

May 3, 2019

VIA EMAIL

The Honorable Ronald D. Kouchi  
Senate President  
415 South Beretania Street  
Hawaii State Capitol, Room 409  
Honolulu, Hawaii 96813

VIA EMAIL

The Honorable Scott K. Saiki  
Speaker, House of Representatives  
415 South Beretania Street  
Hawaii State Capitol, Room 431  
Honolulu, Hawaii 96813

Re: Contract and Vendor Compliance Review Report of the Honolulu Authority for Rapid Transportation

Dear President Kouchi and Speaker Saiki:

We are attaching a copy of the Contract and Vendor Compliance Review Report of the Honolulu Authority for Rapid Transportation, conducted by Baker Tilly Virchow Krause, LLP, along with a copy of the Auditor's Summary.

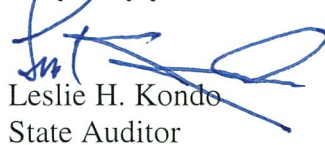
This audit was performed pursuant to Act 1 of the 2017 First Special Session, which directs the State Auditor to, among other things, examine the Honolulu Authority for Rapid Transportation's (HART) financial records and assess its financial management.

The report is accessible through our website at:  
<http://files.hawaii.gov/auditor/Reports/2019/2019HARTCompliance.pdf>.

The summary is also accessible through our website at:  
[http://files.hawaii.gov/auditor/Reports/2019/2019HARTCompliance\\_AuditorSummary.pdf](http://files.hawaii.gov/auditor/Reports/2019/2019HARTCompliance_AuditorSummary.pdf).

If you or other Legislators would like a printed version of this report or other reports, please let us know.

Very truly yours,



Leslie H. Kondo  
State Auditor

LHK:VMI:emo  
Attachment  
ec/attach: Senators  
Representatives  
Carol Taniguchi, Senate Chief Clerk  
Brian Takeshita, House Chief Clerk

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# Auditor's Summary

## Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report

May 2019



PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

**ACT 1**, passed by the Hawai'i State Legislature during the 2017 First Special Session, requires the Auditor to audit the financial records of the Honolulu Authority for Rapid Transportation (HART) and analyze its financial management. We contracted with professional services firm Baker Tilly Virchow Krause, LLP (Baker Tilly) to examine HART's contractor invoice review and payment processes for compliance with documented policies and procedures, as well as the rail authority's enforcement of contract billing terms and conditions.

Baker Tilly prepared the *Honolulu Authority for Rapid Transportation: Contract and Vendor Compliance Review Report*. It is the fourth report on HART's financial management in accordance with Act 1.

For this audit, Baker Tilly reviewed 150 of the 1,070 invoices processed by HART in fiscal years 2017 and 2018 (July 1, 2016-June 30, 2018). Valued at \$205,210,198, the invoices in the test population represent 31 percent of the costs HART incurred during that two-year period. Baker Tilly found that HART's review and payment of contractor and consultant invoices was, generally, consistent with HART's documented payment application procedures. However, Baker Tilly noted certain errors and inconsistencies that are reported as "observations" in the report. Although the financial impact of the observations appears relatively insignificant, we note that the

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**Baker Tilly reviewed 150 of the 1,070 invoices processed by HART in fiscal years 2017 and 2018. Valued at \$205,210,198, the invoices in the test population represent 31 percent of the costs HART incurred during that two-year period.**

reported “leakage” of public funds is based on a very small sample of invoices and, irrespective of the amount, constitutes “overspending” of public funds. Baker Tilly did not perform work to assess whether the issues reported about HART’s administration of certain contracts and payments under those contracts existed prior to the test period or are applicable to other contracts that were outside of Baker Tilly’s scope of work.

Specifically, Baker Tilly found that HART paid an additional \$21,302 in labor charges to contractor Lea + Elliott, Inc. (Lea + Elliott) in 2015. Based on Lea + Elliott’s audited overhead rate for that year, HART could have required Lea + Elliott to apply that rate for its 2015 indirect project costs, which would have resulted in a credit of \$21,302 to HART. However, because the difference between the provisional and audited overhead rates was less than 3 percent, HART chose not to require a credit of the amount “overpaid” and allowed Lea + Elliott to continue to use the 2014 labor rate for 2015.

Baker Tilly found that HART allowed Lea + Elliott to provisionally use that same labor rate for 2016, resulting in an additional \$102,655 in costs. HART represents that the 2017 audited overhead rate results in another \$34,312 of costs, and that it intends to reconcile the audited overhead rates for 2016 and 2017 through an amendment to the contract as well as the 2015 and prior years’ audited overhead rates. According to HART, Lea + Elliott has agreed to credit \$21,302 to HART.

Baker Tilly also reviewed 8 of the 40 invoices submitted by HDR Engineering, Inc. (HDR) during the audit period and determined HDR had overcharged HART \$5,143 by applying the wrong billing rate in 12 of the 100 labor transactions in the test sample. HART did not detect the errors in its invoice review process and is seeking reimbursement.

*Baker Tilly test sample represents a tiny fraction of the estimated \$9.188 billion it will cost to complete the rail project, and the overages in this report are correspondingly small. However, Baker Tilly’s observations did demonstrate the potential for error. To restore confidence in this project, HART should be more diligent and mindful about how it manages public money.*

Contract and Vendor Compliance Review Report

**State of Hawaii  
Office of the Auditor**

**Honolulu Authority for Rapid Transportation**

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May 2, 2019



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# Executive summary

## Scope and Objectives

The State of Hawaii Office of the Auditor engaged Baker Tilly Virchow Krause, LLP (Baker Tilly, “we” or “our”) to test the Honolulu Authority for Rapid Transportation’s (HART) construction invoice review, approval, and administration processes. The purposes of this engagement were to test HART’s contractor invoice review and payment process for compliance with documented policies and procedures and HART’s enforcement of its contracts’ billing terms and conditions.

The State of Hawaii Office of the Auditor set the examination period from July 1, 2016 through June 30, 2018. During this test period, HART was invoiced a total of \$657,599,019 and processed 1,070 contractor invoices. Baker Tilly tested a population of 150 invoices valued at \$205,210,198 or 31% of the costs incurred for the period. Baker Tilly selected the invoice test population utilizing statistical and judgmental sampling techniques to develop a representative sample invoice test population.

## Summary of Observations

The following observations are based on contract billing terms and conditions, compliance testing, and HART personnel interviews:

1. HART incurred additional labor costs of \$123,957. Lea + Elliot, Inc., (Lea + Elliot) submitted a billing rate reduction as a result of their overhead audit that would have resulted in project cost savings of \$21,302 and \$102,655 over the billing periods of January 1, 2015 through December 31, 2015 and January 1, 2016 through December 31, 2016, respectively. HART assessed the savings and determined it was below their materiality threshold of 3% and directed Lea + Elliott, Inc. to leave the billing rates unchanged, consequently incurring additional labor costs.
2. Labor rate contract administration is not performed annually. HART issues contract amendments to the seven cost-plus-fixed-fee contractors notifying them of the current billing rates for the upcoming 12 months. Based on the contract amendment dates, HART is not amending four of their seven contracts annually. Furthermore, some amendments are retroactively applied for as many as 24 months and others proactively applied for the next 12 months. The four contracts are valued at \$233,031,057.
3. HDR Engineering, Inc. applied incorrect labor billing rates and overcharged HART \$5,143. During the test period of July 1, 2016 through June 30, 2018, Baker Tilly tested 100 labor transactions and discovered 12 labor rate billing errors, or a 12% error rate. The overcharge of \$5,143 is 0.12% of tested invoice value of \$4,165,946.
4. HART does not require contractors to collect lien waivers. This is a deficiency in HART’s contract administration program and potentially exposes HART to future subcontractor claims. The lien waiver provides proof to HART that the contractor has paid the subcontractor and the subcontractor does not have the right to ask HART for payment again for the work performed.
5. HART does not require Hawaiian Electric Company, Inc., (HECO) to provide overhead cost-supporting documentation. HART reimburses Hawaiian Electric Company, Inc. 100% of their costs incurred. Documentation is provided for labor costs and field expenses; no documentation is provided for the allocated overhead cost billed to HART, as is required by other cost reimbursable contracts. Consequently, HART cannot verify that the overhead charges represent a cost-only reimbursement, and do not include any profit markup.
6. HART does not verify that contractors pay subcontractors within ten days of receiving payment from HART. This is not a risk to HART, however, it is a gap in the contract administration procedures.
7. HART does not require on-call contractors and subcontractors to use a consistent overhead and profit markup. Task orders issued under the Royal Contracting Co., Ltd contracts (On-Call



## Executive summary

Contracts III, IV, V, and VI) may have different overhead and profit markup for the same work from the same contractor or subcontractor.

8. HART uses undocumented procedures for verifying contractor's invoices for cost-plus-fixed fee contracts. HART has implemented procedures that are not documented in the internal controls documentation. The lack of documentation may result in lost institutional knowledge and difficulty training new invoice review personnel.
9. The HART Core Systems Group has developed a process for tracking equipment or materials stored off-site, which HART has not documented in its internal controls manuals. HART should update the internal control manuals for new or improved controls to provide guidance for HART personnel to use on all projects.
10. HART has not audited the participants of the owner-controlled insurance program (OCIP) for compliance with the OCIP program. HART provides participating contractors with worker's compensation, business risk, and other insurance coverage. The participating contractors must exclude the cost of this insurance from their billings to HART. HART should exercise its right to audit the program and verify they are not double paying for insurance costs.

The State of Hawaii Office of the Auditor selected the following contracts for testing:

Contract ID	Program	Contractor	Invoice Population	Test Population	Testing Coverage
1200106	Core Systems Contract	Ansaldo Honolulu JV	24 invoices Valued at: \$127,770,535	5 invoices Valued at: \$39,519,629	21% of invoices  31% of invoice value
1300318	Elevator and Escalator Install and Maintain	Schindler Elevator Corporation	22 invoices Valued at: \$8,479,878	5 invoices Valued at: \$4,730,522	23% of invoices  56% of invoice value
1400027	General Engineering and Consulting Services (GEC)	CH2M Hill, Inc.	51 invoices Valued at: \$17,628,138	8 invoices Valued at: \$2,270,352	16% of invoices  13% of invoice value
1400034	HECO City Center Design Services	Hawaiian Electric Company, Inc.	27 invoices Valued at: \$2,241,742	5 invoices Valued at: \$586,137	19% of invoices  26% of invoice value
1400049	Core Systems Support	LEA + ELLIOTT, Inc.	43 invoices Valued at \$14,131,279	7 invoices Valued at: \$3,165,856	16% of invoices  22% of invoice value
1400050	Construction Engineering and Inspection West	PGH Wong Engineering, Inc.	83 invoices Valued at \$36,615,867	10 invoices Valued at \$5,340,893	12% of invoices  15% of invoice value



## Executive summary

Contract ID	Program	Contractor	Invoice Population	Test Population	Testing Coverage
1500236	Farrington Highway Station Group	Hawaiian Dredging Construction Company, Inc.	24 invoices Valued at \$52,017,022	5 invoices Valued at \$13,135,803	21% of invoices  25% of invoice value
1500503	West Oahu Stations Group	Nan, Inc.	23 invoices Valued at \$31,256,757	5 invoices Valued at \$6,272,012	22% of invoices  20% of invoice value
1600008	Construction Engineering and Inspection East	Stantec Consulting Services, Inc.	49 invoices Valued at \$26,688,591	8 invoices Valued at \$4,977,300	16% of invoices  19% of invoice value
1600103	Design, Furnish, Install and Maintain Fare Collection System	INIT Innovations in Transportation, Inc.	6 invoices Valued at \$3,307,634	4 invoices Valued at \$2,375,361	67% of invoices  72% of invoice value
1600152	Kamehameha Guideway Station Group Construction	Nan, Inc.	21 invoices Valued at \$41,376,169	5 invoices Valued at \$14,458,133	24% of invoices  35% of invoice value
1600260	On-call Contract III	Royal Contracting Co., Ltd	580 invoices Valued at \$23,546,358	56 invoices Valued at \$3,383,479	10% of invoices  14% of invoice value
1600385	Airport Guideway and Stations	Shimmick/Traylor/Granite, JV	19 invoices Valued at \$251,051,009	5 invoices Valued at \$98,790,784	26% of invoices  39% of invoice value
1700017	Program Management Contractor Contract	HDR Engineering, Inc.	40 invoices Valued at \$17,921,479	8 invoices Valued at \$4,165,946	20% of invoices  23% of invoice value
1800065	HDOT Coordination	SSFM International, Inc.	6 invoices Valued at \$415,553	3 invoices Valued at \$232,984	50% of invoices  56% of invoice value
1800071	Design Review Consultant	SSFM International, Inc.	4 invoices Valued at \$85,975	2 invoices Valued at \$61,132	50% of invoices  71% of invoice value





## Executive summary

Contract ID	Program	Contractor	Invoice Population	Test Population	Testing Coverage
1800101	Manage and Construct New Temporary Park and Ride Facility	Nan, Inc.	3 invoices Valued at \$1,717,971	2 invoices Valued at \$1,453,460	67% of invoices  85% of invoice value
1800114	On-call Contract (IV, V, VI) - Construction of Telcom duct bank	Royal Contracting Co., Ltd	45 invoices Valued at \$1,347,062	7 invoices Valued at \$290,416	16% of invoices  22% of invoice value
18 contracts			1,070 invoices Valued at \$657,599,019	150 invoices Valued at \$205,210,198	14% of invoices  31% of invoice value



# Concepts and definitions

## Internal Controls

Government agencies like HART are custodians of public funds and, therefore, have the responsibility to ensure they spend public money appropriately in compliance with laws and regulations. This custodianship results in a responsibility to develop internal controls as well as methods and procedures to reduce or mitigate the financial risks associated with construction projects.

