



Northgate Elementary Audit of Billings of Valley Electric Co. of Mt. Vernon Inc.

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Seattle Public Schools
Northgate Elementary School - Replacement

Audit of Billings of the EC/CM,
Valley Electric Co of Mt Vernon Inc
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

Although the audit effort identified potential adjustments to the asserted values presented by Valley Electric Co of Mt Vernon Inc (“Valley”) at project completion, this is rendered moot by Valley otherwise being substantially “overspent” on the cost component of its contract value.

At the project’s conclusion, Valley’s asserted total costs, fee, and fixed price general condition amounts of \$8,310,048. This amount exceeded Valley’s current subcontract value of \$7,499,482 (established with Change Order #15 at **Tab B**) by \$810,566. Although HKA Global LLC (“HKA¹”) identified certain questioned costs through audit, the sum of those questioned items is not significant enough to offset Valley’s overspend. Per the agreement, Valley had the ability to earn its substantiated cost, fee, and fixed price Specified General Conditions (“SGC”) up to its final GMP. Per the contract, an overrun that would cause the GMP to be exceeded is the responsibility of the contractor. The EC/CM style of agreement limited Valley’s revenues to its final GMP contract value and protected Seattle Public Schools (“SPS”) from the cost overruns. Valley’s overrun partially offset its overhead and profit earned through its Fee and fixed price general conditions on this project. As of the date of this report, Valley had billed and been paid \$7,266,925 (see **Tab D** for Valley’s most current application for payment), leaving \$232,557 remaining to bill up to its current subcontract price. 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 \$144,442 of questioned amounts, but the sum of these adjustments was significantly lower than Valley’s recorded overrun (or “overspent” amount), so these adjustments do not affect the final subcontract value. The following table summarizes the cumulative value of the questioned items identified through the efforts of the audit:

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>10% Fee</u>	<u>.706% B&O Tax</u>	<u>Total Questioned Amount</u>
1	Potential Labor Over-Billing	\$ (68,019)	\$ (6,802)	\$ (528)	\$ (75,349)
2	Payment & Performance Bond	\$ (50,985)	\$ (5,099)	\$ (396)	\$ (56,479)
3	Labor Computer / Software Allocations	\$ (6,494)	\$ (649)	\$ (50)	\$ (7,194)
4	Potential Owned Equipment Over-Billing	\$ (4,892)	\$ (489)	\$ (38)	\$ (5,419)
Total Questioned Cost		<u>\$(130,390)</u>	<u>\$(13,039)</u>	<u>\$ (1,013)</u>	<u>\$ (144,442)</u>

¹ 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.



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 EC/CM scope comprised \$7,150,000 of Lydig’s GMP. This report details our audit of the EC/CM, Valley, who was the successful bidder to perform the electrical work on Northgate. Lydig established a subcontract agreement with Valley that was signed on June 16, 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 electrical subcontractor, Valley, to the prime contractor, Lydig, on Northgate. Valley 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 Linda Booth, Valley's Project Accountant, and Hector Miranda, Valley's Project Manager, to obtain the audit documents and backup documentation supporting Valley's cost substantiation. HKA was retained by SPS to audit the final cost assertions of Lydig's MASC subcontractors. Brett Swanson, a Director at HKA, first contacted Valley on October 11, 2023, to commence the final audit. Valley's work on the project continued into 2024 which prolonged the audit. HKA completed its audit in March 2024.

At the time of commencing our final audit, Lydig reported that it had authorized Valley a subcontract value of \$7,499,482 through Subcontract Change Order #15 (**Tab B**). Valley 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 \$8,310,048² which was \$810,566 more than its subcontract value at that time. HKA's audit work identified \$144,442 of questioned amounts, but the sum of these adjustments was significantly lower than Valley's recorded overrun (or "overspent" amount), so these adjustments do not affect the final subcontract value.

Per the agreement, Valley 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, Valley is to 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. The EC/CM style of agreement limited Valley's revenues to its final GMP contract value and protected SPS from the cost overruns.

