



Northgate Elementary Audit of Billings of Harris Pacific Northwest, LLC

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Seattle Public Schools
Northgate Elementary School - Replacement

Audit of Billings of the MC/CM,
Harris Pacific Northwest, LLC
As Defined Under Contract:
AIA Document A133/CMc,
Dated October 16, 2020



Report of HKA Global LLC

Contract Close-out Audit

HKA Report Date: May 17, 2024

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Summary of Findings

At the project’s conclusion, Harris asserted total costs, fee, and fixed price general condition amounts of \$7,553,372¹ (Tab C). This amount exceeded Harris current subcontract value of \$7,387,464² (established with Change Order #8 at Tab B) by \$165,908. HKA Global LLC (“HKA³”) identified certain questioned costs⁴ through audit that if challenged by Seattle Public Schools (“SPS”) could change the project’s financial result and result in MC/CM⁵ savings. As summarized in the following table, HKA has questioned \$193,292 of Harris cost assertions, which if challenged by SPS, would eliminate its alleged overspend and result in \$27,384 of MC/CM savings before consideration of any pending changes (the pending changes are described in footnote 2 below) and \$57,916 of savings if the pending changes are approved:

	Unadjusted - Through Change Order #8	Adjusted - Through Change Order #8	Pending Changes	Adjusted with Pending Changes
Contract Value	\$ 7,387,464	\$ 7,387,464	\$30,532	\$ 7,417,996
Final Cost Assertion	\$ 7,553,372	\$ 7,553,372		\$ 7,553,372
Questioned Costs	N/A	\$ (193,292)		\$ (193,292)
Adjusted Total	\$ 7,553,372	\$ 7,360,080		\$ 7,360,080
(Over) / Under GMP	\$ (165,908)	\$ 27,384		\$ 57,916

¹ This value includes the \$20,650 preconstruction lump sum amount that is not shown on Harris’s final cost substantiation summary at Tab C (\$7,532,722 + \$20,650 = \$7,553,372).

² It is our understanding that this value could increase to \$7,417,996 for \$30,532 of pending changes that are still being negotiated. In an email dated March 15, 2024, Mike Hinson, Harris Construction Executive, stated there were \$30,532 of pending changes, including Change Order #9 in the amount of \$15,532 and an additional \$15,000 to be included in Change Order #10 that is still being negotiated.

³ Seattle Public Schools retained MWL Advisory, LLC to audit the costs sought for reimbursement by Lydig to ensure that the billings and Contract close-out values comported with the Contract. On October 16, 2023, members of the audit team became employees of HKA. Based on communications with Seattle Public Schools in October 2023, the audit work on this project is continuing to be billed by MWL Advisory, through a subconsultant agreement between MWL and HKA. For consistency, our audit team is referred to as “HKA” through the remainder of this report.

⁴ As the auditor for the school district, we simply “question” costs which, in our view, appear to be in conflict with the terms of the Contract. While we may present certain of our questions to the auditee to get their perspective on the issue, we ultimately leave it up to the Owner to decide if they want to challenge the “questioned” amounts. While we may assist the Owner if asked to do so, we leave the resolution of the “questioned” costs up to the Owner and will support their decision.

⁵ Mechanical Contractor / Construction Manager



When substantiating total direct costs plus fees and fixed-price general conditions amounts lower than the final subcontract amount, Harris would be paid only the sum of its final substantiated amount. A deductive change order would be required to reduce Harris subcontract value to the final negotiated value.

As of the date of this report, Harris had billed and been paid \$7,361,882 (see **Tab D** for Harris most current application for payment), leaving \$25,582 remaining to bill up to its current subcontract price. If SPS challenges the full amount of the \$193,292 of questioned costs identified by HKA in this report, Harris earned amount would be reduced to \$7,360,080 and it would owe SPS a payment of \$1,802 to close-out the contract. We believe that the scope of our work was appropriate for the intended purpose and that this report sufficiently conveys the work that was performed.

HKA’s audit work identified \$193,292 of questioned amounts, which are significant enough to offset Harris recorded overrun (or “overspent” amount). The following table summarizes the cumulative value of the questioned items identified through the efforts of the audit, and additional support related to each of these questioned amounts is included at Tabs K.1 through K.8:

Item	Questioned Cost Description	Amount	6% Fee	Total Questioned Amount	Report Page
1	General Liability Insurance - Direct Labor	\$ (50,164)	\$ (3,010)	\$ (53,173)	12
2	General Liability Insurance - Allocated Supervision Labor	\$ (710)	\$ (43)	\$ (753)	12
3	Payment & Performance Bond	\$ (38,456)	\$ (2,307)	\$ (40,763)	16
Subtotal - Questioned Bond and Insurance Cost		\$ (89,330)	\$ (5,360)	\$ (94,689)	
4	Questioned Superintendent Cost Allocation	\$ (43,305)	\$ (2,598)	\$ (45,903)	12
5	Potential Labor Over-Billing - Fringes Exceed Union Rates	\$ (25,038)	\$ (1,502)	\$ (26,541)	13
6	ATS Automation Potential Over-Billing	\$ (13,010)	\$ (781)	\$ (13,791)	17
7	Potential Over-Billings for L&I Employee-Paid Cost	\$ (7,070)	\$ (424)	\$ (7,495)	15
8	Potential Owned Equipment Over-Billing	\$ (4,597)	\$ (276)	\$ (4,873)	18
Subtotal - Other Questioned Cost		\$ (93,021)	\$ (5,581)	\$ (98,602)	
Total Questioned Cost		\$ (182,351)	\$ (10,941)	\$ (193,292)	

Audit Introduction and Project Background

The new Northgate Elementary (“Northgate”) replaces the original building that was built in 1956. The \$90 million, 95,000-square-foot new school was built adjacent to the old building which was later demolished and replaced with a new field and play area. The new two-story building was built to hold up to 650 students and serves kindergarten through fifth-grade students. The school has the latest energy saving technology including geothermal heating, LED lighting, and extra insulation. The project was funded by the Building Excellence Capital Levy,



approved by Seattle voters in 2019. Northgate was renamed James Baldwin Elementary School and opened for students on September 6, 2023.

