



AUDIT HIGHLIGHTS

Northsight Boulevard Extension Contract

September 14, 2016

Audit Report No. 1615

WHY WE DID THIS AUDIT

With the Audit Committee's approval, this audit was added to the Council-approved FY 2015/16 Audit Plan after completion of a prior construction contract audit. Subsequently, completion of this audit was included on the Council-approved FY 2016/17 Audit Plan.

This contract represents the \$7.3 million construction phase of a project totaling \$15.5 million.

BACKGROUND

In December 2012, the City contracted with Achen-Gardner Construction, LLC for construction of the Northsight Boulevard Extension project. The project replaced the existing traffic signal at Hayden Road and Northsight Boulevard with a two-lane roundabout and extended the existing Northsight segment from Hayden Road to Frank Lloyd Wright Blvd. The project also included waterline and Intelligent Transportation System (ITS) improvements.

The Public Works Division, Capital Projects Management (CPM), manages the City's capital projects. CPM used a Construction Manager at Risk (CMAR) contract to build these improvements.

A CMAR contract establishes a Guaranteed Maximum Price (GMP) consisting of Subcontractor, Construction Fee, Self-performed work, Project Requirements, General Conditions and Owner's Contingency components in addition to the required bonds, insurance and sales taxes. These components are defined in Figure 3.

CPM deemed this project complete in March 2014.

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WHAT WE FOUND

Contract terms regarding cost structure are not always enforced, and some may need further clarification.

Specifically, we found:

- Certain costs were negotiated as lump sum, although allowances for actual costs would have been more appropriate due to uncertainties. So the City paid nearly \$318,000 more for traffic control and \$48,300 more for construction water than the CMAR's actual costs.
- Billings treated subcontracted work as unit price and CPM did not consistently require the CMAR to submit subcontractor payment documentation.
- CPM approved markup on General Conditions costs, increasing construction fees and related taxes, insurance and bonds by an additional \$58,000.

Closer review is needed for certain types of costs.

We found overpayments of about \$147,000 and questionable costs of about \$647,000. In addition to amounts noted in the first finding:

- The CMAR did not adjust its pay applications to reflect a sales tax rate reduction, resulting in a \$38,000 overcharge.
- Labor costs were overstated through excessive billing rates.
- Supporting cost documentation was not submitted for some allowances.

Specific guidance for contract documentation would improve consistency of contract administration and records retention.

We found:

- Project documents were maintained in various locations, and some electronic files have been lost.
- Field inspection, change order and closeout documentation were not consistently maintained.
- Contract elements added by the CMAR to alter the standard terms were not submitted for City Attorney review.

WHAT WE RECOMMEND

We recommend the Public Works Division Director require CPM to:

- A. Follow established contract guidelines for verifying certain types of costs and seek reimbursement of any overpayments.
- B. Evaluate clarification of contract language regarding subcontracted work and establish procedures for verifying payment applications.
- C. Establish guidelines for evaluating cost proposals and obtain legal review of CMAR documents that contradict standard terms.
- D. Establish policies and procedures for maintenance and retention of contract-related documents, including procurement, inspections, changes and project close-out.

MANAGEMENT RESPONSE

The Department partially agreed with the recommendations.