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Portland Building Construction Contract: City has taken steps to account for final costs

News Article



This is a one-year follow-up to the report, "Portland Building Construction Contract: Costs reviewed were compliant, although cost classifications required by contract and reconciliations need to start immediately."

Published: December 22, 2020 9:00 am

Our 2019 report found the Portland Building renovation costs reviewed by auditors were consistent with the construction contract, although key tasks remained to prepare for final payment. Since then, the City has affirmed which construction costs are subject to audit, added the skills of a construction auditor, and developed a plan for remaining work. We will monitor progress over the next year as the City completes its final cost reconciliations and a report on lessons learned from the Portland Building renovation.

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Recommendation Status: Implemented

Completed classification affirmed which costs are subject to audit

We recommended that the City classify costs into the categories that determine what documentation the City can review. The classification was a missing piece of information needed by the City to assess contract compliance, evaluate reasonableness of costs, and help calculate final payment to its contractor. The City has since completed the cost classification that aligns with the contract amount as of December 2020. The completed classification confirmed estimates in last year's audit report that the City has the right to audit detailed invoices and actual costs for about half of the contract amount.

Recommendation Status: Implemented

Construction audit consultant added to City's team

We recommended the City use a construction auditor to assist with cost reconciliations and help identify any questionable costs or potential cost savings. The City is using an owner's representative to help manage the Portland Building renovation. The owner's representative contract includes a provision for audit services, and an audit subconsultant started working for the City's owner team in January 2020.

Recommendation Status: Implemented

Plan now in place for cost reconciliations

We recommended that the City develop a plan for the work leading up to the calculation of final payment to the contractor. That is because cost reconciliations for large construction projects can be time consuming. For example, it is critical for the City to compare estimates billed to actual costs paid by the contractor. The City has since identified a two-part plan, and identified the parties involved, role, responsibilities, and timelines for the remaining work to be completed in mid-2021.

Recommendation Status: In Process

First part of plan completed in July 2020; second part is underway

We recommended the City begin phased cost reconciliations immediately rather than wait until construction closeout. The City has completed Part One of its plan. The construction auditor reviewed billed costs through September 2019 when the project was at about 87 percent completion. The report concluded that "it was a fairly clean audit" with "instances of potential overbilling, inadequately supported charges, and other areas for

improvement.” The City reports that Part Two of the plan has been underway since October 2020.

Recommendation Status: In Process

Started review of personnel costs with additional work planned

We recommended that the City particularly scrutinize contractor rates for personnel costs other than salary or wages, such as health benefits and unemployment taxes. Last year’s audit report found these contractor rates were based on estimates and found some examples where these rates were higher than actual costs. Personnel costs is one of the largest and most consistent areas with cost savings during construction audits. The City has begun its reviews. The Part One report found the contractor’s rates for these personnel costs were calculated accurately, however, it did question this area for subcontractors and made plans for further work during Part Two.

Recommendation Status: In Process

Lessons learned report is being developed

We recommended that the City identify lessons learned and distribute this information to bureaus that manage large-scale capital construction projects. The City has started drafting a “playbook” for lessons learned from the Portland Building renovation. This report will also include improvement areas identified in last year’s audit report, such as clearer contract language about cost documentation and completed project management plans.

Visit our website to view the [original 2019 audit report and recommendations](#).

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