



# AUDIT HIGHLIGHTS

## Airport Terminal Area Redevelopment Construction Contract

### WHY WE DID THIS AUDIT

An audit of Airport Terminal Area Redevelopment Construction Contract was included on the City Council-approved fiscal year 2019/20 Audit Plan as a selected construction contract. The audit objective was to review procurement, compliance with contract terms, and effectiveness of contract administration for the construction contract.

### BACKGROUND

In July 2017, the City contracted with JE Dunn Construction for the construction of the Airport Terminal Area Redevelopment Project. The project involved demolishing the two existing buildings, replacing them with two large executive hangars, a new aviation business center, a fuel farm, and a new parking lot. The construction was split into two phases.

The Aviation department managed the project, hiring a consultant for construction administration, and using Construction Manager at Risk (CMAR) delivery method for construction. This method involved negotiating a Guaranteed Maximum Price (GMP) for the project.

### City Auditor's Office

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### WHAT WE FOUND

**Improving cost controls during GMP development might have reduced costs.**

- Supporting details for proposed general conditions costs were not obtained and reviewed during GMP development. Cost negotiations were not documented, and cost review comments clearly addressed.
- Amounts the CMAR added to its subcontractor bids (“bid plugs”), which totaled about \$1.3 million, were not monitored. As well, subcontractor selection plans were not evaluated during CMAR selection.

**Additional controls for monitoring and verifying construction costs should be adopted.**

- Adjustments to the approved schedule of values were not explained. Some changes approved by Aviation and applied by the CMAR differed, including overcharges of about \$96,000.
- Use of allowances needed better monitoring and verification.
- For some invoiced amounts, supporting documentation was missing or did not match the pay applications. In one instance, CMAR records showed a \$283,000 subcontract price reduction that was not reflected in the pay applications submitted to Aviation.

**Record retention standards are needed for Aviation’s contract administration documents.**

Some records supporting the contract administration process were not being retained, and email documentation should be stored more securely.

### WHAT WE RECOMMEND

We recommend the Aviation Director:

- Ensure proposed general conditions are adequately supported with a detailed budget of allowable costs, document cost negotiations, and ensure cost review comments are addressed.
- Require supporting details for cost adjustments, verify the use of allowances, and seek reimbursement for overpaid amounts.
- Adopt policies for retention of contract-related documents.

### MANAGEMENT RESPONSE

The department agreed with the recommendations, noting it plans to implement improvements by July 15, 2020.