an assessment of cost is the primary control measure available to evaluate the reasonableness of the DB's cost proposal.

Observation 3: Evaluation of GMP Amendment

Recommendation

Should Charlotte Water project management utilize the DBIA cost-plus fee contract language on future projects, design-builders should be required to propose their GMP price amendments in a manner which bifurcates actual costs of work and fee. Regardless of contracting approach, we recommend Charlotte Water management (or its representative) perform and document an evaluation of the GMP amendment which should include, at a minimum:

- Review of subcontractor bids
- Schedules of general conditions and requirements costs
- Verification of quantities in conformance with the project plans for high-value line items
- Assessment of reasonableness of unit prices

For active DB projects, we recommend Charlotte Water's project management identify significant line items within the GMP, and document a verification of budgeted quantities in conformance with the project plans, and document an assessment of reasonableness for unit prices. If unreasonable prices, or inflated quantities are identified, they should be evaluated with the DB, and credited to the Owner's contingency fund. Should management exercise their right to audit the agreements as noted in Observation 1, this process would not apply to the active project.

Observation 3: Evaluation of GMP Amendment

Management Response

- Charlotte Water agrees that documenting our process to evaluate the construction phase GMP amendment is needed. Project staff and engineering management is experienced in pipeline construction and has cost trending to utilize for comparisons that were and are made as GMP amendments are received. Charlotte Water does agree that the cost-plus methodology allows for more detailed information up front which would provide for audit-level analysis.
- In addition, as noted in recommendation 2, Charlotte Water will work with an independent cost estimating service to help document verification of project-related costs, which may include scrutiny of bids and reasonableness of unit prices.
- Implementation expected to be complete by the end of 2021.

Appendix A: Contract Language References

DBIA 2.2.1 Phase 1 Services. Design-Builder shall perform such services to the level of completion required for Design-Builder and Owner to establish the Contract Price for Phase 2, as set forth in Section 2.3 below. The Contract Price for Phase 2 shall be developed during Phase 1 on an "open-book" basis.

DBIA 2.3 Proposal. Upon completion of the Phase 1 Services and any other Basis of Design Documents upon which the parties may agree, Design-Builder shall submit a proposal to Owner (the "Proposal") for the completion of the design and construction for the Project for the Contract Price, which may be based on Lump Sum or Design-Builder's Fee and Cost of the Work with an option for a Guaranteed Maximum Price (GMP).

2.3.1 The Proposal shall include the following unless the parties mutually agree otherwise:

2.3.1.1 The Contract Price that may be based on a Lump Sum or Design-Builder's Fee and Cost of the Work, with an option for a GMP, which shall be the sum of:

- i. Design-Builder's Fee as defined in Section 7.4.1 hereof;
- ii. The estimated Cost of the Work as defined in Section 7.5 hereof, inclusive of any Design-Builder's Contingency as defined in Section 7.6.2 hereof;

DBIA 7.1.2 Contract Price. For Phase 2 Services, Owner shall pay Design-Builder in accordance with Article 7 of the General Conditions of Contract a contract price ("Contract Price") equal to the Lump Sum amount set forth in the Contract Price Amendment, or equal to the Design-Builder's Fee (as defined in Section 7.4 hereof) plus the Cost of the Work (as defined in Section 7.5 hereof), subject to any GMP established in Section 7.6 hereof or as set forth in the Contract Price Amendment and any adjustments made in accordance with the General Conditions of Contract.

DBIA 7.4.1 Reserved. This article to be completed as part of the GMP.

GMP 7.4.1 Design-Builder's Fee. Design-Builder's Fee shall be: The contract is set as a unit price contract, therefore the Design-Builder's fee is built in. See attached unit price schedule of values. Design-Builder will be paid by units installed.

Appendix A: Contract Language References

DBIA 7.5 Reserved. This article to be completed as part of the GMP.

GMP 7.5.1 Cost of Work. The term Cost of the Work shall mean costs reasonably incurred by Design-Builder in the proper performance of the Work.

7.5.1.1 Wages of direct employees of Design-Builder performing the Work at the Site or, with Owner's agreement, at locations off the Site, provided, however, that the costs for those employees of Design-Builder performing design services shall be calculated on the basis of prevailing market rates for design professionals performing such services or, if applicable, those rates set forth in an exhibit to this Agreement.

7.5.1.2 Wages or salaries of Design-Builder's supervisory and administrative personnel engaged in the performance of the Work and who are located at the Site or working off-Site to assist in the production or transportation of material and equipment necessary for the Work.

7.5.1.3 Wages or salaries of Design-Builder's personnel stationed at Design-Builder's principal or branch offices, but only to the extent said personnel are identified in Exhibit E and performing the function set forth in said Exhibit. The reimbursable costs of personnel stationed at Design-Builder's principal or branch offices shall include a ten percent (10%) markup to compensate Design-Builder for the Project-related overhead associated with such personnel.

7.5.1.4 A multiplier of thirty-eight percent (38%) shall be applied to the wages and salaries of the employees of Design-Builder covered under Sections 7.5.1.1 through 7.5.3.3 hereof.

7.5.1.5 The reasonable portion of the cost of travel, accommodations and meals for Design-Builder's personnel necessarily and directly incurred in connection with the performance of the Work.

7.5.1.9 Costs less salvage value of materials, supplies, temporary facilities, machinery, equipment and hand tools not customarily owned by the workers that are not fully consumed in the performance of the Work and which remain the property of Design-Builder, including the costs of transporting, inspecting, testing, handling, installing, maintaining, dismantling, and removing such items.

