



**Review of Hourly Billing Rates – Gresham, Smith and Partners  
Contract for Consultant Services for Terminal Modernization at  
the Fort Lauderdale-Hollywood International Airport**

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**Office of the County Auditor**

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## **Executive Summary**

This report presents the results of our desk reviews of hourly billing rates invoiced under the contract between Broward County and Gresham, Smith and Partners (GSP) for Airport Terminals 1, 2 and 3 Modernization executed January 31, 2012. The purpose of the reviews was to determine whether hourly billing rates invoiced by GSP for their services and the services of their subconsultants complied with contract requirements. To accomplish our objective, we reviewed hourly billing rates invoiced by GSP and its 17 subconsultants for the time periods of April through July 2012 and September through October 2012. Hourly billing rates consist of actual hourly salary, overhead, and fringe benefit cost elements plus a negotiated profit. Consultants are required to certify that the cost elements billed reflect their actual costs and provide supporting documentation to enable verification and recalculation.

Our reviews disclosed:

- GSP invoiced the County \$15,781 for unallowable markup of independent contractors' costs charged by two subconsultants. The \$15,781 represents an overbilling of 8.8% of the \$178,318 in our test sample of invoices, and
- 13 of 17 subconsultants to GSP did not comply with the overhead and fringe benefit reporting requirements resulting in unsupported overhead and fringe benefit billing rates and in one instance of overbilling.

We found no exceptions pertaining to hourly billing rates for the services performed by GSP. We summarized noncompliance issues by GSP's subconsultants in Appendix A on page 11.

Desk reviews are intended to be performed early in the contract term in order to identify errors and compliance issues timely and provide management and the consultants with opportunities to address any issues during the contract term.

Consistent with this concept, our preliminary findings and recommendations were provided to Broward County Aviation Department (BCAD) management as the reviews progressed so appropriate actions could be taken quickly. As of the date of this report BCAD has recovered approximately \$34,200 in past overbillings inclusive of \$11,150 identified in this review and has revised hourly billing rates over the remainder of the contract.

To address the remaining issues raised in this report, we recommend the Board of County Commissioners direct the County Administrator to require GSP to remit identified overbillings, review and remit any additional overbillings from all prior and subsequent invoices, and ensure that all its subconsultants comply with all contractual requirements, and for BCAD to improve oversight of overhead and fringe benefit reporting requirements. Detailed recommendations are listed on page 10. Further, our office has initiated additional reviews to verify the

unsupported fringe benefit and overhead rates identified in Finding 2 of this report.

## **Purpose and Scope**

The purpose of our review was to determine whether hourly billing rates invoiced by GSP for their services and the services of their subconsultants complied with contract requirements. Our review covered twelve invoices for GSP and its subconsultants for the time periods of April through July 2012 and September through October 2012.

## **Methodology**

To accomplish our objective, we:

- Reviewed
  - The contract between GSP and Broward County dated January 31, 2012,
  - Selected work authorizations,
  - Selected invoices from GSP and its subconsultants,
  - Payroll registers and other supporting documentation from GSP and its subconsultants, and
  - Financial Schedules or Reports<sup>1</sup> certified by Independent Certified Public Accountants (CPA) for GSP and its subconsultants for 2010 and 2011.
- Interviewed Broward County Aviation Department (BCAD) staff, and
- Consulted with the County Attorney's Office.

## **Background**

On January 31, 2012, the Board of County Commissioners entered into a consultant services contract with Gresham, Smith and Partners (GSP) for Terminals 1, 2 and 3 Modernization at the Fort Lauderdale-Hollywood International Airport (FLL). The contract was approved for a total maximum amount not-to-exceed \$14.0 million, which included \$13.1 million for labor and \$900,000 for reimbursables. Under the contract, GSP provides professional architectural, engineering and construction administration services for:

- Modifications and improvements to optimize the use of the existing Terminal 1, 2, and 3, and

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<sup>1</sup> As required by Section 5.2.1 of the contract, total costs comprising the overhead and fringe benefit factors shall be consistent with the Federal Acquisition Regulation (FAR) Guidelines for Cost & Pricing.

- Coordination of the new configuration of Terminal 4, adjacent roadway system, and parking garages to provide a more efficient and useful service.

### ***Subconsultants***

GSP contracted with 17 subconsultants to perform architectural, engineering and construction administration services for Terminals 1, 2 and 3 Modernization (see Table 1 on page 5 for a list of subconsultants). GSP and its subconsultants' hourly billing rates are established in Exhibit B of the contract.

### ***Exhibit B Salary Costs***

Broward County compensates GSP and its subconsultants on an hourly basis at actual hourly costs plus a negotiated profit percentage. Actual hourly costs are comprised of the actual hourly salary rates paid to an employee plus an allocation of actual overhead and fringe benefit costs. Regardless of actual costs, the billable hourly rates are limited to negotiated maximums.

Exhibit B "Salary Costs" of the contract provides the maximum hourly salary, overhead, fringe benefit, profit and maximum billing rates for each personnel category anticipated to be assigned to the project. Exhibit B also shows an overall multiplier, which is computed by dividing the maximum billing rate by the maximum hourly salary rate. For example, a position with a maximum hourly salary rate of \$25 per hour and billed to the County at a maximum billing rate of \$75 (after adding fringe benefit, overhead, and profit) equates to a 3.0 multiplier. The established multiplier is applied to the actual hourly salary rate for each of the consultant's employees to determine the billing rate invoiced to the County.

As required by the contract, services are authorized through the issuance of Work Authorizations<sup>2</sup> (WA). The WA includes the fee proposal from GSP and its subconsultants expected to perform the services contemplated by the WA. The fee proposal establishes the maximum billing rates for the personnel categories, which may be equal to or less than the maximum allowable rates in the Exhibit B of the contract.

### ***Invoice Process***

GSP submits invoices to the County for hours incurred by its staff at its contract rates and reimbursable expenses. GSP's invoices also include amounts billed to GSP by its subconsultants at the subconsultants' contract rates and reimbursable expenses. GSP is responsible for review of invoices from its subconsultants for accuracy and completeness before including them in their invoice package to the County.

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<sup>2</sup> Section 3.9.1 of the contract states that "before any service is commenced pursuant to a Work Authorization, Consultant shall supply the Contract Administrator (CA) with a written proposal for all charges expected to be incurred for such service, which proposal shall be reviewed by the CA."

After BCAD receives GSP's invoice package, the project manager reviews the invoices following a comparison of the hourly rates billed to the contract rates and reconciliation of reimbursable amounts to the supporting documentation. The Director of Airport Capital Improvement Projects provides final approval prior to forwarding to BCAD's Finance Division. After BCAD Finance processes the invoice, the complete invoice package is scanned by the Airport's Document Control and sent to the County's Accounting Division for payment.

### ***Invoice Sampling***

We reviewed a sample of twelve invoices for GSP and eight subconsultants totaling \$178,318 for the time periods of April through July 2012 and September through October 2012. The remaining nine subconsultants did not invoice for services during our sample periods. Table 1 below shows a summary of invoices reviewed for GSP and its subconsultants.

**Table 1 – Invoices Reviewed for GSP and Its Subconsultants**

<b>Consultant/Subconsultants</b>	<b>Invoice Number Reviewed</b>	<b>Invoice Amounts Reviewed</b>
Gresham, Smith and Partners	AVC46-02 & AVC46-03	\$49,615
Construction Management Services	13711 & 13712	29,461
PMCM2	1-080912 & 2-081412	20,934
Reynolds, Smith and Hills, Inc.	2012493001-1	20,126
Singer Architects, Inc.	0352012001A	19,788
Lakdas/Yohalem Engineering Inc.	AUG12-122502	14,424
Cage, Inc.	01	10,416
DeRose Design Consultants, Inc.	23024	10,094
Keith and Associates, Inc.	0008025	3,460
Air-Transport IT Services, Inc.		-
Argus Consulting, Inc.		-
Cherokee Enterprise, Inc.		-
Delta G		-
Rolf, Jensen & Associates, Inc.		-
ICF SH&E		-
Tierra South Florida, Inc.		-
TransSolutions, LLC		-
S&F Engineering, Inc.		-
<b>Total Amounts Reviewed</b>		<b>\$178,318</b>

*Source: BCAD and GSP and Its Subconsultants' Invoices*

## Findings

### Finding #1

**GSP invoiced the County \$15,781 for unallowable markup of independent contractors' costs by two of its subconsultants, representing an overbilling of 8.8% of \$178,318 in sampled invoices.**

Independent contractors shall be billed to the County in the actual amount paid by the subconsultants without additional markup. Section 5.2.5 of the contract states that "Subconsultant Salary Costs shall be billed to County in the actual amount paid by Consultant". In addition, Section 10.7.2 of the contract states that "Pay applications which include billing for any services performed by any subconsultants shall be passed through to County without additional charge by the Consultant." These contract provisions apply to all of GSP's subconsultants by virtue of the flow-down section 10.7.4 of the contract.

We reviewed twelve invoices for GSP and eight subconsultants billed and paid during our review period. We compared the rates billed for each job classification to the Exhibit B and to the actual rates paid to the individuals on the payroll registers or other supporting payroll documentation.

Our review disclosed that two of GSP's subconsultants, Lakdas/Yohalem Engineering Inc. (Lakdas) and PMCM<sup>2</sup>, LLC. (PMCM<sup>2</sup>) billed their respective maximum hourly rates for work performed by independent contractors. However, Lakdas and PMCM<sup>2</sup> should have only billed their actual costs, without additional charge, for the work performed by independent contractors. The invoices reviewed totaled \$35,358 for Lakdas and PMCM<sup>2</sup>. As shown in Table 2 on the next page, the County was overbilled \$15,781 during our sample period for the unallowable markup of independent contractors' by Lakdas and PMCM<sup>2</sup>.

As noted previously in the Executive Summary, the County has recovered approximately \$34,200 in past overbillings inclusive of \$11,150 related to PMCM<sup>2</sup> noted in Table 2 on the next page.

**Table 2 - Computation of Overbillings by Lakdas and PMCM<sup>2</sup> for  
Unallowable Markup of Independent Contractors**

Subs	Title	Billed Rate	Allowable Rate <sup>3</sup>	Difference	Actual Billed Hours	Overbilled Amounts
		<b>a</b>	<b>b</b>	<b>c = a - b</b>	<b>d</b>	<b>e = c * d</b>
<b>Lakdas</b>	Project Manager	\$101.15	\$33.00	\$68.15	52	\$3,544
	Technician (CADD)	\$66.47	\$23.00	\$43.47	25	\$1,087
<b>PMCM<sup>2</sup></b>	Senior Inspector 1&2	\$86.31	\$40	\$46.31	161	\$7,456
	Senior Inspector 3	\$86.31	\$35	\$51.31	72	\$3,694
<b>Total Overbillings</b>						<b>\$15,781</b>

Source: Prepared by the Office of the County Auditor based on the contract, the invoices and payroll registers reviewed for Lakdas and PMCM<sup>2</sup>.

### **Finding #2**

**13 of 17 subconsultants to GSP did not comply with overhead and fringe benefit reporting requirements, resulting in unsupported overhead and fringe benefit billing rates.**

Hourly labor rates billed to the County include an allocation of actual overhead and fringe benefit costs. GSP and each subconsultant were required to provide a CPA certification that overhead and fringe benefit cost factors were calculated in accordance with federal guidelines. Section 5.2.1 of the contract requires that "total costs comprising the overhead and fringe benefit factors be consistent with the Federal Acquisition Regulation (FAR) Guidelines for Cost & Pricing Data. . . The breakdown of overhead and fringe benefit factors (FAR Report) shall be certified by an independent Certified Public Accountant (CPA). However, subconsultants may be exempted from this requirement upon application to, and written approval by, the County Auditor. Said certification shall be dated within ninety (90) calendar days after Consultant's just completed fiscal year."

We reviewed and compared the overhead and fringe benefit rates listed in Exhibit B of the contract for GSP and its 17 subconsultants to the FAR reports certified by CPA. Our review found no issue with GSP's rates, however we noted noncompliance by 13 (76%) of its subconsultants:

- 1. Three subconsultants' overhead and fringe benefit rates listed in the contract are higher than their actual rates, which resulted in overstated multipliers and an overbilling of \$1,979 during our sample period.**

<sup>3</sup> For an independent contractor, the allowable billing rate is the actual hourly rate paid by Lakdas and PMCM<sup>2</sup>.



- Tierra South Florida, Inc. (Tierra)  
The overhead and fringe benefit rates in Tierra's certified FAR report were 77.98% and 47.51% of the hourly salary rate, respectively. However, the Exhibit B "Salary Cost" of the contract for Tierra shows 119% and 51.35% for overhead and fringe benefit rates, respectively. As a result, Tierra's overall multiplier was overstated in the contract and should be reduced from 2.90 to 2.42. As described in the background, the multiplier is applied to the actual hourly salary rates for each of the consultant's employees to determine the billing rate to the County. Although services had not yet been performed by Tierra under this contract, if the rates specified in the Exhibit had been used, the County may have been overbilled up to \$36.53 per hour.
- Lakdas/Yohalem Engineering Inc. (Lakdas)  
Lakdas's Statement of Direct Labor, Fringe Benefits and General Overhead included contract services of \$245,845 in their general overhead. However as confirmed by Lakdas, two independent contractors used by Lakdas on the project were invoiced to the County as direct labor. Therefore, Lakdas's overhead rate in the contract is overstated by the contract services that were billed as direct labor. Adjusting for the overstatement decreased the overhead rate from 138% to 69%, and the resultant multiplier from 2.89 to 2.13. The invoice selected for review totaled \$14,424 for Lakdas. Based on the adjusted multiplier the County was overbilled \$1,979 (14%) during our sample period. This amount is in addition to the overbilling amounts related to Lakdas in Finding 1 above.
- PMCM<sup>2</sup>, LLC. (PMCM<sup>2</sup>)  
The overhead and fringe benefit rates in PMCM<sup>2</sup>'s Statement of Direct Labor and Company Overhead Expenses were 104.61% and 25.80%, respectively. However, the Exhibit B "Salary Cost" of the contract for PMCM<sup>2</sup> shows 118% and 44% for the overhead and fringe benefit rates, respectively. As a result, PMCM<sup>2</sup>'s overall multiplier was overstated and should be reduced from 2.88 to 2.53. No adjustment was necessary for the invoice selected for review because it primarily consisted of hours billed for independent contractors which were addressed in Finding 1 above.

**2. Twelve subconsultants (including two subconsultants noted above) did not provide required support for their overhead and fringe benefit rates.**

Twelve subconsultants did not provide a FAR Report certified by an independent CPA dated within ninety (90) calendar days after their just completed fiscal year as required by the contract (Detailed noncompliant issues are listed in Appendix A on page 11).

As a result, we could not verify the overhead and fringe benefits factors for these subconsultants due to the lack of adequate supporting documentation. Because, overhead and fringe benefit rates generally comprise more than 50% of the total billing rate, overstatement of these rates could result in significant overbillings to the County. Therefore, we have initiated a subsequent review to further address the overhead and fringe benefit rate issues noted in the report.

As the prime consultant, GSP is solely responsible for compliance with their contract with the County. This responsibility encompasses financial accountability for invoicing of project costs including amounts billed through them by their subconsultants. To fulfill its responsibilities, GSP needs to take steps to ensure that all its subconsultants are complying with all contractual requirements.

## **Recommendations**

To address the issues raised in this report, we recommend the Board of County Commissioners direct the County Administrator to:

1. Require GSP to:
  - Remit the overbilled amounts identified in this report to the County,
  - Submit a revised Exhibit B for Tierra, Lakdas and PMCM2 reflecting their actual overhead and fringe benefit rates identified in this report,
  - Review without cost to the County all prior and subsequent invoices from Lakdas and PMCM2, and remit any additional overpayments identified to the County, and
  - Ensure that future services performed by independent contractors are billed on a reimbursement basis without markup.
2. Require BCAD to take all necessary steps to ensure that all future Exhibit B rates are supported by a FAR report that was certified by a CPA and dated within the required time period after the just completed fiscal year at the time of negotiation, or a request for a waiver has been made to and approved by the County Auditor.

## Appendix A

### Summary of Issues by GSP and Its Subconsultants

Consultant/ Subconsultants	Billing Reflects Actual Hourly Rates			Support for Overhead & Fringe Benefit Rates	
	Not Billed During Sample Period	Compliant	Noncompliant (See Finding #1)	Compliant	Noncompliant (See Finding #2)
Gresham, Smith and Partners		✓		✓	
Reynolds, Smith and Hills		✓		✓	
Cage, Inc.		✓		✓	
Cherokee Enterprise, Inc.	✓			✓	
TransSolutions, LLC	✓			✓	
Singer Architects, Inc.		✓			Outdated FAR
DeRose Design Consultants, Inc.		✓			Outdated FAR
Keith and Associates, Inc.		✓			Outdated FAR
Rolf, Jensen & Associates, Inc.	✓				Outdated FAR
Argus Consulting, Inc.	✓				Not certified by CPA
Construction Management Services		✓			No FAR or waiver request
Delta G	✓				No FAR or waiver request
S & F Engineering, Inc.	✓				No FAR or waiver request
ICF SH&E	✓				Supporting document was not prepared in accordance with FAR Guidelines
Air-Transport IT Services, Inc.	✓				No FAR or waiver request at time of negotiations
Tierra South Florida, Inc.	✓				Contract rates exceed actual FAR rates.
Lakdas/Yohalem Engineering Inc.			Overbilled \$4,631 for unallowable independent contractors markup		No FAR or waiver request and Overhead rate was overstated by contract services.
PMCM <sup>2</sup> , LLC.			Overbilled \$11,150 for unallowable independent contractors markup		No FAR or waiver request at time of negotiations and Contract rates exceed actual FAR rates.
<b>Total 18 Entities Reviewed</b>	<b>9 Not Billed</b>	<b>7 Compliant</b>	<b>2 Noncompliant</b>	<b>5 Compliant</b>	<b>13 Noncompliant</b>

Source: Prepared by the County Auditor's Office