Properly designed internal controls should include all three basic control types:

- **Preventative controls** - Controls designed to prevent errors or irregularities from occurring, such as specific authorization guidelines for transactions, detailed contract terms defining reimbursable costs, procedures for submitting and pricing change orders and documentation required to support contractor invoices.
- **Detective controls** - Controls implemented to discover errors or irregularities which may occur. Examples of detective controls include procedures for documenting the review and approval of invoices and change orders, such as required signatures and use of checklists.
- **Corrective controls** - Controls implemented to fix problems identified during construction, such as work deficiencies and billing errors.

There are financial risks associated with every construction project. Some of the risks include the following:

- The selection of contractors may not follow industry best practices, or comply with stated policies and procedures.
- Invoice review procedures may fail to enforce contract terms, allowing overcharges and insufficient project documentation such as time sheets and copies of vendor invoices.
- Change orders may be requested for work that was included in the scope of the base contract.
- Pricing of change orders may include excessive markup.
- Incorrect or insufficient materials may be used in the construction.
- Work may be defective or of poor quality.

## Direct and Indirect Project Costs

### Importance of Direct Labor and Indirect Labor on Cost-Plus-Fixed-Fee Contracts

Cost-plus-fixed-fee contracts are cost-reimbursement contracts that include five cost components: direct labor, indirect labor (also referred to as overhead), reimbursable direct costs, subcontract or sub-consultant costs, and the contractor's fee.

Direct labor and indirect labor costs (overhead) form a large component of the total contract cost. We will address each of these components (direct labor and indirect labor) below:

- **Direct Labor** - Direct labor costs are associated with paying workers to make a product, providing consulting services, or providing a trade service such as electrical or mechanical work. Direct labor refers to employees personally involved in physical construction of a product or in performing a service. These workers must be clearly involved in producing the product or providing the service.
- **Indirect Labor** - Indirect labor costs are necessary costs associated with managing production of the work; they are not directly involved with making the product or providing the service. Examples of indirect labor include all costs consisting of wages, employer taxes on the wages, and fringe benefits for onsite project managers, superintendents, and administrative personnel.



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## Concepts and definitions

### **Overhead Allocation**

As it relates to government contracts, most governments consider overhead costs to be non-job site costs related to the contractor's home office. The owner typically reimburses the contractor for overhead costs using a multiplier of direct labor costs (overhead rate). On each invoice, the contractor or consultant will multiply total direct labor costs by their overhead rate. This calculation determines the overhead costs the contractor may include on the invoice.

The contractor's overhead rate or multiplier is subject to audit by an independent auditor. On government contracts, the independent auditor verifies that the overhead rate is compliant with Federal Acquisition Regulations, commonly referred to as a Yellow Book Audit. The Yellow Book is a document produced by the U.S. Government Accountability Office (GAO). These standards provide a framework for performing high-quality audit work with competence, integrity, objectivity, transparency, and independence to provide accountability and to help improve government operations and services.



## Audit process and procedures performed

### Audit process and procedures performed

The scope of our testing included documenting internal controls as they relate to the project costs of 18 projects for the period of July 1, 2016 through June 30, 2018. Total billings for these contracts during the period were \$657,599,019. Baker Tilly tested a sample of invoices adding up to \$205,210,198 or 31% of the population. We performed the following procedures for each contract:

- Reviewed procedures documented in the Contractor Payment Application Procedure (5.CA-03, Rev. 2.0 – February 16, 2018) and Consultant Invoice Payment Procedure (5.CA-10, Rev. 0.0 – December 14, 2017) manuals, the HART Procurement Manual, and the Project Management Plan.
- Interviewed 13 HART personnel responsible for different stages of invoice processing, review, reconciliation, and payment authorization. The purpose of these interviews was to understand how fixed-price and cost-plus-fixed price contracts are administered and how their respective invoices are processed from receipt at HART through payment.
- Interviewed 13 HART employees to confirm the invoice and payment-application review procedures they performed.
- Reviewed the applicable contracts to identify billing requirements.
- Drafted specific audit programs for each contract in the scope of this audit. Audit programs are specific plans that detail the steps followed to validate HART's compliance with policies and procedures as well as the contractor's compliance with the contract documents.
- Selected a sample of payment applications for testing.
- Performed invoice and payment application testing to verify contract compliance and reviewed how, and if, HART implemented the documented internal controls.



## Detailed observations

### Labor Rate Administration

1. HART incurred additional labor costs of \$123,957. Labor rate administration testing of the Lea + Elliott contract determined HART did not implement an allowable labor rate reduction resulting from Lea + Elliott's overhead audit for the year ending December 31, 2014.

During subsequent interviews with HART, we learned HART has a 3% materiality threshold. In application, this means if the change in rate has less than a 3% impact on costs for the period, it will not be implemented. Per the analysis performed by HART, amending the overhead rates for the period of January 1, 2015 through December 31, 2015 would have resulted in a credit to HART totaling \$21,302, a savings of 0.35%. HART performed the same analysis for the 2016 overhead rates in early 2018. HART based its analysis on the contractor's 2016 audited overhead rates and determined an overhead rate adjustment for the period from January 1, 2016 through December 31, 2016 would result in a \$102,655 credit, or a 1.7% savings. In both cases the cost impact to the project was less than the 3% materiality factor. We estimate for the test period of July 1, 2016 through December 31, 2016 the financial impact is \$54,129 or 1.5%.

Lea + Elliott, Inc. recently submitted their 2017 audited overhead rates and HART is currently analyzing the impact to 2018 contract costs.

2. Labor rate contract administration is not performed annually. HART issues contract amendments to the seven cost-plus-fixed-fee contractors notifying them of the current billing rates for the upcoming 12 months. Based on the contract amendment dates, HART is not amending four of its seven contracts annually. Furthermore, some amendments are retroactively applied for as many as 24 months and others proactively for the next 12 months.

Each contract requires the contractor to provide HART with an independent audit of their overhead cost. HART is required to review the overhead audit report, determine the impact on labor billing rates, calculate the project cost impact for the last 12 months, then notify the contractor of the project impact and changes to the labor billing rate schedule. The four affected contracts, valued at: \$233,031,257, are:

- **Lea + Elliott, Inc.** – Contract value: \$43,988,989. HART issued the contract amendment and labor rate notification for the period of January 1, 2015 through December 31, 2016 on March 9, 2017. This notification covered two billing periods. Notification was timely for the 2016 period and delinquent for the 2015 period. As of January 31, 2019, HART had not issued a contract amendment or notification for the period of January 1, 2017 through December 31, 2017.
  - **PGH Wong Engineering** – Contract value: \$70,232,480. HART issued the contract amendment and labor notification for the period of January 1, 2015 through December 31, 2016 on October 14, 2016. Notification was timely for the 2016 billing period and delinquent for the 2015 period.
  - **Stantec Consulting Services, Inc.** – Contract value: \$55,036,130. HART issued the labor rate contract amendment on December 12, 2018 for the 2016 and 2017 billing periods. Notification was timely for the 2017 billing period and delinquent for the 2016 period.
  - **CH2M Hill, Inc.** – Contract value: \$63,773,658. HART issued the labor rate contract amendment on November 19, 2018 for the period of November 19, 2018 through November 18, 2019. No contract amendment was issued or rate verification was conducted for the previous periods.
3. HDR Engineering, Inc. applied the incorrect labor billing rates and overcharged HART \$5,143. HART's invoice review process failed to detect the incorrect rates resulting in the contractor being overpaid. HART is currently reviewing labor transactions with HDR Engineering, Inc. for any additional errors and quantifying subsequent credits due to HART.



## Detailed observations

HDR Engineering, Inc. invoiced HART 40 invoices valued at \$17,921,479 for the period of July 1, 2016 through June 30, 2018. From the population, Baker Tilly tested eight invoices valued at \$4,165,946. The test sample had 100 labor transactions. The testing found 12 transactions with incorrect labor rates, a 12% error rate. These errors represented an overcharge of \$5,143 or 0.12% of the tested invoice value.

### Documentation Administration

4. HART does not require their contractors and consultants to provide lien waivers from their subcontractors and sub-consultants. However, the HART Procurement Manual states, “The Director of Procurement and Contracts shall ensure that HART title is not comprised by other encumbrances or liens.”

A lien waiver is a document from a contractor, subcontractor, materials supplier, equipment lessor or other party to the construction project, that states they have received payment and waive any future lien rights to the property (of the owner) for the amount paid. Collecting lien waivers helps to verify the contractor is paying subcontractors and suppliers on a timely basis and mitigates risks of liens against the project and potential duplicate payments to subcontractors. HART relies on the contractor’s self-certification that it has settled all amounts owed to subcontractors and suppliers. The self-certification is included in every contractor’s payment application.

5. HART does not require HECO (the utility) to provide supporting documentation for overhead charges on invoices, contrary to other HART cost reimbursable contracts that require an independent overhead audit and overhead rate analysis. Consequently, HART cannot verify that the overhead charges exclude any profit. The contract specifies HART reimburse the utility for actual costs incurred. Section 7.4 of the contract states:

No Cost Sharing Reimbursement. This Agreement constitutes a cost reimbursement contract, and subject to the provisions of this Agreement, HART agrees to reimburse the UTILITY one hundred percent (100%) of the UTILITY’s costs incurred for the performance and completion of this Agreement. All actual costs incurred by the UTILITY shall only be charged once to HART, and shall be recovered only once by the UTILITY. HART’s reimbursement to the UTILITY shall include but not be limited to...





## Detailed observations

Invoices submitted by the contractor include charges for direct labor, subcontract costs, and overhead costs. The contractor provides documentation with each invoice to support direct labor hours and subcontract costs; however, there is no supporting documentation for the overhead costs. There are multiple overhead-cost categories included on the invoices. These include payroll taxes, non-productive time, benefits, corporate administration capital, energy delivery, fleet energy delivery, and payroll expense true-up allocation. The contract does not define how the contractor should invoice these charges to HART. The actual invoices do not provide any support for the cost of these items, or indicate how the contractor should allocate the costs to the project. The contract does not specifically require the contractor to provide actual cost support. It only requires a detailed statement of costs included in the invoice along with supporting documentation, mutually and reasonably agreed to by HART and the contractor. HART should have requested that the contractor provide documentation supporting these costs. HART has not done that.

### Contract Administration

6. HART does not verify contractors have paid subcontractors on a timely basis. HART's contract requires a contractor to pay subcontractors within ten days of receiving payment. HART personnel does not check to see if the contractor has paid its subcontractors within ten days. HART does not require any additional documentation related to the payment of subcontractors until project closeout. During closeout HART requires verification of amounts paid to each subcontractor.

While interviewing HART personnel involved in the payment-application review process, we learned many did not know this was a contract requirement. HART did not confirm the contractor paid subcontractors in compliance with the contract terms.

HART should design the lien waivers to comply with Hawaii State Law and include the following information:

- Total amount of subcontract;
  - Total prior payments made;
  - Current amount billed, so the waiver applies to the value of all work completed; and
  - Major sub-subcontractors and material suppliers
7. HART does not require on-call contractors and subcontractors to use a consistent overhead and profit markup. The risk to HART is that the same contractor could deliver two identical scopes of work and charge more for one task order than the other.

On-Call Contract III and On-Call Contracts IV, V, VI are Task Order Contracts (or Work Order Contracts), see Appendix B – Glossary of terms). This type of contract does not specify a firm quantity of services, other than a minimum or maximum quantity, and provides for the issuance of orders for the performance of tasks during the period of the contract. Audit testing revealed HART allowed the contractors to use multiple overhead and profit rates from the same subcontractors and material vendors on different task orders. For example, on one task order the contractor would use an overhead and profit rate of 7.5% for a specific subcontractor. On a different task order the contractor would use an overhead and profit rate of 10% for the same subcontractor. The On-Call contracts limit the contractor's mark-up for overhead and profit to 20% on self-performed work (work performed by the contractor's personnel) and material purchases, and 10% for subcontracted work. These are the maximum amounts allowed for overhead and profit on a task order. They are not required amounts; therefore, HART can negotiate overhead and profit rates on each Task Order.



## Detailed observations

Per the East Area Manager:

The Mark Up for the Subcontractors is agreed to by Task Order – HAR 3-125-13 establishes the maximum uplift (for subcontractors is 20%) – and we stay well below the maximum. In Task Order 3 attached – a good portion of the work was being performed by Royal, there were a number of subcontractors involved – so a markup of 10% on subcontractors was considered reasonable due to the complexity of the work and the coordination required. In Task Order 9, the majority of the work was being performed by one subcontractor and Royal had limited involvement in the actual work. As such, an 8% markup was considered reasonable due to the ‘simplicity’ of the work being constructed – meaning it was one subcontractor building a duct bank. In general – the markup on materials is 20% - unless HART is requiring a large volume of materials – such as buying in bulk long lead material items at a significant cost – HART then reduces the markup to 10% or less. In simple terms – HART establishes the markups based on overall total cost, complexity of the work, and how much direct labor is involved so that the overhead costs not dictated by contract – are considered fair and reasonable to both HART and the Contractor.

The current controls in place rely completely upon management’s judgement and do not include any preventative controls to mitigate errors and irregularities.

8. HART has not documented controls and procedures for administering cost-plus-fixed fee contracts.

The undocumented procedures test:

- Labor rates;
- Overhead rates;
- Material quantities and quality;
- Equipment rental rates and charges for idle equipment; and
- Reconciliation of the calculated percentage complete with the physical percentage complete

We recommend HART update the current manuals to reflect actual procedures HART’s contract manager performs to facilitate new personnel training and prevent the loss of institutional knowledge resulting from personnel turnover.

9. The HART Core Systems Group has developed a control they use that is not included in the documented controls. They require photographs and serial numbers for equipment stored off site even though the vendor has not billed HART for it. When the vendor delivers the material or equipment to the site, the group requires shipping documentation and receiving reports to verify the quantity and description is accurate. The HART controls documentation should include procedures for documenting materials and equipment stored offsite.
10. HART has not audited the owner controlled insurance program (OCIP) for compliance. HART provides participating contractors with worker's compensation and business risk and other insurance coverage. The participating contractors must exclude the cost of this insurance from their billings to HART. HART should exercise its right to audit the program and verify they are not double paying for insurance costs.



## Baker Tilly's comments on the Honolulu Authority for Rapid Transportation's response to the contract and vendor compliance review report

We provided a draft of this report to the Honolulu Authority for Rapid Transportation (HART) and discussed the report at an exit conference attended by the Chief Executive Officer, Interim Chief Financial Officer and Fiscal Officer, Deputy Director of Government Services, First Deputy Executive Director of Procurement, Contracts, and Construction Claims and Director of Communications. HART provided a written response to the draft report, which is included in its entirety.

HART has provided a response to each observation in the draft report in most cases clarifying current or future HART actions relating to each item. **However, the actions described by HART occurred after the period of our audit.** For that reason, we did not assess any of the actions HART represents it has taken that address or otherwise relate to our findings.

HART noted one factual error in the report regarding collecting certificates of insurance (COI). Baker Tilly incorrectly reported that HART does not collect COI when in fact HART does collect COI. We have revised the report to remove that incorrect observation. That incorrect observation was the result of an online COI search that did not find the intended documents. Subsequent information from HART including copies of COI supports their collection of these source documents.

Most of HART's responses recognize that the observations are primarily process improvement or construction risk reduction opportunities and they will evaluate each for their respective merits then implement changes. Furthermore, observations that may yield cost recoveries from contractors will be pursued and collected.

We recommend a future audit of HART's actions with respect to each observation and document the results of the implemented actions.

### Numbered observations

- Observation 1: Baker Tilly's audit was limited to the period of July 1, 2016 to June 30, 2018 and one occurrence of not adjusting overhead rates was observed. HART should consider examining previous periods and verifying that this observation is an isolated incident.
- Observation 2: Baker Tilly understands that an annual overhead rate adjustment is dependent upon the receipt of the audited overhead rate report from the cost plus fixed fee (CPFF) contractor/consultant. However, HART should proactively negotiate an overhead audit report due date with each CPFF contractor/consultant ensuring that the overhead audit report is received timely, enabling HART to act on this information on a more predictable schedule.
- Observation 4: Lien waivers are commonly collected by contractors on projects from the very small to very large. This is a powerful document verifying subcontractor payment, preventing claims and a construction risk management tool. We strongly encourage HART and their prime contractors to collect lien waivers from subcontractors and adding to their risk mitigation resources.



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## **Baker Tilly’s comments on the Honolulu Authority for Rapid Transportation’s response to the contract and vendor compliance review report**

- Observation 5: Baker Tilly will remove observation 5 regarding certificates of insurance.
- Observation 11: Baker Tilly agrees that fixed price contracts cannot be repriced. However, an Owner Controlled Insurance Program (OCIP) may be audited verifying that the program is working as intended and covering only the necessary participants. Examples of the potential benefits are: verifying only HART project personnel are enrolled in the program, confirming enrolled participants are not billing HART for insurance costs and verifying the OCIP program controls are operating as intended.



# HART draft report responses



HONOLULU AUTHORITY for RAPID TRANSPORTATION

IN REPLY REFER TO:  
CMS-AP00-03474

Andrew S. Robbins  
EXECUTIVE DIRECTOR AND CEO

Krishniah N. Murthy  
SENIOR ADVISOR

BOARD OF DIRECTORS

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April 25, 2019

VIA EMAIL:  
lao.auditors@hawaii.gov

Mr. Leslie H. Kondo, State Auditor  
Office of the Auditor  
State of Hawaii  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917

Dear Mr. Kondo:

Subject: Audit of the Honolulu Authority for Rapid Transportation (HART) – Part 4

Enclosed is HART's Response dated April 22, 2019, which does not include comments from the HART Board of Directors, to the Draft Audit Report Part 4 prepared by Baker Tilly Virchow Krause, LLP (Baker Tilly). Please include these comments and the disclosure when you issue your Final Report. HART looks forward to receiving your recommendations associated with this report and providing comments, if any, as we have been able to do with your draft audit report.

Following the HART Board review, HART may resubmit its comments based on any input from the Board.

Should you have any questions to our Response, please feel free to contact me directly.

Very truly yours,

Andrew S. Robbins  
Executive Director and CEO

Attachments

cc: HART Board of Directors



## HART draft report responses

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HART acknowledges the receipt of the Draft Audit Report Part 4 – Contract and Vendor Compliance Review Report.

Disclosure: HART's responses are subject to review after final Board review and may change based on action by the Board,

**Observation 1** - HART incurred additional labor costs of \$123,957. Lea + Elliot, Inc., (Lea + Elliot) submitted a billing rate reduction as a result of their overhead audit that would have resulted in project cost savings of \$21,302 and \$102,655 over the billing periods of January 1, 2015 through December 31, 2015 and January 1, 2016 through December 31, 2016, respectively. HART assessed the savings and determined it was below their materiality threshold of 3% and directed Lea + Elliott, Inc. to leave the billing rates unchanged, consequently incurring additional labor costs.

***HART's Response –***

In the evaluation of the 2015 audited OH rates, it was determined there would be a 0.35% savings (\$21,302) if the 2015 audited OH rates were incorporated into the contract. The then-head of Contract Administration incorrectly understood there to be a policy allowing for a waiver in the case of less than or equal 3% difference in the provisional and audited OH rates and, accordingly, waived the 0.35% difference. This was formalized in Amendment 1 to the contract, executed on Mar. 9, 2017. Since then, HART is in receipt of the 2016 and 2017 audited OH rates. The 2016 audited OH rate is 1.71% less than the 2015 audited OH rate, which would result in a savings of \$102,655. The 2017 audited OH rate results in another saving to HART of \$34,312. Both the 2016 and 2017 audited OH rates will be reconciled in the next Amendment to the contract. There was and is no “waiver” threshold policy at HART and HART has reinstated the HART (and federal) requirement to reconcile the prior year's payment amounts with the audited OH rate. Under the new HART organization chart where Contract Administration is no longer a separate division, but now falls under the umbrella of Procurement, Contract Administration, and Construction Claims, there is more check and balance and senior-level oversight. Further, training will be provided to the contract administrators.

HART appreciates this observation by the State Auditor; as a result, L&E has agreed to reconcile the 2015 OH rate as well and the \$21,302 will be credited back to HART. Furthermore, HART will do a review of the prior years (prior to 2015) and reconcile the contract using the audited OH amounts, if discrepancies are found.

**Observation 2** - Labor rate contract administration is not performed annually. HART issues contract amendments to the seven cost-plus-fixed-fee contractors notifying them of the current billing rates for the upcoming 12 months. Based on the contract amendment dates, HART is not amending four of their seven contracts annually. Furthermore, some amendments are retroactively applied for as many as 24 months and others proactively applied for the next 12 months. The four contracts are valued at \$233,031,057.





## HART draft report responses

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### ***HART's Response –***

Each year, the overhead is audited by a certified independent auditor and payment made under the contract is reconciled as additional payment to the contractor or credit to HART. Each cost plus fixed fee (CPFF) contract has negotiated labor rates with negotiated annual escalation. As per the contract, the escalated rates are used plus the most recent audited overhead rate to calculate the years fully burdened rate. The audited overhead rate is applied retroactively, because the audit is not conducted until after the firm's fiscal year is completed. The process of reconciling rates retroactively after receipt of the audited overhead rate is prescribed by the FTA. The length of time the firms take to audit their overhead varies from approximately 9 months to 18 months; therefore, the variation in "annual" contract amendment reconciliation/notification.

It is the responsibility, under the terms of the contract, for the contractor to use the newly calculated fully burdened rate going forward (or, "proactively") when submitting their invoices until the subsequent years audited overhead is completed. HART's contract manager checks whether the invoices include the newly calculated rate.

As indicated above, the length of time for consultant firms to provide their certified overhead audit is between 9 and 18 months and HART recognizes that each firm has its own business process timelines. The timing of the receipt of the audited OH rates has never been raised as an issue in FTA reviews. However, we will take the State Auditor's observation under advisement and inquire with the consultant firms as to the firm's ability to provide the certified audited overhead rate within 6 months from the end of the firm's fiscal year.

**Observation 3** - HDR Engineering, Inc. applied incorrect labor billing rates and overcharged HART \$5,143. During the test period of July 1, 2016 through June 30, 2018, Baker Tilly tested 100 labor transactions and discovered 12 labor rate billing errors, or a 12% error rate. The overcharge of \$5,143 is 0.12% of tested invoice value of \$4,165,946.

### ***HART's Response –***

HART is in the process of seeking reimbursement from HDR on the incorrect rates and vetting additional procedures to mitigate discrepancies.

**Observation 4** - HART does not require contractors to collect lien waivers. This is a deficiency in HART's contract administration program and potentially exposes HART to future subcontractor claims. The lien waiver provides proof to HART that the contractor has paid the subcontractor and the subcontractor does not have the right to ask HART for payment again for the work performed.



# HART draft report responses

Mr. Leslie H. Kondo  
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***HART's Response –***

HART's contracts are in compliance with federal requirements and the Hawaii Public Procurement Code, which do not require a lien waiver in HART's contracts. This notwithstanding, HART will take this observation under advisement and conduct an evaluation of the lien waiver with regard to mitigating HART's potential exposure to subcontractor claims.

**Observation 5** - HART does not require contractors and consultants to provide certificates of insurance (COI). COI is documentation proving that the contractor has the contractually required insurance coverage in place. Furthermore, this is a project cost that HART is paying for and, therefore, should verify that the coverage they are paying for is actually in place.

***HART's response –***

Submission of a Certificate of Insurance is required in all of HART's contracts. The COI requirement provision for each of the contracts reviewed by the State Auditor and the COI submitted by the contractor with the signing of the contract have been provided to the Baker Tilly. HART can provide the subsequent COIs upon request.

**Observation 6** - HART does not require Hawaiian Electric Company, Inc., (HECO) to provide overhead cost supporting documentation. HART reimburses Hawaiian Electric Company, Inc. 100% of their costs incurred. Documentation is provided for labor costs and field expenses; no documentation is provided for the allocated overhead cost billed to HART, as is required by other cost reimbursable contracts. Consequently, HART cannot verify that the overhead charges represent a cost-only reimbursement, and do not include any profit markup.

***HART's response –***

HART will work with HECO to seek further clarification on its overhead costs.

**Observation 7** - HART does not verify that contractors pay subcontractors within ten days of receiving payment from HART. This is not a risk to HART, however, it is a gap in the contract administration procedures.

***HART's response –***

While it is the contractor's responsibility under the contract to promptly pay its subcontractors within ten days of receiving payment from HART, HART is considering mechanisms by which to verify that the subcontractor is paid within the statutory timeline.

**Observation 8** - HART does not require on-call contractors and subcontractors to use a consistent overhead and profit markup. Task orders issued under the Royal Contracting Co., Ltd contracts (On-Call Contracts III, IV, V, and VI) may have different overhead and profit markup for the same work from the same contractor or subcontractor.



## HART draft report responses

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***HART's Response –***

Task Orders are essentially individual “contracts” based on the base contract issued under an IDIQ agreement. As such, each Task Order is evaluated separately for risk; the profit margin will vary for each Task Order depending on the level of risk to the contractor for work under the particular Task Order. For instance, the On Call contractor has no mark up on equipment. Labor overhead rates remain consistent for the On-call Contractor; pursuant to the pricing submitted under competitive procurement and is a part of the awarded contract. Under Hawaii Administrative Rules, up to 10% markup is allowed for the contractor for any work performed by its subcontractor, which HART also evaluates on a Task Order basis.

HART takes a prudent approach to mark ups by evaluating the mark up based on the Task Order. Lower mark ups are agreed with the On Call contractor on a Task Order basis. This approach allows overall costs of the work by Task order to be both fair and reasonable to the contractor as well as fair and reasonable to HART and the tax payer dollars that are received to pay for the work.

**Observation 9** - HART uses undocumented procedures for verifying contractor's invoices for cost-plus-fixed fee contracts. HART has implemented procedures that are not documented in the internal controls documentation. The lack of documentation may result in lost institutional knowledge and difficulty training new invoice review personnel.

***HART's Response –***

HART has in place a Consultant Invoice Payment Procedure which sets forth internal controls documentation and roles and responsibilities; invoice reviews are in accordance with these procedures. HART agrees that, in practice, HART has additional controls and best practices in place, which should be acknowledged, and further, added into the Invoice Payment Procedure.



## HART draft report responses

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**Observation 10 - The** HART Core Systems Group has developed a process for tracking equipment or materials stored off-site, which HART has not documented in its internal controls manuals. HART should update the internal control manuals for new or improved controls to provide guidance for HART personnel to use on all projects.

***HART's response -***

HART will put in place a written process to track the stored materials off site as part of an internal controls manual. This will be planned to be completed by the end of the second quarter.

**Observation 11 -** HART has not audited the participants of the owner-controlled insurance program (OCIP) for compliance with the OCIP program. HART provides participating contractors with worker's compensation, business risk, and other insurance coverage. The participating contractors must exclude the cost of this insurance from their billings to HART. HART should exercise its right to audit the program and verify they are not double paying for insurance costs.

***HART's response -***

The OCIP program applies to construction contracts only, which are (1) competitively procured and (2) are firm-fixed-price (FFP) contracts. Under a FFP contract, HART/government cannot "re-price" the contract. (Federal Acquisitions Regulations 16.202 on firm-fixed-price contracts is helpful in understanding a FFP contract.)

## Appendix A – Contracts and invoices tested

### 1200106 – Core Systems Contract

The Core Systems contract is a Firm-Fixed-Price contract. Ansaldo Honolulu Joint Venture is the contractor and the total contract value as of the audit was \$1,438,664,273. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	24	\$127,770,535.23
Payment Applications Tested	5	\$ 39,519,629.09
Percent Tested	21%	31%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1200106	Ansaldo Honolulu	Core Systems	00059	1-Oct-16	28-Oct-16	\$ 6,099,637.45
1200106	Ansaldo Honolulu	Core Systems	00065	3-Apr-17	28-Apr-17	\$ 6,039,015.42
1200106	Ansaldo Honolulu	Core Systems	00066	1-May-17	26-May-17	\$ 11,293,504.05
1200106	Ansaldo Honolulu	Core Systems	00067	29-May-17	30-Jun-17	\$ 3,107,572.55
1200106	Ansaldo Honolulu	Core Systems	00073	27-Nov-17	29-Dec-17	\$ 12,979,899.62

## Appendix A – Contracts and invoices tested

### 1300318 – Elevator and Escalator Installation and Maintenance

The Elevator and Escalator Installation and Maintenance contract is a Firm-Fixed-Price contract. Schindler Elevator Corporation is the contractor and the total contract value as of the audit was \$76,855,181. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	22	\$ 8,479,878.64
Payment Applications Tested	5	\$ 4,730,522.10
Percent Tested	23%	56%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1300318	Schindler Elevator, Inc.	Installation and Maintenance	00035	1-Apr-17	28-Apr-17	\$ 140,824.62
1300318	Schindler Elevator, Inc.	Installation and Maintenance	00043	25-Nov-17	29-Dec-17	\$1,210,218.62
1300318	Schindler Elevator, Inc.	Installation and Maintenance	00044	30-Dec-17	26-Jan-18	\$1,746,381.62
1300318	Schindler Elevator, Inc.	Installation and Maintenance	00045	27-Jan-18	23-Feb-18	\$ 330,529.62
1300318	Schindler Elevator, Inc.	Installation and Maintenance	00047	31-Mar-18	27-Apr-18	\$1,302,567.62



## Appendix A – Contracts and invoices tested

### 1400034 – HECO City Center Design Services

The HECO City Center Design Services contract is a Cost-Reimbursement contract. Hawaiian Electric is the contractor and the total contract value as of the audit was \$11,778,993. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	27	\$2,241,741.99
Payment Applications Tested	5	\$ 586,137.21
Percent Tested	19%	26%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Date	Amount
1400034	Hawaiian Electric	HECO	00054	13-Feb-17	\$ 116,823.66
1400034	Hawaiian Electric	HECO	00066	6-Mar-18	\$ 113,434.90
1400034	Hawaiian Electric	HECO	00067	6-Mar-18	\$ 27,417.71
1400034	Hawaiian Electric	HECO	00068	27-Apr-18	\$ 122,853.78
1400034	Hawaiian Electric	HECO	00070	31-May18	\$ 205,607.16

## Appendix A – Contracts and invoices tested

### 1400049 – Core Systems Support

The Core Systems Support contract is a Cost-Plus-Fixed-Fee contract. Lea + Elliot is the contractor and the total contract value as of the audit was \$43,988,989. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	43	\$14,131,279.18
Payment Applications Tested	7	\$ 3,165,855.92
Percent Tested	16%	22%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1400049	Lea + Elliot	Core Systems Support	00082	1-Oct-17	9-Nov-17	\$ 587,583.07
1400049	Lea + Elliot	Core Systems Support	00083	18-Sep-17	5-Dec-17	\$ 14,708.44
1400049	Lea + Elliot	Core Systems Support	00084	29-Oct-17	7-Dec-17	\$ 571,420.68
1400049	Lea + Elliot	Core Systems Support	00085	26-Nov-17	10-Jan-18	\$ 615,419.82
1400049	Lea + Elliot	Core Systems Support	00086	20-Nov-17	18-Jan-18	\$ 11,473.36
1400049	Lea + Elliot	Core Systems Support	00090	25-Feb-18	16-Apr-18	\$ 725,063.35
1400049	Lea + Elliot	Core Systems Support	00092	1-Apr-18	11-May-18	\$ 640,187.20

## Appendix A – Contracts and invoices tested

### 1400050 – CEI West

The CEI West contract is a Cost-Plus-Fixed-Fee contract. PGH Wong Engineering is the contractor and the total contract value as of the audit was \$70,232,480. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	83	\$36,615,866.81
Payment Applications Tested	10	\$ 5,340,892.54
Percent Tested	12%	15%

We selected payment applications from a four-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1400050	PGH Wong Engineering, Inc.	CEI West	00146	27-May-17	28-Jul-17	\$ 368,032.77
1400050	PGH Wong Engineering, Inc.	CEI West	00147	1-Jul-17	29-Jul-17	\$ 425,501.03
1400050	PGH Wong Engineering, Inc.	CEI West	00148	23-Oct-14	30-Jul-17	\$ 918,810.94
1400050	PGH Wong Engineering, Inc.	CEI West	00149	1-Jul-17	31-Jul-17	\$ 683,321.43
1400050	PGH Wong Engineering, Inc.	CEI West	00150	1-Jan-16	1-Aug-17	\$ 178,222.72
1400050	PGH Wong Engineering, Inc.	CEI West	00151	16-Jun-17	25-Aug-17	\$ 1,307,407.08
1400050	PGH Wong Engineering, Inc.	CEI West	00152	29-Dec-16	29-Sep-17	\$ 224,839.76
1400050	PGH Wong Engineering, Inc.	CEI West	00153	29-Jul-17	30-Sep-17	\$ 298,694.21
1400050	PGH Wong Engineering, Inc.	CEI West	00173	2-Feb-18	31-Mar-18	\$ 714,194.40
1400050	PGH Wong Engineering, Inc.	CEI West	00176	19-Apr-18	8-Jun-18	\$ 221,868.20

## Appendix A – Contracts and invoices tested

### 1500236 – Farrington Highway Station Group

The Farrington Highway Station Group contract is a Firm-Fixed-Price contract. Hawaiian Dredging is the contractor and the total contract value as of the audit was \$81,852,034. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	24	\$ 52,017,022.25
Payment Applications Tested	5	\$ 13,135,803.20
Percent Tested	21%	25%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1500236	Hawaiian Dredging	Farrington Highway	00008	31-Dec-16	27-Jan-17	\$ 1,382,409.60
1500236	Hawaiian Dredging	Farrington Highway	00009	28-Jan-17	24-Feb-17	\$ 339,795.05
1500236	Hawaiian Dredging	Farrington Highway	00010	25-Feb-17	31-Mar-17	\$ 3,326,510.23
1500236	Hawaiian Dredging	Farrington Highway	00013	27-May-17	30-Jun-17	\$ 5,043,159.61
1500236	Hawaiian Dredging	Farrington Highway	00026	29-May-18	29-Jun-18	\$ 3,043,928.71

## Appendix A – Contracts and invoices tested

### 1500503 – West Oahu Station Group

The West Oahu Station Group contract is a Firm-Fixed-Price contract. Nan, Inc. is the contractor and the total contract value as of the audit was \$61,062,825. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	23	\$31,256,757.06
Payment Applications Tested	5	\$ 6,272,011.83
Percent Tested	22%	20%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1500503	Nan, Inc.	West Oahu Station	00003	30-Jul-16	26-Aug-16	\$ 334,829.87
1500503	Nan, Inc.	West Oahu Station	00010	25-Feb-17	31-Mar-17	\$ 667,964.12
1500503	Nan, Inc.	West Oahu Station	00011	1-Apr-17	28-Apr-17	\$ 1,592,252.85
1500503	Nan, Inc.	West Oahu Station	00012	29-Apr-17	26-May-17	\$ 710,923.33
1500503	Nan, Inc.	West Oahu Station	00025	26-May-18	29-Jun-18	\$ 2,966,041.66

## Appendix A – Contracts and invoices tested

### 1600008 – CEI East

The CEI East contract is a Cost-Plus-Fixed Fee contract. Stantec Consulting Services, Inc. is the contractor and the total contract value as of the audit was \$55,036,130. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	49	\$26,688,590.52
Payment Applications Tested	8	\$ 4,977,300.41
Percent Tested	16%	19%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1600008	Stantec Consulting Services	CEI East	20	29-Oct-16	30-Nov-16	\$ 477,550.58
1600008	Stantec Consulting Services	CEI East	21	26-Nov-16	30-Dec-16	\$ 525,690.81
1600008	Stantec Consulting Services	CEI East	52	27-Jan-18	23-Feb-18	\$ 600,368.47
1600008	Stantec Consulting Services	CEI East	53	30-Dec-17	24-Feb-18	\$ 487,662.46
1600008	Stantec Consulting Services	CEI East	54	16-Feb-18	30-Mar-18	\$ 892,684.01
1600008	Stantec Consulting Services	CEI East	55	1-Dec-17	31-Mar-18	\$ 668,892.68
1600008	Stantec Consulting Services	CEI East	56	31-Mar-18	27-Apr.-18	\$ 730,668.10
1600008	Stantec Consulting Services	CEI East	57	31-Mar-18	28-Apr.-18	\$ 593,783.30



## Appendix A – Contracts and invoices tested

### 1600103 – Fare Collection System

The Fare Collection System contract is a Firm-Fixed-Price contract. INIT, Innovations in Transportation, is the contractor and the total contract value as of the audit was \$15,464,198. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	6	\$ 3,307,634.02
Payment Applications Tested	4	\$ 2,375,360.53
Percent Tested	67%	72%

We selected four consecutive payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1600103	INIT	Fare Collection System	00003	27-Aug-16	27-Jan-17	\$ 1,068,912.23
1600103	INIT	Fare Collection System	00004	27-Aug-16	28-Apr-17	\$ 118,768.03
1600103	INIT	Fare Collection System	00005	19-Jan-17	28-May-17	\$ 890,760.20
1600103	INIT	Fare Collection System	00006	24-May-17	26-Sep-17	\$ 296,920.07

## Appendix A – Contracts and invoices tested

### 1600152 – Kamehameha Guideway Station Group

The Kamehameha Guideway Station Group contract is a Firm-Fixed-Price contract. Nan, Inc. is the contractor and the total contract value as of the audit was \$117,908,069. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	21	\$ 41,376,168.54
Payment Applications Tested	5	\$ 14,458,133.38
Percent Tested	24%	35%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1600152	Nan, Inc.	Kamehameha Guideway	00007	31-Mar-17	28-Apr-17	\$ 907,030.64
1600152	Nan, Inc.	Kamehameha Guideway	00008	28-Apr.-17	28-May-17	\$ 3,165,549.98
1600152	Nan, Inc.	Kamehameha Guideway	00009	26-May-17	29-Jun-17	\$ 976,980.00
1600152	Nan, Inc.	Kamehameha Guideway	00017	26-Jan-18	23-Feb-18	\$ 4,478,567.71
1600152	Nan, Inc.	Kamehameha Guideway	00021	27-Apr-18	29-Jun-18	\$ 4,930,005.05

## Appendix A – Contracts and invoices tested

### 1600260 – On-Call III

The On-Call III contract is a Time and Materials contract. Royal Contracting Co., Ltd is the contractor and the total contract value as of the audit was \$26,000,000. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	580	\$23,546,358
Payment Applications Tested	56	\$ 3,383,479.04
Percent Tested	10%	14%

We selected approximately 14% of the total invoices for the period. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application	Period From:	Period To:	Amount
1600260	Royal Contracting	On-Call	00004	2-Oct-16	15-Nov-16	\$ 21,390.55
1600260	Royal Contracting	On-Call	00004	29-Oct-16	18-Nov-16	\$ 184,808.59
1600260	Royal Contracting	On-Call	00004	30-Oct-16	23-Nov-16	\$ 19,522.31
1600260	Royal Contracting	On-Call	00004	30-Oct-16	5-Dec-16	\$ 223,172.04
1600260	Royal Contracting	On-Call	00004	30-Oct-16	8-Dec-16	\$ 187,371.56
1600260	Royal Contracting	On-Call	00004	30-Oct-16	12-Dec-16	\$ 340,979.88
1600260	Royal Contracting	On-Call	00004	27-Nov-16	6-Jan-17	\$ 123,347.46
1600260	Royal Contracting	On-Call	00004	30-Oct-16	11-Jan-17	\$ 5,595.43
1600260	Royal Contracting	On-Call	00004	30-Oct-16	11-Jan-17	\$ 45,552.31
1600260	Royal Contracting	On-Call	00004	26-Nov-16	18-Jan-17	\$ 1,706.36
1600260	Royal Contracting	On-Call	00004	27-Nov-16	23-Jan-17	\$ 2,102.14
1600260	Royal Contracting	On-Call	00004	30-Oct-16	23-Jan-17	\$ 5,234.71
1600260	Royal Contracting	On-Call	00004	1-Jan-17	8-Feb-17	\$ 3,563.42
1600260	Royal Contracting	On-Call	00004	1-Jan-17	24-Feb-17	\$ 127,820.99
1600260	Royal Contracting	On-Call	00004	27-Nov-16	28-Mar-17	\$ 1,300.76
1600260	Royal Contracting	On-Call	00004	29-Jan-17	17-Apr-17	\$ 2,328.15
1600260	Royal Contracting	On-Call	00004	1-Jan-17	17-Apr-17	\$ 10,015.34
1600260	Royal Contracting	On-Call	00004	26-Feb-17	21-Apr-17	\$ 4,563.55
1600260	Royal Contracting	On-Call	00004	26-Feb-17	21-Apr-17	\$ 23,561.78
1600260	Royal Contracting	On-Call	00004	26-Feb-17	21-Apr-17	\$ 7,716.28
1600260	Royal Contracting	On-Call	00004	26-Feb-17	24-Apr-17	\$ 7,352.93
1600260	Royal Contracting	On-Call	00004	26-Feb-17	24-Apr-17	\$ 4,321.80
1600260	Royal Contracting	On-Call	00004	26-Feb-17	24-Apr-17	\$ 153,423.21
1600260	Royal Contracting	On-Call	00004	1-Oct-16	24-Apr-17	\$ 40,221.31

## Appendix A – Contracts and invoices tested

Contract No.	Contractor	Contract Description	Payment Application	Period From:	Period To:	Amount
1600260	Royal Contracting	On-Call	00004	26-Mar-17	18-May-17	\$ 798.72
1600260	Royal Contracting	On-Call	00004	30-Apr-17	22-May-17	\$ 140,791.26
1600260	Royal Contracting	On-Call	00004	30-Apr-17	13-Jun-17	\$ 20,771.19
1600260	Royal Contracting	On-Call	00004	26-Mar-17	13-Jun-17	\$ 1,916.48
1600260	Royal Contracting	On-Call	00004	28-May-17	24-Jul-17	\$ 5,167.30
1600260	Royal Contracting	On-Call	00004	25-Jun-17	16-Aug-17	\$ 262.35
1600260	Royal Contracting	On-Call	00004	25-Jun-17	16-Aug-17	\$ 129.76
1600260	Royal Contracting	On-Call	00004	30-Jul-17	18-Sep-17	\$ 93,721.40
1600260	Royal Contracting	On-Call	00004	30-Jul-17	25-Sep-17	\$ 4,414.51
1600260	Royal Contracting	On-Call	00004	28-May-17	25-Sep-17	\$ 9,546.67
1600260	Royal Contracting	On-Call	00004	27-Aug-17	12-Oct-17	\$ 14,159.19
1600260	Royal Contracting	On-Call	00004	27-Aug-17	12-Oct-17	\$ 10,950.34
1600260	Royal Contracting	On-Call	00004	27-Aug-17	18-Oct-17	\$ 933,425.53
1600260	Royal Contracting	On-Call	00004	27-Aug-17	20-Oct-17	\$ 70,264.95
1600260	Royal Contracting	On-Call	00004	27-Aug-17	6-Nov-17	\$ 197,506.21
1600260	Royal Contracting	On-Call	00004	1-Oct-17	15-Nov-17	\$ 12,403.44
1600260	Royal Contracting	On-Call	00004	25-Jun-17	28-Nov-17	\$ 293.38
1600260	Royal Contracting	On-Call	00004	30-Sep-17	29-Nov-17	\$ 11,807.03
1600260	Royal Contracting	On-Call	00004	29-Oct-17	11-Dec-17	\$ 83,726.03
1600260	Royal Contracting	On-Call	00004	1-Oct-17	12-Dec-17	\$ 3,412.56
1600260	Royal Contracting	On-Call	00004	29-Oct-17	14-Dec-17	\$ 1,038.19
1600260	Royal Contracting	On-Call	00004	26-Nov-17	9-Jan-18	\$ 55,377.20
1600260	Royal Contracting	On-Call	00004	29-Oct-17	11-Jan-18	\$ 22,916.99
1600260	Royal Contracting	On-Call	00004	26-Nov-17	16-Jan-18	\$ 28,484.76
1600260	Royal Contracting	On-Call	00004	7-Jan-18	28-Feb-18	\$ 27,173.80
1600260	Royal Contracting	On-Call	00004	31-Dec-17	28-Feb-18	\$ 36,418.30
1600260	Royal Contracting	On-Call	00004	31-Dec-17	7-Mar-18	\$ 387.97
1600260	Royal Contracting	On-Call	00004	28-Jan-18	14-Mar-18	\$ 16,400.45
1600260	Royal Contracting	On-Call	00028	30-Dec-17	20-Mar-18	\$ 3,424.05
1600260	Royal Contracting	On-Call	00004	28-Jan-18	20-Mar-18	\$ 3,838.51
1600260	Royal Contracting	On-Call	00029	8-Jan-18	17-Apr-18	\$ 5,690.59
1600260	Royal Contracting	On-Call	00004	28-Jan-18	24-Apr-18	\$ 19,887.07

## Appendix A – Contracts and invoices tested

### 1600385 – Airport Guideway and Stations

The Airport Guideway and Stations contract is a Firm-Fixed-Price contract. Shimmick/Traylor/Granite JV is the contractor and the total contract value as of the audit was \$874,764,308. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	19	\$251,051,008.70
Payment Applications Tested	5	\$ 98,790,783.86
Percent Tested	26%	39%

We selected payment applications from a three-month consecutive period as well as two additional payment applications. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1600385	Shimmick/Traylor/Granite JV	Airport guideways	00003	31-Dec-16	27-Jan-17	\$ 21,262,844.27
1600385	Shimmick/Traylor/Granite JV	Airport guideways	00008	29-Apr-17	26-May-17	\$ 10,042,675.71
1600385	Shimmick/Traylor/Granite JV	Airport guideways	00009	27-May-17	30-Jun-17	\$ 37,462,306.36
1600385	Shimmick/Traylor/Granite JV	Airport guideways	00010	1-Jul-17	28-Jul-17	\$ 10,011,087.92
1600385	Shimmick/Traylor/Granite JV	Airport guideways	00019	26-May-18	29-Jun-18	\$ 20,011,869.60

## Appendix A – Contracts and invoices tested

### 1700017 – Program Management Contractor

The Program Management Contractor contract is a Cost-Plus-Fixed-Fee contract. HDR Engineering, Inc. is the contractor and the total contract value as of the audit was \$63,522,953. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	40	\$17,921,478.52
Payment Applications Tested	8	\$ 4,165,946.46
Percent Tested	20%	23%

We selected payment applications from two two-month consecutive periods. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1700017	HDR Engineering, Inc.	Program Management	00011	2-Jul-17	5-Aug-17	\$ 1,168,676.90
1700017	HDR Engineering, Inc.	Program Management	00012	1-Aug-17	31-Aug-17	\$ 30,994.54
1700017	HDR Engineering, Inc.	Program Management	00013	6-Aug-17	2-Sep-17	\$ 935,571.40
1700017	HDR Engineering, Inc.	Program Management	00014	1-Sep-17	10-Sep-17	\$ 28,924.16
1700017	HDR Engineering, Inc.	Program Management	00015	3-Sep-17	30-Sep-17	\$ 1,011,324.08
1700017	HDR Engineering, Inc.	Program Management	00028	1-Mar-18	31-Mar-18	\$ 28,917.86
1700017	HDR Engineering, Inc.	Program Management	00029	1-Mar-18	1-Apr-18	\$ 135,752.32
1700017	HDR Engineering, Inc.	Program Management	00030	4-Mar-18	2-Apr-18	\$ 825,785.20

## Appendix A – Contracts and invoices tested

### 1400027 – General Engineering Consultant Professional Services

The General Engineering Consultant Professional Services contract is a Cost-Plus-Fixed-Fee contract. CH2M Hill, Inc. is the contractor and the total contract value as of the audit was \$63,773,658. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	51	\$17,628,137.69
Payment Applications Tested	8	\$ 2,270,351.83
Percent Tested	16%	13%

