



Ingraham High School Classroom Addition Close-out Audit

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Seattle School District No. 1
Audit of Billings of the Construction Manager,
Cornerstone General Contractors, Inc.
As Defined Under Contract:
AIA Document A133/CMc,
Dated March 2, 2017



Report of MWL Advisory, LLC

**Ingraham High School Classroom Addition
Close-out Audit**

MWL Advisory Report Date: March 7, 2023

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Executive Summary

Cornerstone General Contractors, Inc. (“Cornerstone”) completed its work on the Ingraham High School Classroom Addition (“Ingraham”) project for Seattle Public Schools (“SPS”) in the spring of 2020. Cornerstone’s final billing was rendered and paid in May 2020. In late 2022, SPS engaged MWL Advisory, LLC (“MWL”) to perform an audit of Cornerstone’s billings and supporting cost records on Ingraham. Through its billings, Cornerstone asserted that it had costs that exceeded its Guaranteed Maximum Price (“GMP”). The following table summarizes Cornerstone’s total cost assertions at the conclusion of its work:

Cost Description	Asserted Amount	% of Total
Fixed Price Subcontracts	\$ 14,909,918	52%
Self-Perform Subcontracts	\$ 9,665,944	34%
Negotiated Support Services	\$ 1,980,516	7%
Specified General Conditions	\$ 724,986	3%
Fee	\$ 1,339,119	5%
Total Asserted by Cornerstone	\$ 28,620,483	100%
Current GMP (Through Change Order #12)	\$ 28,574,711	
Cornerstone Asserted Overspend	\$ 45,772	

Cornerstone has been paid \$28,574,711 which matches the amount of its current contract value. Cornerstone asserted that it incurred additional Negotiated Support Services (“NSS”) costs of \$45,772 over the course of the project, but elected not to pursue an increase to its contract value at the time of final payment in May 2020. However, those additional amounts were made part of MWL’s final GMP reconciliation to identify any potential GMP savings.

Through audit, MWL identified certain questioned costs raising audit concerns which, if pursued, might reduce Cornerstone’s project cost substantiation by \$246,680 and result in GMP savings that could cause Cornerstone to refund SPS an amount of up to \$200,908.¹ Those audit concerns relate only to Cornerstone’s NSS amounts. MWL has questioned \$246,680 of Cornerstone’s NSS billings, including \$187,478 of the craft labor amounts and another \$59,202 related to Cornerstone’s owned equipment billings and certain other (potential) non-reimbursable items.

¹ This statement solely identifies audit concerns and is neither a legal conclusion nor anything beyond a suggestion of a business opportunity and decision for SPS. We understand that Cornerstone might dispute our findings and that business decisions and accommodations may result; our intent here is solely to provide SPS with our findings.

Per the agreement, Cornerstone had the ability to earn its substantiated cost, fee, and fixed-price Specified General Conditions (“SGC”) up to the value of its final GMP. At the time of audit, Cornerstone reported that it had been authorized a contract value of \$28,574,711 effective with Change Order #12. If a downward adjustment of \$246,680 was made to reflect the entirety of the questioned amounts, Cornerstone’s final cost substantiation would be reduced to \$28,373,803 (\$28,620,483 less \$246,680). Under those circumstances, a potential deductive change order in the amount of \$200,908 (\$28,574,711 less \$28,373,803) would reduce the GMP to the adjusted value of \$28,373,803.

	<u>Amount</u>
Total Asserted by Cornerstone	\$ 28,620,483
Potential Audit Adjustments	<u>\$ (246,680)</u>
Potential Adjusted Value	<u>\$ 28,373,803</u>
Current GMP (Change Order #12)	<u>\$ 28,574,711</u>
Potential Amount Under GMP	<u>\$ 200,908</u>

Throughout the audit process, MWL identified questioned costs related to Cornerstone’s NSS billings. MWL has questioned \$246,680 of Cornerstone’s NSS billings, including \$187,478 of the craft labor amounts and another \$59,202 related to certain non-reimbursable items. The following table summarizes the cumulative impact of the potential adjustments and questioned amounts identified through the efforts of the audit:

<u>Item</u>	<u>Description</u>	<u>Questioned Amount</u>
1	Questioned Labor Add-Ons - Safety	\$ (18,687)
2	Questioned Labor Add-Ons - Misc. Consumables	\$ (27,926)
3	Questioned Labor Add-Ons - Small Tools	\$ (65,237)
4	Labor Cost Adjustment - Remove Cell Phones	\$ (317)
5	Labor Sick Pay Cost Adjustment	\$ (6,124)
6	Labor Cost Adjustment - L&I Rate Classification Correction	\$ (22,106)
7	Payroll Tax Adjustments	\$ (41,616)
8	Labor Overbilling - July 2018	\$ (5,466)
Subtotal - Questioned NSS Labor Cost		<u>\$ (187,478)</u>
9	Construction Photos NSS Cost	\$ (6,392)
10	Construction Office Trailer Cost	\$ (10,099)
11	Construction Field Office Telephone/Internet Cost	\$ (496)
12	CGC Owned Equipment Adjustment	\$ (42,216)
Subtotal - Questioned NSS Non-Labor Cost		<u>\$ (59,202)</u>
Total Questioned Costs		<u><u>\$ (246,680)</u></u>

As of its April 2020 pay application, Cornerstone had billed and been paid for \$28,574,711 (excluding sales tax). Based on this \$28,574,711 billed amount and the \$28,373,803 adjusted value identified in the preceding table, we are concerned that based upon our understanding of the terms of the Contract, Cornerstone may have overbilled their substantiated amount by \$200,908, as summarized in the following table:

<u>Description</u>	<u>Total</u>
Potential Adjusted GMP	\$ 28,373,803
Less: Previous Payments - Pay App #23	\$ 28,574,711
Less: Retainage	\$ -
Potential Reduction to Allowable Cost	<u><u>\$ (200,908)</u></u>

After execution of any final deductive change order to reflect any response to the audit adjustments, Cornerstone could have an obligation to pay back this difference to close-out the contract.

Audit Introduction and Project Background

SPS contracted with Cornerstone in March 2017 for construction of Ingraham High School Classroom Addition. As of the date of this report, Cornerstone had billed and been paid for \$28,574,711 through 4/30/2020.

The Ingraham High School Classroom Addition opened in the fall of 2019. This project constructed a new, two-story classroom addition adjacent to the existing building. The new 46,000 SF addition increased the total square footage of the school to 236,000. The addition included 18 classrooms, two new science labs, a new entry and administration office, and student common spaces. The project also included improvements and modernizations to the existing structures, including safety improvements, roof replacements, and onsite and offsite utilities. We understand the project was completed on time and under budget.

SPS entered into its Cost-Plus Fee with a GMP agreement (“Contract”) with Cornerstone in March 2017. 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 Cornerstone on an agreed-upon cost measurement basis [as delineated in the Main Contract and Cost Responsibility Matrix]. Pursuant to Article 7.2.2 of the Main Contract, SPS retained MWL Advisory, LLC (“MWL”) to audit the costs sought for reimbursement by Cornerstone to ensure that the billings and contract close-out values comported with the Contract.

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.²

The results of our work are based upon the documentation that we are provided and that we reviewed.

Contract Status

The contract work is complete at this time. Brett Swanson, MWL’s Senior Director of Contract Audit, first contacted Cornerstone’s Vice President, via email on November 10, 2022 with our initial list of audit requests. Cornerstone’s Vice President provided a partial response to those items on December 27, 2022 and then responded to the balance of the other requests in an email on January 10, 2023. After our review of the initial file production, MWL identified additional questions and requests and emailed those items to

² This statement is intended only to clarify the scope of the audit work and is not intended to suggest fraud may have occurred with respect to this matter.

Cornerstone on January 19, 2023. Cornerstone provided responses to those items on January 23, 2023. After review of the second production of documents, Mr. Swanson identified a few final close-out questions and requests and emailed those to Cornerstone's Vice President on January 25, 2023, which he responded to on January 26 and 27. Our work on this matter will conclude in March 2023 with a presentation to the SPS Audit Committee.

At project inception, SPS and Cornerstone mutually established a GMP of \$25,969,950. The following table summarizes Cornerstone's GMP values for Ingraham High School Classroom Addition:

Bid Package	Subcontractor	Base Bid	Accepted Alternates	Original GMP
BP-03.1: CONCRETE STEEL AND WOOD (Cornerstone)	Cornerstone	\$ 3,684,000	\$ 4,800	\$ 3,688,800
BP-04.1: MASONRY (Construction by Champion)	Construction by Champion	\$ 257,800	\$ -	\$ 257,800
BP-05.1: SELET DEMO & SEISMIC WORK (Cornerstone)	Cornerstone	\$ 1,923,000	\$ 702,550	\$ 2,625,550
BP-06.1: CASEWORK & FIN CARPENTRY (Pacific Cabinets)	Pacific Cabinets	\$ 453,557	\$ -	\$ 453,557
BP-07.1: MET PNLS, SIDING & FLASHINGS (Andgar)	Andgar	\$ 1,089,021	\$ 19,922	\$ 1,108,943
BP-07.2: ROOFING (Snyder Roofing)	Snyder Roofing	\$ 1,770,329	\$ 471,324	\$ 2,241,653
BP-08.1: CURTAINWALL, STOREFRONT & GLAZING (Sheldrup)	Sheldrup	\$ 986,400	\$ -	\$ 986,400
BP-09.1: FRAMING & GWB (GK Knutson)	GK Knutson	\$ 1,098,000	\$ 30,000	\$ 1,128,000
BP-09.2: ACOUSTICAL CEILINGS & TREATMENTS (Alliance)	Alliance	\$ 591,382	\$ -	\$ 591,382
BP-09.3: RESILIENT FLOORING (Rubensteins)	Rubensteins	\$ 74,790	\$ -	\$ 74,790
BP-09.3.1: CARPET FLOORING (Beresford)	Beresford	\$ 89,025	\$ -	\$ 89,025
BP-09.4: TILE FLOORING (Quality Floors)	Quality Floors	\$ 109,940	\$ -	\$ 109,940
BP-09.5: PAINTING & COATINGS (Mattila Painting)	Mattila Painting	\$ 204,500	\$ 34,580	\$ 239,080
BP-10.1: OPENINGS & SPECIALTIES (Cornerstone)	Cornerstone	\$ 815,850	\$ -	\$ 815,850
BP-21.1: FIRE SPRINKLERS (Shinn Mechanical)	Shinn Mechanical	\$ 227,240	\$ -	\$ 227,240
BP-22.1: MECHANICAL (Pipe Construction)	Pipe Construction	\$ 3,035,795	\$ 484,820	\$ 3,520,615
BP-26.1: ELECTRICAL (Milne Electric)	Milne Electric	\$ 1,539,350	\$ 46,383	\$ 1,585,733
BP-31.1: SITE DEVELOPMENT (Pelco Construction)	Pelco Construction	\$ 814,000	\$ -	\$ 814,000
BP-32.1: LANDSCAPE & IRRIGATION (Total Landscape)	Total Landscape	\$ 148,883	\$ -	\$ 148,883
	Subtotal	\$ 18,912,862	\$ 1,794,379	\$ 20,707,241
	GMP Allowances			\$ 641,500
	Negotiated Support Services			\$ 1,611,908
	GC/CM Risk Contingency			\$ 1,067,437
	GC/CM Specified General Conditions			\$ 724,986
	GC/CM Fee			\$ 1,216,878
	Guaranteed Maximum Price (GMP)			\$ 25,969,950

As of Change Order #12, Cornerstone's GMP had been increased by \$2,604,761 to \$28,574,711. This value may be reduced for any final deductive change order that might follow the audit to return the project savings to SPS. MWL audited Cornerstone's cost assertions, in some way reviewing 99% of the billed costs for propriety under the terms of the Contract.³ As noted above, audit concerns are limited to Negotiated Support Services ("NSS"), comprising 7% of the total billed; no issues were identified with the balance of

³ The percentage of costs reviewed in this audit was achieved as a function of three key facts: 1) a significant portion of Cornerstone's project costs were from subcontractors with fixed-price agreements which yield high-dollar audit coverage with low dollar audit cost; 2) Cornerstone was contractually paid for its contractor's fee and "specified general conditions" including bond on a fixed-price basis; and 3) MWL utilized electronic auditing means to audit 100% of Cornerstone's recorded craft labor charges billed through NSS.

the billings. We identified audit concerns relating to the NSS which are discussed throughout this report.

Purpose of this Report

SPS retained MWL, pursuant to Article 7.2.2 of the Main Contract, to report in writing on its independent view of the accuracy of Cornerstone’s final accounting for Ingraham High School Classroom Addition. In addition, Article 7.1.10 of the Main Contract states “Payment by the Owner shall not constitute final approval of the Work done or the amount due.” At the request of SPS, MWL’s evaluation of Cornerstone’s final accounting includes an audit of the Ingraham High School Classroom Addition construction costs submitted and paid to date under the Contract. Cornerstone’s final substantiation showed that it may have overbilled by \$200,908, which is the amount that it has been paid in excess of its \$28,373,803 earned value. As of the date of this report, Cornerstone has not issued an adjusted final billing, which is pending the execution of the final deductive change order, if any.

After the final audit, the sum of the Cost of the Work [including NSS and the fixed-price Specified General Conditions (“SGC”)] substantiated by Cornerstone’s final accounting and the Contractor’s Construction Manager’s Fee was less than the revised GMP, which may result in a final deductive change order needed to close-out this contract.

Financial Summary of Expenditures by Subcontractor

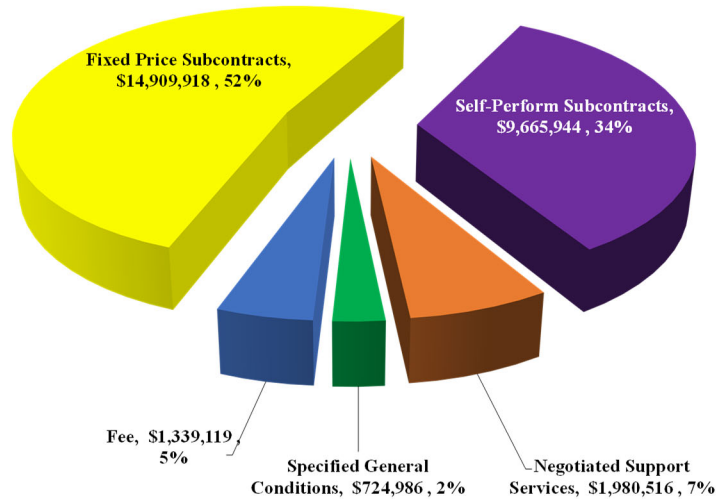
The following provides a summary of the amounts asserted by Cornerstone as comprising, by cost type, the substantiated value of its direct costs, fees, and fixed-price items at project completion:

Cost Description	Asserted Amount	% of Total
Fixed Price Subcontracts	\$ 14,909,918	52%
Self-Perform Subcontracts	\$ 9,665,944	34%
Negotiated Support Services	\$ 1,980,516	7%
Specified General Conditions	\$ 724,986	3%
Fee	\$ 1,339,119	5%
Total GMP Assertions	\$ 28,620,483	100%

Cornerstone’s substantiated cost, fee, and fixed-price general conditions were less than the GMP after the final audit, which precipitates the potential for a final deductive change order to reduce the current contract value by \$200,908 to the earned value of \$28,373,803 (\$28,620,483 less \$246,680). As of the 4/30/2020 pay application submitted

by Cornerstone, it had billed and been paid \$28,574,711 (excluding sales tax),⁴ which is \$200,908 more than the \$28,373,803 final substantiated value.

All amounts discussed in the next section of this report focus on the total asserted amount of \$28,620,483 of cost, fees, and fixed-price general conditions. Visually depicted, the relative portions of the \$28,620,483 asserted expenses are illustrated on the following page:



There are portions of the asserted expense amounts which were well-supported by Cornerstone in the pay estimates submitted to SPS. There are other portions of the costs which were not initially fully supported for Cornerstone’s and SPS’s interim review and payment processing. Therefore, MWL, acting as SPS’s auditor in the final accounting process, requested additional documentation from Cornerstone for the items which, in our view, initially lacked sufficient supporting documentation. When requested to do so, Cornerstone subsequently provided additional support to substantiate certain amounts.

AUDIT SCOPE AND APPROACH

Audit Scope

The scope of the audit provided for significant audit coverage as a result of the nature of Cornerstone’s cost assertions. The high percentage of costs reviewed in this audit was achieved as a function of three key facts: 1) a significant portion of Cornerstone’s project costs were from subcontractors with fixed-price agreements which yield high-dollar audit coverage with low dollar audit cost; 2) Cornerstone was contractually paid for its contractor’s fee and SGCs on a fixed-price basis; and 3) MWL employed electronic auditing methods to audit 100% of Cornerstone’s recorded craft labor charges (on an electronic basis for computation of all charges but not to the detail of but a sampling of

⁴ Total billings with sales tax were \$31,460,757.

time cards) to yield high-dollar audit coverage to low-dollar audit cost in those areas. The NSS costs were the only part of Cornerstone's costs that were billed on a cost-reimbursable basis and thus were viewed with more scrutiny.

The audit objectives and testing 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 owner 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 the 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 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 final audit effort, MWL achieved 99% audit coverage of Cornerstone's asserted values. The following table summarizes the dollars audited, by expense type, as classified by Cornerstone:

Cost Description	Total	Audit Plan		Actual Audit Coverage	
		Amount	% of Total	Amount	% of Plan
Fixed Price Subcontracts	\$ 14,909,918	\$ 14,909,918	100%	\$ 14,909,918	100%
Self-Perform Subcontracts	\$ 9,665,944	\$ 9,665,944	100%	\$ 9,665,944	100%
Negotiated Support Services	\$ 1,980,516	\$ 1,648,579	83%	\$ 1,648,579	100%
Specified General Conditions	\$ 724,986	\$ 724,986	100%	\$ 724,986	100%
Fee	\$ 1,339,119	\$ 1,339,119	100%	\$ 1,339,119	100%
Total	\$ 28,620,483	\$ 28,288,546	99%	\$ 28,288,546	100%

In the following section of this report, we explain the techniques employed to audit the \$28,620,483 of asserted amounts for construction of Ingraham High School Classroom Addition.

Fixed-Price Subcontracts – \$14,909,918

The fixed-price subcontractor costs totaled \$14,909,918 and were comprised of 16 different bid packages. The following table summarizes the final subcontract values for all third-party subcontractors:

Description of Service	Subcontractor	Original Scheduled Value	Budget Transfers	Change Orders (Owner-Funded)	Asserted Final Value
BP-04.1: MASONRY (Construction by Champion)	Construction by Champion	\$ 257,800	\$ 609	\$ -	\$ 258,409
BP-06.1: CASEWORK & FIN CARPENTRY (Pacific Cabinets)	Pacific Cabinets	\$ 453,557	\$ 22,460	\$ 12,935	\$ 488,952
BP-07.1: MET PNLS, SIDING & FLASHINGS (Andgar)	Andgar	\$ 1,108,943	\$ 65,877	\$ 13,755	\$ 1,188,575
BP-07.2: ROOFING (Snyder Roofing)	Snyder Roofing	\$ 2,241,653	\$ 142,428	\$ 76,900	\$ 2,460,981
BP-08.1: CURTAINWALL, STOREFRONT & GLAZING (Sheldrup)	Sheldrup	\$ 986,400	\$ 101,040	\$ 19,587	\$ 1,107,027
BP-09.1: FRAMING & GWB (GK Knutson)	GK Knutson	\$ 1,128,000	\$ 326,160	\$ 89,558	\$ 1,543,718
BP-09.2: ACOUSTICAL CEILINGS & TREATMENTS (Alliance)	Alliance	\$ 591,382	\$ (1,263)	\$ (206,243)	\$ 383,876
BP-09.3: RESILIENT FLOORING (Rubensteins)	Rubensteins	\$ 74,790	\$ 46,790	\$ 41,972	\$ 163,552
BP-09.3.1: CARPET FLOORING (Beresford)	Beresford	\$ 89,025	\$ 6,655	\$ 10,030	\$ 105,710
BP-09.4: TILE FLOORING (Quality Floors)	Quality Floors	\$ 109,940	\$ -	\$ -	\$ 109,940
BP-09.5: PAINTING & COATINGS (Mattila Painting)	Mattila Painting	\$ 239,080	\$ 31,930	\$ 23,838	\$ 294,848
BP-21.1: FIRE SPRINKLERS (Shinn Mechanical)	Shinn Mechanical	\$ 227,240	\$ 4,128	\$ 13,875	\$ 245,243
BP-22.1: MECHANICAL (Pipe Construction)	Pipe Construction	\$ 3,520,615	\$ 82,684	\$ 38,826	\$ 3,642,125
BP-26.1: ELECTRICAL (Milne Electric)	Milne Electric	\$ 1,585,733	\$ 64,636	\$ 69,266	\$ 1,719,635
BP-31.1: SITE DEVELOPMENT (Pelco Construction)	Pelco Construction	\$ 814,000	\$ 76,274	\$ 19,714	\$ 909,988
BP-32.1: LANDSCAPE & IRRIGATION (Total Landscape)	Total Landscape	\$ 148,883	\$ 90,207	\$ 48,248	\$ 287,338
	Subtotal	\$ 13,577,041	\$ 1,060,616	\$ 272,261	\$ 14,909,918

