



A PROPOSAL TO PROVIDE
CONSTRUCTION AUDIT SERVICES FOR:

City of Crest Hill

OCTOBER 7, 2022





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October 7, 2022

Jim Marino
City Administrator
City of Crest Hill
1610 Plainfield Road
Crest Hill, IL 60403

Dear Mr. Marino:

We thank you for the opportunity to present our qualifications to provide construction audit services to City of Crest Hill (the City). BDO USA, LLP's Construction Audit and Advisory Practice is dedicated to providing world-class quality service as part of our core culture and through our team's depth of public sector and construction industry experience.

Throughout this proposal, we endeavor to show the City our commitment to your organization's success through our key value propositions and key differentiators.

A few of our key differentiators are:

- ▶ We have a dedicated construction leadership team with experience serving organizations throughout the United States.
- ▶ BDO continues to innovate. As an example, BDO recently released an automated construction audit tool that promotes transparency and helps reduce errors when invoices are submitted by the construction project team.
- ▶ We have deep experience and understanding of the construction industry and risks to public sector municipalities.
- ▶ Our integrated service delivery approach will be co-developed with management and is designed to be collaborative and transparent.
- ▶ We offer superior value to fee ratio versus other national consulting firms.

We are truly excited about the opportunity to partner with the City. Our clients experience our culture through a service approach characterized by extensive involvement of senior professionals, direct access to top technical resources, and straightforward, proactive communications delivered through a centralized, responsive, and knowledgeable client service team. On the following pages, we have highlighted why BDO is the right partner for the City.

Sincerely,

BDO USA, LLP

A handwritten signature in black ink that reads "Dawn Williford". The signature is written in a cursive, flowing style.

Dawn Williford

Partner
Contract Compliance Practice Leader
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Our Understanding of Your Needs

The City of Crest Hill (the City) is in the process of completing a construction program to build a Public Works building and a City Center/Police Station project. The Public Works building project has achieved final completion and the City Center/Police Station project is in the final stages of construction. The City is interested engaging an independent third party to perform an assessment of the effectiveness of the controls and governance systems in place to deliver both projects.

BDO proposes our Construction Controls Assessment (CCA) to address the City's needs. Our CCA methodology is founded on industry leading practices gathered from the analysis of many large scale construction projects and programs across different industries including public sector projects. Our professionals will work with your team to review your existing project management control framework, identify gaps that can impact project performance, and provide recommendations based on our experience working with some of the largest projects and programs in the world to help improve your overall project governance system and project performance.

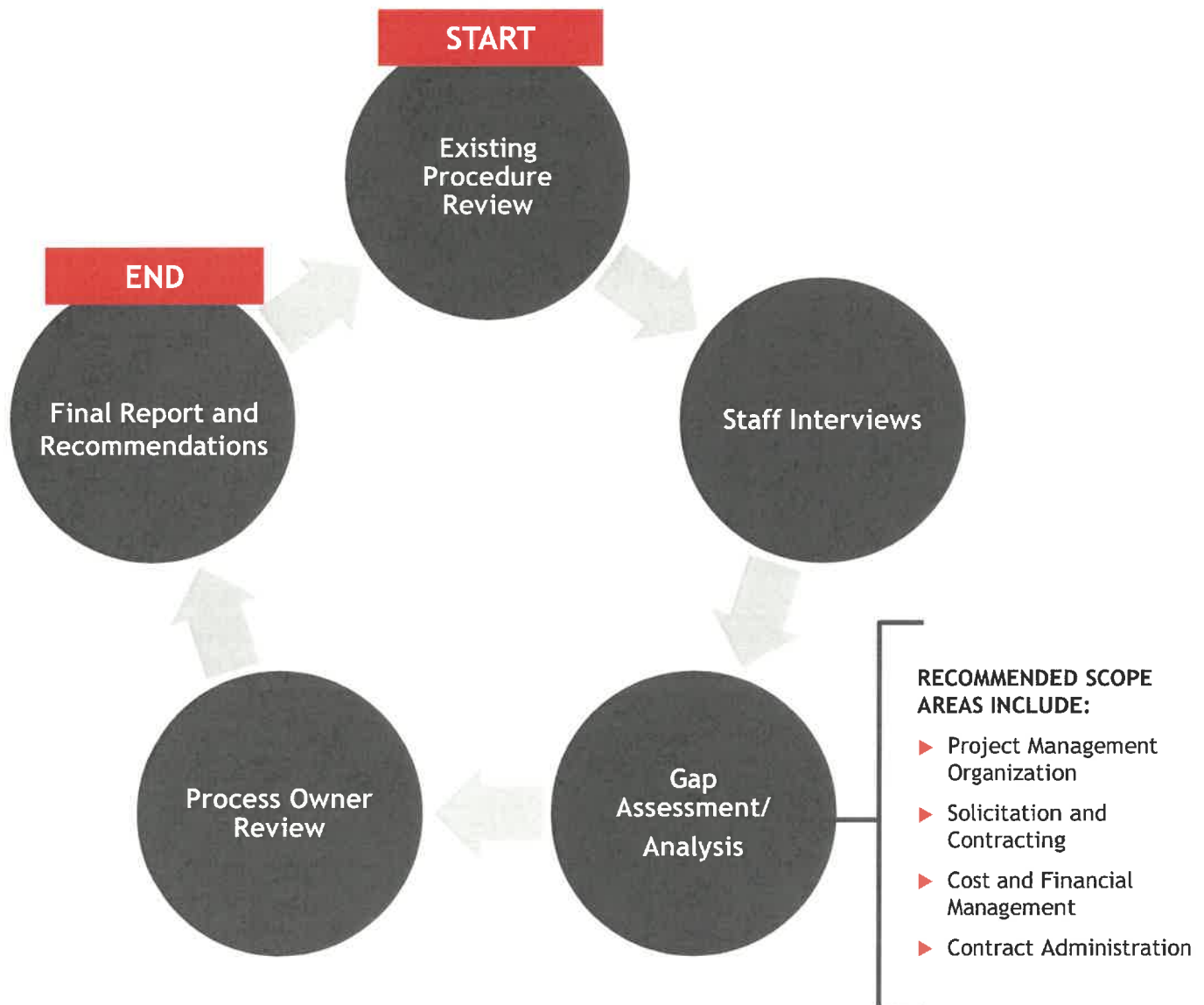


Execution Plan

CONSTRUCTION CONTROLS ASSESSMENT

A review of internal processes is a fundamental exercise that includes interviewing personnel involved in the construction process, reviewing project documentation, identifying control gaps, and benchmarking against industry leading practices and our professional judgement.

BDO professionals will review current/existing procedure documents as well as arrange a series of meetings with key personnel to learn what practices are taking place. Processes taking place will be compared to industry leading practices and customized for the City based on prevailing risks and construction methods utilized by the City.



About Our Dedicated Construction Practice

Our practice professionals understand the changes and challenges facing the sector, from fierce competition and rising costs to bonding and insurance issues. Many of our professionals have experience as project managers, architects, engineers, and data scientists in the industry. We leverage our experience, combined with our technical knowledge to bring valuable insights and value to our clients.

We are at the forefront of the construction conversation, remaining active in organizations and associations and contributing research and insights regularly to a wide variety of news outlets, trade publications, webinars, events, and thought leadership. We value the importance of industry participation as a key opportunity to increase our knowledge on industry trends and issues and cultivate conversations to keep our clients up to date as changes happen. We work collaboratively with traditional audit, tax, and consulting professionals to help our clients holistically navigate today's issues.

100+

U.S.-based Construction Industry
Specialized Services Professionals



300+

U.S.-based Construction and Real
Estate Professionals

3,000+

Construction Industry Clients
in the U.S.



1,000+

Construction and Real Estate
Professionals Across 21 Countries

DEDICATED TEAM

We have a team of dedicated professionals who bring unique skill sets and backgrounds to our construction advisory / audit engagements.



Engineers



Construction
Auditors



Certified
Public
Accountants



Fraud
Examiners



Construction
Leaders



Cost
Engineers



Forensic
Accountants



High Quality, Adaptive Approach

Ensuring our audit procedures are tailored to each client and construction project allows us to deliver high quality and value-added services. BDO has developed industry-specific customizations into our methodology.

This includes, but is not limited to:

- ▶ Industry-specific testing strategies
- ▶ Risk supplements
- ▶ Working paper guides

We also customize required communications to help ensure those matters most important to those charged with corporate governance are given the highest attention. As a result, our engagement teams are best equipped to understand our clients and their businesses and to provide specific audit content and compliance strategies for audit areas that are unique to our clients' environments.

COORDINATED APPROACH

- ▶ **We will work closely with the City to customize our audit plans** since each construction project is unique and has different risks.
- ▶ **We will gather information to enable** us to design customized procedures and conduct the audit in the most efficient manner and within the agreed time frame and budget. Information gathering will also include a request list.
- ▶ **We will promote clear and timely communication of issues** to avoid last minute surprises and enable smooth and timely reporting.
- ▶ **Should we uncover fraud or something that looks like fraud,** we will alert management immediately and stop work.

Efficient Service Methodology

WHY BDO'S APPROACH IS DISTINCTIVE



Process efficiencies without sacrificing audit quality. We understand the importance of keeping our services affordable. Our audit methodology has been specifically designed to provide your engagement team with the tools they need to perform a high-quality audit in a cost-effective manner.



Technologically advanced. BDO is committed to the Assurance 2023 Technology Driven plan, which aims to standardize processes that drive expansive automation, digital relationship enablers, and emerging technologies that can be built upon for the future of assurance services work at BDO. This program is heavily focused on technologies to drive growth, efficiency, and capacity throughout your audit engagement. This plan and our focus on technology will lead to a technology-driven practice.



Effective communications. Effective listening and regular, proactive, two-way communication throughout our audit process is the cornerstone of our audit quality and superior client service. This focus on communication allows your audit team to gather the information necessary to perform the audit and keep you up to date on the status of our services. This way, you can provide timely input and evaluate whether our services meet your expectations.



Scalable. Every business we audit is unique. Obtaining a strong understanding of your business is essential to tailoring our services to your company's unique risks and business needs and avoiding a one-size-fits-all approach. Our audit methodology has been specifically designed to be flexible and scalable, so your engagement team can incorporate its understanding of your business into the audit approach to appropriately size our efforts to your operations.



Early and continuous partner involvement. Our professional partner-to-staff ratio is lower than our major competitors, enabling more time for partners to be actively involved in the audit. Your audit partner has considerable business and audit experience, and BDO believes the engagement partner should be actively involved throughout the audit process in a hands-on manner. Our audit methodology has been specifically designed to facilitate this level of partner involvement.



Environmentally friendly. Our networked, electronic audit platform significantly reduces BDO's carbon footprint by reducing travel, workpaper storage, and transportation costs.

Public Sector Industry Credentials

STATE AND LOCAL GOVERNMENT PRACTICE

Today's pace of change continues to be accelerated for state and local governments now more than ever. New challenges require a new approach. BDO understands and can help modernize state and local government operations and help create positive change that benefits government workers, citizens, and communities — all while delivering **exceptional client service** focusing on **quality** in everything we do.

Beyond traditional audit and tax work, BDO offers a breadth of specialized services to our clients, including:

- ▶ An Advisory practice that specializes in IT strategic operations, upgrading infrastructure, strengthening security posture, project management, post-implementation review, process improvement, and recruiting services.
- ▶ An Asset Management practice that is among the leaders in their space and experienced in GASB 72.
- ▶ A Valuation practice experienced in fair valuing derivative instruments as well as derivative accounting and related pronouncements, including GASB 53.
- ▶ Dedicated Compensation and Benefits practice including actuaries that review GASB 67/68 and 74/75 valuations.
- ▶ Third-Party and Information Technology assurance groups specializing in SOC examinations of service providers/ organizations, evaluation of internal business and IT controls, as well compliance of PCI DSS requirements.

We deliver our services to the following sectors:



State and territorial governments



Public finance authorities



County and city governments



Transit systems



Tribal governments



Public utilities
(electric | water | wastewater)



Airport systems



Port authorities



State retirement plans



Pension and OPEB plans



Public housing authorities



Public universities



HUD projects

Public Sector Industry Credentials

THOUGHT LEADERSHIP AND CLIENT EDUCATION

We demonstrate our knowledge and experience in our relevant client work and thought leadership – from proprietary research to timely reports and industry events, BDO is at the forefront of the public sector conversation and believe in the power of industry participation. Many of our practice professionals are in the field with our clients, author articles on salient issues, and comment on breaking news. We are speakers at industry conferences and seminars, are active in organizations and trade associations, and serve as resources for trade publications.