We selected payment applications from a three-month consecutive period. The payment applications selected for testing were:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1400027	CH2M Hill, Inc.	GEC	00131	27-Jul-17	15-Jan-18	\$ 36,175.33
1400027	CH2M Hill, Inc.	GEC	00132	1-Jul-17	16-Jan-18	\$ 440,878.98
1400027	CH2M Hill, Inc.	GEC	00133	1-Jul-17	17-Jan-18	\$ 376,670.81
1400027	CH2M Hill, Inc.	GEC	00134	25-Nov-17	19-Feb-18	\$ 322,234.37
1400027	CH2M Hill, Inc.	GEC	00135	30-Jul-17	22-Feb-18	\$ 346,385.73
1400027	CH2M Hill, Inc.	GEC	00136	25-May-17	1-Mar-18	\$ 11,043.25
1400027	CH2M Hill, Inc.	GEC	00137	30-Dec-17	20-Mar-18	\$ 329,713.21
1400027	CH2M Hill, Inc.	GEC	00138	27-Jan-18	21-Mar-18	\$ 407,250.15

## Appendix A – Contracts and invoices tested

### 1800065 – HDOT Coordination

The HDOT Coordination contract is a Time and Materials contract. SSFM International is the contractor and the total contract value as of the audit was \$5,560,000. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	6	\$ 415,553.18
Payment Applications Tested	3	\$ 232,983.71
Percent Tested	50%	56%

We selected three payment applications for testing as follows:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1800065	SSFM International	HDOT Coordination	00001	1-Mar-18	30-Mar-18	\$ 42,859.84
1800065	SSFM International	HDOT Coordination	00002	1-Apr-18	25-May-18	\$ 127,017.60
1800065	SSFM International	HDOT Coordination	00003	1-June-18	29-Jun-18	\$ 63,106.27

### 1800071 – Design Review Consultant

The Design Review Consultant contract is a Time and Materials contract. SSFM International is the contractor and the total contract value as of the audit was \$4,027,781. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	4	\$ 85,975.21
Payment Applications Tested	2	\$ 61,131.86
Percent Tested	50%	71%

We selected two payment applications for testing as follows:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1800071	SSFM International	Design Review Consultant	00001	21-Mar-18	30-Apr-18	\$ 17,444.18
1800071	SSFM International	Design Review Consultant	00002	1-May-18	27-Jun-18	\$ 43,687.68



## Appendix A – Contracts and invoices tested

### 1800101 – Temporary Park and Ride Facility

The Construction of a Temporary Ride and Park Facility contract is a Firm-Fixed-Price contract. Nan, Inc., is the contractor and the total contract value as of the audit was \$11,589,300. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	3	\$ 1,717,971.03
Payment Applications Tested	2	\$ 1,453,459.78
Percent Tested	67%	85%

We selected two payment applications for testing as follows:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1800101	Nan, Inc.	Temporary Facility	00002	30-Mar-18	27-Apr-18	\$ 496,726.56
1800101	Nan, Inc.	Temporary Facility	00003	30-Mar-18	25-May-18	\$ 956,733.22

## Appendix A – Contracts and invoices tested

### 1800114 – On-Call (IV, V, VI)

The On-Call (IV, V, and VI) contract is a Time and Materials contract. Royal Contracting is the contractor and the total contract value as of the audit was \$46,000,000. The audit examined a sample selection of payment applications during the period of July 1, 2016 through June 30, 2018 as follows:

	No.	Value
No. Payment Applications in Scope	45	\$ 1,347,062.33
Payment Applications Tested	7	\$ 290,415.63
Percent Tested	16%	22%

We selected six payment applications for testing as follows:

Contract No.	Contractor	Contract Description	Payment Application No.	Period From	Period To	Amount
1800114	Royal Contracting	On-Call	00001	1-Mar-18	24-Apr-18	\$ 42,782.41
1800114	Royal Contracting	On-Call	00002	1-Apr-18	26-Apr-18	\$ 19,258.75
1800114	Royal Contracting	On-Call	00003	1-Mar-18	25-Jun-18	\$ 83,660.17
1800114	Royal Contracting	On-Call	00004	29-Apr-18	22-Jun-18	\$ 19,636.46
1800114	Royal Contracting	On-Call	00005	1-Apr-18	23-May-18	\$ 85,886.32
1800114	Royal Contracting	On-Call	00005	29-Apr-18	27-Jun-18	\$ 5,898.68
1800114	Royal Contracting	On-Call	00009	5-Apr-18	25-Jun-18	\$ 33,292.84

## Appendix B – Glossary of terms

**Audit Program** – An action plan that documents what procedures an auditor will follow to validate that an organization is in conformance with compliance regulations.

**Cost-Plus-Fixed-Fee Contract** – A cost-reimbursement type contract where contractor costs are based on actual cost of labor, material, services, or any other contract costs, without additional overhead and profit. HART and the contractor will not adjust the fixed fee once they have negotiated it for changes in the actual cost of the work, but they may agree to increase it for any change orders which add to the scope of work or services the contractor is to perform under the contract.

**Direct Costs (Contractor)** – The costs incurred on labor, material, equipment, subcontractor costs, equipment costs, etc.

**Direct Labor Costs** – The actual wages or salaries paid to employees.

**Firm-Fixed-Price Contract** – A type of contract where the payment amount does not depend on resources used or time expended. The buyer or purchaser pays the seller or provider a fixed total amount for a very well defined product.

**Indirect Labor Costs** – Payroll costs such as income tax, federal and state unemployment tax, insurance cost, union benefits, etc.

**Indirect Project Costs (Contractor)** – Cost not directly accountable for in the construction of a project, i.e., office supplies, office salaries, salesperson salaries, legal and accounting fees, taxes and licenses, office rent, building maintenance, depreciation on software, office equipment and furniture, owner's salary, and utilities.

**Lien Waiver** – A document from a contractor, subcontractor, materials supplier, equipment lessor, or other party to the construction project (the claimant) stating they have received payment and waive any future lien rights to the property (of the owner) for the amount paid.

**Overhead Rate** – The overhead rate is the contractor's reimbursement for its indirect costs. It is the total of their indirect costs (known as overhead) for a specific reporting period, divided by an allocation measure. The cost of overhead may either be comprised of actual costs or budgeted costs. There are a wide range of possible allocation measures, such as direct labor hours, machine time, and square footage used. The contractor is often required to submit overhead rates audited by an independent auditor. The audit may be subject to federal guidelines such as Federal Acquisition Regulations, also known as a Yellow Book Audit.

**Payment Application** – The contractor's written request for compensation to the owner of the project for the work performed, goods delivered, or services rendered.

**Task Order (or Work Order) Contract** – A **contract** for services that does not procure or specify a firm quantity of services (other than a minimum or maximum quantity) and that provides for the issuance of **orders** for the performance of **tasks** during the period of the **contract**.

**Yellow Book Audit** – The Yellow Book is a document produced in the United States by the Government Accountability Office (GAO). These standards provide a framework for performing high-quality audit work with competence, integrity, objectivity, transparency and independence to provide accountability and to help improve government operations and services.

## Appendix C – Documented internal controls

HART documents its internal controls in 44 separate manuals. We reviewed the documented controls found in the following six manuals related to HART payment application or invoice processing.

1. Contract Packaging Plan Rev. 5.0, December 12, 2017
2. Contract Administration 5. CA-01, Rev 1.0 – April 19, 2012
3. The HART Procurement Manual, Rev. 0.0, December 13, 2017
4. Project Management Plan – Rev. 6.0, January 31, 2018
5. Contractor Payment Application Procedure 5. CA-03, Rev. 2.0-February 16, 2018
6. Consultant Invoice Payment Procedure 5. CA-10, Rev. 0.0 – December 14,2017

The Contract Packaging Plan (CPP) describes and documents the overall contracting approach for the Honolulu Rail Transit Project (Project). It is used both as a planning and management tool for the Honolulu Authority for Rapid Transportation (HART) and as an informational overview for Project participants. HART originally issued the document in December 2009, with revisions in March 2012 and May 2017 prior to the current December 2017 revision. The CPP does not include internal control procedures for payment application and invoice processing; therefore, there is no need to discuss the CPP further.

HART wrote the Contract Administration document to define how HART would manage the Honolulu High Capacity Corridor Project. The Contract Administration manual did not contain policies and procedures for payment application and invoice processing. HART wrote the HART Procurement Manual effective December 13, 2017 to replace The Contract Administration document. The HART Procurement Manual documented some procedures related to managing contractor payments. HART more fully documented contractor payment procedures in its Contractor Payment Application Procedures revision 1.0 dated April 19, 2012.

### **HART Procurement Controls**

The HART Procurement Manual, Rev. 0.0, December 13, 2017 prescribes general procurement or purchasing policies, which guide the solicitation, award, and administration of HART contracts and purchases for supplies, services, equipment, and construction.

Following are HART's general procurement policies and guidelines for contract payment and funding, as written in Chapter 17 Contract Payment and Funding:

#### **1.0 Contract Payment and Funding**

This Section provides guidelines for all HART officials involved in the contracting process pertaining to contract payments. This section further defines the requirements of HART procedures 5.CA-03.

#### **2.0 Advance Payments**

It is the expressed policy of HART not to make advance payments on any contract, except for contracts for the payments of rents, tuition, insurance premiums, art in transit and subscriptions to publications, which are deemed to be payments customarily required in the marketplace. The latter notwithstanding, should be customarily required advance payment exceed \$100,000, HART must receive FTA concurrence.

For federally funded contracts, FTA does not authorize and will not participate in funding payments made by a grantee to a contractor prior to the incurrence of costs by the contractor.

## Appendix C – Documented internal controls

### 3.0 Contract Payments

HART shall compensate its contractors for their allowable costs incurred to perform contract work. Except for approved changes to the contract, the contractor will not be reimbursed for costs incurred in excess of the Firm Fixed Price, Total Estimated Cost and Fee, Time and Material not to exceed amount, or contract funding limitations specified. The contractor shall submit invoices to HART and maintain auditable records.

### 4.0 Fixed-Price Contracts - Progress Payments

Fixed-Price Contracts are a type of contract where the payment amount does not depend on resources used or time expended. The buyer, or purchaser, pays the Contractor a fixed total amount for a well-defined product. HART makes progress payments to the Contractor based on the percentage or amount of work completed or agreed upon deliverables.

### 5.0 Time and Material Contracts - Contract Payments

A. As used herein the term “Time and Material” is defined as a contract that provides for acquiring services or goods on the basis of:

1. Direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and,
2. Other direct costs with no overhead, profit, or fee allowed.

B. Time and Material rates are allowable only to the extent that any individual rate complies with the Compensation and Payment provisions in the contract.

### 6.0 Cost Reimbursable and Task Order Contracts - Contract Cost Payments

HART shall make payments to its Contractors when requested as work progresses; but not more often than once per month, in amounts set forth in the Contract in accordance with Subpart 31.2 of the Federal Acquisition Regulations (FAR) in effect on the effective date of the contract and the terms of the contract.

### 7.0 Contract Fee Payments

HART shall pay the Contractor for performing its contracts a fee determined as provided in the contract.

### 8.0 Limitation of Cost or Funds

(...)

### 9.0 Limitation of Cost Notice

(...)

### 10.0 Review or Audit of Contract Payments

A. The Director of Procurement and Contracts shall include provisions giving HART the right to conduct post-payment reviews or audits at the discretion of the Director of Procurement and Contracts, including reviews or audits to determine the following:

1. Whether the contract payments are fairly supported by the value of work accomplished;
2. Whether the unpaid balance of the contract price will be adequate to cover the anticipated cost of completion, or the Contractor has adequate resources to complete the contract; and

## Appendix C – Documented internal controls

3. Whether there is any reason to doubt the adequacy or reliability of the Contractor's accounting system, controls, or payment certification.
- B. The Chief Financial Officer with the Director of Procurement and Contracts may conduct contract payment reviews periodically and may conduct reviews or request audits at any time or upon receipt of any request for a contract payment.

### 11.0 Suspension or Reduction of Progress Payments

- A. The Director of Procurement and Contracts shall take immediate unilateral action for suspension or reduction in payment to the Contractor only if warranted by circumstances such as overpayments or unsatisfactory contract performance.
- B. In all cases, the Director of Procurement and Contracts shall document the contract file with evidence supporting the Director of Procurement and Contract's decisions.

### 12.0 Protection of HART Title

- A. The Director of Procurement and Contracts shall include a contract provision which provides that HART shall receive title to all of the materials, work-in-progress, finished goods and other items of property under the contract for which progress payments are made.
- B. The Director of Procurement and Contracts shall ensure that HART title is not comprised by other encumbrances or liens.
- C. The Director of Procurement and Contracts shall require additional protective provisions, if deemed necessary, to establish and protect HART's title.

### 13.0 Contract Funding

(...)

### 14.0 Assignment of Contract Payments by Contractors

(...)

### 15.0 Prompt Payment to Subcontractors

- A. A prime Contractor or subcontractor shall pay to any subcontractor, not later than 10 days of receipt of each progress payment, unless otherwise agreed to in writing, the respective amounts allowed the Contractor on account for the work performed by the subcontractors, to the extent of each subcontractor's interest therein.
- B. In accordance with 49 CFR Part 26 § 26.29 and HRS § 103-10.5, HART shall include in all contracts a contract clause to require prime Contractors to pay subcontractors for satisfactory performance of their contracts no later than 10 days from the receipt of each payment HART makes to the prime Contractor. The clause will also require the prompt return of retainage payments from the prime Contractor to the subcontractor within 10 days after the subcontractor's work is satisfactorily completed.

## Appendix C – HART Documented Internal Controls

### 16.0 HART Procurement Requirements in the Payment Process

- A. HART will promptly process all contract payments with necessary controls to assure compliance with all contract terms and conditions in accordance with internal procedures authorized by the Chief Executive Officer.
- B. HART Director of Procurement and Contracts will clearly specify in solicitations and contracts, the form and content of an acceptable invoice, including a requirement that invoices contain a date and contract number and the services for which they are invoicing, the period of performance being invoiced, and to whom, within HART, invoices are to be sent.
- C. Final invoices shall not be paid until compliance is verified in accordance with HRS §103D-310 and HRS §103.

### 17.0 Payment of Retention on Contracts

Payment of retention shall be pursuant to HRS § 103-32.1.

### 18.0 Progress Payments on Contracts

In accordance with Hawaii Revised Statutes § 103-10, HART shall make progress payments within 30 days after receipt of an undisputed and properly submitted payment request from a contractor on a construction contract. If HART fails to make timely payment, HART shall pay interest to the contractor equivalent to the legal rate set forth in HRS § 103-10.

The HART Project Management Plan (PMP) describes and documents the overall management approach for the Honolulu Rail Transit Project (HRTTP or the Project). HART uses it as a management tool and as an informational overview for project participants and interested parties. The PMP defines the procedures for the payment review process in Section 7.2.7 as follows:

Payment review is the process where HART verifies the contracted party's payment request/invoice submission for a period of performance against an approved schedule of values/milestones or project schedule for work earned/in-place. The Project Manager must ensure all payment requests include the required backup documentation, such as time sheets, and copies of vendor invoices, as defined in the contract terms and conditions. HART process Construction invoices and Consultant services in accordance with HART Project Procedures 5.CA-03 "Contractor Payment Application Procedure" (RD-13) and 5.CA-10 "Consultant Invoice Payment Procedure" (RD-48).

## **Firm-Fixed Price Documented Controls**

The Contractor Payment Application Procedure 5. CA-03, Rev. 2.0-February 16, 2018 defines the procedures for processing contractor's monthly payment applications for the Honolulu Rail Transit Project (Project). Prior to its effective date, revision 1.0, dated April 19, 2012, it contained procedures governing 2016, 2017 and January 2018. The payment application procedures apply to Design-Build, Design-Bid-Build, Design-Furnish-Install-Maintain, Design-Build-Operate-Maintain, and Final Design Contractors on the Project that were awarded a firm-fixed-price contract that use a Schedule of Values or Schedule of Milestones for monthly payments based on the percent of the work completed.

Definitions of Contract Types:

- Design-Build contract is for projects in which the owner contracts with one firm for designing and constructing a project.

## Appendix C – HART Documented Internal Controls

- Design-Bid-Build project is one the owner has a separate agreement with an architect, and has contractors submit competitive bids for the construction work. Typically, the owner awards the contract to the lowest bidder.
- Design-Furnish-Install-Maintain agreement is one in which the owner contracts with a firm to design the project, furnish the equipment, install it, and then maintain it. Installing an elevator and having the contractor maintain it is an example of this type of contract.
- Design-Build-Operate-Maintain is a project in which the owner contracts with a single entity to design, construct a building or install equipment, then operate it and maintain it. An example of this type of contract is a smartcard-fare-collection system in which the owner contracts with a company to build an enclosure, install the equipment, operate it, and maintain it.

The HART Contractor Payment Application Procedure manual includes the following guidelines, as written:

“1.0 Purpose  
(...)”

2.0 Scope  
(...)”

3.0 Definitions  
(...)”

4.0 Responsibility

Individuals tasked with responsibility for approval of Payment Applications for implementation of and adherence to this Procedure shall include the following:

4.1 City Department of Budget and Fiscal Services (BFS):

The City Department of Budget and Fiscal Services is responsible for issuing the payment to the Contractor.

4.2 HART Budget and Accounting Branch:

The HART Budget and Accounting Branch is responsible for verifying available funds, notifying BFS of Payment Applications greater-than \$500,000, and preparing the necessary documents in CHERPs to process Payment Applications.

4.3 HART Executive Director and Chief Executive Officer (ED-CEO):

The HART Executive Director and Chief Executive Officer have responsibility for reviewing and approving all Payment Applications after validation and approval of the Payment Application by HART staff has been accomplished.

4.4 HART Chief Financial Officer (CFO):

The HART Chief Financial Officer is responsible for confirming funds and recommending approval of the Payment Application to the HART ED-CEO.

4.5 HART Project Controls:

The HART Project Controls Division is responsible for ensuring the appropriate cost codes are applied to the Payment Application and the request is within budgeted and committed values.



## Appendix C – HART Documented Internal Controls

### 4.6 HART Contract Manager (CM):

The HART Contract Manager is responsible for development, maintenance, and implementation of this procedure and for Change Management. The Contract Manager will confirm payment requests are in compliance with the terms and conditions of the contract.

### 4.7 CHART Director of Design and Construction (DDC):

The HART Director of Design and Construction oversees all project design and construction matters. The DDC is responsible for verifying that the Payment Application is accurate and complete and is in accordance with contract requirements.

### 4.8 HART Area Manager:

The HART Area Manager is responsible for verifying that the Payment Application is accurate and complete and that the work invoiced was accomplished during the period and is in accordance with contract requirements.

### 4.9 HART Document Control (DC):

The HART Document Control staff is responsible for initiating, tracking, and closing out all documentation related to HART's internal review process for Payment Applications prior to submittal to BFS for payment.

### 4.10 HART Director of Quality Assurance and Quality Control (DQA):

The HART Director of Quality Assurance and Quality Control is responsible for performing internal quality assurance auditing of this procedure.

## 5.0 Procedure:

(...)

### 5.1 Contractor Payment Application Preparation:

The HART Area Manager and field staff will review progress updates with the Contractor prior to the Contractor preparing the monthly P6 Schedule Progress Update, P6 Schedule of Values, and Payment Application. The review will cover the agreed-upon amount of work accomplished for the billing period, as reflected in schedule updates and accurately reflected in the Payment Application submittal.

### 5.2 Contractor Payment Application Submittal:

Upon agreement by both parties, the Contractor will be responsible for providing a complete and accurate Request for Payment that includes all supporting documentation required by the Contract in its submission to HART. Failure to submit any of the required supporting documentation, as described below, will result in a rejection of the Payment Application or withholding of payment.

The Contractor shall submit the following items electronically to HART, and a hardcopy shall be mailed or hand delivered to HART Document Control:

- Payment Application Letter (with Contractor wet signature)
- Progress Payment Application Summary (with Contractor wet signature) for approval by the RE, Area Manager, DDC, and CFO.

## Appendix C – HART Documented Internal Controls

- All required schedule submittals (see Section 5.3, Contractor Progress Schedule Submittal)
- P6 Schedule of Values (or in some cases a Schedule of Milestones)
- Evidence of Certified Payroll (with Contractor wet signature)
- DBE Participation Report (with Contractor wet signature)
- Electronic Funds Transfer (EFT) Form (with Contractor wet signature) for approval by the CFO

The Payment Application Letter and Progress Payment Application Summary shall be HART CMS system-generated.

Schedule Submittals and a summary and detailed SOV shall be generated by the Contractor's Oracle P6 Program.

Contractor Certified Payroll reports shall be consistent with the State of Hawaii requirements of the Hawaii Revised Statutes (HRS) Chapter 104 and the federal requirements of the Davis-Bacon Act. The DBE Participation Report and the EFT Form shall be accessed by the Contractor on HART's SharePoint website under Operation Documents, HART Forms and Templates.

### 5.1 Contractor Progress Schedule Submittal:

Submittal requirements are set forth in the Construction Progress Documentation section of the General Conditions of the contract. Specific requirements related to HART review of this submittal are discussed in HART's Construction Management Plan.

### 5.4 HART DC Initiation Processing:

HART's DC staff shall time-stamp and log the hardcopy of the Contractor's Payment Application prior to the cut-off time on the day it is received; the daily cut-off time from Monday through Thursday is 3:00 p.m., and the cut-off time on Friday is 2:00 p.m.

DC staff shall email a notification copy of the Payment Form to the HART Budget and Accounting Branch so that available funds in CHERPS can be confirmed and appropriate notification can be made to BFS while the pay application is being routed.

In cases where a contractor does not have access to HART's system, the DC staff will generate the next payment record in the system and attach a scanned Portable Document Format (PDF) copy of the Invoice prior to creating the routing sheet and initiating the electronic routing.

Payment Applications that are complete and accurate shall be packaged with a HART system-generated HART Payment Application Routing sheet (see Exhibit 2), HART Payment Application Summary sheet, and HART Payment Application Validation Checklist (see Exhibit 3) and shall be forwarded to the HART Area Manager for review and approval.

## Appendix C – HART Documented Internal Controls

### 5.5 HART Area Manager Review and Approval:

The HART Area Manager along with the CEI field staff shall review all documentation provided by the Contractor in the Payment Application, and confirm the contractor's P6 information in the SOV/SOM is consistent with the agreed-upon monthly updates and percentages. The HART Area Manager has 7 calendar days to approve or reject the Payment Application.

If the Payment Application is rejected, the HART Area Manager will note reasons supporting the determination, and return the Payment Application to HART DC so that the rejection may be logged into the system and it can be returned to the Contractor.

Once the HART Area Manager and field staff have completed their review and the Payment Application is deemed complete and accurate, the HART Area Manager will sign-off all forms as required, including the Payment Application Validation Checklist, and the original hardcopy of the Payment Application shall be routed internally to HART per the routing sheet order.

### 5.6 HART Contract Manager Review:

The Contract Manager will review the Payment Application for conformance with the terms and conditions of the contract and any executed change orders.

### 5.7 HART Project Controls Review:

The HART Project Controls Division will review the accuracy of the SOV/SOM in regard to budget and commitments and will generate and the Payment Application Summary form (Exhibit 4) with the appropriate Standard Cost Category (SCC)-level job cost codes.

### 5.8 HART DDC Review and Approval:

The HART DDC shall review and approve the Payment Application, along with the HART Area Manager's recommended disposition, and forward it to the HART CFO.

### 5.9 HART CFO and Approval:

Upon confirmation of funds and approval by the HART CFO, the signed Payment Application hardcopy is forwarded for executive approval to the ED-CEO.

### 5.10 HART ED-CEO Review and Approval:

Upon final approval by the HART ED-CEO, the signed Payment Application hardcopy is forwarded to the HART Budget and Accounting Branch for processing.

## Appendix C – HART Documented Internal Controls

### 5.11 HART Budget and Accounting Processing:

The HART Budget and Accounting Branch will verify funding availability in CHERPs to process the Payment Application, and initiate corrective action should funds not be available. The HART Budget and Accounting Branch shall notify BFS of any Payment Applications that exceed \$500,000.

Once all approvals are executed, the HART Budget and Accounting Branch will make the necessary data entry into CHERPs and will prepare the Payment Application for transmittal to BFS by way of HART DC.

### 5.12 HART DC Closeout Processing:

HART DC will scan the hardcopy of the approved Payment Application, attach the PDF to the HART System record, close out the record in the System, and file a hardcopy. HART DC will deliver the Payment Application packet to BFS.

### 5.13 BFS Payment:

BFS will process the approved Payment Application and issue a check to the contractor.

### 5.14 Rejected Payment Applications:

If the Payment Application is deemed incomplete or inaccurate by any of the reviewers, the Payment Application will be rejected and recorded as such in the HART System and on the routing sheet. The routed original hardcopy will be returned to HART DC. HART DC will stamp the payment "REJECTED," scan it, record it in the system, and file the hardcopy. The HART Area Manager, the Contract Manager and the Resident Engineer will be notified. The RE will issue notification to the Contractor that its Payment Application has been rejected, providing a detailed explanation. The Contractor will be required to revise and resubmit a new Payment Application in its entirety."