The Total Completed and Stored to Date value contained in a Schedule of Values is primarily reflective of lump-sum subcontract prices, adjusted at times by lump-sum change orders, leading to very low audit risk and high-dollar audit coverage with low-dollar audit cost. MWL requested the final, signed subcontract change orders and the final, signed progress billings for each subcontractor. Cornerstone provided the requested subcontractor files which reconciled with one another and comported to the Total Completed and Stored to Date value in Cornerstone’s most current application for payment.

Cornerstone Self-Performed Bid Packages – \$9,665,944

Cornerstone’s two self-performed bid packages combined for total subcontract values of \$9,665,944 and comprised 34% of Cornerstone’s total cost. The self-performed bid packages are fixed-price, lump-sum subcontract agreements which we understand were publicly bid and won by Cornerstone. The following table summarizes the final subcontract values for Cornerstone’s self-perform bid packages:

Description of Service	Subcontractor	Original Scheduled Value	Budget Transfers	Change Orders (Owner-Funded)	Asserted Final Value
BP-03.1&05.1: STRUCTURAL & SEISMIC (Cornerstone)	Cornerstone	\$ 6,314,350	\$ 624,856	\$ 1,704,529	\$ 8,643,735
BP-10.1: OPENINGS & SPECIALTIES (Cornerstone)	Cornerstone	\$ 815,850	\$ 160,448	\$ 45,911	\$ 1,022,209
	Subtotal	\$ 7,130,200	\$ 785,304	\$1,750,440	\$ 9,665,944

Cornerstone processes pay applications for its own bid packages, but it does not create formal internal subcontract change orders. MWL confirmed that the final values on the self-perform billings matched to the values represented on Cornerstone’s master schedule of values attached to its most current application for payment.

Negotiated Support Services – \$1,980,516

After review of Cornerstone’s final accounting and supporting cost files, Cornerstone asserted \$1,980,516 for its NSS costs. Through audit, MWL identified certain audit concerns with respect to Cornerstone’s NSS billings which, if pursued, could reduce Cornerstone’s project cost substantiation by \$246,680 and result in GMP savings that could cause Cornerstone to refund SPS an amount of up to \$200,908.

The following table summarizes Cornerstone’s asserted NSS costs and the testing coverage achieved by cost category:

MWL Cost Category	Total	Audit Plan		Actual Audit Coverage	
		Amount	% of Total	Amount	% of Total
CGC Labor	\$ 1,079,758	\$ 1,079,758	100%	\$ 1,079,758	100%
Third-Party Cost	\$ 790,558	\$ 458,621	58%	\$ 458,621	100%
CGC Equipment	\$ 110,200	\$ 110,200	100%	\$ 110,200	100%
Total NSS Assertions	\$1,980,516	\$1,648,579	83%	\$1,648,579	100%

In the following sections, MWL describes the audit techniques employed to audit Cornerstone’s NSS cost assertions as well as the questioned amounts identified through the audit.

CGC Labor – \$1,079,758

Cornerstone’s NSS labor cost is all craft labor and relates to two primary trades – laborers and carpenters. At the project’s conclusion, Cornerstone had billed 14,908.5 labor hours at labor billing rates resulting in total labor billings of \$1,079,758, as summarized in the following table:

	<u>Carpenter</u>	<u>Laborer</u>	<u>Total CGC Labor</u>
Total Hours Billed	5,735.50	9,173.00	14,908.50
Total CGC Labor Billings	\$ 457,395	\$ 622,363	\$ 1,079,758

Through electronic means of analysis, MWL audited 100% of the asserted labor hours and costs. MWL also performed limited testing of the recorded hours to employee time cards and certified payroll reports. The electronic auditing procedures identified several labor entries with more than 100 hours in a week for an employee. When asked, Cornerstone’s Vice President explained that those entries related to multiple weeks. MWL selected nine entries with more than 100 hours for an employee in a labor week and requested the time card documentation to support the hours billed. For all but one of the selected entries, the hours billed were supported by the time card documentation. In the other instance, Cornerstone’s Vice President conceded that 67 hours were overbilled for an employee resulting in an overbilling of \$5,466.

Article 6.2 of the Contract provides the guidance that labor costs include only actual costs paid by the Construction Manager for wages or salaries and other direct benefits to include taxes, insurance, contributions, and assessments. Costs paid or incurred for vacations, bonuses, travel, stock options, deferred compensation, and discretionary payments to employees are not directly reimbursable. Cornerstone did not bill based upon actual cost; rather, it used “bill rates” as termed by Cornerstone’s Vice President but those rates were not agreed upon by SPS and thus were not made part of the Contract. Cornerstone’s labor billing rates substantially overstate its actual labor cost on this project as described in the following paragraphs.

The NSS labor billing entries in Cornerstone’s NSS detail report showed only monthly labor charges by activity code. At our request, Cornerstone’s Vice President provided Cornerstone’s labor detail reports. A NSS labor billing detail report was provided for each month of the project. MWL imported and combined all the monthly reports (provided only in PDF format) and reconciled the amounts to the monthly totals in the NSS detail report without noting any discrepancies. The NSS billing detail included employee trade and classification information, which MWL used to track the fully-burdened billing rates to Cornerstone’s supporting rate calculation schedules. Cornerstone used one set of billing rates for the 2018-2019 union period and then increased those rates by 5% in the subsequent 2019-2020 union period effective June 1, 2019. Cornerstone’s labor billing rates included union wages, fringe benefits, payroll taxes, worker’s compensation, Washington State sick pay, and labor add-ons for cell phones (foremen only), safety,

miscellaneous consumables, and small tools. To analyze each aspect of Cornerstone's labor billings, MWL imported the hourly rates for wages, union fringe benefits, worker's compensation, payroll taxes (federal and state unemployment tax and FICA), sick pay, and labor add-ons, from Cornerstone's labor rate schedules into the NSS labor detail report. MWL multiplied the hourly rates for wages and each of the burden cost elements by the recorded hours for each line item in the job cost report, and calculated the asserted amounts for each. This labor cost reconciliation enabled MWL to separately audit each element of Cornerstone's labor billings. The following table summarizes Cornerstone's asserted labor amounts for all union personnel:

	Total Billings		
	Carpenter	Laborer	Total CGC Labor
Total Hours Billed	5,735.50	9,173.00	14,908.50
Total CGC Labor Billings	\$ 457,395	\$ 622,363	\$ 1,079,758
<u>Billing Amounts by Cost Element:</u>			
Wages	\$ 253,814	\$ 344,520	\$ 598,334
Union Fringe Benefits	\$ 93,371	\$ 106,920	\$ 200,292
Payroll Taxes (FICA, FUTA, SUTA)	\$ 35,140	\$ 62,515	\$ 97,655
Workers Compensation	\$ 19,488	\$ 31,467	\$ 50,954
Sick Pay	\$ 8,202	\$ 12,137	\$ 20,339
Cell Phones	\$ 317	\$ -	\$ 317
Safety	\$ 7,855	\$ 10,831	\$ 18,687
Misc Consumables	\$ 11,770	\$ 16,155	\$ 27,926
Small Tools	\$ 27,450	\$ 37,787	\$ 65,237
Subtotal - Labor Burden	\$ 203,593	\$ 277,812	\$ 481,405
Total CGC Labor Billings	\$ 457,407	\$ 622,332	\$ 1,079,739
Billings Variance	\$ 12	\$ (31)	\$ (19)
Burden %	80%	81%	80%

As noted above, Cornerstone's labor billing rates yielded an unusually high burden percentage of 80%. In our experience, a burden percentage between 40 and 60 percent is more typical for union labor. Beginning with an audit of Cornerstone's asserted union wage and fringe benefit rates, MWL created a database of the union wage and fringe benefit rates from the trade agreements for all periods of the project. MWL verified that the hourly wage and fringe benefit rates in Cornerstone's labor cost records comported to the trade

agreements and no discrepancies were noted. MWL also performed testing of the employee wage rates to the project's Certified Payroll reports and did not note any material discrepancies.

For the recorded payroll tax and worker's compensation (L&I) rates, MWL requested Cornerstone's annual State of Washington rate statements to substantiate the recorded rates for Cornerstone's state unemployment rate and worker's compensation rates. Cornerstone provided their annual rate statements, which did not match the rates used in Cornerstone's labor billing rate sheet. First, with respect to payroll taxes, Cornerstone used rates of 5.60% and 5.88% to accrue for state unemployment tax which is double what their actual rates were in the three-year period from 2018 through 2020.⁵ In addition to using the wrong SUTA rates, Cornerstone incorrectly charged payroll taxes on the union fringe benefits portion of the laborer cost (payroll taxes are only calculated on gross wages) and it did not take into account payroll tax caps in its billing rates. To correct these issues, MWL has calculated estimated payroll tax adjustments of \$41,616 and has questioned this portion of Cornerstone's NSS labor billings.

After review of Cornerstone's worker's compensation rates, MWL noted that Cornerstone was using the class code 0510 rates for wood framing. MWL recently audited Cornerstone on another school project and noted that it used the rates for the 0518 class code "Building/Concrete Const NOC" to accrue for worker's compensation cost in its cost records. The 0510 L&I rates were double what the corresponding rates were for the 0518 class code in the years of the project. When asked, Cornerstone's Vice President confirmed that "most of the labor ended up being in the 0518 classification." MWL requested Cornerstone's quarterly L&I reports to verify which class code it used to pay its premiums to the State of Washington. The L&I reports confirmed that Cornerstone was using the 0518 class code for "Building/Concrete Const NOC" to remit its L&I premiums to the state. MWL calculated an adjustment to correct the L&I rates used in Cornerstone's billing rates which resulted in a questioned amount of \$22,106. MWL multiplied the recorded craft labor hours in each year of the project by the 0518 rate in each year and subtracted the amounts billed for worker's compensation to compute the expected adjustment.

Based upon our understanding as well as our experience in other construction contract audits, paid sick leave appears to have been calculated incorrectly in Cornerstone's labor billing rate sheet. It is our understanding that sick leave is accrued and paid based upon an employee's normal hourly pay rate. In Cornerstone's labor billing rate sheet, it calculated sick pay on the total amount of wages (including premium time), union fringe benefits, payroll taxes, and worker's compensation. When asked, Cornerstone's Vice President asserted that sick pay was charged on total wages and benefits; we disagree based upon the Washington State paid sick leave policy that states an employer must pay an employee's normal hourly rate for paid sick leave hours.⁶ MWL calculated a credit adjustment of \$6,124 after correcting the hourly sick pay accrual rates. In accordance with

⁵ Cornerstone's state unemployment rates were 2.37%, 3.08%, and 2.69% for 2018, 2019, and 2020, respectively.

⁶ <https://www.lni.wa.gov/workers-rights/leave/paid-sick-leave/>

state guidance, MWL divided each employee's base rate of pay by 40 (one hour of sick pay for every 40 hours worked) and multiplied this rate by each employee's total recorded hours to compute the corrected sick pay amounts. MWL subtracted the amounts billed for sick pay from the corrected amounts to compute the proposed adjustment.

Lastly, MWL has questioned all billings associated with the labor add-ons in Cornerstone's billing rates, which include cell phones (for foremen only), safety, miscellaneous consumables, and small tools. A total of \$112,165 was billed in these four areas, including \$65,237 for small tools, \$27,926 for miscellaneous consumables, \$18,687 for safety, and \$317 for cell phones.⁷ Cornerstone used mark-ups of 7%, 3%, and 2% to accrue costs for small tools, miscellaneous consumables, and safety, respectively.⁸ Cell phone charges were nominal, but were accrued at a rate of \$0.58 per hour for carpenter foremen. In an email dated January 13, 2023, MWL requested documentation to substantiate Cornerstone's actual cost for these items as it relates to the employees on this project, but none was provided. Thus, MWL has questioned the full amount of the billings for these items, which were not based on actual costs proven to be incremental to Cornerstone for these individuals or for this project in particular. We expand on our reasoning for questioning each of these labor add-ons below which, in our view, create additional profit centers for the contractor.

