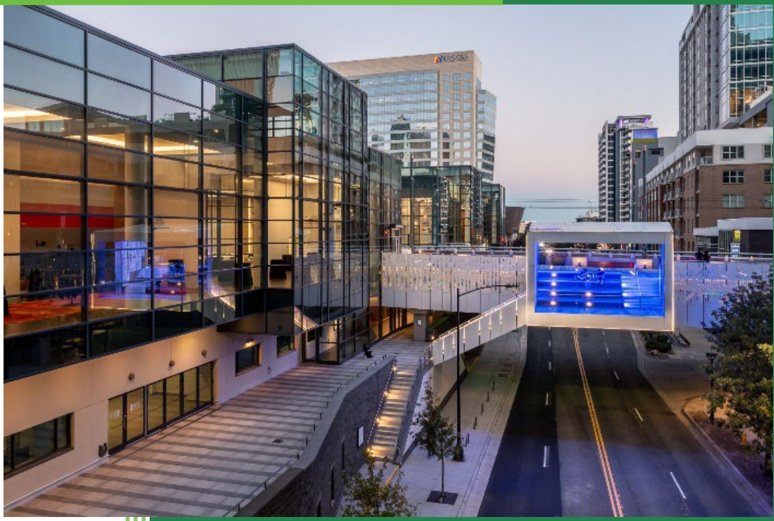
# Convention Center Renovation Follow-Up Audit

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**July 19, 2023**

# Convention Center Renovation Follow-Up Audit Executive Summary

## Objective

This audit was conducted to determine whether recommendations from the prior audit were implemented and if the CMAR, Holder-Edison Foard-Leeper (HEFL) has complied with contract terms through closeout.

## Background

Consulting firm Talson Solutions LLC (Talson) conducted an audit of the construction manager-at-risk (CMAR) for the Convention Center Renovation project. The scope of the audit focused on the allowability and reasonableness of expenditures for labor, subcontractors, consultants, fees, and insurance costs through January 2021.

Talson found that HEFL was generally compliant with the CMAR agreement but further clarifications of contract provisions and improvements in cost management could result in cost recovery opportunities for the City.

## Conclusion

The CMAR generally complied with the Convention Center Renovation project contract terms and General Services addressed recommendations from the prior audit. Documenting the evaluation of negotiated lump sum rates would improve controls and could increase cost savings.

## Highlights

***The CMAR contract for the Convention Center Renovation project was closed out at $112.8 million in expenditures, including application of the cost savings incentive.***

- Total cost savings of $2.3 million was shared 80/20

***General Services adequately addressed recommendations made by Talson.***

- Of the 16 recommendations in the Talson report, 14 have been implemented or satisfactorily resolved
- Recommendations applicable to future projects could not be assessed as there has been a limited number of applicable projects
- See Appendix A for recommendation status update

***Staff did not adequately document the evaluation of labor rates; corporate charges for insurance, equipment, and vehicles; or relocation/temporary living expenses.***

General Services has not established procedures for the review of:

- Labor rates
- Corporate charges for equipment and vehicles
- Travel, relocation, and temporary living expenses

### *Actions Planned*

General Services has agreed to implement the recommendations in this report and to evaluate and determine how general conditions will be paid (i.e., lump sum, cost plus) based on best value and lowest risk to the City. Due to the inherent complexity and uncertainties in managing CMAR projects, Internal Audit will review selected future projects to verify the effectiveness of negotiations. Procedures will be performed to verify that the City and its vendors are adhering to the principles of "open book" negotiations, which allow for greater transparency and accountability in managing project expenses.

## Objective

This audit was conducted to determine whether recommendations from the prior audit were implemented and if the CMAR, Holder-Edison Foard-Leeper Joint Venture (HEFL), has complied with contract terms through closeout.

## Background

In June 2017, the Charlotte Regional Visitors Authority (CRVA) entered into a contractual agreement for pre-construction services with HEFL as the CMAR. HEFL is a joint venture between Holder Construction, Edison Foard Construction, and RJ Leeper Construction. In September 2019, HEFL was approved for a Guaranteed Maximum Price (GMP) contract value not to exceed $114.5 million. As of HEFL's December 2022 Payment Application No. 39, HEFL has invoiced $112.8 million, or 98.5%, of the GMP contract value. There are no approved change orders increasing the GMP contract value. The project was considered substantially complete in November 2021.

The City of Charlotte's Internal Audit Department engaged the consulting firm Talson Solutions LLC (Talson) to conduct an audit of the construction manager-at-risk (CMAR) for the Convention Center Renovation project. The scope of the audit focused on cost and billings associated with the Contractor Controlled Insurance Program (CCIP) and the accuracy, allowability and reasonableness of expenditures for subcontractors, labor, consultants, fees, insurance, and other incurred costs through January 2021.

Talson found that HEFL was generally compliant with the CMAR agreement but that further clarifications of contract provisions and improvements in cost management could result in cost recovery opportunities for the City. Talson noted opportunities for the City to require the financial review of non-auditable markups and formal approval for additional insurances outside the City standard coverages typical on capital programs.

## Scope, Methodology, and Compliance

### Scope

This audit focused on Convention Center Renovation expenditures after January 2021 and contract closeout/reconciliation. To properly assess recommendations intended to be implemented in future projects, auditors reviewed policies and procedures and available documentation from more recent CMAR projects administered by General Services.

## Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed relevant Procurement, General Services and HEFL staff
- Reviewed the executed CMAR agreement including GMP details, monthly invoices, and project cost reports
- Reviewed supporting documentation for general conditions and general requirement costs
- Reviewed salary and labor wage rate documents and reporting
- Reviewed allowance and contingency management records including reconciliation and change order support documentation

## Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the processes used to review and approve monthly CMAR pay applications and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks
- Monitoring – The activities management uses to assess the quality of performance over time

Any internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix B.

## Findings and Recommendations

### 1. *The CMAR contract for the Convention Center Renovation project was closed out at $112.8 million in expenditures, including the application of the cost savings incentive.*

As shown in the chart below, contract expenditures were $112.8 million, compared to contract GMP of $114.5 million.

The contract included a provision for savings to be shared 20% to the CMAR and 80% to the Owner (the City). Total contract savings were $2,336,081 of which the CMAR earned $467,216. The City spent $140,488 of their $1,868,865 in savings for out-of-scope items, resulting in the final contract balance of $1,728,377.

| Cost Category | Initial GMP | Contract Closeout | Difference |
|---|---|---|---|
| **Subcontract Costs** | $ 86,633,482 | $ 90,089,532 | $ (3,456,050) |
| **CMAR Expenditures:** | | | |
| Construction Requirements | $ 3,311,582 | $ 4,960,213 | $ (1,648,631) |
| Insurance/Permits/Fees | $ 4,626,428 | $ 4,357,625 | $ 268,803 |
| General Conditions | $ 8,421,908 | $ 8,629,486 | $ (207,578) |
| Total CMAR Expenditures | $ 16,359,918 | $ 17,947,324 | $ (1,587,406) |
| **Contingency Accounts:** | | | |
| Construction Contingency | $ 4,119,736 | $ - | $ 4,119,736 |
| Owner's Contingency | $ 3,155,800 | $ - | $ 3,155,800 |
| Total Contingency | $ 7,275,536 | $ - | $ 7,275,536 |
| **Fee:** | | | |
| CMAR Fee (3.95%) | $ 4,230,969 | $ 4,267,456 | $ (36,487) |
| Savings Split | $ - | $ 467,216 | $ (467,216) |
| Total Fee Earned | $ 4,230,969 | $ 4,734,672 | $ (503,703) |
| Total Contract | $ 114,499,905 | $ 112,771,528 | $ 1,728,377 |

## 2. General Services adequately addressed the recommendations made by Talson.

Sixteen recommendations were addressed to General Services (see Appendix A) in Talson's FY21 Convention Center Renovation Audit report (May 2021). Generally, recommendations related specifically to the Convention Center Renovation project were adequately addressed. Verification of implementation of recommendations applicable to future projects was hindered by a limited number of alternative delivery projects. Auditors reviewed limited data from a current project (CMGC Boiler Replacement/HVAC replacement) and determined that exceptions noted by Talson on the Convention Center Renovation project were either not repeated or not applicable. Internal Audit will verify implementation of the recommendations as policies and procedures are updated and applied to future projects.