## Appendix C – HART Documented Internal Controls

The Consultant Invoice Payment Procedure 5. CA-10, Rev. 0.0 – December 14, 2017 document defines procedures for processing monthly Professional Services, On Call Construction, and Utility Agreement Requests for Payment for the Honolulu Rail Transit Project (Project).

This is the initial release of the Consultant Procedures manual. Prior to December 14, 2017, the Contract Administration document was in place. There were no documented internal controls for Consultant invoice processing prior to the December 14, 2017 release.

Following are the HART guidelines contained in the Consultant Invoice Procedure manual:

- “1.0 Purpose  
(...)”
- 2.0 Scope  
(...)”
- 3.0 Definitions  
(...)”
- 4.0 The individual responsibilities for processing Consultant invoice requests include the following:
  - 4.1 City Department of Budget and Fiscal Services (BFS):  
The City Department of Budget and Fiscal Services is responsible for issuing the payment to the Consultant.
  - 4.2 HART Budget and Accounting Branch:  
The HART Budget and Accounting Branch is responsible for verifying available funds, notifying BFS of invoices greater than \$500,000, and preparing the necessary documents in CHERPs to process invoices.
  - 4.3 HART Executive Director and Chief Executive Officer (ED-CEO):  
The HART Executive Director and Chief Executive Officer has responsibility for reviewing and approving all invoices after the HART staff validates and approves the invoice.
  - 4.4 HART Chief Financial Officer (CFO):  
The HART Chief Financial Officer is responsible for certification of available funds and recommending approval of the invoice to the HART ED-CEO.
  - 4.5 HART Project Controls (PC):  
The HART Project Controls Division is responsible for ensuring the appropriate cost codes are applied and the invoice is within budgeted and committed values.
  - 4.6 HART Contract Manager (CM):  
The HART Contract Manager is responsible for the review of invoice documentation for compliance with contract terms and conditions. The CM will confirm the invoice complies with contract terms and conditions.
  - 4.7 HART Project Manager (PM):  
The HART Project Manager is responsible for verifying that the invoice is accurate and complete and that the work invoiced was accomplished during the period and is in accordance with contract requirements.

## Appendix C – HART Documented Internal Controls

### 4.8 HART Document Control (DC):

The HART Document Control staff is responsible for initiating, tracking, and closing out all documentation related to HART's internal review process for invoices prior to their submittal to BFS for payment. We detail the internal control procedures for processing Consultant Invoices below:

### 5.0 Procedure:

On a monthly basis, the Consultant will invoice for services provided in the previous month. The invoice will be submitted in accordance with contract requirements. The steps for processing the invoice are shown as a flowchart in Exhibit 1 and are further detailed in the narrative below:

### 5.1 Consultant/On-Call Contractor Submittal for Invoice Summary Pay Request:

The Consultant/Contractor shall submit the following items electronically into the HART System. If the Contractor does not have access to HART system, an original paper hardcopy will be delivered to HART Document Control:

- Invoice Summary Cover Letter on Company Letterhead (with Consultant wet signature).
- Invoice Summary with Certification (with Consultant wet signature) for approval by the HART Contract Manager and CFO. The summary will:
  - Include contract details: Contract Amount, Previously Invoiced, Total Inception to Date Invoiced, Less: Previously Paid, Balance Due, and Contract Balance.
  - Include the certification: "I certify that all charges invoiced herein are for services performed in accordance with the contract terms and conditions and have not been previously paid by the Honolulu Authority for Rapid Transportation."
- The invoice will be segregated by labor, subconsultants, and Other Direct Costs (ODCs).
- Monthly Accomplishments Report.
- DBE Participation Report (with Consultant wet signature).
- Request for Electronic Funds Transfer (EFT) payment, if applicable, to be submitted with each invoice (with Consultant wet signature) to be approved by the HART CFO.

#### 5.1.1 Consultant Submittal for Labor:

In addition to the items in Section 5.1 above, On-Call Contractors performing work on a time-and-material basis (only) will submit the following additional items either as part of, or separate from, the invoice summary:

- Labor and Overtime Premium Summary Report: Report will sort by Employee (alpha by last name) – Name, Position, Raw Rate or Bill Rate, Hours, Raw Labor Amount, Overhead (OH) Rate, OH Amount, Raw Labor + OH Amount
- Labor Certification (with Contractor wet signature): "I certify that the labor charges reported herein reflect pay rates and hours which match the company's general ledger records."

## Appendix C – HART Documented Internal Controls

- Employee Detailed Timesheets with employee and supervisor signatures (or note is electronically approved)

### 5.1.2 Consultant Submittal for ODC Invoice:

In addition to Section 5.1 above, ODCs shall be reimbursed based on contract terms and shall contain the below ODC Certification. Copies of receipts/invoices are required and must be included in the ODC invoice. Line items referencing missing or lost receipts will not be accepted nor reimbursed. Agreed-upon rates, such as per diem, bus fare, and toll charges are exceptions. ODCs may be submitted as part of, or separate from, the Invoice Summary Pay Request.

- ODC Certification: "I certify that all charges invoiced herein are for services performed in accordance with the contract and have not been previously paid by the Honolulu Authority for Rapid Transportation."

### 5.1.3 Travel Expense Reimbursement (applies to Prime and Subcontractors)

HART will reimburse travel expenses based on contract terms. With the exception of per diem rates, receipts are required. Missing or lost receipts will not be reimbursed. When submitting for travel expense reimbursement, the following Travel Expense Summary will need to be submitted (one Summary per person, per trip):

- HART Travel Authorization Form (TAF). HART will only reimburse once per TAF. The TAF must be approved by HART before travel commences.
- Airfare Itinerary and Receipt. Receipt is required to support booking. Receipt will need to include: traveler name, the travel dates & times, booking class, and cost.
- Baggage Fees. Receipt is required.
- Hotel or Lodging Receipts. HART will either reimburse up to the maximum allowable according to United States Department of Defense (DOD) Per Diem Rate or accept actual lodging receipts for total amount paid. HART will not reimburse for any upgrades such as ocean front or ocean view. HART will not reimburse for resort fees.
- Taxi Fare. Receipts required.
- Home Airport Parking. Receipts required.
- Car Rentals. HART requires justification and approval. Fuel reimbursement made by gas station receipts only. No pre-paid gas cards.
- Meal and Incidentals. HART will either reimburse up to the maximum allowable according to DOD Per Diem Rate or accept actual receipts. Per Diem is recommended.

### 5.2 HART DC Initiation Processing:

HART's DC staff shall time-stamp and log the hardcopy of the Consultant's Payment Application prior to the cut-off time on the day it is received; the daily cut-off time from Monday through Thursday is 3:00 p.m., and the cut-off time on Friday is 2:00 p.m.

## Appendix C – HART Documented Internal Controls

DC staff shall email a notification copy of the invoice to the HART Budget and Accounting Branch so that available funds in CHERPS can be confirmed and appropriate notification can be made to BFS while the pay application is being routed.

In cases where a Consultant does not have access to HART's system, the DC staff will generate the next payment record in the HART system, and attach a scanned Portable Document Formatted (PDF) copy of the Invoice prior to creating a routing sheet and initiating the electronic routing.

Invoices that are deemed complete shall be packaged with a HART Invoice Routing sheet and HART Invoice Summary sheet and will be forwarded to the HART Contract Manager for review and approval.

The invoice will be routed internally for original wet signatures by reviewers, as well as electronically within the HART System. Reviewers will sign the routing sheet and invoice and approve or reject in the HART System.

### 5.3 HART Contract Manager Review and Certification:

The HART CM is the first reviewer and shall have 7 days to review the invoice to ensure it is complete and compliant with the terms and conditions of the contract; determine if any deductions or short pays will be applied; and approve or reject the Pay Request.

Once the HART CM has reviewed all documentation, the CM shall submit any comments and recommendations to the HART Project Manager, update the HART System workflow, sign the routing sheet form, and route the hardcopy to the HART Project Manager.

### 5.4 HART PM Review and Approval:

The HART PM shall certify that work invoiced was performed in accordance with all contract terms and all materials/deliverables were accepted. In the event the HART PM does not agree with items billed, he/she will either short pay or reject the Invoice Pay Request. If the invoice is rejected, it will be returned to HART DC for further processing. Otherwise, the invoice will be forwarded to HART Project Controls.

### 5.5 HART Project Controls Review:

The HART Project Controls Division will review the accuracy of the invoice and supporting documentation to budget and commitments, and confirm the appropriate Standard Cost Category (SCC)-level job cost codes are applied on the Payment Application Cost Code Verification sheet (Exhibit 2) and HART system. The approved invoice will then be forwarded to the CFO.

### 5.6 HART CFO Review and Approval:

Upon approval by the HART CFO, the signed invoice is forwarded to the ED-CEO.

### 5.7 HART ED-CEO Review and Approval:

Upon approval by the HART ED-CEO, the signed invoice is forwarded to the HART Budget and Accounting section for processing.



## Appendix C – HART Documented Internal Controls

### 5.8 HART Budget and Accounting Processing:

The HART Budget and Accounting Branch will verify funding availability in CHERPs to process the Invoice, or initiate corrective action should funds not be available. The HART Budget and Accounting section shall notify BFS of any invoices that exceed \$500,000.

Once all approvals are executed, the HART Budget and Accounting Branch shall make the necessary data entry into CHERPs and prepare the invoice for transmittal to BFS, by way of HART DC.

### 5.9 HART DC Close-Out Processing:

HART DC will scan the hardcopy of the approved invoice and attach the PDF to the HART System record, close out the record in the System, and file a hardcopy. HART DC will deliver the Invoice Pay Request package to BFS.

### 5.10 BFS Payment:

BFS will process the approved invoice and issue a check to the Consultant.

### 5.11 Rejected Invoices:

If the invoice was found to be incomplete or inaccurate by any of the reviewers, the invoice will be rejected in the HART System. The invoice will be returned to HART DC. HART DC will stamp the payment "REJECTED", scan it, record it in the System, and file the hardcopy. The HART CM and Project Manager will be notified. The CM will issue notification to the Consultant that its invoice was rejected, providing a detailed explanation. The Consultant will be required to revise and resubmit a new invoice in its entirety."

## Appendix D – Baker Tilly firm resume

Baker Tilly is a nationally recognized firm with a proven track record of serving clients nationwide — and internationally. With clients located in essentially every part of the country, our locations across the U.S. enjoy brand recognition among our peers and the public. In addition, as a member of Baker Tilly International, we are able to extend our reach through trusted relationships with firms across the country and around the world.

It is our vision to become America's Finest Professional Services Firm. This means becoming a Valued Business Advisor to our clients by playing a vital role in their success. Founded in 1931, Baker Tilly is one of the oldest and largest accounting and advisory firms in the country. Our primary objective has always been to deliver industry-focused strategies and innovative financial solutions that help our clients improve their businesses. We achieve this goal by following through on our commitment to our values, our people and, most of all, providing Exceptional Client Service. Information about our unique strengths can be found detailed below.

Baker Tilly's national and international presence:

- Largest independent member of Baker Tilly International, the world's 10th largest accounting firm network represented in 147 territories
- One of the 15 largest accounting firms in the United States, according to *Accounting Today*
- A wide range of accounting, tax, assurance and consulting services provided by more than more than 3,000 professionals in 30-plus offices nationwide, including numerous in Pittsburgh
- More than 42,000 clients served in FY 2018
- Clients to rate their satisfaction levels on a 1-to-10 scale (10 being highest) — in the most recent survey ended, 84 percent of responding clients gave us 9 or 10

As the firm's largest practice, the construction and real estate practice would place among the **50 largest accounting firms in the U.S.**, as a stand-alone practice. Our financial advisors, certified public accountants, and industry specialists provide comprehensive accounting, tax, and advisory services to more than 1,200 construction clients and 2,700 real estate clients across North America.

We have been delivering construction audit services since 2001. In the past few years, we have provided construction risk management and audit services for more than \$20 billion worth of construction projects for owners, contractors, and developers. We have experience auditing national, local, and international contractors. Our construction audit clients have included hospitals and healthcare networks, colleges and universities, Fortune 1000 corporations, energy companies, public-private partnerships, public authorities and private owners, to name a few. Our projects encompass hospitals, surgical centers, acute care facilities, emergency departments, mega facilities, science, technology, engineering and mathematics (STEM) buildings, student housing, student centers, research and development centers, sports facilities and office buildings. Our national project experience includes interior office build-outs, Greenfield development, mega sports facilities, and power generation plants.