7.5.1.11 The reasonable costs and expenses incurred in establishing, operating and demobilizing the Site office, including the cost of facsimile transmissions, long-distance telephone calls, postage and express delivery charges, telephone service, photocopying, and reasonable petty cash expenses.

7.5.1.12 Rental charges and the costs of transportation, installation, minor repairs and replacements, dismantling and removal of temporary facilities, machinery, equipment and hand tools not customarily owned by the workers, which are provided by Design-Builder at the Site, whether rented from Design-Builder or others, and incurred in the performance of the Work.

7.5.1.13 Premiums for insurance and bonds required by this Agreement or the performance of the Work.

Appendix A: Contract Language References

DBIA 7.6 Reserved. This article to be completed as part of the GMP.

GMP 7.6 The Guaranteed Maximum Price.

7.6.1 Design-Builder guarantees that it shall not exceed the GMP of twenty-nine million, three hundred forty-nine thousand, eight hundred forty-six dollars and fifty-three cents (\$29,349,846.53). Design-Builder does not guarantee any specific line item provided as part of the GMP, provided, however, that it does guarantee the line item for its general project management and general conditions costs, in the amount of eight hundred, ninety-nine thousand, eight hundred seventy-four dollars (\$899,874), and as set forth in the Contract Price Amendment ("General Conditions Cap"). Design-Builder agrees that it will be responsible for paying the applicable general conditions costs in excess of the General Conditions Cap, as well as be responsible for all costs of completing the Work which exceed the GMP, as said general conditions line item and the GMP may be adjusted in accordance with the Contract Documents, including but not limited to the markups for Change Orders.

Report note: The General Condition cap of \$899,874 does not include the South work, an additional \$499,000 of General Conditions (\$1,398,874 total).

7.6.2 The GMP includes a Contingency in the amount of one million dollars (\$1,000,000) which is available for Design-Builder's exclusive use for unanticipated costs it has incurred that are not the basis for a Change Order under the Contract Documents. ... The GMP includes an Owner Contingency in the amount of one million dollars (\$1,000,000) which is available for the Owner's exclusive use. Funds not expended from the Owner Contingency and the Design-Builder's Contingency will return to the Owner and the end of the job and shall not be considered in Savings.

7.6.3 Savings.

7.6.3.1 If the sum of the actual Cost of the Work and Design-Builder's Fee (and, if applicable, any prices established under Section 7.1.3 hereof) is less than the GMP, as such GMP may have been adjusted over the course of the Project, the difference ("Savings") shall be shared as follows:

fifty percent (50%) to Design-Builder and fifty percent (50%) to Owner.

7.6.3.2 Savings shall be calculated and paid as part of Final Payment under Section 8.4 hereof, with the understanding that to the extent Design-Builder incurs costs after Final Completion which would have been payable to Design-Builder as a Cost of the Work, the parties shall recalculate the Savings in light of the costs so incurred, and Design-Builder shall be paid by Owner accordingly.

Appendix A: Contract Language References

GMP 7.7 Allowance Items and Allowance Values.

7.7.2 Design-Builder and Owner have worked together to review the Allowance Items and Allowance Values based on design information then available to determine that the Allowance Values constitute reasonable estimates for the Allowance Items. Design-Builder and Owner will continue working closely together during the preparation of the design to develop Construction Documents consistent with the Allowance Values. Nothing herein is intended in any way to constitute a guarantee by Design-Builder that the Allowance Item in question can be performed for the Allowance Value.

7.7.4 The Allowance Value includes the direct cost of labor, materials, equipment, transportation, taxes, and insurance associated with the applicable Allowance Item. All other costs, including design fees, Design-Builder's overall project management and general conditions costs, overhead and Fee, are deemed to be included in the original Contract Price, and are not subject to adjustment notwithstanding the actual amount of the Allowance Item.

7.7.5 Whenever the actual costs for an Allowance Item is less than the stated Allowance Value, the difference shall be credited to the Owner's Contingency. Whenever the actual costs for an Allowance Item is more than the stated Allowance Value the overage shall be paid out of the Owner's Contingency or the Contract Price shall be adjusted accordingly by Change Order, at the Owner's election, subject to Section 7.7.4. The amount of the Change Order or funds distributed from the Owner's Contingency shall reflect the difference between actual costs incurred by Design-Builder for the particular Allowance Item and the Allowance Value.

DBIA 8.6 Record Keeping and Finance Controls. Design-Builder acknowledges that this Agreement is to be administered on an "open book" arrangement relative to Costs of the Work. Design-Builder shall keep full and detailed accounts and exercise such controls as may be necessary for proper financial management, using accounting and control systems in accordance with generally accepted accounting principles and as may be provided in the Contract Documents. During the performance of the Work and for a period of three (3) years after Final Payment, Owner and Owner's accountants shall be afforded access to, and the right to audit from time to time, upon reasonable notice, Design-Builder's records, books, correspondence, receipts, subcontracts, purchase orders, vouchers, memoranda, and other data relating to the Work, all of which Design Builder shall preserve for a period of three (3) years after Final Payment. Such inspection shall take place at Design-Builder's offices during normal business hours unless another location and time is agreed to by the parties. Any multipliers or markups agreed to by the Owner and Design Builder as part of this Agreement are only subject to audit to confirm that such multiplier or markup has been charged in accordance with this Agreement, but the composition of such multiplier or markup is not subject to audit. Any lump sum agreed to by the Owner and Design Builder as part of this Agreement is not subject to audit.

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