HKA performed a substantive audit of the costs billed under the Contract, reviewing 93% 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 Valley. As described in the 'Summary of Findings' above, HKA questioned \$144,442 of Valley's asserted charges.

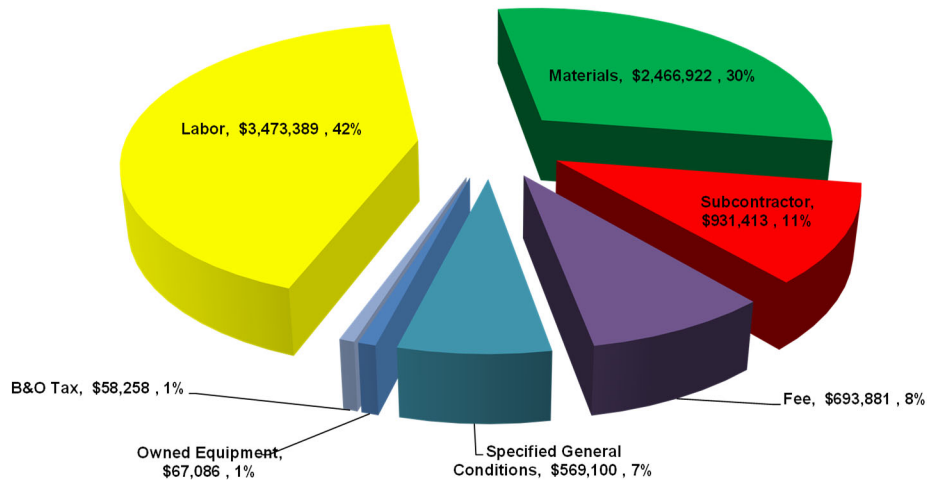
² See **Tab C** for Valley's final project cost substantiation summary.

Financial Summary of Expenditures

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

<u>Cost Category</u>	<u>Asserted Amount</u>	<u>% of Total</u>
<u>Cost of the Work:</u>		
Labor	\$ 3,473,389	42%
Materials	\$ 2,466,922	30%
Subcontractor	\$ 931,413	11%
Owned Equipment	\$ 67,086	1%
Subtotal - Cost of the Work	\$ 6,938,810	83%
<u>Fixed-Price General Conditions and Mark-ups:</u>		
Fee	\$ 693,881	8%
Specified General Conditions	\$ 569,100	7%
B&O Tax	\$ 58,258	1%
Subtotal - Construction Cost	\$ 8,260,048	99%
Preconstruction Lump Sum	\$ 50,000	1%
Total Asserted Cost	\$ 8,310,048	100%

As of its 28th payment application, Valley had billed and been paid \$7,266,925 (see **Tab D** for Valley's most current application for payment), leaving \$232,557 remaining to bill up to its current subcontract price. All amounts discussed in the next section of this report focus on Valley's substantiated amount of \$8,310,048 of cost, fees, and fixed price general conditions. Visually depicted, the relative portions of the \$8,310,048 asserted expenses are illustrated on the following page:



There are portions of the asserted expense amounts which were well-supported by Valley 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’s interim review and payment processing. Therefore, HKA, acting as SPS’s auditor in the final accounting process, requested additional documentation and explanation from Valley 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 88% 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 93% testing coverage³ of Valley’s asserted values. The following table summarizes the dollars audited by expense type as categorized by HKA:

³ Electronic testing procedures enabled analysis of 100% of the asserted values for labor and equipment as indicated in the table below.

<u>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	\$3,473,389	\$3,473,389	100%	\$3,473,389	100%
Materials	\$2,466,922	\$1,863,681	76%	\$1,863,681	100%
Subcontractor	\$ 931,413	\$ 931,413	100%	\$ 931,413	100%
Owned Equipment	\$ 67,086	\$ 67,086	100%	\$ 67,086	100%
Subtotal - Cost of the Work	\$6,938,810	\$6,335,569	91%	\$6,335,569	100%
<u>Fixed-Price General Conditions and Mark-ups:</u>					
Fee	\$ 693,881	\$ 693,881	100%	\$ 693,881	100%
Specified General Conditions	\$ 569,100	\$ 569,100	100%	\$ 569,100	100%
B&O Tax	\$ 58,258	\$ 58,258	100%	\$ 58,258	100%
Subtotal - Construction Cost	\$8,260,048	\$7,656,808	93%	\$7,656,808	100%
Preconstruction Lump Sum	\$ 50,000	\$ 50,000	100%	\$ 50,000	100%
Total Asserted Cost	\$8,310,048	\$7,706,808	93%	\$7,706,808	100%