Our goal is to bring perspective on opportunities, trends, issues and regulations that frame our approach and services to address our clients' needs.

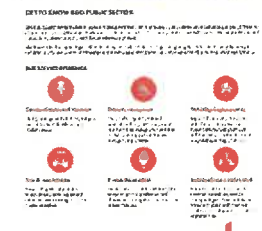
Publications and technical updates

We share our knowledge through a variety of thought leadership, keeping you abreast of relevant news and hot topics that go beyond balance sheets and financial statements.

- ▶ **BDOKnows** — series of newsletters, flash reports and in-depth discussions addressing significant financial reporting developments.
- ▶ **Public-Private Partnership (P3s)** — Drawing upon our P3 practice's 20+ year history, BDO's mobilization process can capture the unique nuances to develop tailored strategies to win alignment and approval for your development goals.
- ▶ **Significant Accounting and Reporting Matters Guide** — quarterly digest of final and proposed financial accounting standards.
- ▶ **GASB, FASB, and Single Audit Flash Reports** — information about selected developments and emerging issues are immediately e-mailed to BDO professionals for timely communication to clients.
- ▶ **Tax Newsletters and Alerts** — updates on federal, state, local, expatriate, and international developments along with other specific tax planning and strategy considerations.
- ▶ **Industry Newsletters, Alerts, Reports, Proprietary Studies, Infographics, and Surveys** — a variety of publications depicting specific industry issues, emerging trends, and developments.

Topical resources available for our clients, include:

- ▶ Community Infrastructure Act: [Community Infrastructure](#)
- ▶ Community Resilience: [Community Resilience](#)
- ▶ Innovation and Transformation: [Business Innovation](#)
- ▶ Corporate Governance and Financial Reporting: [Corporate Governance](#)
- ▶ Single Audit: [Frequently Asked Questions](#)
- ▶ [OMB Uniform Guidance](#)
- ▶ [The Latest in COVID-19 Funding Compliance Guidance](#)



BDO KNOWS CONSTRUCTION

Project Example: Public Mid West University



SITUATION

- ▶ The University embarked on a \$240M construction program to complete a stadium expansion and engineering school building projects.
- ▶ Management requested assistance in performing an independent review of controls over the delivery of capital projects, review of contractor Guaranteed Maximum Price ("GMP") proposals, monitoring of project costs, and review of project change orders.
- ▶ Our scope includes:
 - Assessing project management controls against leading industry practices.
 - Review of contractor GMP proposals along with supporting documentation.
 - Monthly assessments of project costs against the commercial terms of the contract.
 - Audits of select change orders.

APPROACH

- ▶ BDO performed an initial process assessment to evaluate the project management controls and practices in place to deliver capital projects and provide recommendations to address gaps identified.
- ▶ BDO is reviewing contractor GMP proposals against supporting documentation to assess reasonableness of costs proposals prior to the execution of the GMP change order.
- ▶ BDO is also reviewing, on a monthly basis, contractors' payment applications to assess compliance with contractual requirements.

OUTCOME

- ▶ BDO provided recommendations to help improve the University's project management controls.
- ▶ Overstated labor rates were identified during initial labor rate audits avoiding overbilling of labor costs throughout the duration of the project.

BDO KNOWS CONSTRUCTION

Project Example: Large Wastewater System



SITUATION:

- ▶ One of the largest wastewater systems in the United States invested over \$5 billion in updates, additional capacity, and new construction.
- ▶ Hundreds of contractors, 10 years of construction, and dozens of project managers with one goal of building new infrastructure and replacing aging systems to increase capacity and reduce wastewater runoffs.
- ▶ Our scope included:
 - Assessing the progress of the infrastructure project, including budget forecasting and program budget monitoring for regulatory reporting purposes;
 - Auditing overhead rates for professional services firm for compliance with contract and organizational policies; and
 - Auditing certain project costs to verify labor, equipment, and materials were charged in accordance with the contract and schedule of values.

APPROACH:

- ▶ The objective of the engagement was to assist our client in managing the overall costs of this \$5 billion program.
- ▶ In order to maximize coverage, BDO performed an annual risk assessment of the construction activity to determine which projects represented elevated risk, to identify the projects to be audited.
- ▶ BDO's scope included reviewing and verifying all costs invoiced by the general contractor including subcontractor costs, consultants, and program managers.

OUTCOME:

- ▶ Numerous errors were identified with overhead rates, resulting in over \$65 million in savings throughout the projects' duration.
- ▶ Errors were identified in the calculation of the total program costs, which effected bond financing, rate calculations, and bond repayment terms.
- ▶ Over \$100 million was identified as overbillings and overcharges, including duplicative charges and lump sum contracts being billed before work commenced.

BDO KNOWS CONSTRUCTION

Project Example: Regional Healthcare System



\$229M HEALTHCARE FACILITY

SITUATION:

- ▶ New construction outpatient facility completed for \$229M was approximately 30% complete when the client requested construction audit and project oversight.
- ▶ The construction project was executed under a guaranteed maximum price.
- ▶ Our scope included analysis of the construction contract and an evaluation of the contractor's billing, specifically equipment rental rates and general contractor markups, and change orders to determine compliance to contract terms, provisions, and cost.
- ▶ Project incurred approximately \$6 million in change orders.

APPROACH:

- ▶ The objective of the engagement was to review documentation of costs incurred and paid by the client in completion of the project to determine if the requests for reimbursement were in alignment with the applicable contracts, fee schedules, and industry standards.
- ▶ Full detailed review of equipment rental rates and markup percentages on change orders was performed.
- ▶ BDO's scope included reviewing and verifying all costs invoiced by the general contractor including subcontractor costs, in addition to direct costs paid for by the owner.

OUTCOME:

- ▶ Potential overcharges totaling over \$3 million were identified due to:
 - General contractor owned rental equipment billed in excess of the fair market value and prevailing rates.
 - Overhead and profit were calculated by inappropriately applying agreed percentage for overhead before applying profit by general contractors, resulted in profit on profit.
 - Several change orders submitted for cost adjustment were in fact a part of the original budget and scope of work.

BDO KNOWS CONSTRUCTION

Project Example: Mid-Atlantic Area University



SITUATION:

- ▶ The University had a continual need to expand and renovate buildings on campus through a multi-year master campus plan.
- ▶ With the extensive construction needs of the University, leadership desired independent audit coverage to supervise the costs of construction and verify the University is receiving value for costs incurred/invoiced.
- ▶ The University was in the process of constructing two buildings, with a total budget of \$95 million.

APPROACH:

- ▶ BDO provided formal training for the University's internal audit resources.
- ▶ Performed construction cost reviews for the two new construction projects throughout the duration of the both projects.
- ▶ Examined labor, equipment, change order, and insurance rates, as well as related party and subcontractor costs.
- ▶ Identified insurance, vendor, and change order overbillings and reconciled labor costs to the agreed-upon rates.
- ▶ Transitioned aspects of construction audit functions to the University's internal audit department and provided oversight of their work to develop internal construction cost review expertise.

OUTCOME:

- ▶ Overcharges totaling \$1.9 million (2% of the contract value) were identified due to inaccurate labor burden billing rates and various calculation errors.
- ▶ The general contractor billed fully burden labor (FUTA, SUTA, workers compensation, insurance, etc.) at full regulatory rates rather than the actual rates incurred and to be billed per contract requirements.

Leaders Serving the City



Carlos Torres

Director, Risk
Advisory Services
Engagement Leader

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Carlos focuses on providing construction advisory services to owners and contractors. He has more than 16 years of accounting, audit, and advisory experience.

Prior to joining BDO, Carlos worked for a Big Four firm as an advisory manager. In this role, Carlos led engagement teams executing construction audits in the oil and gas, healthcare, transportation, higher education, government, gaming, and pharmaceutical industries for both U.S.-based and international projects and programs.

