



Portland Building Contract:

AUDIT HIGHLIGHTS

October 2019

Costs reviewed were consistent with contract, although required cost classification and calculations for final payment need to start now

Background

The Portland Building renovation began in July 2016 and the building is currently an active construction site.



The project is ahead of schedule. The City expects to begin moving back into the building later this year and wrap up remaining construction activities and costs in 2020.

Most of the renovation activity is included in a **design, build, and relocation services contract** with the City's main contractor. That contract amount totaled \$157.5 million as of March 2019.

The contract includes requirements for how the contractor will be compensated for costs, submit contract changes, and select subcontractors.

The City Auditor contracted with construction audit experts, Sjoberg Evashenk Consulting, to audit the City's compliance with these requirements.

Findings

The audit found many leading practices were employed on the Portland Building renovation. Generally, the contractor was following contract requirements in the three areas audited:



Costs billed by the contractor were mostly accurate, supported with detailed monthly expenses, and allowed by the contract. The City's billing review process was thorough and aligned with leading construction industry practices. The contractor billed 60 percent of the contract amount during the audit period. Auditors reviewed a sample of costs from four of 36 months.



Changes to the contract were well-managed, properly approved, and included costs and activities allowed by contract. The City approved \$10 million in changes since setting the contract price in December 2017. Auditors reviewed seven of the 56 changes from that period.



Subcontractors were selected by the contractor using sound outreach, advertisement, and bidding practices. The contractor lists 140 subcontractors with contracts that total more than \$122 million. Auditors performed a high-level review of four of these subcontractors to assess reasonableness and competition.

Auditors identified a few improvements for the Portland Building and other future City construction projects:

Cost classification



Cost classification into categories that determine what documentation the City can review was not yet completed by the City or its contractor.

In the absence of this information, auditors prepared an initial classification. The City has the right to audit detailed invoices and actual costs for about half of the contract amount (see highlighted rows below).

| Cost classification | Amount | Percent | Subject to Audit |
|-------------------------------|------------------------|-------------|------------------|
| Lump Sum | \$61 million | 39% | No |
| Not to Exceed | \$49 million | 31% | Yes |
| Budget-Contractor Direct Cost | \$28.8 million | 18% | Yes |
| Budget-Uncommitted | \$9 million | 6% | No |
| Budget-Percent | \$8.4 million | 5% | No |
| Unit Price | \$1.3 million | 1% | No |
| Total | \$157.5 million | 100% | |

The classification is a missing piece of information that is required by contract and needed by the City to calculate final payment to contractor.

Calculations



Calculations for final payment will be time consuming and should begin now rather than wait until the renovation is complete.

For example, personnel costs are significant and a common area that can result in savings as some personnel benefit costs were billed and paid based on estimates. It will be critical for the City to compare estimates billed to actual costs paid by the contractor.

Lessons learned



Lessons learned from the renovation should be shared within the City. Examples of areas for future improvement include clearer contract language about cost documentation and completed project management plans.



Visit our website for the full audit report:
www.portlandoregon.gov/auditservices



This is our third audit of the Portland Building renovation. Visit our website for the following reports:

[Portland Building: City faced with important post-planning decisions to ensure project success](#) | December 2016

[Portland Building Follow-Up: Greater public transparency needed about project costs, trade-offs, and missed equity requirement](#) | June 2019