


Hernando County Clerk of Circuit Court
Audit Services Department
Audit Report
Airport Construction Contracts
April 26, 2023

MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Douglas A. Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: April 26, 2023

SUBJECT: **Airport Construction Contracts Audit**

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of Airport Construction Contracts. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "Correspondence to Note" item.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The courtesies and cooperation extended by the employees of the Hernando County Airport during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or just stop by our offices in Room 300C.

ATTACHMENT: Airport Construction Contracts Audit Report

Copy: Valerie Pianta, Economic Development Director

Copy: Board of County Commissioners

Chairman John Allocco
Commissioner Jerry Campbell
Commissioner Steve Champion
Commissioner Brian Hawkins
Commissioner Elizabeth Narverud

Copy: Audit Services Planning & Priorities Committee

The Honorable Douglas A. Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Toni Brady, Director, Office of Management/Chief Procurement Officer
Jon Jouben, County Attorney
Tobey Phillips, Deputy County Administrator
Jeffrey Rogers, County Administrator
Joshua Stringfellow, CPA, Director of Financial Services
William Blend, CPA, CFE, Shareholder, MSL P.A.
Jeff Wolf, CPA, Senior Audit Manager, MSL P.A.

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Executive Summary

The purpose of this audit was to provide management with some level of assurance that the contract award process complied with Florida Statute, and County Ordinances and Policies; vendor payment applications were accurate, agreed to contract terms, and were paid timely; Change Orders were properly approved and supported; projects were properly monitored and inspected; vendor insurance requirements were satisfied; and if applicable, the contract was properly closed out.

To accomplish this review, we obtained an understanding of the relevant processes; interviewed staff members; and selected a sample of construction contracts for testing.

The results of our review are addressed in the discussion points that follow.

Discussion Point 1: Vendor Selection and Screening

The construction projects reviewed were subject to the Hernando County Procurement Ordinance, Chapter 2, Article V. Section 2-108 of this ordinance specifies the competitive bidding process for projects that involve "the construction by non-county personnel of any road, street, sidewalk, drainage facility, water distribution system, sewer collection system, water or sewer treatment plant, or building."¹

The ASD reviewed the contract award documentation. The results of the review determined that the contracts were awarded in compliance with the County's Procurement Ordinance.

Discussion Point 2: Vendor Payment Application Controls

To evaluate the vendor payment application (pay app) controls, the ASD reviewed the 21 pay apps for the selected projects. While all of the pay apps were mathematically correct, the ASD identified a few opportunities for improvement that if implemented, would strengthen the internal control environment. These opportunities for improvement included the following: draft Standard Operating Procedures (SOP); ensure all pay app line items agree to the approved contract; have the owner's representative named in the contract review and approve the pay app; and ensure that all pay apps are processed within the timeframes specified in the Florida Prompt Payment Act (F.S. 218.735).

Discussion Point 3: Project Monitoring

To determine if projects were being properly monitored, the ASD reviewed documentation for reasonableness and interviewed staff. The review disclosed that an inspector was not onsite for one project while the roadway was paved. At the completion of this project, the project manager did notify the contractor that the pavement contained foreign material and the contractor did correct the situation such that upon final inspection by the Department of Public Works the road paving project was approved. For one of the other projects, it appeared that inspections were not documented for two of the nine pay apps. The inspection of these projects was performed by a contractor.

1

https://library.municode.com/fl/hernando_county/codes/code_of_ordinances?nodeId=PTIICOR_CH2AD_ARTVPUREPR

Discussion Point 4: Change Orders

Change Orders, which are amendments to approved contracts, typically modify the total value and/or the contract deadline. Per Purchasing and Contracts Department Procedure No. 080F, change orders are required "regardless of monetary value, when modifications occur to contracts awarded by the Board of County Commissioners and all construction projects which may result in a material change to the contract affecting the cost, time of performance and/or in the tangible nature of any specification relating to the work to be performed by the contractor."