The work on Northgate was completed on time and under budget in September 2023. After substantial completion, remaining work continued through the spring of 2024. SPS contracted with Lydig Construction, Inc. (“Lydig”), the successful bidder identified through the district’s GC/CM procurement process. SPS entered into its agreement with Lydig on October 16, 2020, using the AIA A133 (2009 version) document. The MC/CM scope comprised \$7,304,354 of Lydig’s GMP. This report details our audit of the MC/CM, Harris, who was the successful bidder to perform the mechanical work on Northgate. Lydig established a subcontract agreement with Harris that was signed on July 1, 2020 (**Tab A**).

SPS entered into its Cost-Plus Fee with a GMP agreement (“Owner Contract”) with Lydig on October 16, 2020, for Northgate. This project was contracted on a Guaranteed Maximum Price (“GMP”) / Construction Manager (“CM”) basis. This method of contracting provides upside protection for SPS against cost overruns but requires SPS to pay Lydig on an agreed-upon cost measurement basis as delineated in the Contract. SPS retained HKA to perform an independent financial assessment of the billings and monthly cost substantiation submittals provided by the mechanical subcontractor, Harris, to the prime contractor, Lydig, on Northgate. Harris worked under the terms of a GMP agreement which provides guidance as to which costs may be reimbursed and in what manner. The GMP value, also described as the maximum allowable subcontract cost (“MASC”) in the original subcontract agreement, provides protections for the Owner by limiting a contractor’s billings to no more than the approved contract amount, or GMP.

The work performed represents an audit of the billings made under the contract. The scope of the audit is governed by the budget approved to perform the audit work and the judgment of the auditors and their experiences in this type of engagement. The audit testing performed is directly related to the underlying support provided by the contractor(s) involved in the project; our work does not extend to reviews for elements of fraud which may otherwise be detected through enhanced scope and added detailed efforts and / or through participation in the project audit concurrent to the work being undertaken. The results of our work are based upon the documentation that we are provided and that we review, in concert with our judgment.

Contract Status

The contract work is complete at this time. HKA coordinated with Tanner Strawn, the Project Manager for the general contractor, Lydig, to obtain key documents and his perspective on items, and separately coordinated with Mike Hinson, Harris Construction Executive, and Chia Kwong, Harris Regional Finance Leader, to obtain the audit documents and backup documentation supporting

Harris cost substantiation. HKA was retained by SPS to audit the final cost assertions of Lydig's MASC subcontractors. Brett Swanson, Director at HKA, first contacted Harris on October 11, 2023, to commence the final audit. Harris work on the project continued into 2024 which prolonged the audit. HKA completed its audit in April 2024.

At the time of commencing our final audit, Lydig reported that it had authorized Harris a subcontract value of \$7,387,464 through Subcontract Change Order #8 (**Tab B**). Harris asserted at that time that it was overspent with respect to its MASC, indicating that it had direct costs, fees, and fixed general conditions amounts of \$7,553,372⁶ which was \$165,908 more than its subcontract value at that time. HKA's audit work identified \$193,292 of questioned amounts, which, if challenged by SPS, are significant enough to offset Harris alleged overspend and result in MC/CM savings.

Per the agreement, Harris had the ability to earn its substantiated cost, fee, and fixed price Specified General Conditions ("SGC") up to its final GMP. When substantiating total direct costs plus fees and fixed price general conditions amounts above the final subcontract amount, Harris would be paid only the value of its subcontract amount. Per the contract, an overrun that would cause the GMP to be exceeded is the responsibility of the contractor. In the event of an overrun, the MC/CM style of agreement limits the contractor's revenues to its final GMP contract value and protects the Owner from the cost overruns. When substantiating total direct costs plus fees and fixed-price general conditions amounts lower than the final subcontract amount (which would be the case if SPS challenged the amounts questioned by HKA), Harris would be paid only the sum of its final substantiated amount. A deductive change order would be required to reduce Harris subcontract value to the final negotiated value.

HKA performed a substantive audit of the costs billed under the Contract, reviewing 91% of the billed costs for propriety under the terms of the Contract. Throughout the audit process, HKA identified and presented the issues described above to Harris. As described in the "Summary of Findings" above, HKA questioned \$193,292 of Harris asserted charges.

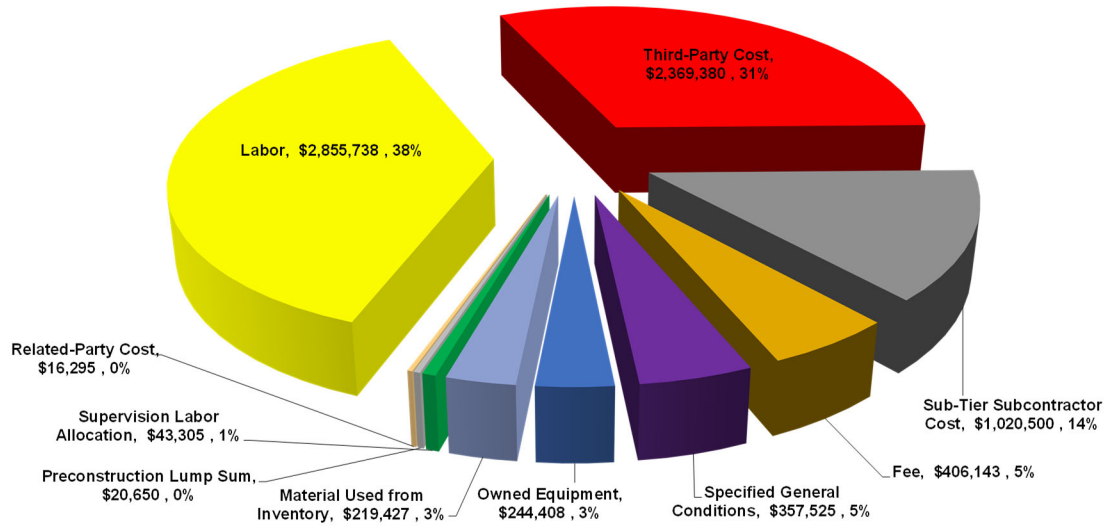
⁶ See **Tab C** for Harris's final project cost substantiation summary. Harris's summary excludes its \$20,650 preconstruction lump sum amount [\$7,532,722 (at **Tab C**) + \$20,650 = \$7,553,372].

Financial Summary of Expenditures

The following provides a summary of the amounts asserted by Harris as comprising, by cost type, the asserted value of its direct costs, fees, and fixed price items at project completion:

<u>HKA Cost Category</u>	<u>Asserted Amount</u>	<u>% of Total</u>
<u>Cost of the Work:</u>		
Labor	\$ 2,855,738	37.8%
Supervision Labor Allocation	\$ 43,305	0.6%
Third-Party Cost	\$ 2,369,380	31.4%
Sub-Tier Subcontractor Cost	\$ 1,020,500	13.5%
Material Used from Inventory	\$ 219,427	2.9%
Related-Party Cost	\$ 16,295	0.2%
Owned Equipment	\$ 244,408	3.2%
Subtotal - Cost of the Work	\$ 6,769,054	89.6%
<u>Fixed-Price General Conditions and Fee:</u>		
Fee	\$ 406,143	5.4%
Specified General Conditions	\$ 357,525	4.7%
Subtotal - Construction Cost	\$ 7,532,722	99.7%
Preconstruction Lump Sum	\$ 20,650	0.3%
Total Asserted Cost	\$ 7,553,372	100.0%

As of its 25th payment application, Harris had billed and been paid \$7,361,882 (see **Tab D** for Harris most current application for payment), leaving \$25,582 remaining to bill up to its current subcontract price. All amounts discussed in the next section of this report focus on Harris substantiated amount of \$7,553,372 of cost, fees, and fixed price general conditions. Visually depicted, the relative portions of the \$7,553,372 asserted expenses are illustrated on the following page:



There are portions of the asserted expense amounts which were well-supported by Harris in the pay estimates submitted to Lydig. There are other portions of the costs which were not initially fully supported for Lydig’s and SPS interim review and payment processing. Therefore, HKA, acting as SPS auditor in the final accounting process, requested additional documentation and explanation from Harris for the items which, in our view, initially lacked sufficient supporting documentation.

AUDIT SCOPE AND APPROACH

Audit Scope

The scope of the audit related to performing testing of the work providing coverage of 100% of the labor hours (on an electronic basis but not to all timecards) and 100% of the labor dollars through electronic means of analysis, and 85% of the non-labor dollars. These types of contracts have three parts: direct costs, markups, and fixed price amounts for preconstruction and general conditions. The audit objectives and testing methods are designed and executed to determine that the proper boundaries of each of these are maintained within the contract's terms (e.g. the direct costs sought should not include elements of costs being paid for as within the definition of fixed general conditions; the contractor should not seek, as direct cost, any amount to be paid for through markup; and the agency should only pay the contractor amounts that reflect the terms of the contract, etc.).

Audit Approach

The audit approach undertaken was substantive in nature, with detailed testing being performed. Internal controls were not studied and reliance on the effectiveness of controls was limited to the obvious effects of such being applied and manifest within the records that were substantively tested (i.e., testing indicated that amounts rolled up into the job cost detail reports were properly supported by documents coded to reflect the proper project, within the proper timeframe, and distributions were made to phase codes that related to the work understood to be represented by the recorded code title). Based upon the reliability of the records reviewed, there was no indication that internal controls over the recording of project costs were less than effective.

The audit approach was conducted initially through obtaining the job cost report of the contractor in an electronic fashion, and conducting various tests to ensure that elementary aspects of math processes were being properly applied (amounts added properly together or extended values worked correctly); these tests were augmented by performing searches within the data to identify larger dollar charges meriting testing, as well as searches for “outliers” of various types relating to labor and non-labor charges. Selections for testing were made from the available population and performed without issue.

DETAILED AUDIT METHODOLOGIES, OBSERVATIONS, AND RESULTS

During the course of the interim and final audit efforts, HKA achieved 91% testing coverage⁷ of Harris asserted values. The following table summarizes the dollars audited by expense type as categorized by HKA:

⁷ Electronic testing procedures enabled analysis of 100% of the asserted values for labor and equipment as indicated in the table below.

<u>HKA Cost Category</u>	<u>Asserted Amount</u>	<u>Planned Testing</u>		<u>Actual Testing Achieved</u>	
		<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Plan</u>
<u>Cost of the Work:</u>					
Labor	\$ 2,855,738	\$ 2,855,738	100%	\$ 2,855,738	100%
Supervision Labor Allocation	\$ 43,305	\$ 43,305	100%	\$ 43,305	100%
Third-Party Cost	\$ 2,369,380	\$ 1,725,706	73%	\$ 1,725,706	100%
Sub-Tier Subcontractor Cost	\$ 1,020,500	\$ 1,020,500	100%	\$ 1,020,500	100%
Material Used from Inventory	\$ 219,427	\$ 149,487	68%	\$ 149,487	100%
Related-Party Cost	\$ 16,295	\$ 13,033	80%	\$ 13,033	100%
Owned Equipment	\$ 244,408	\$ 244,408	100%	\$ 244,408	100%
Subtotal - Cost of the Work	\$ 6,769,054	\$ 6,052,178	89%	\$ 6,052,178	100%
<u>Fixed-Price General Conditions and Fee:</u>					
Fee	\$ 406,143	\$ 406,143	100%	\$ 406,143	100%
Specified General Conditions	\$ 357,525	\$ 357,525	100%	\$ 357,525	100%
Subtotal - Construction Cost	\$ 7,532,722	\$ 6,815,846	90%	\$ 6,815,846	100%
Preconstruction Lump Sum	\$ 20,650	\$ 20,650	100%	\$ 20,650	100%
Total Asserted Cost	\$ 7,553,372	\$ 6,836,496	91%	\$ 6,836,496	100%