In addition to Valley’s direct costs, it received a lump-sum amount for 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 Valley. The original lump-sum for Specified General Conditions made part of Valley’s original subcontract price was \$569,100 and this amount did not change during the project. Valley’s subcontractor’s fee percentage was 10% and was to be applied to Valley’s substantiated Cost of the Work. Last, Lydig provided Valley a \$50,000 non-to-exceed amount for preconstruction services. At our request, Valley provided its costs and fees for the preconstruction scope which exceeded the \$50,000 not-to-exceed amount; Valley was limited to the \$50,000 payment for that scope of work.

In support of the billed amounts, Valley provided its monthly cost substantiation reports, a job cost transaction report, and a labor detail report. HKA started by compiling all monthly cost substantiation (or billing) detail into a single database for each cost type, including labor, owned equipment, materials, and subcontractor cost. HKA reconciled Valley’s billing detail to its job cost transaction and labor detail reports to verify the authenticity of the billed amounts which led to some questioned costs relating to Valley’s labor billings to be discussed in further detail below.

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 some 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

Valley asserted total labor costs of \$3,473,389, and 42% of the \$8,310,048 asserted costs, fee, and fixed price general conditions. Valley's labor cost is comprised of field, fabrication, and off-site non-union labor cost as summarized in the following table:

<u>Labor Cost Type</u>	<u>Amount</u>	<u>% of Total</u>
Field Labor	\$ 3,228,072	92.9%
Fabrication Labor	\$ 151,382	4.4%
Off-Site Non-Union Labor	\$ 44,404	1.3%
Subtotal - Labor	\$ 3,423,859	98.6%
<u>Labor Add-Ons:</u>		
Employee Vehicles	\$ 37,986	1.1%
Computer / Software	\$ 6,421	0.2%
CADD / BIM	\$ 5,123	0.1%
Subtotal - Labor Add-ons	\$ 49,530	1.4%
Total Labor Cost	\$ 3,473,389	100.0%

As discussed above, Valley provided its labor billing detail (compiled from its 24 monthly cost substantiation reports) and a job cost transaction report and labor detail report in support of the billed amounts. The labor billing detail included wage and total burden amounts, but it did not include the separable elements of labor burden such as employee benefits, payroll taxes, worker's compensation, etc. However, Valley's labor detail report (accompanying its job cost transaction report) did include this additional detail. HKA reconciled Valley's labor billing detail to its job cost and labor detail reports which indicated that Valley's labor billings may be overstated. As summarized in the table below, the labor hours and wages reconciled exactly between Valley's billings and its cost records, but the billed labor burden amounts appear to exceed its actual cost:

	Allocations						Total Asserted Labor
	Hours	Wages	Burden	Vehicle Expense	CADD / BIM Expense	Computer / Software Expense	
Labor Substantiation	38,241.75	\$ 2,218,783	\$ 1,205,076	\$ 37,986	\$ 5,123	\$ 6,421	\$ 3,473,389
Labor Detail Report	38,241.75	\$ 2,218,783	\$ 1,139,174	\$ 35,796	\$ 5,123	\$ 6,494	\$ 3,405,370
Differences	-	\$ 0	\$ (65,902)	\$ (2,190)	\$ -	\$ 73	\$ (68,019)

HKA questioned the \$68,019 difference between Valley’s labor billings and its cost records. Given this difference, HKA relied only upon the \$3,405,370 supported by Valley’s job cost and labor detail reports for audit of the recorded labor amounts. Valley 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.

