



City of Albuquerque

Office of Internal Audit

FOLLOW-UP

ALBUQUERQUE CONVENTION CENTER
RENOVATION – PHASE II CHANGE ORDERS AUDIT

Report #18-15-102F

April 25, 2018

INTRODUCTION

The Office of Internal Audit (OIA) performed a follow-up of Audit No. 15-102, Albuquerque Convention Center (ACC) Renovation – Phase II Change Orders during fiscal year (FY) 2018. The purpose of this follow-up is to report on the progress made by the Department of Municipal Development (DMD) in addressing the audit’s findings and recommendations. Our follow-up procedures rely on the department providing the status of the recommendations.

A follow-up is substantially less in scope than an audit. The objective is to report on the status of corrective action regarding the audit’s findings and recommendations.

We limited our scope to actions taken to address the audit recommendations from the final audit report dated February 25, 2015, through the submission of actions and final contact with DMD on February 23, 2018.

BACKGROUND

To better represent the City of Albuquerque, in 2012 Mayor Richard J. Berry approved the ACC renovation. The renovation project was separately bid in two phases. Phase I was completed in September 2013, and Phase II began in October 2013 and was on-going throughout the original audit. The audit only addressed change orders of the Phase II renovation.

The project was awarded to Bradbury Stamm as a lump sum contract totaling \$12.9 million. A lump sum contract involves one price that includes the cost of work, fees, and general conditions. This type of contract is appealing in government as the majority of risk lies with the contractor.

Throughout the project, six change orders totaling \$1.2 million were approved – a 9.2 percent increase. The audit included the six approved change orders for the Albuquerque Convention Center Renovation – Phase II. Following audit fieldwork, change order seven was submitted and approved by all parties. The audit did not address change order seven.

SUMMARY

Of the three recommendations addressed in the original audit report, two have been fully implemented, and one is in process.

The status of the recommendations is identified by the symbols in the following legend:



Fully
Implemented



Resolved



In
Process



Not
Implemented

Recommendation #1:

DMD should abide by the conditions specified in the contract and award separate contracts for movable equipment and furniture. The department should be fully aware of contractual requirements so they fully comply with contract terms.

Response from DMD: *“Section 10.1 of the General Conditions of the contract states, in part, “Without invalidating the Agreement and without notice to any surety and without releasing any surety, OWNER may, at any time or from time to time, order additions, deletions or revisions in the Work, including such increases or decreases in quantities of Bid Items as OWNER determine to be necessary or desirable.”*

“The entire supplemental Technical specification states

“WORK BY OTHERS

A. Owner will award separate construction contracts or perform work with owner personnel for:

- 1. Movable furniture and equipment*
- 2. Provision, installation and/or alteration of voice/data communication systems and wiring (not including speakers, j-boxes nor conduit).*
- 3. Provision, installation and/or alteration of internet wireless access system and equipment.*
- 4. Provision, installation and/or alteration of security system cameras and wiring (not including j-boxes and conduit).*

B. Items noted “NOT IN CONTRACT” (NIC) on Drawings will be supplied and installed by owner.

C. Contractor’s responsibilities:

- 1. General: Cooperate fully with separate contractors so work on those contracts may be carried out smoothly, without interfering with or delaying work under this contract or other contracts. Coordinate the Work of this contract with requirements of City and other installers to allow for their timely installations and construction.*
- 2. Inform City of required installation dates for work by others.*

D. City’s responsibilities: Schedule work by others.

“STS 011100-1.5 specifically sets forth several items that are frequently included in construction contracts that are not to be included within the contractors price.

“The Department was aware of and did abide by the contractual requirements. Although the

supplemental technical specification indicates that the acquisition of furniture will be done by other, the properly executed change order changed that. At the time of bid, furniture specifications were not adequately developed to include in the bid. Changes were also made to accommodate other design changes. By including the furniture in the contract through the change order, the City avoided coordination conflicts referenced in STS D11100 1.5C and D and reduced the overall project timeline. The final cost of furniture including contractor markup, was less than the Architects' estimate of furniture cost. Inclusion of furniture like every other item listed in STS 011100 1.5, in a construction contract is an accepted practice in the industry. The incremental increase in cost was justified. The City also avoided the transactional cost of issuing a bid through Purchasing."

Estimated Completion Date: *"No date required."*

Status Reported by DMD: "Although no action is required, DMD is reviewing the summary of work sections in contracts to have accurate work descriptions and to retain flexibility to deliver timely project completion within budget."

"DMD reviews the contractual requirements with Department representatives so that the Department is informed of the contractual requirements and conditions specified. Project Managers, Division Managers, and Construction Managers are responsible for reading contract provisions and in the event of potential questions regarding interpretation, seek guidance from Contract Services Division manager."



Fully Implemented

DMD Project Managers, Division Managers, Construction Managers, and Department representatives work together to ensure that all parties are aware of, and abide by, contractual requirements.

Recommendation #2:

DMD should:

- Perform an independent review of Change Order Request (COR) documentation to ensure that all change orders and CORs:
 - Are accurate;
 - Mathematical computations are correct,
 - Gross receipts tax is properly applied, and
 - Credits are properly applied.
 - Have supporting documentation and breakdown of costs; and
 - Contain negotiated general contractor's mark-up.
- Expand the standard contractual language regarding the consultant's review of change orders to specifically address accuracy and the City's expectations for the review.

Response: *“Generally the department agrees that minor mathematical errors were made and efforts should be taken to avoid all errors. The department will review consultant contract language to determine if the language should be modified to address this issue.”*

Estimated Completion Date: *“Three months.”*

Status Reported by DMD: “The department reviewed the consultant contract language and determined that the language should not be modified at this time. The concern is that modifying the language to highlight the mathematical accuracy would dilute the remaining contractual obligation of the consultant. Therefore the contract language was not modified at this time.”

“The first review is done by the Project Manger to look over the Change Order for reasonableness of prices, the inclusion of supporting documentation, and for legitimacy of time extensions. The second review is done by CIP Fiscal to make sure that the totals match the request by adding up the totals and making sure the correct amount of the contract is stated and the correct tax is reflected. Needed adjustments are sent back to the Project Manager and the corrections are made and resubmitted to CIP Fiscal for final routing.”



Fully Implemented

DMD staff is reviewing its change orders and CORs to ensure they are accurate and supported, and has determined that the contractual language regarding the consultant’s review to specifically address the accuracy of change orders will not be modified at this time.

Recommendation #3:

DMD should:

- Not authorize change order work to begin prior to the final approval of the change order.
- Create a documented pre-approval process to allow COR work to begin prior to the formal approval of the change order when significant project delays would occur.
- Consider increasing the number of change orders so that they can be approved before work begins.

Response: *“Waiting for fully executed change orders prior to beginning change order work would potentially lead to significant project delays. DMD will work to create a written pre-approval process that will allow change order work to begin prior to formal change order approval. When the pre-approval process is in place, there will not be a need to increase the number of change orders.”*

Estimated Completion Date: *“Three months.”*

Status Reported by DMD: “The preapproval process has been drafted and incorporated in the Draft Project Manager Handbook. The proposed custom web-based interface has not yet been implemented. Although verbal approval has been followed the approval has not been documented in writing. The need for the preapproval documentation in writing will be stressed in upcoming DMD weekly staff meetings.”

DMD has created and is currently using an electronic pre-approval change order form.



In Process

DMD has developed a pre-approval process and provided a copy of its draft policy as well as the required pre-approval form. However, the policy has not been finalized as the DMD Project Manager Handbook is in draft form. In addition, DMD will continue to stress the need for preapproval documentation in weekly staff meetings.

SUBMITTED:

Contract Auditor

REVIEWED & APPROVED:

Lawrence L. Davis, Acting City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee