



Kalinthia R. Dillard
Inspector General

OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY



Inspector General
Accredited

Enhancing Public Trust in Government

Audit Report

2027-A-0001

Palm Beach County - CMAR Services for PBSO Headquarters Renovations Project No. 11206

October 19, 2026



Kalinthia R. Dillard
Inspector General

OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

AUDIT REPORT 2027-A-0001

DATE ISSUED: OCTOBER 19, 2026



Inspector General
Accredited

Enhancing Public Trust in Government

PALM BEACH COUNTY - CMAR SERVICES FOR PBSO HEADQUARTERS RENOVATIONS PROJECT NO. 11206

SUMMARY

WHAT WE DID

We conducted an audit of the Palm Beach County (County), Construction Manager at Risk Services for Palm Beach County Sheriff's Office (PBSO) Headquarters Renovations Project No. 11206 contract ("Contract") with Kast Construction Company LLC (Construction Manager or CM). We performed this audit as part of the Office of Inspector General (OIG), Palm Beach County 2024 Annual Audit Plan.

Our audit focused on construction phase activities, transactions, payment applications, and change orders attributable to the Contract through payment application #40.¹

WHAT WE FOUND

We found that the County generally had adequate controls over construction phase activities, transactions, and payment applications. However, we identified

internal control weaknesses in the change order management process. Specifically, some change order payments did not comply with the contract terms and others lacked the required approval from Palm Beach County Board of County Commissioners (Board) prior to making payment.

Specifically, the County paid insurance and construction manager fees in excess of Contract terms and made payments to the Construction Manager for work performed prior to obtaining required approvals from the Board.

Our audit identified **\$903,387.75** in questioned costs,² related to payments being made for change order work performed prior to formal Board approval; and **\$223,243.30** in identified costs,³ related to general requirements payments made in excess of Contract terms and unsupported insurance and bond fees paid in excess of Contract terms.

¹ This payment application was the most recent application approved by the County for payment at the time we completed our fieldwork testing (May 2026).

² Questioned costs can include costs or financial obligations incurred pursuant to a potential violation of a provision of law, regulation, contract, grant, cooperative agreement, other agreement, policies and procedures, or document governing the expenditure of funds; a finding that, at the time of the OIG activity, such cost or financial obligation is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. As such, not all questioned costs are indicative of potential fraud or waste.

³ Identified costs are costs that have been identified as dollars that have the potential of being returned to the entity to offset the taxpayers' burden.

The County paid Construction Manager Fees in Excess of Contract Terms.

Our review found that the County paid general requirements costs in excess of the original Guaranteed Maximum Price (GMP) schedule of values without sufficient supporting documentation.

When the Construction Manager requests compensation, the Contract requires that supporting documentation contain enough detail that would allow the County to approve the request. These payments are considered identified costs, totaling **\$2,527.65**, for non-compliance with Contract terms.

Additionally, our audit of 160 change orders revealed that the County paid insurance and bond fees at rates exceeding those established in the Contract. These payments are considered identified costs, totaling **\$220,715.65**, for non-compliance with the Contract terms.

The County payments to the Construction Manager exceeded the 5% fee cap mandated by the General Conditions. This cap limits the Construction Manager's compensation—including but not limited to overhead and profit—to 5% of the total subcontractor cost.⁴ Consequently, payments exceeding this threshold are non-compliant with the Contract terms. Additionally, the Construction Manager did not provide the County or our office with documentation to support the increase in costs for insurance, risk mitigation, and bonds.

The County did not always properly approve change orders prior to payment.

Our audit of 132 subcontractor payment requests revealed that the County reimbursed the Construction Manager for subcontractor work performed, ranging between 6 and 355 business days, **prior to the Board's formal approval** of change orders, as required by the Contract and County PPM CW-F-050.

Although the Board subsequently approved the payments, the payments were made prematurely without proper oversight and inconsistent with established processes, and therefore are considered questioned costs totaling **\$903,387.75** for non-compliance with the Contract terms and PPM CW-F-050.

WHAT WE RECOMMEND

Our report contains two (2) findings and seven (7) recommendations. Implementation of the recommendations will assist the County in strengthening internal controls over construction-phase activities, including processing payment applications and management of change orders, and provide assurance that costs are transparent, properly supported, and authorized before public funds are expended.

The County concurred and accepted six (6) of our recommendations and did not accept one (1) recommendation. We have included the County's management response as Attachment 1.

Pursuant to Article XIII, Section 2-427 of the Palm Beach County Code, we provided the Construction Manager with the opportunity to address the findings detailed in this report. We did not receive

⁴ The Contract terms did not establish a rate or other method for determining Construction Manager compensation specific to additional insurance and bond related fees attributable to changes in the work.

a response from the Construction Manager.

OIG Response to the County's Facilities Development & Operations Department regarding Finding (1)

The County agrees in part with Finding (1); however, it disagrees with the OIG's methodology used to evaluate insurance and bond premium payments made to the Construction Manager. The County contends that we have misunderstood the definition of the "CM fee and the allowable Change Order markup for the CM under General Condition (GC) 65," and that insurance and bond costs are a "cost of the work" under section 8.2.4 of the Contract, constitute reimbursable direct costs, and are not a component of the CM's fee.

However, despite the County's position, our methodology is based upon the CM's representations to our office and information contained on the CM's invoices to the County. Specifically, when we requested the CM provide invoices supporting the increased insurance and bond costs, the CM told us that invoices showing direct costs were not available as these costs reflected increases to the GMP and resulting increases in the mark-up. Additionally, the Contract states that the "cost of work" includes and is limited to *actual expenditures* for insurance and bond premiums. Because neither the County nor the CM could provide supporting documentation for the actual expenditures for insurance and bond

premiums incurred by the CM, and the CM billed the increased costs to the County as *a percentage* of the direct labor and material costs pertaining to the change orders, we included the costs in the maximum allowable fee payable to the CM under GC 65, which includes but is not limited to overhead and profit.

As the County notes in its response, it will update its standard boilerplate contract documents to explicitly outline its intended approach.

OIG Response to the County's Facilities Development & Operations Department regarding Finding (2)

The County agrees with Finding (2), however, it disagrees with characterization that \$903,387.75 in payments are considered questioned costs. Even though the County acknowledges that these payments were disbursed prematurely and did not comply with standard contract and policy requirements, it notes that the Board approved them prior to issuance of our report. Consequently, the County contends that considering these payments as questioned costs might imply an ongoing risk of fraud or waste.

However, as more fully described in footnote 2, questioned costs include costs or financial obligations incurred pursuant to a potential violation of... policies and procedures... governing the expenditure of funds. As such, not all questioned costs are indicative of potential fraud or waste.

BACKGROUND

The County's Facilities Development and Operations Department (FDO) is responsible for siting and land acquisition, building, and operating the county's physical plants, major equipment, and electronic systems. This includes the buildings occupied by the Sheriff's Office, the 15th Judicial Circuit Court, as well as several other Constitutional Officers including the Property Appraiser, Clerk of Courts, Supervisor of Elections, and the Tax Collector. The Capital Improvements Division (CID) of the FDO provides a full range of architectural, engineering, contract, and project management services, including procuring architectural and engineering services, administering bids and other procurement-related activities, and management of capital project construction activity.



PBSO Headquarters Renovations

Original construction of the PBSO Headquarters was completed in 1983 followed by a major expansion (commonly referred to as the building's wrap-around) in the 1990s. The existing structure accounts for approximately 200,000 square feet of office, warehouse, and specialized support space, housing multiple PBSO administrative and operational departments accounting for over 500 employees.



Planning efforts for the PBSO Headquarters Renovations project ("Project") were initiated in 2011 and at that time the scope mostly centering on space reconfigurations. In 2014, a design and professional services firm conducted a structural assessment of the PBSO Headquarters building and concluded that the existing exterior walls did not provide adequate protection against hurricane force winds. In 2016, the Project's approach was redefined, and an architectural/engineering firm was retained to provide design services in

the development of a master plan.

In April 2016, the County issued a Request for Proposals for Construction Management services consisting of pre-construction services, developing a GMP, and renovations to the PBSO Headquarters building on Gun Club Road, West Palm Beach.

The selected construction management firm functioned as a general contractor responsible for publicly bidding trade contracts, all scheduling and coordination, and the successful, timely, and economical completion of the Project. The selected Construction

Manager provided both preconstruction and construction services, overseeing the Project under a contractual GMP.

In November 2016, the FDO Director approved the Contract with the CM for construction management services for the Project. Construction was scheduled to start in late 2017, with completion anticipated in late 2018. The Project consisted of exterior and interior renovations of the building and was to be accomplished in several phases through GMP Amendments. Preliminary construction costs were estimated at \$17 million.

On March 10, 2020, the Board authorized the Clerk and Comptroller to assign a unique resolution number to the contract with Kast Construction Company LLC dated November 15, 2016, designating it as “Board Approved” so that all future authorizations would follow the applicable approval authority under County policy, since the total contract value would exceed \$200,000. Concurrently, the Board approved Amendment No. 1 to the Contract for construction costs in the amount of \$10,830,487, authorizing the first phase of construction involving exterior hardening services, but the amendment was terminated for convenience on April 7, 2020. According to the County, the termination served the best interests, health, safety and welfare of the County and its citizens because the PBSO site was being used as the County’s response center during the COVID-19 pandemic.

In July 2020, the Board approved Amendment No. 2 to the Contract for construction costs in the amount of \$585,772.55, authorizing communication and low voltage services that were required to provide connectivity between the newly constructed PBSO Evidence Building and the existing PBSO facility.

In March 2021, the Board approved Amendment No. 3 to the Contract for construction costs in the amount of \$33,653,791, consisting of interior and exterior work including but not limited to:

- (a) Hardening the existing exterior wall and window systems, including new wall cladding to be installed for hurricane protection;
- (b) Adding new reinforced concrete exterior walls;
- (c) Replacing the existing roofing system;
- (d) Replacing and upgrading the heating, ventilation, and air conditioning (HVAC) system;
- (e) Renovating the fire suppression and lighting systems; and,
- (f) Renovating the interior of all three levels of the facility to accommodate additional offices, workstations and conference spaces.

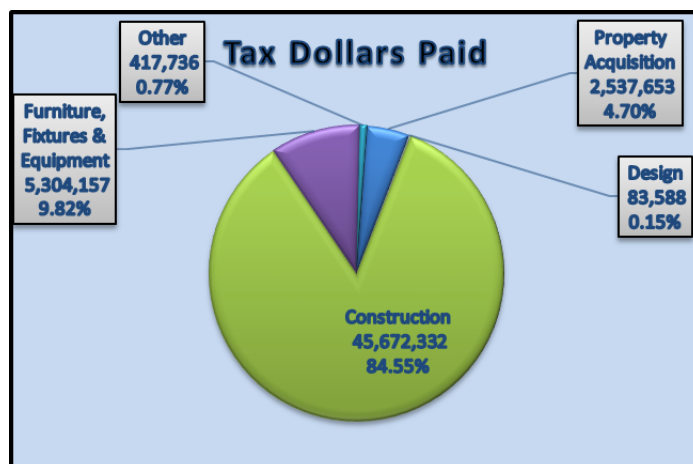
The Contract scope focused on delivering a weather-tight, hurricane-hardened facility that optimizes the interior layout, while improving the work environment for the PBSO departments occupying the building.

Project Funding

On November 8, 2016, Palm Beach County voters approved the imposition of a one-cent local government infrastructure surtax. The funds generated from the surtax were distributed to the County, municipalities within the county, and the County School Board

with the intent to finance, plan, construct, reconstruct, renovate, and improve infrastructure.⁵ The one-cent surtax went into effect on January 1, 2017, and ended when: (a) the proceeds generated were equal to, or exceeded, \$2,700,000,000 on or before September 1 of any year during the term of Palm Beach County Ordinance No. 2016-032; or, (b) December 31, 2026. On April 8, 2025, the Board passed Palm Beach County Ordinance No. 2025-008, repealing Ordinance No. 2016-032 in its entirety effective December 31, 2025.

As of March 31, 2026, total Contract costs were \$54,015,467 of which approximately \$47,679,994 was funded by the Infrastructure Surtax⁶ and the remaining amount was funded by Ad Valorem taxes. Costs were categorized as: Construction; Design; Furniture, Fixtures & Equipment; Property Acquisition; and Other.



The OIG 2024 Annual Audit Plan included Construction Contract audits. The OIG selected this construction contract because the construction project included funding from the one-cent local government infrastructure surtax and the County's FDO Department had minimal OIG coverage prior to this audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether:

- Controls were adequate to effectively manage the construction contract;
- Payment applications and change orders were properly documented and approved to avoid possible waste, fraud, and abuse; and,
- Change orders were managed effectively and in compliance with the contract.

The scope of the audit included, but was not limited to, construction phase activities, transactions, payment applications, and change orders attributable to the Contract.

The audit methodology included but was not limited to:

- Completion of a data reliability and integrity assessment of related computer systems;
- Review of ordinances, policies, procedures, contracts, agreements, and related requirements;

⁵ Adequate public infrastructure includes School Board-owned school buildings, equipment, technology and security; school buses; roads, bridges, sidewalks, streetlights, signalization, parks, recreational and governmental facilities, drainage, and wastewater facilities; and public safety vehicles and equipment.

⁶ Palm Beach County Ordinance No 2016-032, Local Government Infrastructure Surtax.

- Completion of process walk-throughs;
- Review of internal controls related to construction contract management;
- Review of internal controls related to payment application and change order approvals;
- Interview of appropriate personnel;
- Review of records, logs, and reports; and,
- Detailed testing of selected transactions.

As part of the audit, we completed a data reliability and integrity assessment for the computer system the County used to record payment disbursements. We determined that the computer-processed data contained in the County's system was sufficiently reliable for the purposes of the audit.

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

FINDINGS AND RECOMMENDATIONS

Finding (1): The County paid Construction Manager Fees in Excess of Contract Terms.

The **CONSTRUCTION MANAGER AT RISK SERVICES** contract for **CM@RISK SERVICES for PBSO HEADQUARTERS RENOVATIONS PROJECT No. 11206**, dated March 10, 2020 (Contract), states, in pertinent part,

ARTICLE 1

The Construction Team and Extent of Agreement

- 1.1 The Construction Manager agrees to furnish its best skill and judgment and to cooperate with the Owner⁷ and Architect **in furthering the interests of the Owner**. The Construction Manager agrees to furnish efficient business administration and superintendence and to use its best efforts to complete the Project in an expeditious and economical manner **consistent with the interests of the Owner**. [Emphasis Added]

...

ARTICLE 6

Guaranteed Maximum Price

⁷ Palm Beach County, a political division of the State of Florida, is considered the Owner.

6.1 The "Guaranteed Maximum Price" (GMP) includes Cost of the Work required by the Contract Documents as defined in Article 8 herein, and the Construction Manager's lump sum fee as defined in Paragraph 6.4 herein. The GMP will be established based on Construction Documents prepared by the Architect. The GMP is subject to modification for changes in the Work as provided in Article 9, herein.

...

6.3 In addition to the cost of work, the GMP will include an agreed upon sum as the construction contingency which is included for the purpose of defraying the expenses due to unforeseen circumstances relating to construction...

...

6.5 **Request for compensation** for services **shall be submitted in detail** as requested by Owner in order to approve the fee. [Emphasis Added]

...

6.8 Adjustments to the GMP will be made as described in the Conditions of the Contract.

...

6.10 All cost savings for the not-to-exceed value of the GMP shall be returned to the Owner as part of the net aggregate savings established when final accounting is submitted upon Final Completion of the Work, or at such earlier time as agreed to by the Owner and the Construction Manager. "Cost savings" are the net difference obtained by deducting from the Adjusted GMP, the expended portions of the documented Construction Manager's Fee, the construction contingency balance and the actual expenditures representing the Cost of the Work as defined in Article 8, herein. Liquidated damages, if any, are different from, and are not a part of, this calculation.

ARTICLE 7

Payments to Construction Manager

...

7.1.3 **Pay requests** for preconstruction services and **for construction shall be documented in accordance with the General Conditions and submitted in detail sufficient for a proper audit thereof.** [Emphasis Added]

ARTICLE 8

Cost of the Work

8.1 The term "Cost of the Work" shall mean costs including General Conditions costs, incurred in the Work as described and defined in Paragraph 8.2, below, and paid or incurred by the Construction Manager, which are not included in Paragraph 7.2, less any reimbursement for scrap value and cash or trade discounts, subject to Article 10, herein. The term "wages" used herein shall include the straight time and overtime pay and the cost of associated employee benefits. Employee benefits include, but are not limited to, unemployment compensation, social security, compensated absences, and other mandatory and customary contributions and fringe benefits insofar as such costs are based on wages, salaries, or other remuneration paid to employees of the Construction Manager. Employee benefits do not include Workers' Compensation insurance when such insurance is provided by the Owner in accordance with Article 11.

8.2 Cost of the Work includes and is limited to actual expenditure for the following cost items:

...

8.2.3 Payments made by the Construction Manager to Trade Contractors for their Work performed pursuant to Trade Contracts with the Construction Manager.

8.2.4 Cost of the premiums for all insurance or bonds including Trade Contractor bonds which the Construction Manager is required to procure by this Agreement, or other insurance or bonds subsequently deemed necessary by the Construction Manager, and agreed upon by the Owner...

...

ARTICLE 9

Changes in the Work

9.1 The Owner, without invalidating this Agreement, may order changes in the Work within the general scope of this Agreement consisting of additions, deletions, or other revisions. All changes in the Work shall be authorized as described in the General Condition of the Contract. Except in cases of emergency endangering life or property, the Construction Manager shall allow no Changes in the Work without the prior written approval of the Owner.

General Condition 65, section 9, to the contract states,

GC 65 CHANGES

...

65.9 If, at any time after Construction Manager commences such change, a method of compensation other than time and material is agreed upon, such compensation will be made in accordance with such agreement. In any event, **Construction Manager shall keep accurate records of the actual cost to**

Construction Manager for such change. Costs for which Construction Manager shall be entitled to compensation on a time and material basis as described above, are as follows: [Emphasis Added]

- A. Direct Labor Cost - ...
- B. Equipment Costs - ...
- C. Material Costs - ...
- D. Contract and Outside Service Costs - ...
- E. Tools and Equipment - ...

For purposes of any and all changes made pursuant to this provision (whether lump sum or time and material) as to all supplies, overhead, supervision and profit, the Construction Manager is entitled to a maximum of fifteen percent (15%) of the total direct labor and material costs pertaining to each change. **The maximum percentage, including but not limited to overhead and profit which may be added to actual cost for changes in the work shall be as follows:** [Emphasis Added]

1. For all work done by the Construction Manager's own forces, the Construction Manager may add 10% of its actual costs.
2. For all work done by subcontractors, the respective subcontractors may add 10% of their actual costs. **The construction manager may add 5% of the subcontractors total.** [Emphasis Added]

General Condition 67 to the contract states,

GC 67 MEASUREMENT OF AND PAYMENT FOR WORK

67.1 Estimates and all support data shall be prepared by Construction Manager and submitted in writing for Owner's approval on or about the end of each month covering the amount and value of work satisfactorily performed by Construction Manager up to the date of such estimate... [Emphasis Added]

The quantity of work to be paid for under any item for which a unit price is fixed in the Contract shall be the amount or number, approved by Owner, of units of work satisfactorily completed with the Contract and computed in accordance with applicable measurement for payment provisions of the Contract.

Progress Payments for General Conditions will be based on the percentage of work completed to date, except Bonds and Insurance which may be requested in full. Separate payments for shop drawings and deposits for materials will not be allowed.