To evaluate the change orders for the selected contracts, the ASD obtained electronic copies of the change orders along with any supporting documentation to determine if they appeared to be properly supported and were properly approved. Based on the results of this review, it appeared that change orders were properly supported and approved.

Discussion Point 5: Contract Close-Out

Only one of the projects selected for review was completed at the time of the audit. To evaluate the close-out process for this project, the Auditor obtained the documentation from Onbase. Based on the results of this review, it appears that the contract close-out process substantially complied with the County's Purchasing Policy 130G.

Acknowledgement

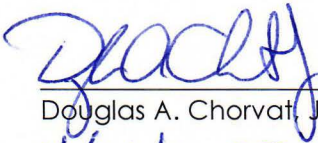
Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Elizabeth Hogan, CIA, CFE, Director of Audit Services

Management's response was provided by: Valerie Pianta, Economic Development Director
Steve Miller, BKV Airport Manager

Management's response was approved by: Jeffrey Rogers, County Administrator

This report was reviewed and authorized by Douglas A. Chorvat, Jr., Clerk of Circuit Court and Comptroller.



Douglas A. Chorvat, Jr.
4/26/2023

Date

BACKGROUND INFORMATION

Operations at the Brooksville Regional Airport falls under the purview of the Federal Aviation Administration (FAA) and the Florida Department of Transportation (FDOT). Both the FAA and FDOT require an effective pavement maintenance management program.

According to the County's website, to ensure that the airport infrastructure is properly maintained,

A Capital Improvement Plan (CIP) is outlined in the airport's master plan and identifies recommended improvements over a 20-year planning period. CIP programs are centered around safety, pavement rehabilitation, airfield electrical, stormwater and environmental improvements. These projects are typically funded utilizing Federal Aviation (FAA) and Florida Department of Transportation (FDOT) grant programs.²

Per County Ordinance Section 3-30,

All contracts for the construction, repair, alteration or otherwise of the airport or part thereof or the purchase of equipment and supplies shall be in accordance with the county procurement ordinance, latest revision, and that all expenditures requiring an advertisement for sealed bids, as specified therein, be approved by the board of county commissioners.³

Chapter 2, Article V, Purchasing Regulations/Procurement, Sec. 2-98 states that the

purpose is to establish the county's purchasing function under a centralized system which will enable the county to:

- (1) Establish uniform policies and procedures governing purchases and contracts by the county;
- (2) Obtain goods and services of satisfactory quality and quantity at reasonable cost for the county;
- (3) Foster effective competition within the free enterprise system; and
- (4) Provide safeguards for the maintenance of a procurement system of quality and integrity⁴

² <https://flybkv.com/doing-business/capital-program/>

³

https://library.municode.com/fl/hernando_county/codes/code_of_ordinances?nodeId=PTIICOR_CH3AIA_V_ARTIIBRMPBAREAI_S3-30COSUPRORBISUCOAP

⁴

https://library.municode.com/fl/hernando_county/codes/code_of_ordinances?nodeId=PTIICOR_CH2AD_ARTVPUREPR

The County's procurement of goods and services must comply with all applicable Florida Statutes. Florida Statute 287.017, 287.057, and 287.058 address the purchasing thresholds and the procurement requirements for commodities or services in excess of \$35,000, Category 2. The requirements are indicated in the chart below.

F.S. 287.017 Purchasing categories, threshold amounts	F.S 287.057 Procurement of commodities or contractual services	F.S 287.058 Contract document
<ul style="list-style-type: none"> • Category 1: \$20,000 • Category 2: \$35,000 • Category 3: \$65,000 • Category 4: \$195,000 • Category 5: \$325,000 	<ul style="list-style-type: none"> • Identifies criteria for invitation to bid • Contract award to responsible, responsive vendor with lowest responsive bid • Competitive sealed bids for commodities or services in excess of Category 2 • Excludes artistic services, academic review programs reviews < \$50k, etc. • Identifies contract manager responsibilities • Evaluation of bids for contracts in excess of Category 4 • Approval process for contractual services in excess of Category 3 	<ul style="list-style-type: none"> • Procurements in excess of Category 2 shall be evidenced by written agreement • Bills for fees or services should be detailed to enable pre and post audit • Submission and rates for travel expenses • Public access to all contractor's documents, papers, letters, or other material made or received by the contractor related to the contract • Scope of work • Quantifiable, measurable, verifiable units of deliverables • Final date for contract completion • Renewal period • Financial consequences for non-performance • Property rights of any intellectual property