***Recommendation:*** General Services should continue to address recommendations in the original audit report, updating policies and procedures as needed.

***Value Added:*** Compliance; Risk Reduction

***General Services Response:*** Agree. Remaining recommendations will be implemented or adequately addressed by September 30, 2023. General Services' responses are reflected in Appendix A.

## 3. Staff did not adequately document the evaluation of labor rates; corporate charges for insurance, equipment, and vehicles; or relocation/temporary living expenses.

Per General Services leadership, general conditions costs for this contract were negotiated and assessed for their reasonableness in comparison to the total construction costs. Upon contract execution, general conditions costs were treated as lump sum. They noted that lump sum general conditions are consistent with the North Carolina Department of Administration State Construction Office practices.

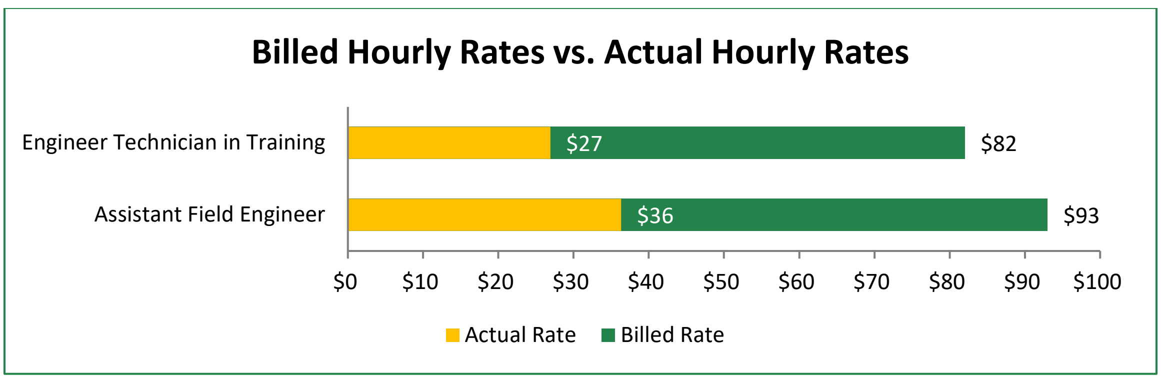
Although General Services noted that general conditions were treated as a lump sum item, the CMAR submitted invoices, receipts, and other supporting documentation for most of the general conditions expenditures. In addition, at the end of the contract, the CMAR provided its job cost ledger for the project, itemizing its actual costs. This documentation provided auditors with the information needed to assess the evaluation and negotiation of general conditions.

When negotiating lump sum or fixed rates, best practices suggest that project owners conduct a financial review of the underlying support documentation and cost basis. Auditors noted exceptions in the following areas:

**Verification of labor rates and payment**

According to the CMAR's job cost ledger, total labor costs (base rate plus fringe benefits) exceeded $8.2 million of the $11.7 million of general conditions and construction requirement costs. In a judgmental sample of 35 employee labor rates, 11 could not be tied to rates established in the construction management agreement. In addition, General Services was not able to provide documentation of an analysis of the agreed labor rates, which could have been performed either before labor rates and a guaranteed maximum price (GMP) was negotiated or at any time during the contract.

Auditors judgmentally selected a sample of employees to verify that the CMAR complied with the 34.55% fringe benefit rate limit outlined in the CMAR agreement and to confirm actual payment to employees. Two exceptions were noted. Holder Engineering Services billed the joint venture using hourly rates that exceeded actual rates, including the allowed 34.55% fringe benefit rate.