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. HKA noted that Valley’s project labor costs included 706 hours billed at overtime rates for total labor billings of \$91,943. Per Appendix 9 to Valley’s subcontract (**Tab F**), the premium portion of wage and salary payments for overtime work shall be reimbursable only if and to the extent the Subcontractor obtains Lydig’s written authorization to perform the overtime work. Valley indicated that overtime was discussed and agreed to in project meetings with Lydig. If Lydig did not approve any overtime work, the premium portion of any unauthorized, unreasonable, or improperly allocable amounts of overtime or other premium pay work could be questioned.

Valley’s labor billings were comprised of field, fabrication, and off-site labor, with field labor comprising 94% of the total labor cost. The labor hours and costs corresponding to each of these categories is summarized in the following table:

Labor Cost Type	Hours	Wages	Burden	Add-ons	Total	% of Total
Field Labor	33,898.00	\$ 2,088,905	\$ 1,085,214	\$ 39,613	\$ 3,213,731	94%
Fabrication Labor	3,396.75	\$ 100,663	\$ 41,845	\$ 3,920	\$ 146,428	4%
Off-Site Non-Union Labor	947.00	\$ 29,215	\$ 12,115	\$ 3,880	\$ 45,210	1%
Total Labor	38,241.75	\$ 2,218,783	\$ 1,139,174	\$ 47,413	\$ 3,405,370	100%



Labor Wages – \$2,218,783

The calculated average burden percentage of 51%⁴ is in line with what we have seen from other electrical contractors in the market. Beginning with an audit of Valley’s 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 verified that the hourly wage and fringe benefit rates in Valley’s labor cost records comported to the trade agreements in the relevant periods of work and did not note any discrepancies. 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.

Labor Burden – \$1,139,174

Valley’s \$1,139,174 of recorded labor burden cost includes employee benefits and union fringes, payroll taxes, worker’s compensation, family medical leave, and 401K match, as summarized in the following table:

<u>Burden Cost Type</u>	<u>Field Labor</u>	<u>Fabrication Labor</u>	<u>Off-Site Non-Union Labor</u>	<u>Total Labor Burden Cost</u>
Fringes	\$ 857,507	\$ 27,952	\$ 8,138	\$ 893,596
FICA Taxes	\$ 156,095	\$ 7,694	\$ 2,180	\$ 165,969
SUTA Taxes	\$ 48,995	\$ 3,588	\$ 790	\$ 53,372
Worker's Compensation	\$ 17,839	\$ 1,538	\$ 167	\$ 19,544
Family Medical Leave	\$ 3,582	\$ 163	\$ 46	\$ 3,791
401K Match	\$ -	\$ 840	\$ 765	\$ 1,605
FUTA Taxes	\$ 1,197	\$ 70	\$ 30	\$ 1,296
Total Labor Burden	\$1,085,214	\$ 41,845	\$ 12,115	\$ 1,139,174

To audit Valley’s recorded payroll tax and worker’s compensation rates, HKA requested Valley’s annual State of Washington rate statements to substantiate the recorded rates for Valley’s state unemployment rate and worker’s compensation rates. Valley provided the requested documentation, which comported with the rates applied in Valley’s cost records. For audit of Valley’s 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

⁴ 53% including the labor add-ons.



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 Valley's 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 Valley 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 Valley's 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 Valley's accounting system properly accounted for payroll tax caps and no discrepancies were noted.

For the recorded worker's compensation (L&I) rates, HKA requested Valley's annual State of Washington rate statements to substantiate the recorded rates for Valley's workers compensation costs. Valley provided the requested documentation, which comported with the rates applied in Valley's cost records. Last, the family medical leave accruals appear to be calculated correctly in accordance with the state requirements. Given Valley's project financial result and the relative insignificance of the \$1,605 billed for 401K match, HKA did not audit those recorded amounts.