Figure 1 – Auditor generated

ORGANIZATIONAL STRUCTURE

At the time of the audit, Airport Administration reported to the Economic Development Director. The department was comprised of 8 full time positions – 1 Airport Manager; 1 Senior Project Manager; 1 Finance Specialist; 1 Administrative Assistant; 1 Maintenance Technician; and 1 Grounds Maintenance.

FINANCIAL INFORMATION

A 5-Year Capital Improvement Plan (CIP) is approved by the BOCC each year during the budget process. Per the County's Budget Policy, the CIP "covers a five-year period and is updated annually. Capital Improvements, as they pertain to the CIP, are defined as physical assets, constructed or purchased, that has a minimum useful life of 10 years and a minimum total cost of \$50,000."

According to the approved CIP for FY 2019/2020 through FY 2023/2024, the Airport had eight projects scheduled and funded for a total amount of \$32,772,957. As some projects were

modified and others were added to the plan the FY 2022 through FY 2026 plan totaled \$37,026,256, of which \$2,885,053 did not have a designated funding source.

For the time period included in this review of Fiscal Year 2019/2020 to Fiscal Year 2023/2024, Airport staff identified the status of the projects actually undertaken during this timeframe. The projects and their status were as follows:

PROJECT NAME	TOTAL AMOUNT PER FY 2019/20 – FY 2023/24 CIP	STATUS
Helicopter Drive Extension	\$300,000	Completed
Runway 27 Extension	\$6,250,000	Only design and environmental which are currently in process
Runway 27 Safety Area Improvements	\$3,000,000	This CIP was removed and broken out into separate components
Runway 3/21 Shift	\$3,000,000	Moved to 2023-2025
Runway 9/27 Rehabilitation	\$13,100,000	Almost Complete
Shade Hangar	\$137,205	Design Only
Taxiway A Rehabilitation	\$5,735,752	Complete
Technology/Telcom Drive	\$1,250,000	Almost complete

Figure 2 – Auditor generated

OBJECTIVE

The purpose of this audit was to provide management with some level of assurance that the contract award process complied with Florida Statute, and County Ordinances and Policies; vendor payment applications (pay apps) were accurate, agreed to contract terms, and were paid timely; Change Orders were properly approved and supported; projects were properly monitored and inspected; vendor insurance requirements were satisfied; and if applicable, the contract was properly closed out.

SCOPE

The audit covered contracts awarded for the period of Fiscal Year 2019/2020 through Fiscal Year 2022/2023.

To accomplish the audit objectives, the Audit Team performed the following procedures:

- Interviewed key personnel
- Judgmentally selected a sample of 3 construction projects with a CIP total cost of \$19,135,752. The total CIP amount for these 3 projects accounted for 58% of the total CIP. The auditor evaluated the following:
 - Contract award process
 - Vendors' pay apps approval and processing
 - Project monitoring
 - Contract close out (if applicable)
 - Insurance requirements
 - Vendor licenses, registrations, and certifications

Note: For project monitoring, the review was limited to inspection reports provided. These reports and/or photos were reviewed for reasonableness only. The auditor did not evaluate the content of the photos/reports.

The audit procedures performed identified procedures and practices that could be improved. The Opportunities for Improvement are listed below.