We obtained pay application and change order documentation related to the Palm Beach County – CMAR Services for PBSO Headquarters Renovations Project No. 11206. Our

review included 30 paid payment applications (96%) totaling \$41,600,683.33⁸ and 372 change orders (100%), totaling \$9,176,876.95. These change orders were either **fee-based** (where the County paid or was credited) or **no-cost** (where no fee was charged).

With fee-based change orders, the Construction Manager is permitted to charge (credit) fees calculated on the cost of work. With no-cost change orders, the Construction Manager is not permitted to charge fees calculated on the cost of work performed because these costs were already included in the GMP (allowances) or are contractually prohibited (contingency).

Change Order Summary		
Category	Quantity	Amount
Fee-Based (Additional Work)	144	\$8,464,263.57
Fee-Based (credits)	16	(\$359,049.38)
No Cost	212	\$1,071,662.76
Total	372	\$9,176,876.95

Testing included evaluating general requirements fees paid in excess of the GMP scheduled value and percentage-of-cost fees paid by the County for contractor and builder's risk insurance; payment and performance bond; subcontractor risk mitigation; and contractor overhead and profit to ensure they were mathematically correct and in compliance with the Contract.

The Contractor's GMP proposal included fixed general requirements costs of \$1,247,228.00. However, this amount may increase, for example, if schedule delays occur due to any of the following reasons:

- a) Owner-directed change orders
- b) Differing site conditions
- c) Adverse weather
- d) Inspections or permitting
- e) Supply chain constraints

General Requirements Costs

Our review, through payment application #40,⁹ found that the County paid general requirements costs of \$2,527.65 more than the fixed amount established by the GMP. Anytime the Construction Manager requests compensation, Article 6.5 requires it to contain enough detail that would allow the County to approve the request.

Furthermore, Article 7.1.3 states that the detail must be sufficient to allow for a proper audit. However, the County did not provide our office with documentation to support the

⁸ Total includes change order costs.

⁹ This payment application was the most recent payment application approved by the County for payment at the time our fieldwork testing was completed (May 2026).

increase in general requirements costs shown below. Consequently, payments exceeding the original GMP amount are non-compliant with the Contract terms.

General Requirement Costs in Excess of GMP	
Description	General Requirements Total
Payment Application #40	\$1,335,759.35
GMP	\$1,247,228.00
Excess Paid	\$88,531.35

Following our audit, CID provided supporting documentation for a majority of the excess general requirements paid. Documentation included additional labor costs due to project inspections totaling \$37,193.68 and other additional costs totaling \$48,810.02 for changes and delays; permitting fees; soil and materials testing; and portable air conditioning units.

Payments made in excess of the supporting documentation provided are considered identified costs totaling **\$2,527.65¹⁰** due to non-compliance with Contract terms.

Insurance, Bonding, and Risk mitigation Costs

Additionally, in 158 of 160 (99%) change orders tested, we found that the Construction Manager charged the County between 1.0% and 5.0% for contractor and builder's risk insurance; payment and performance bond; subcontractor risk mitigation; and contractor overhead and profit for work performed by subcontractors.

Description	Rate
Builders Risk Insurance	1.00%
Payment & Performance Bond	1.00%
Subcontractor Risk Mitigation	1.35%
Contractors Insurance	1.75%
Contractor Overhead & Profit	5.00%
Total	10.10%

The County issued payments to the Construction Manager in excess of the 5% fee cap established by General Condition 65.9. This condition limited the Construction Manager's compensation, including overhead and profit, to a maximum of 5% of the subcontractor's contract total value. Consequently, payments exceeding this threshold were non-compliant with the Contract terms. Additionally, the Construction Manager did not provide the County or our office with documentation to support the increase in costs, invoices, billings, etc., that are shown below.

¹⁰ Excess paid of \$88,531.35 – \$37,193.68 – \$48,810.02 = \$2,527.65.

Change Order Costs in Excess of Contract Terms	
Description	Total
Contractors Insurance	\$128,453.31
Subcontractor Risk Mitigation	\$99,039.76
Builders Risk Insurance	\$73,391.29
Payment & Performance Bond	\$73,391.29
Excess Paid	\$374,275.65

Following our audit, CID provided supporting documentation for some of the insurance costs paid in excess of the Contract terms. Documentation included builder's risk insurance costs totaling \$101,529.00 and payment & performance bond premiums totaling \$52,031.00.

Payments made in excess of the supporting documentation are considered identified costs totaling **\$220,243.30¹¹** for non-compliance with the Contract terms.

While the County confirmed that General Condition 65.9 entitles the Construction Manager to a 5% overhead and profit markup on subcontractor work, it noted that rates for insurance, bonding, and risk mitigation are not established until the first change order is submitted.

The lack of supporting documentation for additional costs outside the Contract's GMP reduces fiscal transparency, undermines the County's ability to independently verify that public funds were spent appropriately or that invoices are accurate, and increases risk of unauthorized expenditures, overpayments, or undetected fraud, waste, and abuse.

Additionally, the absence of predefined contract rates for insurance and bond-related costs resulted in the County processing payments exceeding the 5% maximum fee established by General Condition 65.9, leading to unnecessary project costs and contractual non-compliance.

Recommendations:

- (1) The County consider recovering the \$2,527.65 in overbilled fees paid to the Construction Manager for general requirements costs.**
- (2) The County consider recovering the \$220,715.65 in overbilled fees paid to the Construction Manager for insurance, bonding, and risk mitigation costs.**
- (3) The County require the Construction Manager to provide detailed cost documentation for any fees billed in excess of the original GMP scheduled value prior to making payment.**

¹¹ Excess paid of \$374,275.65 – \$101,529.00 – \$52,031.00 = \$220,715.65.

- (4) The County require that contract documents include predefined rates for all anticipated project costs to ensure fiscal transparency, promote consistency across County construction costs, and prevent overbilling.
- (5) The County enhance its construction contract payment review and oversight process to ensure Construction Manager/Contractor change order billings are sufficiently supported with documentation and in compliance with the contract documents.

Management Response Summary:

The County partially concurred with Finding (1); concurred and accepted Recommendation (1); concurred and accepted Recommendation (2); concurred and accepted Recommendation (3); concurred and accepted Recommendation (4); and concurred and accepted Recommendation (5). The County's written response is included in Attachment 1.

OIG Response

The County agrees in part with Finding (1); however, it disagrees with the OIG's methodology used to evaluate insurance and bond premium payments made to the Construction Manager. The County contends that we have misunderstood the definition of the "CM fee and the allowable Change Order markup for the CM under General Condition (GC) 65." And that insurance and bond costs are a "cost of the work" under section 8.2.4 of the Contract, constitute reimbursable direct costs, and are not a component of the CM's fee.

However, despite the County's position, our methodology is based upon the CM's representations to our office and information contained on the CM's invoices to the County. Specifically, when we requested the CM provide invoices supporting the increased insurance and bond costs, the CM told us that invoices showing direct costs were not available as these costs reflected increases to the GMP and resulting increases in the mark-up. Additionally, the Contract states that the cost of work includes and is not limited to actual expenditures for insurance and bond premiums. Additionally, the Contract states that the "cost of work" includes and is not limited to actual expenditures for insurance and bond premiums. Because neither the County nor the CM could provide supporting documentation for the actual expenditures for insurance and bond premiums incurred by the CM, and the CM billed the increased costs to the County as a percentage of the direct labor and material costs pertaining to the change orders, we included the costs in the maximum allowable fee payable to the CM under GC 65, which includes but is not limited to overhead and profit.

As the County notes in its response, it will update its standard boilerplate contract documents to explicitly outline its intended approach.

Finding (2): The County did not always properly approve change orders prior to payment.

The **CONSTRUCTION MANAGER AT RISK SERVICES** contract for **CM@RISK SERVICES for PBSO HEADQUARTERS RENOVATIONS PROJECT No. 11206**, dated March 10, 2020, (Contract) states,

...

ARTICLE 9

Changes in the Work

9.1 The Owner, without invalidating this Agreement, may order changes in the Work within the general scope of this Agreement consisting of additions, deletions, or other revisions. All changes in the Work shall be authorized as described in the General Condition of the Contract. Except in cases of emergency endangering life or property, the Construction Manager shall allow no Changes in the Work without the prior written approval of the Owner.

General Condition 65, section 9, to the contract states,

GC 65 CHANGES

...

65.9 If, at any time after Construction Manager commences such change, a method of compensation other than time and material is agreed upon, such compensation will be made in accordance with such agreement. In any event, Construction Manager shall keep accurate records of the actual cost to Construction Manager for such change. Costs for which Construction Manager shall be entitled to compensation on a time and material basis as described above, are as follows:

...

- D. **Contract and Outside Service Costs** – Payment for work and services subcontracted by Construction Manager in the performance or completion of the change will be made only when both the subcontractor and the terms of payment to such subcontractor have been **approved in writing by Owner before the subcontractor starts to work on the change**. [Emphasis added]

The County's Policies and Procedures Memoranda (PPMs), PPM CW-F-050, effective February 4, 2016, and April 6, 2023,¹² states,

¹² Our finding reflects the updated PPM language effective April 6, 2023. The PPM language effective February 4, 2016, was substantially the same with minor differences in the "POLICY" language which do not affect this finding.

PURPOSE:

In order to ensure that change order and consultant service authorizations authority for Construction, Engineering and Architectural Contracts is consistent with uniform application and prior Board policy, authority limits and procedures as described below shall apply when indicated.

...

POLICY:

The approval of routine change orders, consultant services authorizations, work orders, additional services, final acceptance of construction projects, referred to as "Construction Related Documents", are delegated to the County's Contract Review Committee and Lead Department Heads within described authority limits.

This policy applies to:

1. All Board of County Commissioners executed construction contracts; and

...

PROCEDURES:

...

4. When construction contracts or contracts with architects, engineers, land surveyors, and landscape architects are entered into for less than \$200,000 and executed by an appropriate Department Head as permitted by the County's Purchasing Code (Palm Beach County Code, Chapter 2, Part A) and all subsequent amendments thereto, as well as Countywide PPM CW-F-064, all change orders and consultant services authorizations, and work orders shall be executed by an appropriate Department Head, unless:
 - A. The change order or consultant services authorization brings the cumulative total contract amount to \$200,000 or more; or
 - B. The Lead Department head desires to bring the particular change order or consultant services authorization to the attention of the Board of County Commissioners.

In either A or B above, such change orders, consultant services authorizations or work orders shall be put on a meeting agenda for action by the Board of County Commissioners.

This section does not apply to annual contracts with architects, engineers, land surveyors and landscape architects authorized by the Board of County Commissioners. No other provisions of this PPM apply to contracts less than \$200,000.

We obtained change order documentation related to the Project. We audited 22 change orders (6% of the total),¹³ comprising 132 subcontractor payments. These requests represented a combined value of \$2,515,929.34.

Testing was performed to ensure change orders complied with the contract documents. Specifically, that change orders: (a) were properly justified, approved for payment, and supported by adequate disbursement records; (b) invoice line items contained accurate and sufficient detail to justify change orders charges; and (c) supporting documentation appeared authentic, complete, and consistent.

In 44 of 132 (33%) subcontractor payment requests tested, totaling \$903,387.75, the County reimbursed the Construction Manager for subcontractor work performed, ranging between 6 and 355 days, **prior to formal change order approval by the Board** as required by the Contract and PPM CW-F-050.

We inquired if individual Construction Change Proposals¹⁴ (CCP) were approved by the Capital Improvement Division (CID) under the authority of Palm Beach County, PPM CW-F-050.¹⁵

CID informed us that if the cumulative value of the change order CCP's being submitted exceeds the cumulative total contract amount of \$300,000, the item is brought before the Board for approval. The Board package includes the associated Consultant Field Bulletin,¹⁶ Consultant review and approval letter of the CCP's (including review of cost and change) and signature of the Contractor and County Project Manager. The Construction Manager/Contractor, at their own discretion and risk, may move forward with the work, prior to Board approval, in order to avoid affecting the sequence of operations or schedule. They, however, are not given authorization by the County until the Board approves the item.

CCP Number	Subcontractor(s)	Board Approval Date	Date Paid	Business Days	Payment
31	Davco Electrical	4/5/2022	3/29/2022	6	30,070.05
31	Jade Communications	4/5/2022	3/29/2022	6	150,675.60
65	N&P Construction	8/12/2022	8/1/2022	10	58,250.00
90	Southeast Mechanical	4/5/2022	3/11/2022	18	15,000.00
90	Southeast Mechanical	4/5/2022	3/29/2022	6	25,000.00
118	Davco Electrical	4/5/2022	3/29/2022	6	25,337.00
119	Davco Electrical	4/5/2022	3/29/2022	6	9,656.00

¹³ The Project generated 372 change orders. Of these, we tested a representative sample of 22 change orders (6%.)

¹⁴ A construction or contract change proposal (CCP) is the Construction Manager's written proposal of the increase or decrease in cost, and/or time, to the County for performing a modification to the work covered in the contract. CCPs may contain one or more subcontractor quotes or proposals to perform the modification. A change order may contain one or more CCPs.

¹⁵ Change Order and Consultant Services Authorization Authority for Construction and Engineering and Architectural contracts can be reviewed at: <https://www.pbcgov.com/publicaffairs/ppm/pdf/cw-f-050.pdf>

¹⁶ A field bulletin is a formal notification issued by the Architect/Engineer detailing modifications to the original scope of work. It serves as the technical basis for the Construction Manager to prepare a CCP. If approved by the County's Project Manager, the CCP will be formalized as a change order.

147	Ralph Della-Pietra	8/12/2022	3/29/2022	99	7,500.00
147	Ralph Della-Pietra	8/12/2022	5/16/2022	65	12,802.50
147	Ralph Della-Pietra	8/12/2022	6/1/2022	53	6,090.75
147	Ralph Della-Pietra	8/12/2022	6/30/2022	32	6,090.75
147	Davco Electrical	8/12/2022	6/30/2022	32	44,698.00
147	Renco Plumbing	8/12/2022	6/30/2022	32	8,467.80
147	Ralph Della-Pietra	8/12/2022	8/1/2022	10	8,121.00
147	Davco Electrical	8/12/2022	8/1/2022	10	44,698.00
147	Jade Communications	8/12/2022	8/1/2022	10	25,000.00
147	Construction Trade Partners	8/12/2022	8/1/2022	10	15,290.00
152	Construction Trade Partners	8/12/2022	6/1/2022	53	6,502.00
152	Ralph Della-Pietra	8/12/2022	6/1/2022	53	5,432.25
152	Ralph Della-Pietra	8/12/2022	8/1/2022	10	1,810.75
152	Jade Communications	8/12/2022	8/1/2022	10	28,000.00
152	Construction Trade Partners	8/12/2022	8/1/2022	10	36,958.00
182	Construction Trade Partners	11/21/2023	8/1/2022	342	26,644.00
182	Ralph Della-Pietra	11/21/2023	10/24/2022	282	7,407.00
182	Rolling Door Manufacturing	11/21/2023	1/5/2023	229	9,480.00
182	Walker Design & Constr.	11/21/2023	5/23/2023	131	4,802.95
184	Jade Communications	11/21/2023	10/24/2022	282	9,000.00
184	Jade Communications	11/21/2023	6/29/2023	104	9,242.47
197	Atlantic Doors & Hardware	11/21/2023	1/15/2023	222	30,000.00
197	Atlantic Doors & Hardware	11/21/2023	2/1/2023	210	11,000.00
197	Atlantic Doors & Hardware	11/21/2023	3/3/2023	188	3,500.00
197	Atlantic Doors & Hardware	11/21/2023	4/11/2023	161	7,720.00
225	Ralph Della-Pietra	4/9/2024	11/30/2022	355	26,497.00
225	Renco Plumbing	4/9/2024	1/5/2023	329	1,070.84
225	Cherokee Glass	4/9/2024	1/5/2023	329	7,000.00
225	Cherokee Glass	4/9/2024	3/3/2023	288	10,310.00
306	Ralph Della-Pietra	4/9/2024	2/1/2023	310	12,905.00
306	Ralph Della-Pietra	4/9/2024	2/1/2023	310	17,521.00
311	Ralph Della-Pietra	4/9/2024	5/23/2023	231	3,807.00
326	TKE Elevator	4/9/2024	6/29/2023	204	102,500.00
326	All American Ceilings	4/9/2024	6/29/2023	204	6,899.28
345	Ralph Della-Pietra	8/5/2024	11/7/2023	195	16,074.00
345	A-1 Paint, Inc.	8/5/2024	1/2/2024	155	4,232.88
345	A-1 Paint, Inc.	8/5/2024	5/23/2024	53	4,323.88
Questioned Costs					903,387.75

These payments are considered questioned costs totaling **\$903,387.75**, due to non-compliance with the Contract terms and PPM CW-F-050.

The County participates in bi-weekly Owner-Contractor-Architect (OAC) meetings with the CM and the Architect/Engineer. During these meetings, the County receives the draft monthly payment application; subsequent site walks with the Architect/Engineer are conducted to verify that the reported progress accurately reflects the work performed.

In the absence of discrepancies, the County instructs the CM to prepare a “final” payment application. The “final” payment application is provided to the Architect/Engineer for accuracy and, upon approval, signs the document and forwards it to the County for payment.

While the County and Architect/Engineer review payment applications for work progress, the current process lacks a formal verification step to ensure that subcontractor change order work has received Board approval prior to disbursement.

Disbursing payment to the Construction Manager for unapproved subcontractor work represents a failure of internal control. Processing these payments before change order approval exposes the County to financial risk, including potential waste, unauthorized expenditures, and the inability to recoup funds for substandard work.

Recommendations:

- (6) The County enhance its construction contract payment review and oversight process to ensure Construction Manager/Contractor payments are in compliance with the contract documents.**

For example, by creating/maintaining a schedule of all construction change proposals that includes the:

- (a) County Change Order number;**
- (b) County Change Order approval date;**
- (c) Contractor CCP number;**
- (d) Subcontractor CCP total amount;**
- (e) Contractor Payment Application number containing subcontractor CCP payment;**
- (f) Subcontractor CCP payment amount; and,**
- (g) Subcontractor CCP total amount paid.**

Allowing the County/Project Manager to verify the subcontractor requested payment amounts against the schedule of values and the construction change proposal schedule.

- (7) The County require the Construction Manager/Contractor to sign a certification statement on the draft payment application confirming that all the included subcontractor requests for payment are the result of either the original contract or an approved change order.**

Management Response Summary:

The County agrees with Finding (2) but not the characterization of Questioned Costs; concurred and accepted Recommendation (6); and, did not accept Recommendation (7). The County's written response is included in Attachment 1.

OIG Response:

The County agrees with Finding (2), however, it disagrees with characterization that \$903,387.75 in payments are considered questioned costs. Even though the County acknowledges that these payments were disbursed prematurely and did not comply with standard contract and policy requirements, it notes that the Board

approved them prior to issuance of our report. Consequently, the County contends that considering these payments as questioned costs might imply an ongoing risk of fraud or waste.

However, as more fully described in footnote 2, questioned costs include costs or financial obligations incurred pursuant to a potential violation of... policies and procedures... governing the expenditure of funds. As such, not all questioned costs are indicative of potential fraud or waste.

SUMMARY OF COSTS IDENTIFIED IN THE AUDIT

Questioned Costs

Finding	Description	Questioned Costs
2	Change orders paid prior to proper approval.	\$903,387.75
	TOTAL QUESTIONED COSTS	\$903,387.75

Identified Costs

Finding	Description	Identified Costs
1	Payments made in excess of Contract terms (general requirements).	\$2,527.65
1	Payments made in excess of Contract terms (insurance and bond fees).	\$220,715.65
	TOTAL IDENTIFIED COSTS	\$223,243.30

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the County's Facilities Development & Operations Department and its Capital Improvement Division's staff for their assistance and support in completion of this audit.

This report is available on the OIG website at: <http://www.pbc.gov/OIG>. Please address inquiries regarding this report to the Director of Audit by email at inspector@pbc.gov or by telephone at (561) 233-2350.

ATTACHMENT

Attachment 1 – Palm Beach County Facilities Development & Operations Department's Management Response

ATTACHMENT 1

MEMORANDUM

September 30, 2026



TO: Hillary Bojan, Director of Audit, Office of Inspector General

FROM: Jennifer Ferriol, Director, Facilities Development & Operations

A handwritten signature in blue ink, appearing to be "JF", is written next to the name Jennifer Ferriol.

RE: Response to Draft Audit Report 2026-A-000X

Palm Beach County – CMAR Services for PBSO Headquarters Renovations Proj. No. 11206

**Facilities Development &
Operations Department**

2633 Vista Parkway
West Palm Beach, FL 33411
Telephone (561) 233-0200
www.pbc.gov/fdo

**Palm Beach County
Board of County
Commissioners**

Sara Baxter, Mayor

Marci Woodward, Vice Mayor

Maria G. Marino

Gregg K. Weiss

Joel G. Flores

Maria Sachs

Bobby Powell Jr.

County Administrator

Joseph Abruzzo

*"An Equal Opportunity
Employer"*

The Facilities Development & Operations (FDO) Department, Capital Improvements Division (CID) provides the following responses to the findings and recommendations identified in the draft audit report referenced above.

Finding (1): The County paid Construction Manager Fees in Excess of Contract Terms.

Department Response: FDO/CID agrees in part with this Finding, but disagrees as to the methodology used to evaluate insurance and bond payments. In essence, this Finding involves two separate issues: 1) Payments exceeding the initial GMP amount and 2) Insurance and Bond costs.

Payments Exceeding the Initial GMP (Draft Report pg. 13)

The draft audit report notes that \$2,527.65 in payments were made in excess of the original GMP amount and therefore were non-compliant with the Contract terms. Under this contract, which totaled more than \$54 million dollars, FDO/CID agrees that \$2,527.65 in payments are missing supporting documentation as of this date, but we believe that a more exhaustive review may be able to account for this amount. If we are unable to reconcile this payment or fail to uncover supporting documentation for this amount, we will deduct the unresolved amount from the Construction Manager's (CM) remaining payment, before the final payment is processed.

Insurance & Bond Costs (Draft Report pgs. 14-15)

In the draft audit report, there has been a misunderstanding of the definition of both the CM Fee and the allowable Change Order markup for the CM under General Condition (GC) 65.

Insurance and bond costs are a "cost of the work" under section 8.2.4 of the CM contract (these costs are not part of the CM fee under section 6.4 or the CM markup under GC 65). Under section 8.2.4 of the contract and GC 67.1, the CM is entitled to payment in full for bonds and insurance when requested.

Consequently, the text and analysis on pages 14 and 15 of the draft report—which asserts that the County issued insurance/bond payments "in excess of the 5% fee cap established



by GC 65.9"—are inaccurate. Insurance and bond costs constitute reimbursable direct costs and are not a component of the CM's overhead and profit markup.

In government construction contracting, insurance and bond costs for change orders are traditionally calculated using a fixed percentage markup applied to the direct net cost of the additional work. For this project, as the draft audit report details, the fixed percentage markup applied to change orders were structured as follows: Contractor's Insurance – 1.75%; Subcontractor Risk Mitigation – 1.35%; Builders Risk Insurance – 1%; and Payment & Performance Bond – 1%. At the end of the project, these provisional costs are comprehensively reconciled at project closeout. Any identified overpayments are subsequently deducted from the final payment application.

FDO/CID acknowledges that the existing contract language does not explicitly outline the fixed percentage markup approach for change order related insurance/bond costs. To remedy this, FDO/CID will update its standard boilerplate contract documents to account for this markup approach (see response to Recommendation # 3).

CID is currently processing the final pay application for this project. As part of our standard operating procedure for project closeout, FDO/CID is conducting a comprehensive financial reconciliation and has requested supplementary supporting insurance documentation from the CM. FDO/CID will offset the final payment to recover any funds for which adequate supporting documentation is not provided.

FDO/CID's review of the supporting invoices for insurance/bond charges has yielded the following preliminary reconciliation findings for the final payment application:

- Contractor's insurance – overpayment of \$128,463.45
- Builder's Risk – remaining balance owed \$28,121.35
- Payment and Performance Bond – overpayment of \$24,135.65

CM agrees with these findings and the final payment will be offset by a net amount of \$124,477.75 to account for these items. Regarding the Subcontractor's Risk Mitigation insurance, FDO/CID's analysis indicates a preliminary overpayment of \$99,100.34, based upon the invoices received to date. The CM has advised they are working to secure the necessary supporting documentation. If CM is unable to obtain proper validation, this sum will also be offset from final payment.

While FDO/CID's findings on the cumulative overpayment for insurance and bond costs closely align with the draft audit report's findings, there is a slight variance as FDO/CID's analysis indicates a total overpayment of \$223,578.09. FDO/CID will offset the final payment to recover these funds, if adequate supporting documentation is not provided.



Draft Audit Recommendations:

- 1) The County consider recovering the \$2,527.65 in overbilled fees paid to the Construction Manager for general requirement costs.**

Department Response: As noted in the response to Finding 1, with a contract totaling more than \$54 million dollars, FDO/CID believes that a more exhaustive review may be able to account for the \$2,527.65 in payments missing supporting documentation. At present, \$251,268.02 is being held in retainage. If FDO/CID is unable to reconcile and obtain supporting documentation for this \$2,527.65, it will offset the final payment to recover such funds.

- 2) The County consider recovering the \$220,715.65 in overbilled fees paid to the Construction Manager for insurance, bonding, and risk mitigations costs.**

Department Response: As noted in the response to Finding 1, FDO/CID's findings on the cumulative overpayment for insurance and bond costs closely align with the draft audit report's findings, there is a slight variance as FDO/CID's analysis indicates a total overpayment of \$223,578.09.

At present, \$251,268.02 is being held in retainage. If FDO/CID is unable to reconcile the net overpayment of \$124,477.75 (or \$223,578.09 net overpayment if CM is unable to provide supporting documentation for the total in Subcontractor's Risk Mitigation insurance that has been paid), it will offset the final payment to recover such funds.

- 3) The County require the Construction Manager to provide detailed cost documentation for any fees billed in excess of the original GMP scheduled value prior to making payment.**

Department Response: Current FDO/CID standard contract language and policies require detailed cost documentation prior to authorizing any payments in excess of the original GMP.

Prior to making any payment, the following process occurs:

- A draft copy of the pay application is reviewed with the CM against completed work.
- Any comments from the draft copy are incorporated into a final version of the pay application with associated back-up added to the package.
- CM certifies that to the best of its knowledge, information and belief, the work covered by the pay application for payment has been completed in accordance with the contract documents and that all amounts have been paid by the CM for work for which previous certificates for payment were issued. The CM is the first signature on the pay application.
- The Architect/Engineer (A/E) is furnished the pay application package for their review and comment, and they verify the supporting documentation.
- Comments (if issued) are incorporated and the A/E will approve as the second signature.
- FDO/CID is then furnished with a copy of the Pay Application (including associated back-up) for its review and concurrence.



- FDO/CID will review the pay application package submitted and once approved, the pay application is signed and submitted to the County Fiscal Department for processing.

This \$54 million dollar project was complex, involving scope changes, the pandemic and pay applications with hundreds of pages. But for the \$2,527.65 that FDO/CID is still attempting to reconcile, detailed cost documentation was provided and accounted for costs billed in excess of the original GMP amount. However, FDO/CID will draft and implement, within 120 days of the final audit report issuance, supplemental contract boilerplate language further detailing the need for supporting documentation for reimbursable costs.

Regarding insurance and bond costs, public construction industry standards allow for change order insurance and bond expenses to be calculated using a fixed percentage markup applied to the direct net cost of the additional work. Establishing uniform, predefined dollar rates for insurance is impractical, as actual premium rates vary significantly among CMs based on firm-specific risk factors, such as historical claims experience.

However, FDO/CID agrees that establishing standardized percentage markup limits within the contract is necessary. To address this, FDO/CID will draft and implement, within 120 days of the final audit report issuance, supplemental contract boilerplate language addressing fixed percentage markup rates for insurance and bond costs being applied to the direct net cost of added work in change orders.

- 4) **The County requires that contract documents include predefined rates for all anticipated project costs to ensure fiscal transparency, promote consistency across County construction costs, and prevent overbilling.**

Department Response: See response to Recommendation # 3.

- 5) **The County enhance its construction contract payment review and oversight process to ensure Construction Manager/Contractor change order billings are sufficiently supported with documentation and in compliance with the contract documents.**

Department Response: See response to Recommendation # 3 and # 6.

Finding (2): The County did not always properly approve change orders prior to payment.

Department Response: FDO/CID agrees with the Finding, but respectfully objects to the characterization of "\$903,387.75" as questioned costs.

While FDO/CID acknowledges that the 44 subcontractor change order requests identified in the draft audit report were paid prematurely and in deviation from standard contract and policy requirements, all 44 of these requests were approved by the Board prior to issuance of the draft audit report.



At the time of processing, all 44 subcontractor change order requests fell within the delegated approval authority of either the Department Director or the Contract Review Committee. Under standard operating procedures, these items would have been reviewed and approved within a few weeks. However, given to the high-profile nature of this project, the FDO and County Administration leadership in place at the time chose to consolidate these smaller change orders and present them to the Board as part of larger, single change orders to ensure full transparency, though it extended the timeline required to secure formal approval.

Because the Board subsequently approved these subcontractor change orders prior to issuance of the draft audit report, reference to the total amount of these premature payments is not relevant. FDO/CID is concerned that a general reader may confuse a designation of \$903,387.75 in "questioned costs" as being the actual amount that is still in question and subject to a finding of potential fraud or waste. No such risk exists here as the total amount of these expenditures has been approved by the Board. Therefore, FDO/CID respectfully requests that the final audit report be revised to indicate that there were 44 subcontractor change order requests that were questioned costs, but were ultimately approved by the Board and remove specific reference to the amount of \$903,387.75.

Draft Audit Recommendations:

- 6) **The County enhance its construction contract payment review and oversight process to ensure Construction Manager/Contractor payments are in compliance with the contract documents.**

For example, by creating/maintaining a schedule of all construction change proposals that includes the:

- a. **County Change Order number;**
- b. **County Change Order approval date;**
- c. **Contractor CCP number;**
- d. **Subcontractor CCP total amount;**
- e. **Contractor Payment Application number containing subcontractor CCP payment;**
- f. **Subcontractor CCP payment amount; and,**
- g. **Subcontractor CCP total amount paid.**

Allowing the County/Project Manager to verify the subcontractor requested payment amounts against the schedule of values and the construction change proposal schedule.

Department Response: FDO/CID agrees with the recommendation to implement an enhanced payment review and oversight process to prevent premature payments prior to formal approval.

To address this, FDO/CID will enhance training of its project managers as to this process and/or establish a new PPM within 120 days of the final audit report issuance. This policy will specifically target project managers overseeing large-scale projects exceeding \$10 million. Under the new PPM, the project managers will work with the CMs at the onset of the project to require that the CM clearly define each change order separately on the pay application. The pay application description for each change order is to include: Approval Date of Change Order, Approved By



(CRC, Director, or BCC), value of work performed as of the date of the pay application request and corresponding percentage complete for said change order. The project manager will also work with the CM to submit a comprehensive payment application breakdown in Excel, which will also include columns for Reference Number (e.g., CO 3 – CCP 31), Approval Date of Change Order, and Approved By (CRC, Director, or BCC).

FDO/CID is also seeking to implement cloud-based construction program/project management software technology to better account for contract administration, including contract payment review and oversight.

Implementing these changes will effectively mitigate the risk of premature payments on major capital projects moving forward.

- 7) The County require the Construction Manager/Contractor to sign a certification statement on the draft payment application confirming that all the included subcontractor requests for payment are the result of either the original contract or an approved change order.**

Department Response: FDO/CID does not believe this certification statement is necessary. The contract documents already clearly state that the CM is only entitled to be paid for the original contract sum and approved change orders. As noted above, the issue is ensuring that change order approvals have occurred before making payment. The changes as stated above will facilitate the tracking of change order approvals to better ensure that premature payments are not made in monthly progress payments. In addition, the pay application form used by the County is the industry standard AIA payment application form which already has the following certification on the form.

CONTRACTOR'S CERTIFICATION FOR PAYMENT

The undersigned contractor certifies that, to the best of its knowledge, information and belief, the Work covered by this Application for Payment has been completed in accordance with the Contract Documents, that all amounts have been paid by the Contractor for Work for which previous Certificates for Payment were issued and Payments received from Owner, and that current payment shown here is now due. Further, Contractor states that as of the date of this application, it has no claims against the Owner, except as may be set forth in an attachment to this Certificate for Payment. Any claims accruing as of the date of this application which are not listed in an attachment hereto are waived.

CC: Kalinithia R. Dillard, Inspector General
Jason Crosby, Deputy Director, FDO
Fernando DelDago, Director, FDO CID
Purvi Bhogaita, Assistant Director, FDO Contract Management & Financial Services
Mark Broderick, Director, Business Operations Division