

A&E Consultant Rates: Management Response

Audit Committee
February 5, 2020

Agenda

- 2019 actions related to negotiation process
- Additional data on calculating profit
- Feedback from Architectural & Engineering Community
- Leadership oversight
- Summarize management response
- 2020 action plan

2019 Actions Related to Negotiation Process

- **February**
 - Refined Negotiation Summary template
- **May**
 - Negotiation process concerns raised internally
 - Began defining process improvements
- **July**
 - Internal Audit commenced
 - Launched enhanced filing system
- **October**
 - Management identified key considerations impacting contracts and compensation
- **November**
 - Tested revised negotiation process clarifying authority and accountability
- **December**
 - Directors met with frontline team to discuss consultant compensation
- **January (2020)**
 - Met with 22 consulting firms involved in audit to understand compensation and areas of improvement

Calculation “implied” profit based individual rates does not reflect realized profit

Consideration must be given to contract
compensation package, qualifications, & risk

WSDOT – Cost Reimbursement

- Additional Direct costs paid
- Labor Escalation
- Promotions

Port of Seattle – Billing Rates

- Limit reimbursement for direct costs
- Escalation based on index
- Limit timing of escalation & promotions

“Implied” Profit Calculated in Audit is Inflated

- Audit based “profit” for 15 firms on the generic safe harbor rate of 110%
- 8 firms reported higher overhead rates to CPO; 3 others are diverse/small business firms

Actual Provided Overhead Rates							
150%	150%	161%	167%	170%	180%	185%	210%

- ACEC cited Deltek Clarity A&E Survey 2018 – median overhead 160% and top quartile 183%.

Architect & Engineering Community Feedback

- Internal Audit Committee received feedback from ACEC on audit
- Profit should be evaluated on the total contract compensation package
- CPO met with 22 out of 35 firms early January

Concern: Impact

- Port pays less than other Owners
- Fair and reasonable price
- Operational effectiveness
- Labor escalation; reimbursables
- Inclusion, equity and diversity

Request: Predictability

- Schedule - faster
- Negotiation process – sets tone
- Compensation fair & cover risk
- Easier to add job classification (people)

Leadership Oversight in 2018 & 2019

- CPO engaged with Executive Leadership Team (ELT) on critical procurement & contract issues
- CPO will engage with ELT in 2020 – already requested meeting in quarter 1
- Will assess whether to create new governing board or continue to utilize ELT

Date	Topic
January 2018	<ul style="list-style-type: none">• CPO 2018 Initiatives• State Audit – Lessons Learned• WMBE Initial Plan
April 2018	<ul style="list-style-type: none">• Diversity in Contracting
December 2018	<ul style="list-style-type: none">• Diversity in Contracting• Supplier Database (VendorConnect)
February 2019	<ul style="list-style-type: none">• MWBE Utilization
October 2019	<ul style="list-style-type: none">• Process Improvements

Summary – Management Response

- **Finding 1:** CPO had not established guidelines for what is determined fair and reasonable. Our testing of over 400 A&E consultants identified many instances where profit markups exceed what the industry deemed reasonable.
- **Recommendation:** The Procurement council should determine what the Port deems a fair and reasonable rate and should document the rationale for transparency. CPO should engage a third party to perform an independent model validation of the rate tool.
- **Management Response:** Methodology utilized in the audit report assessed profit in isolation without regard to contract, risk, and other costs. Management will define principles related to compensation & update procedures. Management will assess if the rate tool should be validated after determining how we will contract in the future.

Summary – Management Response

- **Finding 2:** Management approval was not required when hourly rates exceeded the maximum rates produced by the service rate negotiation tool/model.
- **Recommendation:** CPO should implement a management review process when consultant rates exceed the maximum. This review should be documented and contain established criteria and approval thresholds (i.e. up to 20% over the maximum) for both Service Agreements Manager and Planning & Analytics Manager to approve. If the thresholds exceed their authority or if agreement cannot be reached, approval should be escalated to the appropriate person (i.e. director, COO) for approval, as required by the authority guidelines.
- **Management Response:** Management agrees on an escalation process for exceptions and the negotiation team is empowered to make decisions. Management is updating negotiation & escalation process.

Summary – Management Response

- **Finding 3:** A reconciliation between the final negotiated rates and the contract did occur. As a result, we were unable to verify that all positions and rates in the contract were accurate.
- **Recommendation:** CPO should retain documentation to evidence the agreed upon rate and position. CPO should use this documentation, to verify that the rates are accurately captured into the contract before it is executed.
- **Management Response:** Management implemented controls to reconcile contract with the results of negotiation. Contract Administrator & Price Analyst are accountable.

Summary – Management Response

- **Finding 4:** CPO is responsible for procuring all contracts related to public works, consulting services, and goods and services. Governance meetings, for Executive Leadership Team (ELT) oversight of CPO, had not occurred since December 7, 2017.
- **Recommendation:** The Chief Operating Officer should lead an effort to determine the meeting frequency and information that is deemed necessary to perform effective governance. We also recommend that, at a minimum, the CFO and the Port's Managing Directors of Aviation and Maritime, attend these meetings. Finally, we recommend developing a charter that defines the purpose, objective, and voting rights (if necessary) within the Governance Committee.
- **Management Response:** Executive Leadership Team oversight of CPO has and will continue to occur.

Way Forward

Aggressive 2020 Action Plan

- **Quarter 1**
 - Share & implement revised negotiation & escalation process
 - Share common themes from consultant meetings
 - Define compensation (what are we incentivizing)
- **Quarter 2**
 - Peer review with airports and local agencies
- **Quarter 3**
 - Engage ELT and consulting community on contract changes
- **Quarter 4**
 - Develop contract documents, process maps, and other associated documents

Thank you