Opportunity for Improvement	Description	Page Reference
2.1	Draft Standard Operating Procedures	13
2.2	Ensure all pay app line items agree to the approved contract	14
2.3	Owner's Representative(s) named in the contract reviews and approves pay apps	14-15
2.4	Process all pay apps within the timeframe specified in the Florida Prompt Payment Act	15
3.1	Properly inspect vendor's work as it is being performed	16

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Discussion Points

Discussion Point 1: Vendor Selection and Screening

Contract selection and screening for the Airport construction projects began with the identification of the need. After the need was identified, the project was included in the Capital Improvement Program (CIP), if it met specific criteria. The CIP, which was updated annually, covered a five-year period, and consisted of projects with a minimum useful life of 10 years and a minimum cost of \$50,000. Projects were ranked and funding sources were identified.

The construction projects identified on the CIP that were awarded were subject to the Hernando County Procurement Ordinance, Chapter 2, Article V. Section 2-108 of this ordinance specified the competitive bidding process for projects that involved "the construction by non-county personnel of any road, street, sidewalk, drainage facility, water distribution system, sewer collection system, water or sewer treatment plant, or building." The BOCC "shall accept the best and lowest responsible and responsive bid for the award of a competitive bid contract." Responsible and responsive bid/bidder are defined as follows:

Responsible bid/bidder means an individual, partnership, firm, association, corporation or business which has submitted a bid, offer, proposal, quotation, or response, which has the capability, as determined by the county, in all respects to fully perform the contract requirements, and the integrity and reliability which give reasonable assurance of good faith and performance.

Responsive bid/bidder means an individual, partnership, firm, association, corporation or business which had submitted a bid, offer, proposal, quotation, or response, which, as determined by the county, conforms in all material respects to a solicitation or request for proposals.

The Airport's CIP projects selected for review were subject to the bidding process defined in the Procurement Ordinance. The Purchasing and Contracts Department advertised the projects on Bidnet, which was the system that was utilized at the time of advertisement. The bid document included financial and insurance, licensing, registrations, and certification requirements. After the bids were reviewed by staff, they were presented to the BOCC for award. In compliance with the County's Procurement Ordinance, the contracts were awarded to the lowest, responsible, and responsive bidder. In addition, the vendor awarded the contract appeared to have complied with the insurance, licensing & registration requirements stipulated in the bid document.

Discussion Point 2: Vendor Payment Application Controls

The construction payment applications, or pay apps, were submitted by the vendors throughout the duration of the projects. The pay apps included the descriptions of the specific work to be completed and/or the materials required along with the unit of measure, quantity, and unit price. This document was used to track the percentage completion of each line item along with any amount held in retainage. Retainage is the withholding of a portion of the payment to ensure the contractor satisfactorily fulfills their contractual obligations. Florida Statute 218.735, Timely payment for purchases of construction services, states that for any construction services contract, "a local government entity may withhold from each progress payment made to the contractor an amount not exceeding 5% of the payment as retainage."

Florida Statute 218.735 also defines the timeframe for the payment or rejection of the pay apps. The time to process payment if an agent must approve the request is 25 business days after the date that the payment was stamped as received as indicated in F.S. 218.74(1). If agent approval is not required, payment is due 20 business days after the stamped receipt date. If the request does not meet the contractual requirements, the request must be rejected within 20 business days after the stamped receipt date.

To gain an understanding of the pay app processes in place, the ASD interviewed staff and reviewed 100% of the pay apps for the three contracts selected for testing. For all three contracts combined, 21 pay apps were evaluated for compliance with the approved contract, proper approval, timely payment, and mathematical accuracy.

While all pay apps were mathematically accurate, the review disclosed opportunities for improvement regarding the review of pay apps for compliance with the approved contract, the approval of pay apps, and the timeliness of payments. In addition, the ASD noted that the department did not have documented Standard Operating Procedures for staff members to use for guidance. The opportunities for improvement discussed below, if implemented, would strengthen internal controls.

2.1 Opportunity for Improvement: Draft Standard Operating Procedures

The Airport Department did not have documented Standard Operating Procedures.

Recommendation: To ensure the continuity of operations in the event of staff turnover and to provide inexperienced staff with written guidance, the ASD recommends that the Airport Department management document Standard Operating Procedures for all tasks.

Note: Prior to the completion of the audit the Airport Department had drafted a Standard Operating Procedure for the processing of construction payments.

Management Response:

The department has created Standard Operating Procedures (SOP) for vendor construction payments and is continuing to create SOPs for other tasks.

Implementation Date:
August 25, 2022

2.2 Opportunity for Improvement: Ensure all pay app line items agree to the approved contract

The approved contract includes the total contract price and the unit price work. The unit price work schedule included in the contract specifically states the item description, the unit of measure, the quantity, the unit price and the total amount.

The ASD compared all pay apps to the approved contract. For one of the contracts reviewed, the pay apps included line items that were not in the approved contract. The County paid approximately \$677k for these line items without the execution of a Change Order.

Recommendation: During the pay app approval process, staff should verify that only approved work was performed and billed to the County. Charges for unapproved work and/or materials should be rejected, and the vendor notified of such in compliance with the Prompt Payment Act.

Management Response:

The department will ensure the contract being presented to the BOCC is the correct contract and is properly reflected in the pay applications. Any deviation from the approved contract will be adjusted by a Change Order.

Implementation Date:

February 24, 2023

2.3 Opportunity for Improvement: Owner's Representative(s) named in the contract review and approve pay apps

The approved contract documents stipulate Owner's Representatives for each project. Per the American Bar Association, "The 'basic' scope of services assigned to the owner's representative is centered on project management, coordination, facilitation, oversight, and monitoring during the design, procurement, and construction phases of a project."⁵ Per the contracts they "assume all duties and responsibilities, and have the rights and authority assigned to the Engineer in the Contract Documents in connection with the completion of the work in accordance with their respective scope of work and the Contract Documents." In most cases the Owner's Representative is the Project Manager. Per the Purchasing and Contracts Procedure No. 130G, the originating department is to "Review vendor/contractor's invoices for payment, verify accuracy and submit to County Financial Services for review, approval and payment."

Seven of the 21 (33%) vendor payment applications reviewed were not approved by the Owner's Representative stipulated in the contract documents due in large part to staff turnover. The Owner's Representative should have been accountable for ensuring all aspects of the billed amounts were accurate and in compliance with the contract.

Recommendation: Whenever the department experiences turn-over, Department Management should coordinate with the Purchasing and Contracts Department to

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https://www.americanbar.org/groups/construction_industry/publications/under_construction/2018/spring/owner-representative/

amend the contract document, as necessary. All pay apps should be reviewed and approved by the Owner's Representative.

Management Response:

Purchasing will be contacted to amend and update all necessary contract items containing references to Owner's Representative named in the case of any turnover.

Implementation Date:

February 24, 2023

2.4 Opportunity for Improvement: Process all pay apps within the timeframe specified in the Florida Prompt Payment Act

The Florida Prompt Payment Act (F.S. 218.735) delineates the requirements for documenting the receipt of the vendor payment applications and the subsequent timeframes for either rejecting the payment application or processing it.

Two out of the 21 (9.5%) payment applications reviewed exceeded the time allowed by the Prompt Payment Act.

Recommendation: Department management should review the Prompt Payment Act with staff members and incorporate its requirements in the department's standard operating procedures.

Management Response:

Staff has been advised of the Prompt Payment Act and has incorporated the requirement into the Department Standard Operating Procedures.

Implementation Date:

February 24, 2023

Discussion Point 3: Project Monitoring

According to the Government Finance Officers Association (GFOA) best practices for Capital Project Monitoring and Reporting, "The financial management of major capital projects requires a substantial commitment of organizational time and resources. Given their scale and cost, these capital projects can represent a significant undertaking for local governments. Consequently, governmental entities should establish policies and procedures to support effective capital project monitoring and reporting to assist in the management of these significant projects. Such efforts can improve financial accountability, enhance operational effectiveness and promote citizens' confidence in their government."⁶

Hernando County's Purchasing and Contracts Contract Administration Procedure No. 130G, delineates the responsible parties. According to this policy, the originating division/department/agency is responsible for monitoring the implementation and performance of the Contract after award and ensures compliance with agreed upon specifications, schedule, and budget. The department is responsible for inspecting all work and services being provided.

