



June 25, 2018

Mr. John Herbst
City Auditor/Community Redevelopment Agency Auditor

Dear Mr. Herbst:

The following provides our analysis and observations/recommendations related to State Unemployment Tax (SUTA); Federal Unemployment Tax (FUTA) and other adjustments related to Skanska's labor burden for your consideration.

Analysis

Article 7.1.1 – Construction Phase General Conditions and General Requirements (hereinafter referred to as “General Conditions”).

In this section, the construction agreement with Skanska specifically defines the Construction Manager's (CM) compensation for General Conditions or services performed for the Construction Phase. The following excerpt defines how the CM's compensation for General Conditions performed, during the Construction Phase, shall be charged in the monthly pay application:

The General Conditions shall be invoiced and paid each month, based on actual costs at the agreed-upon billing rates attached hereto as Exhibit 2. (Article 7.1.1)

The agreed-upon billing rates schedule included “fringes” for which Skanska separately provided a breakout of the labor burden / indirect cost components as listed below (letter dated, March 31, 2017):

Project 2017 Burden Rate:

Social Security Tax	6.20%
Medicare Tax	1.45%
State Unemployment Tax	2.55%
Federal Unemployment Tax	0.60%
Workers Compensation	In CCIP
Medical Insurance	20.20%
Dental & Vision	0.50%
Life Insurances	1.35%
Retirement (401K & SEOP)	8.00% (3% 401K and 5% SEOP)
Escalation (Lock In)	1.25% Covers Changes through 2019

Total ~~42.10%~~
37.10 %

These “fringes” as identified on Exhibit 2 were negotiated to be fixed at 37.00% (1.37 mark-up of the base labor rates for each the CM personnel listed on Exhibit 2). Additionally, Exhibit 2 included a cost of living adjustment of 1.0325 as well as some per diem rates related to vehicles for some of the CM personnel, plus an undefined Overhead and Profit mark-up of 10%.

State Unemployment Tax (SUTA) / Federal Unemployment Tax (FUTA)

In our review of the rates for the above fringe items, we noted an error in how the Florida state unemployment tax rate (SUTA) was applied by the CM. The CM's mark-up rate presented is 2.55%, which does not take into account the annual statutory income limitation for SUTA, which for Florida is limited to \$7,000 of the taxable wage base for 2017 and 2018 per employee. This means that the SUTA payable to the state cannot exceed the SUTA rate times this capped taxable wage base. The CM applied the SUTA rate to each of their personnel's total taxable wages without taking into account this cap. Applying the cap, the SUTA is as follows for each CM project team personnel that earns \$7,000 or more annually ($2.55\% \times \$7,000 = \178.50 per employee). Additionally, the cap as applied to FUTA: ($0.6\% \times \$7,000 = \42 per employee).

Actual Average Employee Salaries vs. the Annual Employee Salaries

CRI noted, based on the Skanska labor charged through PA#11, that the actual average employee base salary significantly exceeds the average employee base salary used in determining the specific percentages in the labor burden mark-up. This results in an overstatement of the burden rate components, which is compounded by the additional mark-up on these fringe items noted above with COLA (3.25%), vehicle allowances (2 to 4%) and Overhead and Profit (10%). Overall, including the SUTA and FUTA errors discussed above, we estimate the labor burden mark-up overage to be approximately 7.12%.

Observations and Recommendations

State Unemployment Tax / Federal Unemployment Tax (SUTA/FUTA)

Observation

Based on the analysis above, the CM appears to have miscalculated the SUTA / FUTA rates resulting in an overstatement of the actual amounts incurred and to be incurred by the CM.

Recommendation:

We recommend that the CRA project manager inform the CM of this error in the SUTA / FUTA calculation and request SUTA / FUTA be capped per employee at \$178.50 per employee for SUTA and \$42.00 per employee for FUTA pursuant to the statutory requirements.

The estimated financial impact of the above observation at project completion (approximately 2 yrs.):

Description	Calculation by CRI	Amount
SUTA / FUTA at CM rates	$\$2,211,000 \times 3.15\%$ (SUTA & FUTA % in CM billing rates)	\$69,700
SUTA/FUTA - capped	$\$178.50 + \$42.00 = \$220.50 \times 18 \text{ employees} \times 2 \text{ years}$	(\$7,300)
Total Variance	Estimated overage (project est. 24 months)	\$62,400

*We determined the estimated total base labor for the project as follows:

- \$3,537,000 - total scheduled value for Skanska Labor - PA#11 (based on loaded billing rates)
- 1.6 (estimated average burden/fringe mark-up based on Exhibit 2)
- $\$3,537,000 / 1.6 = \mathbf{\$2,211,000}$ (total estimated base labor for project at completion)

The estimated financial impact through PA#11 is as follows:

Description	Calculation by CRI	Amount
SUTA / FUTA at CM rates	$\$936,000 \times 3.15\%$ (SUTA & FUTA % in CM billing rates)	\$29,500
SUTA/FUTA - capped	$\$178.50 + \$42.00 = \$220.50 \times 18 \text{ employees (prorated PA11)}$	(\$3,300)
Total Variance	Estimated overage (through PA#11)	\$26,200

*Total CM labor charged to date / 1.6 = estimated base labor ($\$1,497,000 / 1.6 = \$936,000$)

Recalculation of Skanska Burden Rate

Observation

The table below details our recalculation of the burden rate. Note that this recalculation includes the effect of the SUTA/FUTA errors noted above, and comes to the total estimated adjustment to the labor burden rate, including the effects of the average base salary rate noted in our comments above. The average base salary used by Skanska, in calculating the current burden component rates, is \$109,051. The actual base salary for Skanska employees on this project is \$127,166 - based on actual labor and labor burden charged in pay applications 1 through 11.

Recommendation:

We recommend that the CRA project manager request the CM to adjust the various burden component rates detailed in the attached Appendix. The financial impact in recalculating the burden rates based on the \$127,166 average salary for pay applications 1 – 11 (inclusive of the corrections related to SUTA and FUTA noted above) are as follows:

Calculation by CRI		Amount
Interim Estimated Overage – thru PA11	Total Labor thru PA11/ burden mark-up x the burden variance (\$1,497,000 / 1.6 x 7.12%)	\$66,600
Estimated overage at project completion	Total labor in scheduled value / burden mark-up x burden variance (\$3,537,000 / 1.6 x 7.12%)	\$157,400

See Appendix for more details in our recalculation of the respective labor burden components.

As part of the close-out contract compliance audit, CRI will recalculate the actual, final overage related to the labor burden charged by the CM.

This analysis, including the observations and recommendations, were consulting related and in no way constitute an audit, review or compilation made in accordance with standards established by the American Institute of Certified Public Accountants. Therefore, we do not express an opinion on any financial statements, accounts or items (such as above), nor are we in anyway expressing a legal opinion on this matter.

Appendix				
	Actual Avg Annual Salary - Base	\$	127,166	(PA's 1-11)
Burden component	Per CM	Per CRI	Variance	
Social Security	6.20%	6.20%	0.00%	
Medicare	1.45%	1.45%	0.00%	
SUTA	2.55%	0.14%	2.41%	
FUTA	0.60%	0.03%	0.57%	
WC	0.00%	0.00%	0.00%	
Medical	20.20%	17.32%	2.88%	
Dental & Vision	0.50%	0.43%	0.07%	
Life Insurances	1.35%	1.16%	0.19%	
401K	3.00%	3.00%	0.00%	
Escalation	1.25%	1.25%	0.00%	
Total	37.10%	30.98%	6.12%	
Fringe Mark-up	1.37	1.31	0.06	
COLA - Mkup	1.03	1.03	-	
Adj Burden	1.42	1.35	0.06	
Vehicle Mkup	1.03	1.03	-	
Adj Burden	1.45	1.39	0.06	
OH&P Mkup	1.10	1.10	-	
Total Burden Mkup	1.60	1.52	7.12%	
Total labor thru PA11/burden mark-up x burden variance:				
Estimated Overage - (\$1,497,000 / 1.6 x 7.12%)			\$	66,617
Total labor scheduled value/burden mark-up x burden variance				
Estimated Overage - (\$3,537,000 / 1.6 x 7.12%)			\$	157,397
<u>Recalculated by CRI</u>				
<u>SUTA:</u>			<u>Medical:</u>	
Rate	2.55%		Avg Sal.	127,166
Annual Cap	7,000		Prem	22,031
SUTA per Emp	178.50		Rate	17.32%
Emp Ave Sal	127,166			
Effective Rate	0.14%		<u>Dental & Vision:</u>	
			Avg Sal.	127,166
			Prem	548
<u>FUTA:</u>			Rate	0.43%
Rate	0.60%			
Annual Cap	7,000			
FUTA per Emp	42.00		<u>Life Insurances</u>	
Emp Ave Sal	127,166		Avg Sal.	127,166
Effective Rate	0.03%		Prem	1,469
			Rate	1.16%