The CMAR stated that these employees were intended to be included in a list of positions with negotiated fixed rates. However, the positions were not included in the contract documents. **The difference between the amount charged to the contract for these employees and what would have been charged at the base salary rate (plus 34.55%) is $312,766.**

## Analysis of corporate charges for insurance, equipment, and vehicles

The final payment application for the Convention Center Renovation project included $2.9 million in corporate insurance charges and $357,012 in computer equipment and vehicle charges. There was no indication that General Services staff reviewed the composition of the equipment rates or required the CMAR to provide documentation of actual costs – either before GMP approval or at any time during the contract term.

**Insurance charges** included $2.2 million for the contractor-controlled insurance program (CCIP) and $756,101 for subcontractor default insurance, paid to the Holder Construction Company. As a related-party transaction, General Services should have required the CMAR to provide the actual cost of providing insurance. The CCIP rate was negotiated, agreed to, and termed “un-auditable” during GMP negotiations. Although contract language allows the City to request documentation of all costs (including insurance), General Services did not require the CMAR to provide the actual cost of providing the CCIP, as it was determined to be “un-auditable.” Obtaining the documentation of actual costs would help the City understand the marketplace and be in a better position to negotiate future contracts.

**Computer equipment and software** was billed from a Holder Construction Company related party, District Equipment Company. Total charges over the life of the contract equaled $203,882. There was no evidence that General Services requested or was provided with documentation supporting the calculation of billing rates for computers, tablets, and project management software, ranging from $30 to $55 monthly for tablets and computers to $493 monthly for project management software. Auditors judgmentally selected charges for the month of August 2020 to review and could not confirm that three of 17 employees worked on the Convention Center Renovation project during the period, although the City was billed for project management software assigned to the employees.

**Monthly vehicle rates** ranged from $781 to $1,560, with total vehicle charges of $153,130. General Services did not provide any evidence that these rates were agreed to during GMP negotiation or that the composition of the rates was understood. In addition to the monthly charges, there were maintenance and repair costs associated with some of these vehicles. Without knowledge of the composition and intention of the vehicles rates, it is not possible to determine whether the additional maintenance and repair charges duplicated costs paid through the monthly vehicle charge.

Included in the general conditions costs was a line item for “**warranty expense**” in the amount of $124,500. This amount was included on the August 2021 payment application. There was no supporting documentation indicating that the CMAR actually incurred any cost associated with this line item.

**Relocation/living expenses**

Total relocation and temporary living expenses were approximately $190,000. In the original audit report, Talson recommended that the City request credit for an intern's $1,032 in relocation expenses. Per review of the CMARs job cost ledger, this credit was not provided to the City. Auditors selected a haphazard sample of eight relocation/living expenses transactions from the CMAR's job cost ledger. For three ($18,303 total charges) of the eight transactions reviewed, there was no detailed support attached to the payment application to identify the type of expenditure, the payee, or the benefitting employee. Documentation was provided for the other five transactions, which all appeared to be reasonable relocation expenses.

Without adequate supporting documentation of these charges, it is not possible to determine whether the charges were reasonable and associated with individuals the City authorized for relocation/living expenses. General Services did not provide any policies, procedures or guidelines used in the approval of relocation, moving and temporary living expenses.

Contract language and the payment application process for this contract appeared to treat this as a cost-reimbursement contract, including general conditions costs. This is further evidenced by the CMAR submittal of supporting documentation for general conditions costs reported on monthly payment applications. Had General Services treated general conditions on a cost reimbursement basis, auditors estimate that $1 million in savings could have been realized.

General Services states that they will evaluate and determine how general conditions will be paid (i.e., lump sum, cost plus) based on best value and lowest risk to the City for future CMAR projects. While this is an acceptable practice, it requires significant upfront analysis of proposed costs. In prior audit reports, Internal Audit and various consultants have noted that the preferred method is to reimburse CMARs for general conditions and general requirements expenditures at actual costs. The exceptions noted in Finding #3 demonstrate the opportunities that exist for construction managers and design builders to obtain additional "profit centers" when negotiating lump sum amounts.