3.1 **Opportunity for Improvement:** Properly inspect vendor's work as it is being performed

To determine if projects were properly inspected, staff were interviewed, and inspection documentation (reports and pictures) were reviewed for reasonableness. The documentation was compared to the time period of the pay app. For one project, the review disclosed that an inspector was not onsite while the roadway was paved. For one of the other projects, it appeared that inspections were not documented for two of the nine pay apps.

Recommendation: To ensure work is performed in compliance with contract specifications an inspector should be onsite while the work is performed. In addition, if the inspection is performed by a contractor, staff should obtain the reports/pictures and evaluate them in relation to the pay app to ensure that the work invoiced was performed to specifications.

Management Response:

Staff has been advised of the necessity for inspection documentation and will comply with this recommendation to ensure work was properly completed in relation to pay applications.

Implementation Date:

February 24, 2023

⁶ <https://www.gfoa.org/materials/capital-project-monitoring-and-reporting>

Discussion Point 4: Change Orders

The American Bar Association defines a Change Order as “an amendment to a construction contract that changes the contractor’s scope of work. Most change orders modify the work required by contract documents (which, in turn, usually increases the contract price) or adjust the amount of time the contractor has to complete the work, or both.”⁷ Because change orders often times increase the contract price, they present a fraud risk. A vendor may underbid a project to gain the contract only to subsequently submit change orders.

Purchasing Policy No. 080F, Change Orders specifies the procedures for the processing of change orders. This policy states that change orders are required

regardless of monetary value, when modifications occur to contracts awarded by the Board of County Commissioners and all construction projects which may result in a material change to the contract affecting the cost, time of performance and/or in the tangible nature of any specification relating to the work to be performed by the contractor.

To evaluate the change orders for the selected contracts, the ASD obtained electronic copies of the change orders along with any supporting documentation to determine if it appeared to be properly supported and properly approved. Based on the results of this review, it appeared that change orders were properly supported and approved.

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https://www.americanbar.org/groups/construction_industry/publications/under_construction/2018/fall/construction-101/#:~:text=What%20is%20a%20Change%20Order,the%20contractor's%20scope%20of%20work.

Discussion Point 5: Contract Close-Out

To close-out a construction contract, the project manager must first determine that all work was completed in accordance with the contract specifications. If necessary, a "punch list" is created to document all tasks that the contractor must satisfactorily complete to finalize the project. If upon reinspection it is determined that the punch list items were satisfactorily resolved, then the contractor submits the final sealed and signed As-Built drawing. In accordance with the Purchasing Policy No. 130G, Contract Administration when the work is determined to be acceptable, the Contractor shall prepare and submit his final Application for payment to the Engineer/Owner with the following:

- a) Contractor's Lien Waiver in the full amount of the Contract Sum.
- b) Lien Waivers from all subcontractors and material suppliers who have furnished for the work under the contract with the Contractor or subcontractor. The lien waivers shall be in the full amount of the Contract involved.
- c) Consent of Surety to final payment.
- d) Vendor Performance Evaluation Form (13A, 13B, or 13C).
- e) Evidence of compliance with requirements of any governing authorities.
- f) Certificates of inspection from all required agencies and departments, as needed.
- g) Warranties and Maintenance Bond.
- h) Confirmation from Florida Department of Environmental Protection (FDEP), if required.
- i) Any outstanding documentation and/or reports necessary to insure [sic] compliance with Florida Department of Transportation (FDOT) requirements. (If applicable)
- j) As-Built documents prepared in accordance with the Contract Documents and signed and sealed by a Professional Surveyor and Mapper, registered in the State of Florida and all other requirements as set forth in the Contract Documents.

Only one of the projects selected for review was completed at the time of the audit. To evaluate the close-out process for this project, the Auditor obtained the documentation from Onbase. Based on the results of this review, it appears that the contract close-out process substantially complied with the County's Purchasing Policy 130G.