Labor Add-Ons – \$47,413

The third and final element of Valley's recorded labor costs was labor add-on amounts that were comprised of allocations made for employee vehicles, computer and software, and CADD and BIM services. The following table summarizes the \$47,413 of Valley's recorded labor add-on amounts:

<u>Labor Cost Type</u>	<u>Amount</u>	<u>% of Total</u>
Employee Vehicles	\$35,796	75%
Computer / Software	\$ 6,494	14%
CADD / BIM	\$ 5,123	11%
Total Labor Add-ons	\$47,413	100%

Valley accrued costs for each of these labor add-ons by multiplying an employee’s labor hours, on a 1:1 ratio, by a designated hourly rate assigned for each cost element. HKA requested Valley’s calculations of its charge rates for each category, but Valley has not provided the requested documentation as of the date of this report. HKA will not pursue this information further as any adjustment to the recorded labor add-on amounts would not affect the project’s financial result.

HKA questioned the \$6,494 amount billed for computer and software. In the ‘Costs Not to be Reimbursed’ section of Appendix 9 to Valley’s subcontract agreement, main, home office, and site accounting, data processing, software, hardware or computer-related costs are identified as not reimbursable.

Valley’s vehicle cost allocations totaled \$35,796 and related to 27 of Valley’s 86 employees on this project. There were six different charge rates applied for vehicle usage over the project’s duration, ranging from \$2.50 per hour to \$9.56 per hour. Although Valley has not provided support for its vehicle charge rates, it is important to note that its methodology could be considered to be aggressive. Valley charged truck costs on a 1:1 ratio with an employee’s labor hours for most employees; this approach ignores standby time and implies that these employee trucks were operating 100% of the time that those employees were working. While any adjustment to the recorded labor add-on amounts would not affect this project’s financial result, SPS and Lydig may want to consider reviewing Valley’s cost accounting methodologies for accruing vehicle costs on future projects.

Last, BIM services are reimbursable as part of the MASC as shown on page 3 of the EC/CM Cost Responsibility Matrix at **Tab E**. Valley’s charge rates for CADD and BIM services were \$4.19 per hour in 2021 and \$4.41 per hour in 2022. Like the vehicle costs, Valley charged BIM costs on a 1:1 ratio with an employee’s labor hours for five employees. Given Valley’s project financial result and the relative insignificance of the \$5,123 billed for CADD and BIM services, HKA did not audit those recorded amounts further.



Non-Labor Cost Audit

Valley’s non-labor billings comprised \$3,465,421, or 42%, of the \$8,310,048 asserted costs, fees, and fixed price general conditions. The following table summarizes Valley’s asserted non-labor amounts:

<u>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>					
Materials	\$ 2,466,922	\$ 1,863,681	76%	\$ 1,863,681	100%
Subcontractor	\$ 931,413	\$ 931,413	100%	\$ 931,413	100%
Owned Equipment	\$ 67,086	\$ 67,086	100%	\$ 67,086	100%
Subtotal - Cost of the Work	\$ 3,465,421	\$ 2,862,180	83%	\$ 2,862,180	100%

Materials – \$2,466,922

Valley’s billings from third-party material suppliers totaled \$2,466,922 and related to 61 different vendors, as summarized in the following table:

<u>Count</u>	<u>Vendor Name</u>	<u>Amount</u>	<u>% of Total</u>
1	Graybar Electric Company Inc	\$2,017,609	82%
2	Platt Electric Supply	\$ 89,991	4%
3	Propel Insurance Agency LLC	\$ 50,985	2%
4	Herc Rental, Inc.	\$ 41,690	2%
5	Pacific Mobile Structures, Inc	\$ 38,906	2%
6	North Coast Electric Co	\$ 38,575	2%
7	Edge Construction Supply	\$ 36,834	1%
8	Oldcastle Precast, Inc.	\$ 33,108	1%
9	United Rentals	\$ 15,336	1%
10	Hilti	\$ 12,960	1%
11	Dibble Engineers, Inc	\$ 10,704	0%
	Subtotal - Vendors w/ Costs > \$10k	\$2,386,697	97%
50	Other Material Suppliers	\$ 80,224	3%
61	Total Material Cost	\$2,466,922	100%

For all third-party costs, HKA reviewed a complete listing of all vendor names and cost descriptions contained within Valley’s 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 \$50,985 charge from Propel Insurance Agency for the project’s payment and performance bond. As shown on page 3 of the EC/CM Cost Responsibility Matrix at **Tab E**, payment and performance bond costs are part of the EC/CM fee and is not separately reimbursable. For this reason, HKA questioned the \$50,985 charge for the project’s payment and performance bond and presented this finding to Valley. Valley agreed that the payment and performance bond costs were incorrectly billed to the project.