***Recommendation 3A:*** General Services should establish policies and procedures related to labor charges for CMAR and Design Build projects that:

- Requires documented approval of labor rates based on an analysis of proposed rates that includes review of the composition of proposed fringe benefit rates
- Outlines requirements for approval of labor rates not established in the contract documents
- Outlines criteria for when verification of actual labor rates should be performed, including determining that CMARs and DBs are complying with contractual fringe benefit rates

***Value Added:*** Compliance; Cost Savings; Risk Reduction

***General Services Response:*** Lump sum general conditions are consistent with the North Carolina Department of Administration State Construction Office practices, Design Build Institute, and many other municipalities. If lump sum was not used, a significant amount of staff time would be needed each month to process invoices. General Services will document procedures/implement practices requiring the team to prepare a Record of Negotiation which will be used on all subsequent projects to memorialize the negotiation of General Conditions on Construction Manager at Risk and Design Build projects moving forward. The record of negotiation will clearly identify what is paid for on lump sum versus unit price/actual cost/cost plus basis. Estimated completion date – September 30, 2023.

***Recommendation 3B:*** General Services should establish policies and procedures related to corporate charges and allocated costs that requires:

- Documented analysis and approval of the composition of rates established for corporate charges such as insurance, equipment, and vehicles.
- Verification of actual costs where applicable

***Value Added:*** Compliance; Cost Savings; Risk Reduction

***General Services Response:*** General Services will document procedures and implement practices requiring the team to prepare a Record of Negotiation which will be used on all subsequent projects to memorialize the negotiation of General Conditions and Insurance/Permits/Fees on Construction Manager at Risk and Design Build projects moving forward. Equipment, vehicles, computer software, etc. will almost always be considered in General Conditions. The record of negotiation will clearly identify what is paid for on lump sum versus unit price/actual cost/cost plus basis. General Services will also document expectations for project manager related to review of invoices. Estimated completion date – September 30, 2023.

General Services will coordinate with Risk Management to assess the Construction Manager’s proposed insurance rates for their reasonableness in comparison to the City’s insurance rates. The most cost-effective option will be selected. The Insurance/Permits/Fees include estimated permit and fees. A line-item cost is included and billed against this in the schedule of values.

***Recommendation 3C:*** General Services should establish policies and procedures related to the authorization and documentation of relocation and temporary living expenses that requires:

- Retention of documentation of the authorization of individuals/positions eligible for relocation or temporary living expenses
- Adequate documentation of actual costs
- Verification of the reasonableness of charges

***Value Added:*** Compliance; Cost Savings; Risk Reduction

***General Services Response:*** General Services will document procedures/implement practices requiring the team to prepare a Record of Negotiation which will be used on all subsequent projects to memorialize the negotiation of General Conditions coverage on Construction Manager at Risk and Design Build projects moving forward. The record of negotiation will clearly identify what is paid for on lump sum versus unit price/actual cost/cost plus basis. General Services will also document expectations for project manager related to review of invoices. Estimated completion date – September 30, 2023.

The above items are included in the General Conditions. The General Conditions are negotiated and assessed for their reasonableness in comparison to the total construction costs. The Construction Manager will propose monthly billing throughout the duration of the project for General Condition expenses. General Services will evaluate and determine how General Conditions will be paid (i.e., lump sum, cost plus) based on best value and lowest risk to the City for future CMAR projects.

## Conclusion

The CMAR generally complied with the Convention Center Renovation project contract terms and General Services addressed recommendations from the prior audit. Documenting the evaluation of negotiated lump sum rates would improve controls and could increase cost savings.

## Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council and subsequently posted to the [Internal Audit website].