Carlos has extensive experience in all areas of the project delivery lifecycle advising clients on ways to improve existing project processes and controls. Carlos also has broad experience performing contract compliance assessments of large construction contractors and vendor audit programs resulting in the identification and recoveries of millions of dollars in overbillings and process improvement opportunities to reduce or avoid future overbillings.

Carlos is a Certified Public Accountant (CPA), a Certified Fraud Examiner (CFE), and a Certified Construction Auditor (CCA).

REPRESENTATIVE PROJECTS

- ▶ \$357m university research building
- ▶ \$155m university stadium expansion project
- ▶ \$85m university school of engineering building.
- ▶ \$2B school district bond program

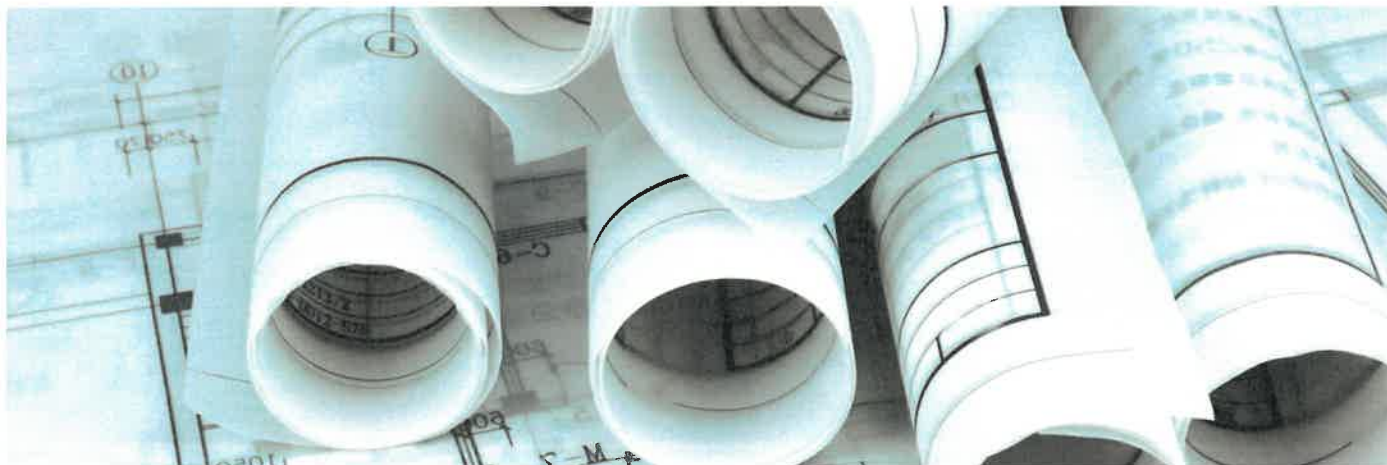
PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

National Association of Construction Auditors

EDUCATION

B.B.A., Universidad Politecnica de Puerto Rico



Proposed Fees

We are committed to quality, value-added service.

- ▶ We understand the importance of efficiencies and cost control and have specifically designed our methodology to provide your engagement team with the tools they need to perform a high-quality audit in as cost-effective a manner as possible.
- ▶ In addition, as an important client, you may contact us at any time without additional charges. A collaborative relationship is important to us. We are committed to investing the necessary time to discuss the changes, challenges, and potential issues which may impact you and your business.


WE BELIEVE IN COMPLETE TRANSPARENCY, WHICH MEANS:

- ▶ We quote services based on experience and realistic expectations to avoid unexpected fees.
- ▶ It is not our practice to bill for routine telephone consultations or questions unless they require significant research. If you request special services outside the scope of services outlined in this proposal, we will discuss those services and provide management with a fee estimate related to such assistance. We will not allow concerns about fees to jeopardize a relationship based on mutual trust and respect.

Our fee proposal:

| Service | Fee |
|----------------------------------|----------|
| Construction Controls Assessment | \$75,000 |

Our fees are exclusive of out-of-pocket expenses, which will be billed separately as incurred. We render bills on a monthly basis and payment is due upon presentation. The amount billed reflects the approximate progress on completion of the professional service provided.



At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes—for our people, our clients, and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax, and advisory services for a diverse range of clients.

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