First, with respect to small tools and consumables, contract article 6.5.1 states consumables and small tools are to be recorded at actual cost, based on the cost or value of the item at the time it is first used on the Project less the value of the item when it is no longer used at the Project site. In addition to the amounts accrued and billed for small tools and consumables in the labor rates, Cornerstone separately billed direct costs of \$33,335 to the "small/consumables" cost code. Those amounts are properly billed in accordance with the Contract; the amounts accrued for small tools and consumables through the labor mark-ups are not supported. Contract article 6.2 regarding reimbursable labor cost does not identify small tools, consumables, or safety as being reimbursable elements of labor cost. Further, any small tools or consumables purchased for the self-perform bid package work were paid for as part of the final subcontract value paid for each. For all these reasons, MWL has questioned the amounts billed for small tools and consumables which were \$65,237 and \$27,926, respectively.

Regarding safety, contract article 1.0.37 specifies the Specified General Conditions include but are not limited to...all aspects of safety implementation and administration. Secondly, Cornerstone separately billed \$8,343 for safety equipment and first aid and those amounts are supported. The \$18,687 amount accrued for safety in the NSS labor

⁷ The hourly rates for safety, consumables, and small tools in Cornerstone's premium rates are based upon regular-time pay. For this reason, the sum of the amounts billed for these labor add-ons are slightly less than the product of multiplying the sum of the labor billings for wages, union fringe benefits, payroll taxes, and sick pay by the 12% cumulative mark-up.

⁸ When asked to provide the basis for the percentage mark-ups, Cornerstone's Vice President explained that the percentages have been developed over time to cover costs for safety training not charged directly to projects, for safety equipment, and for consumables and small tools that are brought to the project from other jobs or are used from those purchased for bid package work; we disagree for the reasons described above.

charges is not supported by actual cost and would be duplicative of the amounts included in either general conditions or the amounts billed directly for first aid and equipment. Due to these concerns, MWL has questioned the \$18,687 amount billed for safety through labor. Last, cell phone costs are part of the Specified General Conditions per the Contract. Article 6.5.7 states all office trailers, furniture, technology, communication (including cell phones), personal transportation (including pickup trucks) and clerical equipment therein, project identification and temporary signage, and delivery by the Construction Manager, on-site storage, sheds and handling are Specified General Conditions. Therefore, MWL has questioned the \$317 billed for cell phones.⁹

Other than the audit findings discussed above, the audit methodologies employed to audit Cornerstone's asserted labor values did not yield any other issues of material significance.

Third-Party Cost – \$790,558

Cornerstone's third-party costs totaled \$790,558, or 40% of the total recorded NSS amount of \$1,980,516. The third-party charges related to 44 different third-party vendors, with 19 of those invoicing cumulative amounts of at least \$10,000. The following table summarizes Cornerstone's third-party charges:

⁹ Per Cornerstone's Vice President, "cell phones for foreman are reimbursed at \$100/month – that equates to the \$0.58/hr. rates. Cell phones for foreman charged to NSS is not part of the SGC's and was billed prorated based on NSS hours." We disagree based upon our understanding of the contract term.

<u>Vendor Name</u>	<u>Amount</u>	<u>% of Total</u>
Star Rentals	\$ 138,069	17%
Central Protection Inc.	\$ 110,019	14%
White Cap Construction Supply	\$ 74,394	9%
Matheus Lumber Company, Inc.	\$ 66,129	8%
Republic Services, Inc.	\$ 58,011	7%
United Rentals Northwest, Inc.	\$ 45,585	6%
Mobys 24HR Street Sweeping	\$ 32,655	4%
CCR_Pacific Coast Energy	\$ 29,812	4%
Cipro Group	\$ 22,339	3%
CHI Companies WA, LLC	\$ 21,399	3%
Secure A Site, Inc.	\$ 19,379	2%
Wells Fargo Bank, NA	\$ 19,310	2%
Pacific Mobile Structures, Inc.	\$ 18,807	2%
CCR_Secure Pacific Corp	\$ 17,632	2%
Flynnstone, LLC	\$ 17,430	2%
CCR_Able Spiffy Biffy LLC	\$ 15,623	2%
Magnum Construction Services	\$ 13,184	2%
CCR_Snyder-Green Oil	\$ 11,617	1%
Here Rentals	\$ 10,727	1%
Subtotal	\$ 742,120	94%
Other Vendors	\$ 48,438	6%
Total Third-Party NSS Cost	\$ 790,558	100%

For all third-party costs, MWL reviewed a complete listing of all vendor names and cost descriptions contained within Cornerstone's cost data for the purpose of identifying any unusual vendors or other costs potentially not allowed per the Contract. MWL identified three areas of cost that were charged through NSS but could potentially be part of the fixed-price amount agreed to for Specified General Conditions and thus would not be separately reimbursable. The three areas of questioned cost are construction photos, office trailers, and field office telephone/internet cost.

First, with respect to construction photos, \$6,392 was billed to the "photos" cost code in the NSS cost detail. These charges primarily relate to George White Location Photograph. Per the Cost Component Matrix attached to the Contract, photographic documentation is part of the Specified General Conditions. When questioned, Cornerstone's Vice President asserted that these charges were for aerial photos which are excluded from section 013233. However, due to the fact that the only mention of photos

on the Cost Component Matrix shows photos as part of the Specified General Conditions, MWL has questioned this \$6,392 amount billed for photos within NSS.

Regarding office trailers, the contract language and Cost Component Matrix provide potentially conflicting guidance. Per Article 6.5.7 of the Contract, all office trailers, furniture, technology, communication (including cell phones), personal transportation (including pickup trucks) and clerical equipment therein, project identification and temporary signage, and delivery by the Construction Manager, on-site storage, sheds and handling are Specified General Conditions. However, on the Cost Component Matrix, field office and sheds are identified to belong in NSS. When asked, Cornerstone's Vice President indicated that the guidance provided by the Cost Component Matrix was the basis for his billing for the office trailer cost. While recognizing that field offices are identified as an NSS item on the Cost Component Matrix, due to the language included in Article 6.5.7, MWL has identified the \$10,099 billed to the 'Cornerstone Office' cost code for the field office trailer as a questioned amount for SPS' consideration.

Lastly, MWL questioned the \$496 billed for 'construction field office telephone/internet cost.' Per Article 6.5.4 of the Contract, costs of document reproductions, facsimile transmissions and long-distance telephone calls, postage and parcel delivery charges, telephone service at the site and reasonable petty cash expenses of the site are included in Specified General Conditions and are not separately reimbursable. When asked, Cornerstone's Vice President concurred that those amounts were improperly charged.

MWL also performed electronic searches within the cost data for double-counted invoice entries and none were found. MWL made judgmental selections of invoices for auditing to source documentation. MWL selected invoices totaling \$458,621, or 58% of the billed third-party amounts; MWL located the selected invoices in Cornerstone's billing backup and did not note any discrepancies. No other issues were identified through our audit of Cornerstone's non-labor NSS billings.

Cornerstone Equipment – \$110,200

Cornerstone's NSS equipment cost was billed monthly. The NSS cost detail does not include any detail with respect to the monthly owned equipment rental charges. At our request, Cornerstone provided its owned equipment tool rental log which indicated that it had under-billed by \$10,979. The following table summarizes Cornerstone's owned equipment billings by item:¹⁰

¹⁰ The billing credits below for the plate compactor and jumping jack compactor were processed in error due to a formula error. Cornerstone intended to reverse the rental charges for these items as they were third-party rentals, but it only billed for these items in one month (\$2,500) and provided credits for five rental months (\$12,500 credit). The \$10,979 underbilling asserted by Cornerstone relates to the \$10,000 that it did not bill for these items (to match the total credits proffered) as well as \$979 that it intended to bill for the computer station plan table rental.

<u>Item Description</u>	<u>Total Billings</u>	<u>Total Adjusted Billings</u>	<u>Alleged Under-Billing</u>
Electrical Power Distribution Boxes	\$ 35,000	\$ 35,000	\$ -
50' Distribution Cord	\$ 24,860	\$ 24,860	\$ -
100' Distribution Cord	\$ 24,700	\$ 24,700	\$ -
Trash Tippler	\$ 11,620	\$ 11,620	\$ -
Whobble Lights	\$ 8,777	\$ 8,777	\$ -
Temp Lighting Strings	\$ 7,084	\$ 7,084	\$ -
Walky Talkies	\$ 5,445	\$ 5,445	\$ -
Combination Copier, Printer, Scanner	\$ 2,113	\$ 2,113	\$ -
Computer Station Plan Table	\$ -	\$ 979	\$ 979
Temp High Bay Lights	\$ 600	\$ 600	\$ -
Plate Compactor	\$ (4,000)	\$ -	\$ 4,000
Jumping Jack Compactor	\$ (6,000)	\$ -	\$ 6,000
Total CGC Equipment Billings	\$ 110,200	\$ 121,179	\$ 10,979

Per Article 6.5.2 of the Contract, rates of construction manager-owned equipment are subject to the Owner's prior approval. Further, the total rental cost of any Construction Manager-owned item may not exceed 75% of the purchase price of any comparable item. For this reason, MWL requested documentation to support the hours, rates, and purchase values for the listed equipment. Cornerstone's equipment log did not include the purchase values of the equipment and thus did not measure the billings for each against the 75% threshold. Cornerstone's Vice President conceded initially that "in some cases" equipment billings exceeded 75% of purchase price. In his view, "the other option would be to remove the owned equipment once it hits the threshold and replace with a third-party rental. In the best interest of the project, we chose to keep the CGC owned equipment on site to minimize costs to SPS."¹¹

Cornerstone appears to have ignored the parameters set forth by the Contract and over-billed for several items. Based upon the purchase value documentation provided by Cornerstone, its billings exceeded the 75% limit for several of the equipment items. MWL calculated a total adjustment of \$53,195 with respect to those items to limit the billings for each item to the 75% threshold. This amount is partially offset by the originally alleged under-billed amount, \$10,979, resulting a total questioned amount of \$42,216.

¹¹ We disagree with Cornerstone's Vice President's conclusion. The contract term is there to protect the owner from providing too much benefit to the contractor for its investment in the equipment, not to encourage cleverness on the part of the contractor to maximize spend against the owner's interest.

Contractor's Contingency and GMP Allowances

The original GMP included amounts of \$1,067,437 for the contractor's risk contingency (calculated at 5% of the original MACC¹²) and \$641,500 for GMP allowances. At MWL's request, Cornerstone provided its tracking logs and the accompanying change proposals to substantiate each draw against the contractor's contingency and allowances. After review, MWL noted that a small overrun in the GMP allowance spend was offset by an underrun in its contingency, resulting in no allowance or contingency savings. The following table summarizes Cornerstone's contingency and allowance usage by bid package:

Description of Service	Subcontractor	GMP Allowance Usage	Risk Contingency Usage	Added Via Change Order	Total Balance Transfers
BP-04.1: MASONRY (Construction by Champion)	Construction by Champion	\$ -	\$ -	\$ -	\$ -
BP-06.1: CASEWORK & FIN CARPENTRY (Pacific Cabinets)	Pacific Cabinets	\$ (8,287)	\$ (22,977)	\$ -	\$ (31,264)
BP-07.1: MET PNLS, SIDING & FLASHINGS (Andgar)	Andgar	\$ (9,850)	\$ (52,923)	\$ -	\$ (62,773)
BP-07.2: ROOFING (Snyder Roofing)	Snyder Roofing	\$ (144,376)	\$ (9,084)	\$ -	\$ (153,460)
BP-08.1: CURTAINWALL, STOREFRONT & GLAZING (Sheldrup)	Sheldrup	\$ (31,234)	\$ (57,751)	\$ -	\$ (88,985)
BP-09.1: FRAMING & GWB (GK Knutson)	GK Knutson	\$ (17,211)	\$ (338,338)	\$ -	\$ (355,550)
BP-09.2: ACOUSTICAL CEILINGS & TREATMENTS (Alliance)	Alliance	\$ -	\$ -	\$ (14,600)	\$ (14,600)
BP-09.3: RESILIENT FLOORING (Rubensteins)	Rubensteins	\$ (42,307)	\$ (3,848)	\$ -	\$ (46,155)
BP-09.3.1: CARPET FLOORING (Beresford)	Beresford	\$ (4,660)	\$ -	\$ -	\$ (4,660)
BP-09.4: TILE FLOORING (Quality Floors)	Quality Floors	\$ -	\$ -	\$ -	\$ -
BP-09.5: PAINTING & COATINGS (Mattila Painting)	Mattila Painting	\$ (14,683)	\$ (9,724)	\$ -	\$ (24,407)
BP-21.1: FIRE SPRINKLERS (Shinn Mechanical)	Shinn Mechanical	\$ -	\$ (4,128)	\$ -	\$ (4,128)
BP-22.1: MECHANICAL (Pipe Construction)	Pipe Construction	\$ (13,455)	\$ (34,907)	\$ -	\$ (48,362)
BP-26.1: ELECTRICAL (Milne Electric)	Milne Electric	\$ (16,495)	\$ (40,664)	\$ -	\$ (57,159)
BP-31.1: SITE DEVELOPMENT (Pelco Construction)	Pelco Construction	\$ (32,435)	\$ (55,602)	\$ -	\$ (88,037)
BP-32.1: LANDSCAPE & IRRIGATION (Total Landscape)	Total Landscape	\$ (1,304)	\$ (22,501)	\$ -	\$ (23,805)
	Subtotal	\$ (336,297)	\$ (652,448)	\$ (14,600)	\$ (1,003,346)
Rem Work:					
BP-03.1&05.1: STRUCTURAL & SEISMIC (Cornerstone)	Cornerstone	\$ (279,073)	\$ (429,249)	\$ 151,583	\$ (556,739)
BP-10.1: OPENINGS & SPECIALTIES (Cornerstone)	Cornerstone	\$ (110,356)	\$ (38,496)	\$ -	\$ (148,852)
	Subtotal	\$ (389,429)	\$ (467,745)	\$ 151,583	\$ (705,591)
	Total Usage	\$ (725,726)	\$ (1,120,194)	\$ 136,983	\$ (1,708,937)
	Original Balance	\$ 641,500	\$ 1,067,437		\$ 1,708,937
	Added Through Change Order	\$ 75,000	\$ 61,983		
	Remaining Balance	\$ (9,226)	\$ 9,226		\$ 0

Fixed-price Amounts for GC/CM Fee and Specified General Conditions – \$2,064,105

The following table summarizes Cornerstone's fixed-price GC/CM Fee and Specified General Conditions amounts, as adjusted through change orders:

¹² Maximum Allowance Construction Cost

<u>Description</u>	<u>Original Value</u>	<u>Added Through Change Order</u>	<u>Adjusted Total</u>	<u>% of Total</u>
Specified General Conditions	\$ 724,986	\$ -	\$ 724,986	35%
Contractor's Fee	\$ 1,216,878	\$ 122,241	\$ 1,339,119	65%
Total Asserted Value	\$ 1,941,864	\$ 122,241	\$ 2,064,105	100%

Specified General Conditions – \$724,986

The Specified General Conditions (“SGC”) are a fixed, lump sum amount for certain identified general conditions work and services to be provided by Cornerstone, as specified in the GC/CM Cost Responsibility Matrix. The SGC’s include all supervisory and administrative labor costs and other field office overhead items such as on-site trailers, office equipment, employee vehicle expenses, and general liability insurance and payment and performance bond, among other things. When asked, Cornerstone’s Vice President indicated that the fixed-price general conditions amount did not change over the project’s duration. As of the final accounting, Cornerstone is entitled to and has billed 100% of the Specified General Conditions amounts included in the GMP.

GC/CM Fee – \$1,339,119

The Construction Manager’s Fee (“Fee”) is based upon a fixed percentage, agreed to by the parties, applied to the original negotiated MACC. It results in a fixed-price, lump-sum amount that is intended to be the minimum amount payable to the Contractor for its profit and overhead and can be adjusted higher for approved increases to the Cost of the Work. The parties agreed to a mark-up of 5.70% for the GC/CM Fee. The total fee included in the original GMP was \$1,216,878. Per Article 5.1.2 of the Contract, in the event of a change order, the change in the fee would be 5.70% times the net change in the cost of the changed work. Cornerstone’s lump-sum fee increased by \$122,241 over the project’s duration to the final value of \$1,339,119. The fee compensates Cornerstone for its profit and all overhead expenses not otherwise reimbursable under the Contract. Per Cornerstone, the fee was billed to the project each month based on the percent complete method, similar to the Specified General Conditions costs. As of the final accounting, Cornerstone has billed 100% of the fee amounts to which it is entitled as included in the GMP.

In summary, the costs that Cornerstone submitted for reimbursement in the pay estimates are generally well-supported with appropriate underlying documentation, and Cornerstone has generally been professional and cooperative in responding to our audit questions and requests.

Summary of Audit Findings

The following table summarizes the cumulative impact of the potential adjustments and questioned amounts identified through the efforts of the audit:

Item	Description	Questioned Amount
1	Questioned Labor Add-Ons - Safety	\$ (18,687)
2	Questioned Labor Add-Ons - Misc. Consumables	\$ (27,926)
3	Questioned Labor Add-Ons - Small Tools	\$ (65,237)
4	Labor Cost Adjustment - Remove Cell Phones	\$ (317)
5	Labor Sick Pay Cost Adjustment	\$ (6,124)
6	Labor Cost Adjustment - L&I Rate Classification Correction	\$ (22,106)
7	Payroll Tax Adjustments	\$ (41,616)
8	Labor Overbilling - July 2018	\$ (5,466)
Subtotal - Questioned NSS Labor Cost		<u>\$ (187,478)</u>
9	Construction Photos NSS Cost	\$ (6,392)
10	Construction Office Trailer Cost	\$ (10,099)
11	Construction Field Office Telephone/Internet Cost	\$ (496)
12	CGC Owned Equipment Adjustment	\$ (42,216)
Subtotal - Questioned NSS Non-Labor Cost		<u>\$ (59,202)</u>
Total Questioned Costs		<u><u>\$ (246,680)</u></u>

Throughout the audit process, MWL identified questioned costs related to Cornerstone's NSS billings. MWL has questioned \$246,680 of Cornerstone's NSS billings, including \$187,478 of the craft labor amounts and another \$59,202 related to certain non-reimbursable items. The following section of this report contains MWL's calculation of the amount remaining for Cornerstone to bill in its final pay application.

Potential Final Payment Due to SPS from Cornerstone

Based upon the value of questioned costs above, the amount owed to SPS (excluding sales tax) to close-out Ingraham High School Classroom Addition would be calculated as follows:

1. Start with the sum of the Cost of the Work substantiated by Cornerstone's final accounting and the Construction Manager's Fee, but not more than the GMP
2. Subtract the questioned amounts identified in this report

3. Subtract additional amounts, if any, which SPS may wish to dispute / withhold (none)
4. Subtract the aggregate of previous amounts billed by Cornerstone

The following table shows MWL's calculation of the potential reduction to allowable cost:

<u>Description</u>	<u>Total</u>
Potential Adjusted GMP	\$ 28,373,803
Less: Previous Payments - Pay App #23	\$ 28,574,711
Less: Retainage	\$ -
Potential Reduction to Allowable Cost	<u>\$ (200,908)</u>

Summary

Per the agreement, Cornerstone had the ability to earn its substantiated cost, fee, and fixed-price Specified General Conditions ("SGC") up to the value its final GMP. At the time of audit, Cornerstone reported that it had been authorized a contract value of \$28,574,711 effective with Change Order #12. If a downward adjustment of \$246,680 was made to reflect the entirety of the questioned amounts, Cornerstone's final cost substantiation would be reduced to \$28,373,803 (\$28,620,483 less \$246,680). Under those circumstances, a potential deductive change order in the amount of \$200,908 (\$28,574,711 less \$28,373,803) would reduce the GMP to the adjusted value of \$28,373,803, as summarized in the following table:

	<u>Amount</u>
Total Asserted by Cornerstone	\$ 28,620,483
Potential Audit Adjustments	<u>\$ (246,680)</u>
Potential Adjusted Value	<u>\$ 28,373,803</u>
Current GMP (Change Order #12)	<u>\$ 28,574,711</u>
Potential Amount Under GMP	<u>\$ 200,908</u>

We believe that the planned scope of our work was sufficient for the intended purpose, that the work was planned and executed in the manner intended, and that our report to SPS is adequate to convey the observations that resulted from our work.