# Appendix A

## Convention Center Renovation Audit
## Recommendation Status

**Satisfactorily Resolved** **In Progress/Actions Taken** **Not implemented**

| | Finding | Recommendation | Action/Audit Results |
|---|---|---|---|
| | 1.1 - The contractually agreed burden markup of 34.55% is not subject to audit and contains an insurance or CCIP rate of 13.9% for auto / professional, pollution / umbrella, worker's compensation, and general liability for offsite activities by Holder salary personnel that are assigned to the project site. | The City should develop a formal process to conduct a financial review of all non-auditable markups and/or obtain independent assessment of proposed premiums prior to entering future agreements containing such provisions and costs. | A recent contract (CMCG Boiler Replacement) did not include "un-auditable" markups; however, staff did not perform or document a financial review of the accepted fringe benefit rate.<br><br>General Services has added a checklist item for the evaluation of labor costs to their CMAR procedures. Internal Audit will verify implementation of the recommendation as procedures are applied to future projects. |
| | 1.2 - There is not a contract provision requiring a reconciliation or review of the subcontractor contract values enrolled in CCIP. As noted, the CCIP is based on 100% of the GMP contract value; however, not all major subcontractors are enrolled in CCIP. | The City should request Holder to reconsider the CCIP premium amount or a reduction to more closely match insurance projections for the enrolled contractors / subcontractor and related administration expenses. | Per the CMAR agreement (AIA A201, Article 11.7.3.2), the cost of the CCIP reimbursable by the Owner to the CMAR shall be included in the GMP at a rate of 1.93% of the GMP and is not subject to audit. HEFL is following the contract terms. |
| | 1.3 - There is not a contract provision requiring a reconciliation or review of the subcontractor contract values enrolled in CCIP. As noted, the CCIP is based on 100% of the GMP contract value; however, not all major subcontractors are enrolled in CCIP. | The City should consider revising future CMAR contract provisions allowing for scalable premium amounts that are dependent on actual enrollment values. | General Services has added the evaluation of CCIP/OCIP to their checklist/procedures. Specifically related to CCIP, General Services will coordinate with Risk Management to assess the Construction Manager's proposed insurance rates for their reasonableness in comparison to the City's insurance rates. The most cost-effective option will be selected. This did occur on the CMGC HVAC and Spectrum Arena projects. |

# Appendix A

## Convention Center Renovation Audit Recommendation Status

Satisfactorily Resolved | In Progress/Actions Taken | Not implemented

| | Finding | Recommendation | Action/Audit Results |
|---|---|---|---|
| Satisfactorily Resolved | 1.4 - The CMAR agreement does not clearly identify the markup of 13.9% for offsite insurance as defined in Contract Clarification Item 33, GMP Revision 2: *"Offsite Worker's Comp, Offsite General Liability, Excess Liability, Auto Insurance are included in the GMP and will be reimbursed separately from CCIP."* | The City should request contract modification to Exhibit 2 to more clearly define the use and applicability of the 13.9% markup to Holder's hourly employees. | General Services has added a checklist item for the evaluation of insurance costs to their CMAR procedures.<br><br>Per the CMAR agreement (AIA A133, Article 6.11), the Owner and CMAR have agreed to a 34.55% burden rate of the actual salaries for hourly rates set forth in Exhibit 2 of the GMP contract. Exhibit 7 in the GMP contract outlines the burden rate breakdown. |
| Satisfactorily Resolved | 1.5 - The current basis for monthly payments for CCIP insurance is incorrectly calculated using the total GMP value of $114.5 million. The correct basis of $112.2 million should have excluded the GMP CCIP value $2.2 million. The correct basis would reduce the estimated CCIP premium by approximately $44,000. | The City should require Holder to issue a deductive change order in the approximate amount of $44,000 for the CCIP overestimate. | General Services has added a checklist item for the evaluation of insurance costs to their CMAR procedures.<br><br>Per the CMAR agreement (AIA A201, Article 11.7.3.2), the cost of the CCIP reimbursable by the Owner to the CMAR shall be included in the GMP at a rate of 1.93% of the GMP and is not subject to audit. HEFL is following the contract terms. In a more recent CMAR project (CMGC Boiler Replacement), staff requested that the CMAR provide more supporting documentation for insurance costs. |
| Satisfactorily Resolved | 2 - According to the CMAR Agreement, HEFL is entitled to a "Difference in Coverage Insurance" of $47,864 for additional Builders Risk insurance. The City is providing Builders Risk insurance for the Project. It is unclear the reason for the additional coverage and the City indicated that HEFL did not fully address the City prior to HEFL decision to pursue the additional coverage. | The City's Risk Management should continue to pursue detailed justification from HEFL for why Difference in Coverage Insurance is needed. Should this be deemed unallowable to the City, a credit should be provided by HEFL. In future projects, the City should ensure that all inquiries are answered prior to providing any confirmations or payments to the Contractor. | General Services has added a checklist item for the evaluation of insurance costs to their CMAR procedures.<br><br>For a more recent CMAR project (CMGC Boiler Replacement), the CMAR was responsible for purchasing the builder's risk policy and no additional coverage was authorized. |

# Appendix A
## Convention Center Renovation Audit
## Recommendation Status

Satisfactorily Resolved  In Progress/Actions Taken  Not implemented

| | Finding | Recommendation | Action/Audit Results |
|---|---|---|---|
| Satisfactorily Resolved | 3 - HEFL included an unallowable markup of the CMAR fee of 3.95% on change orders utilizing the Owner's Contingency. | The City should confirm the intent of the contract provision and if applicable, inform HEFL of its unallowable use of the fee markup and reconcile Owner Contingency change orders and provide a change order credit. For future change orders, the City should ensure HEFL excludes the fee markup. | HEFL contract fee calculation includes Construction Contingency but does not include the Owner Contingency contract amount. Therefore, where Owner Contingency change orders are executed, an applied fee amount is acceptable. Follow-up audit testing did not identify any unallowable application of the CMAR fee on change orders. |
| Satisfactorily Resolved | 4 - Subcontractor, CM Steel, Inc, had numerous changes orders containing markups of 15% for overhead and profit and 5% markup on sub-subcontractor work. However, Article 5.1.3 of the CMAR Agreement limits the subcontractor overhead and profit at 10% and profit at 5% for additive change orders. | The City should require HEFL to reconcile all markups on CM Steel, Inc and other subcontractor change orders and seek credit for any additional 5% markups that are applied on a sub-subcontractor. In future change orders, the City should ensure that HEFL excludes these markups. | Although General Services stated they would work with HEFL to reconcile appropriate credits by April 1, 2021, auditors noted additional change orders where subcontractors added an additional 5% profit to sub-subcontractors' change orders. This is likely immaterial to the Convention Center Renovation project; however, Internal Audit will consider this in future construction audits.<br><br>General Services noted that the contract has been closed and the additional markups were immaterial. Going forward, General Services will document expectations for project managers related to review of invoices. |
| Satisfactorily Resolved | 5 - Subcontractor, C.M. Steel, Inc is including an additional 1% markup on the total change order value for a bond. The change order value is comprised of equipment, material, and labor costs that utilize unit labor rates as per the subcontract agreement. However, HEFL standard subcontract agreement indicated the bond is contained within the agreed labor rates. | The City should require HEFL to reconcile all change orders for C.M. Steel, Inc, Waterproofing Specialties, Inc and other subcontractors that are not enrolled in the Subcontractor Default Insurance program and seek credit for any unallowable bond markups. For future change orders, the City should require HEFL to review all markups for bond costs. | HEFL contract bond calculation includes Construction Contingency but does not include the Owner Contingency contract amount. Where Owner Contingency change orders are executed, an applied bond percentage is acceptable. Follow-up testing did not identify any unallowable application of bond charges on change orders. |

# Appendix A
## Convention Center Renovation Audit
## Recommendation Status

Satisfactorily Resolved | In Progress/Actions Taken | Not implemented

| | Finding | Recommendation | Action/Audit Results |
|---|---|---|---|
| Satisfactorily Resolved | 6 - The Owner's Contingency funding is at risk of being depleted, which is partially due to expenses associated with COVID-19. As of August 20, 2020, the forecasted balance of Owner's Contingency represented approximately 14% or $446,392 of the approved value of $3.2 million included in the CMAR contract value. | The City should closely monitor the remaining risks including open design items and COVID expenses against the available Owner's Contingency to ensure appropriate risk coverage or need for additional funding. Furthermore, the City and HEFL should resolve the pending items reducing the cost uncertainty with an acceptance or rejection. | General Services monitored risks and reached an agreement with HEFL regarding expenses associated with COVID-19. As of December 2022, there was $1.7 million left in Owner's contingency, after application of the cost savings provisions of the contract. |
| Satisfactorily Resolved | 7 - Subcontractor Wayne Brothers, Inc's subcontract agreement contains a precast stair allowance that is not identified as an allowance in Wayne Brothers' Payment Application. | The City should require HEFL to review and reconcile all subcontractor Payment Applications to ensure that subcontractor allowances are properly identified, segregated, and monitored. | General Services required that the CMAR submit an allowance log monthly detailing allocations of approved allowances. Follow-up audit testing indicated that allowances were properly identified, segregated, and monitored. |
| Satisfactorily Resolved | 8 - The allowance of $200,000 for Structural l Modifications after site investigations included in subcontractor C.M. Steel, Inc contract award appears unapproved as of October 21, 2020, despite the work being performed during the period November 2019 through March 2020. | The City should require HEFL to review the allowance procedures and confirm the approval status of allowances identified as reconciled. Additionally, the City should require HEFL to review existing allowances and reconcile subcontractor payment applications containing subcontractor charges for appropriate billing of allowance usage. | General Services required that the CMAR submit an allowance log monthly detailing allocations of approved allowances. Follow-up audit testing indicated that allowances were properly identified, segregated, monitored, and reconciled to subcontractor payment applications and Owner's Contingency. |
| Satisfactorily Resolved | 9 - The charge rates for certain hourly offsite staff did not comply with the contractual agreement. The hourly charge rate for the Project Director was $188.52; and the Project Executive was $209.43. These rates are different from the allowed contract billing rates. | The City should require HEFL to reconcile hourly charges and provide any credit due to the City. | Auditors saw no indication that rates were pre-approved or verified against actual payroll registers by General Services. See Finding #3 of follow-up report.<br><br>General Services noted that staff was paid through General Conditions which was treated as a lump sum pay out. Therefore, no reconciliation is required. |

## Appendix A
### Convention Center Renovation Audit
### Recommendation Status

● Satisfactorily Resolved ● In Progress/Actions Taken ● Not implemented

| | Finding | Recommendation | Action/Audit Results |
|---|---|---|---|
| ● | 10 - Holder Construction invoiced the City for relocation expenses totaling $1,033 for an intern that appeared to have only 320 hours billed to the Project. Holder Construction's relocation policy appears to only address relocation expenses for Associate employees assigned to the jobsite. | The City should require HEFL to identify any additional relocation expenses for the intern and provide a credit to the City for all unallowable relocation expense. | A credit was not provided for the intern relocation expenses. Follow-up audit testing did not identify any relocation expenses that were not approved by the City. However, a judgmental sample of eight transactions indicated that adequate supporting documentation was not included with the payment application for three of the eight transactions. See Finding #3 of the follow-up report.<br><br>General Services noted that the relocation expenses were paid through General Conditions which was treated as a lump sum pay out. Therefore, no credit was sought or received. |
| ● | 11 - In May 2020, a $11,444 Construction Contingency (CC) - 22 was approved for subcontractor, Wayne J. Griffin Electric, Inc (Wayne) but Wayne's July 2020 Payment Application shows a value of $12,856. | The City should require HEFL to adjust Wayne J. Griffin Electric, Inc. Payment Application to correct the change order value prior to any work performed. | Review of the subcontractor payment application indicated that this was not adjusted. However, the amount is considered immaterial to the total contract value and follow-up testing did not identify any other changes that did not match the approved value. |
| ● | 12 - HEFL expenditures include unallowable legal fees payable Jones Walker LLP in the amount of $6,852. | The City should require HEFL to provide a credit of $6,852 and obtain City approval prior to invoicing for legal fees in future billings. | General Services obtained a credit for $6,852 on payment application #35. Follow-up testing did not identify any legal fees that were not approved by the City. |

# Appendix B

**The Five Components and 17 Principles of Internal Control**

**Control Environment**

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibilityand delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountablefor their internal control responsibilities.

**Risk Assessment**

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achievingthe defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

**Control Activities**

10. Management should design control activities to achieve objectives and respondto risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

**Information & Communication**

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

**Monitoring**

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.