



INTERNAL AUDIT REPORT



Operational Audit- Capital
Restroom Renovations Phase 3 Prototype Project

July 2019 – December 2020

Issue Date: May 27, 2021
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Executive Summary

Internal Audit (IA) completed an audit of the Restroom Renovations Phase 3 Prototype Project for the period July 2019 through December 2020. The audit was performed to assess the quality of the Port's monitoring of the Project, and to assure it was meeting project management standards in an efficient and effective manner.

We selected this project to audit based on the number of change orders (CO's) and the delays in schedule completion. Our sample for testing, included the largest dollar value change orders, ones that changed the scope of the project, those that approved the extension of the contract, and those that were the result of errors and omissions.

The Port hired Architectural Alliance (AA) to furnish design services for the Restroom Renovations Phase 3 Prototype project. AA subcontracted the estimate work to Faithful+Gould (F+G), who estimated the value of the project at \$1.86 million in July 2018. However, when the Project went to bid in July 2019, the Port received two bids, the lowest being \$3.08 million, which was approximately 65% higher than the engineer's estimate. When we interviewed the estimator at F+G, we were told that he believed that his estimate was an accurate reflection of what the Project's cost should have been for an airport in the Seattle market, based on the 100% complete designs that he was provided, and that he stood by his estimate. F+G brought to our attention, that the mechanical/plumbing subcontractor was the same for both companies who submitted bids. Furthermore, they mentioned that there is always a possibility that if contractors are aware that there are few bidders, then it is likely that the bids will be higher.

According to Port staff, a significant reason that the Project received higher bids than expected was because only two bids were received, which had an impact on competitive pricing. Additional reasons Port staff provided, include higher than anticipated bids from subcontractors, difficulty getting subcontractor bids because of the logistics associated with working on the ramp level at the airport, and that the estimator was not familiar with the Seattle market. The Port determined that because the two bids received were within 6% of each other, the low bid was an accurate reflection of the current construction market and PCL Construction Services Inc. (PCL) was awarded the construction contract. Port staff did not contact the estimator.

The project delivery method was a design-bid-build with a lump sum contract. The final construction contract total was \$3.59 million, which included approximately \$517,179 in change orders. The contract required that PCL substantially complete the work no later than 225 days following the contract execution date, which would have been June 6, 2020. During the course of the Project, there were 83 days approved that extended the substantial completion date to August 28, 2020, which PCL met, and physical completion was achieved on December 16, 2020.

Overall, the Project team provided effective oversight throughout the Project, especially considering the unanticipated challenges encountered with COVID-19. The close proximity involved in this project made it challenging to assure jobsite safety, however, the Construction team did a great job in making sure that good protocols were in place. They required the use of PPE such as N95 masks and coordinated frequent safety inspection visits on-site to assure worker safety. Safety reports were obtained daily, which were very thorough and detailed.

We did identify the following opportunity where internal controls could be enhanced or developed. This opportunity is listed below and discussed in more detail beginning on page six of this report.

1. **(Medium)** The Port was overbilled approximately \$12,314 through force account change orders. The overbilling occurred because of incorrect labor hours and billing rates submitted by PCL for COVID-19 supervisors.



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Responsible Management Team

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Background

The purpose of the Project was to renovate and enlarge a public restroom at Concourse D, as it was old, outdated, and overcrowded. Additionally, because of passenger growth, the existing restrooms were too small resulting in long lines during peak periods. As there were no vacant spaces on the concourse level to add restrooms or increase existing restroom size, Phase 3 renovated the existing public restrooms near Gate D6, that improved maintainability and accessibility.

The construction phase of the Project included FAA entitlement funding that covered approximately 75 percent of the cost of construction. The project was advertised on June 25, 2019 and two bids were received on July 25, 2019. The low bidder, PCL Construction Services Inc. (PCL), submitted a bid for \$3,081,000, 65 percent over the Engineer's Estimate of \$1,862,000. The second bid was for \$3,190,000, 71 percent over the engineer's estimate. We noted that both bidders utilized the same mechanical/plumbing subcontractor in their bids. The two bids received were within 6 percent of each other and the procurement team determined that PCL's bid was an accurate reflection of the construction market at that time and PCL was awarded the contract.

The final construction contract total, as of the project completion date, was \$3.59 million which included \$517,179 in change orders. The contract required that the contractor substantially complete the work no later than 225 days following the contract execution date, which would have been June 6, 2020. During the course of the Project, there were an additional 83 approved days that extended substantial completion to August 28, 2020. PCL met the required substantial completion date and physical completion was achieved on December 16, 2020.

The following table details the current schedule and budget.

<i>Schedule (Per April 6, 2021 Trend Log)</i>	
Original Contract Completion Date	06/06/2020
Approved Time Extension (Calendar Days)	83
Actual Substantial Completion Date	08/28/2020
<i>Budget (Per 6, 2021 Trend Log)</i>	
Original Contract Sum	\$3,081,074
Executed COs	\$517,179
Revised Contract Sum	\$3,598,254
Original Contingency	\$462,161
Revised Contingency Total	\$522,161
Remaining Contingency	\$4,982

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was July 2019 through December 2020 and included the following procedures:

Project Cost Estimate

- Obtained an understanding of the Port's project cost estimate process.
- Obtained reasons from the Port for bids coming higher than the engineer's estimate for construction costs.
- Discussed the estimate with the estimators at Faithful+Gould.
- Obtained and assessed the reasonableness of supporting documentation provided by both PCL and the Port.

Change Orders

- Obtained an understanding of the Port's change order review process.
- Verified approvals by required personnel (e.g. Port, Contractor, etc.)
- Confirmed approved change order amounts tied to the Change Order Log.
- Reviewed change orders for reasonableness and allowability.
- Calculated proper markups (for force account CO's).
- Tested subcontractor back-up including direct costs and inclusion of accurate markups.
- Reviewed supporting documentation, supporting change order/claim submissions, specifically error/omission, scope changes, and COVID-19 orders.

COVID-19 Safety Plan

- Obtained an understanding of the Port's review, approval, and monitoring of contractor submitted COVID-19 safety plans.
- Reviewed COVID-19 safety plans in comparison to the State Directives.
- Reviewed the Port's process and performed testing to assure compliance with the plan.

Schedule of Findings and Recommendations

1) Rating: Medium

The Port was overbilled approximately \$12,314 through force account change orders. The overbilling occurred because of incorrect labor hours and billing rates submitted by PCL for COVID-19 supervisors

The Port issued a letter on April 10, 2020 that stated requirements for COVID-19 Construction Jobsite safety. One of the requirements of the letter directed contractors to hire a full-time COVID-19 Prevention Site Supervisor for every active Port construction project with a contract value of over \$1 million. The prime contractor was to be reimbursed, based on the actual cost of the COVID supervisor, plus applicable markups.

We requested timesheets of the COVID Supervisors from PCL; these were additional documents that are not usually provided to the Construction Management group. We noted that PCL billed the Port based on a set rate instead of the actual costs incurred for the two COVID supervisors. As detailed in the following table, the hourly rate billed by PCL for Supervisor 1 was less than they were entitled to. For Supervisor 2, the hourly rate was not adjusted to actual costs which resulted in an overbilling. Furthermore, there was one day where the Port was billed for an entire eight-hour day, while the supervisor only worked six hours.

Title	Hours Billed	Actual Hours	Billed Rate	Correct Rate	Rate Diff.	Hour Diff.	Markup	Overbilled/ (Underbilled)
Supervisor 1	424	424	\$107.31	\$110.59	\$ (3.28)	0	20%	\$(1,668.86)
Supervisor 2	348.5	346.5	\$107.31	\$74.30	\$33.01	2	20%	13,983.09

Total Overbilled **\$12,314.23**

Source: Timesheets received from PCL, Daily Force Account Sheets, and Monthly summaries of the amount paid for COVID supervisors.

Contractors have the primary responsibility to submit accurate documents and billings to the Port; however, the Port also has a responsibility to review these documents to assure that they are accurate.

Recommendation:

Construction Management should seek and recover any amount due to the Port from the overbilling.

Management Response/Action Plan:

A deductive change order has been executed to recoup the amount that was over billed by the Contractor and we are expecting repayment in June. Additional controls have been added to the SOP for Force Account work to specifically address verification of rates for non-labor (exempt) employees. The Port will reiterate to all of our contractors the importance of verifying their information before submitting to the Port.

DUE DATE: Completed

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention