



AUDIT HIGHLIGHTS

Scottsdale Road Improvements, Phase 1

October 30, 2015

Audit Report No. 1509

WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2014/15 Audit Plan as an audit of a Selected Construction Contract to review its procurement, compliance with terms and contract administration.

This contract represents the \$9.5 million construction cost for the project's Phase 1, totaling \$13 million to date.

BACKGROUND

In September 2012, the City contracted with Hunter Contracting Co. for the construction of the Scottsdale Road Improvements project, Phase 1. This project is to improve Scottsdale Road between Thompson Peak Parkway and Pinnacle Peak Road, with the first phase involving the construction of a bridge over Rawhide Wash and relocating utilities, along with water and sewer line 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) for the project, 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 June 2014.

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WHAT WE FOUND

- Inadequate review of pay requests and contract changes resulted in overpayments totaling about \$275,000.**
 - CPM did not adequately track contract costs and changes resulting in overpayment of almost \$68,500.
 - Three change requests for additional work were not supported by work logs or invoices. Overpayments totaled about \$166,700.
 - Calculation errors related to bonds, insurance, and sales tax totaled about \$21,000 and up to \$11,500 in project expenses were not supported by the CMAR's records.
 - Reimbursement was not requested for additional work completed for a telecommunications company, which cost \$7,500.
- Effective oversight of subcontractor selection and subcontracted costs could result in significant project savings.**

Even though subcontractor costs represent about \$4 million of the construction costs, a subcontractor selection plan had not been submitted for review and final subcontractor selections and costs were not reviewed. Additionally, staff did not verify "buyout savings" although we found indications that the CMAR may have realized savings of up to \$163,000 in subcontractor costs.
- Project management and contract administration should be improved.**
 - Cost proposals may not have been reviewed by the CPM estimator and cost negotiations were not documented.
 - Changes were not adequately documented and often submitted after work was performed.
 - City inspectors did not document measurements performed for comparison to invoiced amounts.
 - Construction delays were not formally addressed.
 - The procurement process was not documented sufficiently to demonstrate that required processes were followed.

WHAT WE RECOMMEND

We recommend Public Works Division-CPM:

- Establish procedures for verifying pay requests and change requests.
- Establish procedures for evaluating subcontractor selection plans and monitoring subcontractor costs.
- Ensure more complete documentation of cost proposal reviews and negotiations, changes, inspection measurements, project delays and other issues, and procurement processes.

MANAGEMENT RESPONSE

The Division agreed with the audit recommendations and will be revising department procedures to implement the recommendations by May 2016.