In addition to Harris direct costs, it received lump-sum amounts for preconstruction and general conditions and a fixed-percentage mark-up or subcontractor's fee on its direct costs for overhead and profit. The General Conditions are fixed in amount and were mutually agreed upon between Lydig and Harris. The original lump-sum for Specified General Conditions made part of Harris original subcontract price was \$357,525, and this amount did not change during the project. Harris subcontractor's fee percentage was 6% and was to be applied to Harris substantiated Cost of the Work. Last, Lydig provided Harris a \$20,650 not-to-exceed amount for preconstruction services. At our request, Harris provided its costs and fees for the preconstruction scope which exceeded the \$20,650 not-to-exceed amount; Harris was limited to the \$20,650 payment for that scope of work.

In support of the billed amounts, Harris provided its billing detail, a job cost transaction report, and a labor detail report. HKA reconciled Harris billing detail to its job cost transaction and labor detail reports to verify the authenticity of the billed amounts. The audit techniques employed were a combination of electronic methods and physical testing of recorded cost to specimen documentation. HKA performed electronic testing of the asserted costs, including analyses to identify labor hour anomalies, labor rate anomalies, double-counted elements of cost, and unusual charges, by reviewing vendor and employee names and cost descriptions. These methods yielded certain questioned costs as described in the **Summary of**

Audit Findings section of this report. In the following sections, HKA will describe the audit procedures employed to audit the asserted labor and non-labor charges and will summarize the observations and results of our audit effort.

Labor Cost Audit

Harris asserted total labor costs of \$2,899,043, and 38% of the \$7,553,372 asserted costs, fee, and fixed price general conditions. Harris labor cost is comprised of field, fabrication, and off-site non-union labor cost as summarized in the following table:

<u>Trade</u>	<u>Amount</u>	<u>% of Total</u>
Plumbers & Pipefitters	\$ 1,582,138	55%
Sheet Metal Workers	\$ 1,231,796	42%
Laborers	\$ 21,095	1%
Non-Union Detailer	\$ 20,709	1%
Total Direct Labor	\$2,855,738	99%
Superintendent	\$ 43,305	1%
Total Labor	\$2,899,043	100%

As discussed above, Harris provided its labor billing detail, a job cost transaction report and labor detail report in support of the billed amounts. HKA reconciled Harris labor billing detail to its job cost and labor detail reports and did not note any discrepancies. Harris labor detail report included the separable elements of labor burden such as employee benefits and union fringes, payroll taxes, worker’s compensation, family medical leave, and labor add-ons, allowing for separate audit of each. The following table summarizes Harris labor amounts by labor cost type:

<u>Trade</u>	<u>Wages</u>	<u>Fringes</u>	<u>Payroll Taxes</u>	<u>General Liability Insurance</u>	<u>L&I</u>	<u>Disability</u>	<u>Total Labor</u>
Plumbers & Pipefitters	\$ 876,163	\$536,210	\$116,329	\$ 30,010	\$22,091	\$ 1,336	\$1,582,138
Sheet Metal Workers	\$ 729,629	\$384,996	\$ 82,844	\$ 19,435	\$13,807	\$ 1,085	\$1,231,796
Laborers	\$ 12,697	\$ 5,527	\$ 1,672	\$ 718	\$ 463	\$ 19	\$ 21,095
Non-Union Detailer	\$ 15,122	\$ 3,478	\$ 2,031	\$ -	\$ 56	\$ 23	\$ 20,709
Total Direct Labor	\$1,633,611	\$930,210	\$202,875	\$ 50,164	\$36,417	\$ 2,462	\$2,855,738
Superintendent	\$ 27,250	\$ 12,023	\$ 2,743	\$ 710	\$ 545	\$ 34	\$ 43,305
Total Labor	\$1,660,861	\$942,233	\$205,617	\$ 50,874	\$36,962	\$ 2,496	\$2,899,043



HKA questioned the \$50,874 charged for general liability insurance (\$50,164 for direct labor and \$710 for the Superintendent). Per the MC/CM Cost Responsibility Matrix⁸ (Tab E), the Main Contract (Tab G⁹), and its accompanying Cost Component Matrix (Tab J), general liability insurance is part of the contractor’s fee and is not separately reimbursable.¹⁰

Additionally, HKA questioned the \$43,305 amount allocated for its Superintendent. Harris charged 15% of the recorded labor costs for the Project Superintendent, indicating it was an estimate of the Cost of the Work tasks that he performed.¹¹ The following table summarizes Harris calculation of the amount allocated to this project for the Superintendent:

<u>Trade</u>	<u>Wages</u>	<u>Fringes</u>	<u>Payroll Taxes</u>	<u>General Liability Insurance</u>	<u>L&I</u>	<u>Disability</u>	<u>Total Labor</u>
Superintendent	\$181,668	\$80,154	\$ 18,284	\$ 4,734	\$3,635	\$ 225	\$ 288,700
15% Allocation	\$ 27,250	\$12,023	\$ 2,743	\$ 710	\$ 545	\$ 34	\$ 43,305

Per the MC/CM Cost Responsibility Matrix (Tab E), the Main Contract (Tab G), and its accompanying Cost Component Matrix (Tab J), the Project Superintendent is part of the fixed price general conditions and is not separately reimbursable. Compensation for all MC/CM management salary and benefits costs, including the Project Superintendent, is part of the fixed price general conditions amount. In order to seek potential reimbursement for the Superintendent separate from the fixed price general conditions, Harris would have to prove that it paid the Project Superintendent additional compensation beyond its regular salary and benefits to perform these activities, which it has not done.¹²

⁸ Per Tanner Strawn, Lydig’s Project Manager, this file was developed by Lydig and distributed to both Valley and Harris.

⁹ Page 24 at Tab G, at A133-6.6.1.

¹⁰ When we presented this issue to Mike Hinson at Harris, he directed us to Article 2, paragraph 6.1 of Appendix 9 to Harris’s Subcontract (page 2 at Tab F), which states insurance and bond premiums that can be directly attributed to the Contract are reimbursable. However, Harris’s Subcontract states that its terms and provisions are intended to be in addition to and not in substitution for any of the terms and provisions of the Main Contract. Additionally, the Subcontract states that the provisions of the Subcontract and the Main Contract are intended to supplement and complement each other; barring other direction from the GC/CM, the Subcontract states that the contract interpretation that is more costly to or which imposes the greater duty upon the MC/CM subcontract shall control. Lydig confirmed to HKA that it provided direction to Harris in the form of the MC/CM Cost Responsibility Matrix (Tab E) that is developed for Northgate and distributed to Harris. Importantly, Valley, the EC/CM on this project, agreed with the interpretation of the contract as it pertains to bond and insurance being part of the Fee. In a letter dated May 16, 2024, Harris agreed to concede these costs.

¹¹ Per Mike Hinson, the Superintendent assisted with a forklift operation, site material handling, crane signaling and rigging, and punch list work.

¹² In an email dated May, 16, 2024, Craig Greene agreed with our position on these questioned costs.



Through electronic means of analysis, HKA audited 100% of the asserted labor hours and costs (on an electronic basis but not to all timecards). HKA performed searches for labor rate and labor hours anomalies but did not identify any exceptions. HKA also performed limited testing of the recorded hours to certified payroll reports and did not note any discrepancies.

Setting aside the questioned labor charges for the Project Superintendent, 98% of Harris direct labor billings related to plumbers and pipefitters and sheet metal workers. The labor hours and costs corresponding to each of the four trades with labor costs recorded to this project are summarized in the following table:

Trade	Wages	Labor Burden	General Liability Insurance	Total Labor	% of Total	Burden %
Plumbers & Pipefitters	\$ 876,163	\$ 675,966	\$ 30,010	\$1,582,138	55%	77%
Sheet Metal Workers	\$ 729,629	\$ 482,731	\$ 19,435	\$1,231,796	43%	66%
Laborers	\$ 12,697	\$ 7,680	\$ 718	\$ 21,095	1%	60%
Non-Union Detailer	\$ 15,122	\$ 5,587	\$ -	\$ 20,709	1%	37%
Total Direct Labor	\$1,633,611	\$1,171,963	\$ 50,164	\$2,855,738	100%	72%

Labor Wages – \$1,633,611

The calculated average burden percentage of 72% is in line with what we have seen from other mechanical contractors in the market. Beginning with an audit of Harris recorded union wage and fringe benefit rates, HKA created a database of the union wage and fringe benefit rates from the trade agreements and prevailing wage information for all periods of the project. HKA compared the hourly wage and fringe benefit rates in Harris labor billings to the union rate documentation in the relevant periods of work and noted that the recorded hourly fringe rates in the labor billings were consistently \$0.75 to \$0.95 per hour higher than the union rates. In an email dated April 4, 2024, HKA requested further explanation for the union fringe rate differences identified through the audit, which Harris responded to on May 16, 2024. In his response, Mike Hinson indicated that the added fringe cost was state B&O tax, but he did not provide any additional documentation to substantiate the added amounts. It is unusual that the B&O tax would be applied labor fringe costs because B&O taxes are based on revenue and not labor. Additionally, the Main Contract (Tab G¹³) and its accompanying Cost Component Matrix (Tab J) indicate B&O taxes are part of the contractor’s fee and are not separately reimbursable. Pending further explanation from Harris, HKA has questioned \$25,038 of the recorded union fringe amounts related to the differences from the union rates. HKA’s calculations of the questioned amounts is included at Tab K to this report.

¹³ Page 24 at Tab G, at A133-6.6.1.



HKA also performed testing of the employee wage rates to the project Certified Payroll reports. This aspect of the audit provided assurances that the employee union and classification descriptions were accurately stated in the cost records. On a sample basis, HKA verified that the wage rate paid to the selected employees was commensurate to the same trade and classification information contained in the cost records and did not note any discrepancies. Last, the non-union detailer is paid hourly. HKA requested a check stub to verify the \$25.25 hourly wage rate billed for that individual; Harris has not provided the requested documentation as of the date of this report.

Labor Burden – \$1,171,963

Harris \$1,171,963 of recorded labor burden cost includes union fringes, payroll taxes, worker’s compensation, and disability, as summarized in the following table:

<u>Trade</u>	<u>Fringes</u>	<u>Payroll Taxes</u>	<u>L&I</u>	<u>Disability</u>	<u>Total Labor Burden</u>
Plumbers & Pipefitters	\$536,210	\$116,329	\$22,091	\$ 1,336	\$ 675,966
Sheet Metal Workers	\$384,996	\$ 82,844	\$13,807	\$ 1,085	\$ 482,731
Laborers	\$ 5,527	\$ 1,672	\$ 463	\$ 19	\$ 7,680
Non-Union Detailer	\$ 3,478	\$ 2,031	\$ 56	\$ 23	\$ 5,587
Total Direct Labor	<u>\$930,210</u>	<u>\$202,875</u>	<u>\$36,417</u>	<u>\$ 2,462</u>	<u>\$1,171,963</u>

As described in the ‘Labor Wages’ section above, HKA questioned \$25,038 of the recorded union fringe amounts related to the differences from the union rates. To audit Harris recorded payroll tax and worker’s compensation rates, HKA requested Harris annual State of Washington rate statements to substantiate the recorded rates for Harris state unemployment rate and worker’s compensation rates. Harris provided the requested documentation, which comported with the rates applied in Harris cost records. For audit of Harris recorded payroll tax amounts, including FICA and federal and state unemployment taxes, HKA performed predictive testing to estimate what the payroll tax amounts should have been considering state and federal payroll tax caps in each year of the project. The State of Washington unemployment tax rate is unique to each contractor. The other payroll tax rates are federal rates, and these annual rates and tax caps are standard for all employers. To audit Harris payroll tax amounts, HKA began by calculating the percentage of gross wages each payroll tax amount represented. For each journal entry, HKA divided the payroll tax amount by the gross wages and analyzed the resultant percentages. HKA noted that the calculated percentage for each tax rate was either at or below the governmental rates, which is significant because it indicates that Harris has recognized payroll tax caps in its project accounting records. As an example, the federal unemployment tax, or



FUTA, has a very low annual tax cap of \$7,000, which is accrued at a rate of 0.6% up to a wage base of \$7,000. Therefore, as the year progresses, we would expect that any FUTA amounts would dissipate quickly as employees reach the \$7,000 wages threshold. This is true of Harris payroll records. As another reasonableness check, HKA summarized the total labor wages by employee and by year and calculated the maximum amount allowable for each payroll tax based on the applicable rates and annual wage caps. As with most contractors, employees are working on multiple projects and wages earned from each contribute toward someone's cumulative wage base. Thus, in almost every circumstance, we would expect that the amounts calculated for payroll taxes, based on the gross wages earned on this project alone, will be less than the maximum allowable amounts, particularly for payroll taxes with low tax caps such as FUTA and SUTA. HKA's calculated payroll tax amounts for each employee in each calendar year were greater than the billed amounts (due to HKA's calculations not including the payroll tax amounts incurred on other projects in which employees worked during the year), further indicating that these amounts are properly recorded and accurately presented. Based upon our predictive testing methods, it appears that Harris accounting system properly accounted for payroll tax caps and no discrepancies were noted.

For the recorded worker's compensation (L&I) rates, HKA requested Harris annual State of Washington rate statements to substantiate the recorded rates for Harris workers compensation costs. Harris provided the requested documentation, which indicated that Harris charged the full L&I rates for each hour worked, including both the employer-paid and employee-paid portions. HKA questioned the L&I cost attributable to the employee-paid portion of the L&I rates, or \$7,070, as that cost is not borne by Harris.¹⁴ Last, Harris charged \$2,462 for disability. Given the relative insignificance of the \$2,462 billed for disability, HKA did not audit those recorded amounts.

Non-Labor Cost Audit

Harris non-labor billings comprised \$3,870,011, or 51%, of the \$7,553,372 asserted costs, fees, and fixed price general conditions. The following table summarizes Harris asserted non-labor amounts:

¹⁴ In a letter dated May 16, 2024, Harris agreed that this cost was overbilled in the amount questioned.

HKA Cost Category	Asserted Amount	Planned Testing		Actual Testing Achieved	
		Amount	% of Total	Amount	% of Plan
Cost of the Work:					
Third-Party Cost	\$ 2,369,380	\$ 1,725,706	73%	\$ 1,725,706	100%
Sub-Tier Subcontractor Cost	\$ 1,020,500	\$ 1,020,500	100%	\$ 1,020,500	100%
Material Used from Inventory	\$ 219,427	\$ 149,487	68%	\$ 149,487	100%
Related-Party Cost	\$ 16,295	\$ 13,033	80%	\$ 13,033	100%
Owned Equipment	\$ 244,408	\$ 244,408	100%	\$ 244,408	100%
Subtotal - Non-Labor Cost	\$3,870,011	\$3,153,135	81%	\$3,153,135	100%

Third-Party Cost – \$2,369,380

Harris billings from third-party vendors totaled \$2,369,380 and related to 73 different vendors, as summarized in the following table:

Count	Vendor Name	Amount	% of Total
1	Trane Company	\$ 444,923	19%
2	Puget Sound Pipe & Supply Co	\$ 439,377	19%
3	Keller Supply Inc	\$ 330,737	14%
4	Consolidated Supply Co	\$ 216,398	9%
5	ACI Mechanical & HVAC Sales	\$ 164,032	7%
6	Air Tec Company Inc	\$ 159,217	7%
7	Acme Construction Supply Co	\$ 100,533	4%
8	Ferguson AZ #1001	\$ 64,745	3%
9	Internal Cost Transfer	\$ 55,006	2%
10	Custom Mech Solutions	\$ 53,226	2%
11	California Hydronics Corp	\$ 39,074	2%
12	Cobb Strecker Dunphy & Zimmermann, Inc.	\$ 38,456 *	2%
	Subtotal - Vendors w/ Costs > \$10k	\$2,105,722	89%
61	Other Vendors	\$ 263,658	11%
73	Total Third-Party Cost	\$2,369,380	100%

Legend:

Payment & Performance Bond Cost

For all third-party costs, HKA reviewed a complete listing of all vendor names and cost descriptions contained within Harris cost data for the purpose of identifying any unusual vendors or other costs potentially not allowed per the



Contract. Through our electronic auditing, HKA identified a \$38,456 charge from Cobb, Strecker, Dunphy & Zimmermann, Inc., for the project’s payment and performance bond. For the same reasons that the general liability insurance costs are questioned as explained on page 12, HKA has questioned the \$38,456 amount charged for payment and performance bond costs. Per the MC/CM Cost Responsibility Matrix¹⁵ (Tab E), the Main Contract (Tab G¹⁶), and its accompanying Cost Component Matrix (Tab J), payment and performance bond is part of the contractor’s fee and is not separately reimbursable.¹⁷

HKA also performed electronic searches within the cost data for double-counted invoice entries and did not note any discrepancies. HKA selected third-party invoices totaling \$1,725,706, or 73% of Harris total third-party cost, for testing to source documentation. Harris provided the requested invoices, and no discrepancies were noted.