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 \$1,863,681, or 76% of Valley’s total materials cost, for testing to source documentation. Valley provided the requested invoices, and no discrepancies were noted.

Subcontractor – \$931,413

Valley’s subcontractor costs related to seven sub-tier subcontractors and totaled \$931,413, as summarized in the following table:

<u>Vendor</u>	<u>Total Recorded Cost</u>	<u>Original Value</u>	<u>Total Changes</u>	<u>Revised Value</u>	<u>Committed Cost</u>
Absco Solutions	\$ 6,214	\$ 5,749	\$ 465	\$ 6,214	\$ -
ADT Commercial	\$ 125,007	\$ 101,226	\$ 23,781	\$ 125,007	\$ -
Chown Security	\$ 93,526	\$ 98,389	\$ 1,394	\$ 99,783	\$ 6,257
Cut-All Concrete	\$ 375	\$ 375	\$ 1,300	\$ 1,675	\$ 1,300
Dimensional Communications Inc	\$ 391,942	\$ 2,645	\$ 389,297	\$ 391,942	\$ -
E-Z Interface	\$ 310,514	\$ 15,000	\$ 373,703	\$ 388,703	\$ 78,189
D&G Mechanical Insulation, Inc	\$ 3,835	\$ 3,835	\$ -	\$ 3,835	\$ -
Total Subcontract Cost	\$ 931,413	\$ 227,219	\$ 789,940	\$ 1,017,159	\$ 85,746

To audit the recorded subcontractor amounts, HKA requested documentation from Valley to substantiate the total amount payable to each subcontractor, including the original subcontract agreement, the final change order, and the final progress billing. Valley 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 additional committed subcontractor costs of \$85,746 based upon the change order documentation provided. Once recorded, this additional subcontractor cost will increase Valley’s overspend on the project.

Owned Equipment Rentals – \$67,086

Valley’s owned equipment rental billings totaled \$67,086, or about 1% of the \$8,310,048 asserted costs, fees, and fixed price general conditions. Per



Appendix 9 to Valley’s subcontract agreement at **Tab F**, the total rental cost of any EC/CM-owned item shall not exceed 75% of the purchase price of any comparable item. At HKA’s request, Valley provided its owned equipment rental log comparing the total billings for each piece of equipment relative to the 75% purchase price for each item. Valley’s equipment rental log indicated it used 265 unique items on the project. HKA made selections of equipment for audit of the asserted rental rates and purchase values, and Valley provided the requested documentation. For certain equipment, the purchase value documentation provided supported an equipment value less than what was recorded on Valley’s equipment rental log. After updating the equipment values in Valley’s owned equipment rental log, HKA identified that the billings for some equipment now exceeded the 75% threshold based on the revised equipment values. For this reason, HKA has questioned \$4,892 of Valley’s owned equipment rental charges.

Fixed Price General Conditions, EC/CM Fee, and B&O Tax Audit

The final elements of Valley’s cost assertions are fixed price general conditions, the subcontractor’s fee, and B&O taxes. These items comprise \$1,321,239 of Valley’s total substantiated amount, as summarized in the following table:

<u>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	\$ 693,881	\$ 693,881	100%	\$ 693,881	100%
Specified General Conditions	\$ 569,100	\$ 569,100	100%	\$ 569,100	100%
B&O Tax	\$ 58,258	\$ 58,258	100%	\$ 58,258	100%
Total Asserted Cost	\$ 1,321,239	\$1,321,239	100%	\$1,321,239	100%

Valley’s subcontractor’s fee percentage was 10% and was to be applied to Valley’s substantiated Cost of the Work. Valley’s asserted Cost of the Work was \$6,938,810, which was the sum of its labor costs (\$3,473,389) and its non-labor costs (\$3,465,421). To calculate its fee, Valley correctly multiplied its Cost of the Work (\$6,938,810) by its subcontractor’s fee percentage of 10%; no discrepancies were noted.

Valley’s MASC included a lump sum amount of \$569,100 for general conditions. This amount was not increased by change order and was paid ratably to Valley over the project’s duration. Last, B&O taxes are reimbursable as part of the Cost of the Work per the EC/CM Cost Responsibility Matrix at **Tab E**. The combined B&O tax rate applicable to this project was 7.06% which was comprised of the State of Washington rate of 4.84% and the City of Seattle rate of 2.22%. B&O taxes are applicable to all project revenue. Valley multiplied the combined 7.06% B&O tax rate by the sum of its Cost of the Work (\$6,938,810),



subcontractor’s fee (\$693,881), fixed price general conditions (\$569,100), and preconstruction lump-sum (\$50,000) and no discrepancies were noted.

SUMMARY OF AUDIT FINDINGS

The following table summarizes the cumulative impact of the questioned costs identified through our audit of Valley’s cost assertions as documented throughout this report:

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>10% Fee</u>	<u>.706% B&O Tax</u>	<u>Total Questioned Amount</u>	<u>Report Page</u>
1	Potential Labor Over-Billing	\$ (68,019)	\$ (6,802)	\$ (528)	\$ (75,349)	11
2	Payment & Performance Bond	\$ (50,985)	\$ (5,099)	\$ (396)	\$ (56,479)	16
3	Labor Computer / Software Allocations	\$ (6,494)	\$ (649)	\$ (50)	\$ (7,194)	14
4	Potential Owned Equipment Over-Billing	\$ (4,892)	\$ (489)	\$ (38)	\$ (5,419)	17
Total Questioned Cost		\$(130,390)	\$(13,039)	\$ (1,013)	\$ (144,442)	

As described in the ‘Summary of Findings’ above, the sum of these adjustments was significantly lower than Valley’s recorded overrun (or “overspent” amount), so these adjustments do not affect the final subcontract value.

FINAL PAYMENT CALCULATION

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

1. Start with the sum of the Cost of the Work substantiated by Valley’s 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 Valley
4. Subtract the accumulated retainage (not applicable)

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

<u>Description</u>	<u>Amount</u>
Valley’s Final GMP (as of Change Order #15)	\$ 7,499,482
Less: Previous Payments (through Pay Application #28R)	\$ (7,266,925)
Less: Retainage (Not Applicable)	\$ -
Total Amount Due	\$ 232,557



As of the date of this report, Valley had billed and been paid \$7,266,925 (see **Tab D** for Valley's most current application for payment), leaving \$232,557 remaining to bill up to its current subcontract price.

SUMMARY

Although the audit effort identified potential adjustments to the asserted values presented by Valley at project completion, this is rendered moot by Valley otherwise being substantially "overspent" on the cost component of its contract value.

At the project's conclusion, Valley's asserted total costs, fee, and fixed price general condition amounts of \$8,310,048. This amount exceeded Valley's current subcontract value of \$7,499,482 (established with Change Order #15 at **Tab B**) by \$810,566. Although HKA identified certain questioned costs through audit, the sum of those questioned items is not significant enough to offset Valley's overspend. Per the agreement, Valley had the ability to earn its substantiated cost, fee, and fixed price Specified General Conditions ("SGC") up to its final GMP. Per the contract, an overrun that would cause the GMP to be exceeded is the responsibility of the contractor. The EC/CM style of agreement limited Valley's revenues to its final GMP contract value and protected SPS from the cost overruns. Valley's overrun partially offset its overhead and profit earned through its Fee and fixed price general conditions on this project. As of the date of this report, Valley had billed and been paid \$7,266,925 (see **Tab D** for Valley's most current application for payment), leaving \$232,557 remaining to bill up to its current subcontract price.

HKA's audit work identified \$144,442 of questioned amounts, but the sum of these adjustments was significantly lower than Valley's recorded overrun (or "overspent" amount), so these adjustments do not affect the final subcontract value. 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.