Subcontractor – \$1,020,500

Harris subcontractor costs related to three sub-tier subcontractors and totaled \$1,020,500, as summarized in the following table:

<u>Vendor</u>	<u>Total Recorded Cost</u>	<u>Final Subcontract Value</u>	<u>Potential Over-Billing</u>
Airtest Co LLC	\$ 75,250	\$ 75,250	\$ -
ATS Automation Inc	\$ 670,750	\$ 657,740	\$ (13,010)
Mechanical Insulating Inc	\$ 274,500	\$ 274,500	\$ -
Total Subcontract Cost	\$ 1,020,500	\$ 1,007,490	\$ (13,010)

¹⁵ Per Tanner Strawn, Lydig’s Project Manager, this file was developed by Lydig and distributed to both Valley and Harris.

¹⁶ Page 24 at Tab G, at A133-6.6.1.

¹⁷ When we presented this issue to Mike Hinson at Harris, he directed us to Article 2, paragraph 6.1 of Appendix 9 to Harris’s Subcontract (page 2 at Tab F), which states insurance and bond premiums that can be directly attributed to the Contract are reimbursable. However, Harris’s Subcontract states that its terms and provisions are intended to be in addition to and not in substitution for any of the terms and provisions of the Main Contract. Additionally, the Subcontract states that the provisions of the Subcontract and the Main Contract are intended to supplement and complement each other; barring other direction from the GC/CM, the Subcontract states that the contract interpretation that is more costly to or which imposes the greater duty upon the MC/CM subcontract shall control. Lydig confirmed to HKA that it provided direction to Harris in the form of the MC/CM Cost Responsibility Matrix (Tab E) that is developed for Northgate and distributed to Harris. Importantly, Valley, the EC/CM on this project, agreed with the interpretation of the contract as it pertains to bond and insurance being part of the Fee. In a letter dated May 16, 2024, Harris agreed to concede these costs.



To audit the recorded subcontractor amounts, HKA requested documentation from Harris to substantiate the total amount payable to each subcontractor, including the original subcontract agreement, the final change order, and the final progress billing. Harris provided the requested documentation and HKA reconciled the total recorded cost for each subcontractor to the billings and change order documentation. Through audit of these amounts, HKA identified that the total charges for ATS Automation exceed its final subcontract amount by \$13,010. After further review, it appears that Change Order #1 for ATS Automation in the amount of \$13,010 was billed twice resulting in the potential overbilling.¹⁸ Thus, this amount is included as part of the questioned costs that are summarized in both the “Summary of Findings” and “Summary of Audit Findings” sections of this report. No further discrepancies were noted.

Owned Equipment Rentals – \$244,408

Harris owned equipment rental billings totaled \$244,408, or about 3% of the \$7,553,372 asserted costs, fees, and fixed price general conditions. Per the Main Contract (**Tab G**) and Appendix 9 to Harris subcontract agreement at **Tab F**, the total rental cost of any MC/CM-owned item shall not exceed 75% of the purchase price of any comparable item. At HKA’s request, Harris provided its owned equipment rental log comparing the total billings for each piece of equipment relative to the 75% purchase price for each item. Harris equipment rental log showed 43 unique items used on the project. HKA identified that the billings for some equipment exceeded the 75% threshold based on Harris equipment values. For this reason, HKA has questioned \$4,892 of Harris owned equipment rental charges for those pieces of equipment with billings that exceeded the 75% value threshold set forth in the contract documents.¹⁹

Materials from Inventory – \$219,427

Harris non-labor billings included \$219,427 of amounts related to materials used from its inventory. HKA requested documentation to substantiate the unit prices billed for selected items. Harris provided internal reports showing orders from material suppliers for the selected items as well as invoices from the material suppliers for the selected materials. The documentation provided indicates Harris charged this project for the actual cost of those materials and did not add any mark-ups. The billed unit prices were properly supported by invoices from third-party material suppliers, and we did not note any exceptions.

¹⁸ In a letter dated May 16, 2024, Harris agreed that this cost was overbilled in the amount questioned.

¹⁹ In a letter dated May 16, 2024, Harris agreed that this cost was overbilled in the amount questioned.

Related-Party Cost – \$16,295

Harris non-labor billings included \$16,295 of internal charges from Harris Mechanical Service. HKA requested the two largest invoices totaling \$13,033, which Harris provided. The corresponding invoice detail indicated that the time and materials charges were for equipment start up service calls. HKA verified that the employees with time charged on these invoices did not separately appear in Harris labor billings. No further discrepancies were noted.

Fixed Price General Conditions, MC/CM Fee, and Preconstruction

The final elements of Harris cost assertions are fixed price general conditions, the subcontractor’s fee, and the preconstruction lump sum. These items comprise \$784,318 of Harris total substantiated amount, as summarized in the following table:

<u>HKA Cost Category</u>	<u>Asserted Amount</u>	<u>Planned Testing</u>		<u>Actual Testing Achieved</u>	
		<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Plan</u>
Fee	\$406,143	\$ 406,143	100%	\$ 406,143	100%
Specified General Conditions	\$357,525	\$ 357,525	100%	\$ 357,525	100%
Preconstruction Lump Sum	\$ 20,650	\$ 20,650	100%	\$ 20,650	100%
Total Asserted Cost	\$784,318	\$ 784,318	100%	\$ 784,318	100%

Harris subcontractor’s fee percentage was 6% and was to be applied to Harris substantiated Cost of the Work. Harris asserted Cost of the Work was \$6,769,054, which was the sum of its labor costs (\$2,899,043) and its non-labor costs (\$3,870,011). To calculate its fee, Harris correctly multiplied its Cost of the Work (\$6,769,054) by its subcontractor’s fee percentage of 6%; no discrepancies were noted.

Harris MASC included a lump sum amount of \$357,525 for general conditions. This amount was not increased by change order and was paid ratably to Harris over the project’s duration. Last, Lydig provided Harris a \$20,650 not-to-exceed amount for preconstruction services. At our request, Harris provided its costs and fees for the preconstruction scope which exceeded the \$20,650 not-to-exceed amount; Harris was limited to the \$20,650 payment for that scope of work.



SUMMARY OF AUDIT FINDINGS

The following table summarizes the cumulative impact of the questioned costs identified through our audit of Harris cost assertions as documented throughout this report; additional support related to each of these questioned amounts is included at Tabs K.1 through K.8:

<u>Item</u>	<u>Questioned Cost Description</u>	<u>Amount</u>	<u>6% Fee</u>	<u>Total Questioned Amount</u>	<u>Report Page</u>
1	General Liability Insurance - Direct Labor	\$ (50,164)	\$ (3,010)	\$ (53,173)	12
2	General Liability Insurance - Allocated Supervision Labor	\$ (710)	\$ (43)	\$ (753)	12
3	Payment & Performance Bond	\$ (38,456)	\$ (2,307)	\$ (40,763)	16
	Subtotal - Questioned Bond and Insurance Cost	\$ (89,330)	\$ (5,360)	\$ (94,689)	
4	Questioned Superintendent Cost Allocation	\$ (43,305)	\$ (2,598)	\$ (45,903)	12
5	Potential Labor Over-Billing - Fringes Exceed Union Rates	\$ (25,038)	\$ (1,502)	\$ (26,541)	13
6	ATS Automation Potential Over-Billing	\$ (13,010)	\$ (781)	\$ (13,791)	17
7	Potential Over-Billings for L&I Employee-Paid Cost	\$ (7,070)	\$ (424)	\$ (7,495)	15
8	Potential Owned Equipment Over-Billing	\$ (4,597)	\$ (276)	\$ (4,873)	18
	Subtotal - Other Questioned Cost	\$ (93,021)	\$ (5,581)	\$ (98,602)	
	Total Questioned Cost	\$ (182,351)	\$ (10,941)	\$ (193,292)	

As described in the “Summary of Findings” above, the sum of these adjustments is significant enough to offset Harris recorded overrun (or “overspent” amount) and change the project’s financial result to result in MC/CM savings.

FINAL PAYMENT CALCULATION

The Final Payment to be made to Harris to close-out Northgate is calculated as follows:

1. Start with the sum of the Cost of the Work substantiated by Harris final accounting and the Construction Manager's Fee, but not more than the GMP
2. Subtract amounts, if any, which SPS may wish to dispute / withhold
3. Subtract the aggregate of previous payments made to Harris
4. Subtract the accumulated retainage (not applicable)

The following table shows HKA's calculation of the Final Payment Amount:

Description	Unadjusted Amount	Adjusted Amount
Harris's Current GMP (as of Change Order #8)	\$ 7,387,464	\$ 7,360,080
Less: Previous Payments (through Pay Application #25)	\$ (7,361,882)	\$ (7,361,882)
Less: Retainage (Not Applicable)	\$ -	\$ -
Total Amount Due	\$ 25,582	\$ (1,802)

As of the date of this report, Harris had billed and been paid \$7,361,882 (see **Tab D** for Harris most current application for payment), leaving \$25,582 remaining to bill up to its current subcontract price. If SPS challenges the full amount of the \$193,292 of questioned costs identified by HKA in this report, Harris earned amount would be reduced to \$7,360,080 and it would owe SPS a payment of \$1,802 to close-out the contract.

SUMMARY

At the project’s conclusion, Harris asserted total costs, fee, and fixed price general condition amounts of \$7,553,372²⁰ (Tab C). This amount exceeded Harris current subcontract value of \$7,387,464²¹ (established with Change Order #8 at Tab B) by \$165,908. HKA identified certain questioned costs²² through audit that if challenged by SPS could change the project’s financial result and result in MC/CM savings. As summarized in the following table, HKA has questioned \$193,292 of Harris cost assertions, which if challenged by SPS, would eliminate its alleged overspend and result in \$27,384 of MC/CM savings before consideration of any pending changes and \$57,916 of savings if the pending changes are approved:

	Unadjusted - Through Change Order #8	Adjusted - Through Change Order #8	Pending Changes	Adjusted with Pending Changes
Contract Value	\$ 7,387,464	\$ 7,387,464	\$30,532	\$ 7,417,996
Final Cost Assertion	\$ 7,553,372	\$ 7,553,372		\$ 7,553,372
Questioned Costs	N/A	\$ (193,292)		\$ (193,292)
Adjusted Total	\$ 7,553,372	\$ 7,360,080		\$ 7,360,080
(Over) / Under GMP	\$ (165,908)	\$ 27,384		\$ 57,916

HKA’s audit work identified \$193,292 of questioned amounts, which are significant enough to offset Harris recorded overrun (or “overspent” amount). The questioned costs are summarized in the ‘Summary of Audit Findings’ section of this report at page 19. We believe that the scope of our work was appropriate for the intended purpose and that this report sufficiently conveys the work that was performed.

²⁰ This value includes the \$20,650 preconstruction lump sum amount that is not shown on Harris’s final cost substantiation summary at Tab C (\$7,532,722 + \$20,650 = \$7,553,372).

²¹ It is our understanding that this value could increase to \$7,417,996 for \$30,532 of pending changes that are still being negotiated. In an email dated March 15, 2024, Mike Hinson, Harris Construction Executive, stated there were \$30,532 of pending changes, including Change Order #9 in the amount of \$15,532 and an additional \$15,000 to be included in Change Order #10 that is still being negotiated.

²² As the auditor for the school district, we simply “question” costs which, in our view, appear to be in conflict with the terms of the Contract. While we may present certain of our questions to the auditee to get their perspective on the issue, we ultimately leave it up to the Owner to decide if they want to challenge the “questioned” amounts. While we may assist the Owner if asked to do so, we leave the resolution of the “questioned” costs up to the Owner and will support their decision.

