



## Audit Report

# Construction Contract Procurement Process Audit

Report Number: 2020-05 | Report Date: August 07, 2020

# Executive Summary

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**WE AUDITED** the construction contract procurement process in order to assess controls in place over processes related to appropriate soliciting, evaluating, and selecting qualified contractors, and reasonable construction costs in the selecting contractors.

**AUDIT OBJECTIVES** was to determine whether the agency has effective controls in place to ensure:

- Appropriate procedures are in place for soliciting, evaluating, and selecting qualified contractors.
- Reasonable processes are in place for determining construction costs in the selection of contractors.

The audit examined management controls in place as of March 2020.

  
Patrick Johnson  
Director of Audit

## WHAT WE FOUND?

In response to the current recession caused by the COVID-19 global pandemic, Sound Transit (ST or agency) in conjunction with the agency's governing Board of Directors, are working to prioritize capital programs to determine which voter-approved projects will remain on schedule, and which ones will be delayed due to lower revenue projections. Despite the agency's on-going efforts to implement a realignment plan, select agency projects under ST2 and ST3 initiatives are being carefully scrutinized, and processes are being closely monitored in order to ensure the procurement and construction phases are within scope, schedule, and most importantly, budget.

The agency's construction contract procurement process requires a coordinated effort between the 'Procurement & Contract' division from the Executive Department, and Contract Owners (e.g. DECM Construction Management). Over the last five years, the agency awarded 26 construction contracts, approximating \$7.7 billion for the agency's system expansion projects. Of those awarded construction contracts, we identified three major types, shown below; which encompassed the five major system expansions projects including East Link, Federal Way Link, Lynnwood Link, Northgate Link, and Downtown Redmond Link Extensions.

- General Contractor/Construction Manager (GCCM) at 42% (or 11 contracts);
- Design-Bid-Build (DBB) at 38% (or 10 contracts); and
- Design Build (DB) at 19% (or 5 contracts).

In alignment with Board Policy No. R2018-40, the agency's Program Control Policy & Procedures (PCPP)-06, section 5, prescribes a four step process as it pertains to construction contract procurement activities. These steps are the following: (1) Initiate and authorize, (2) Advertise and Select, (3) Approve & Award, and (4) Generate Purchase Order.

Our audit concluded that the agency has effective controls in place to ensure soliciting, evaluating, and selecting for qualified contractors; and determining construction costs in selecting contractors; and that there are no findings to report.



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## Background

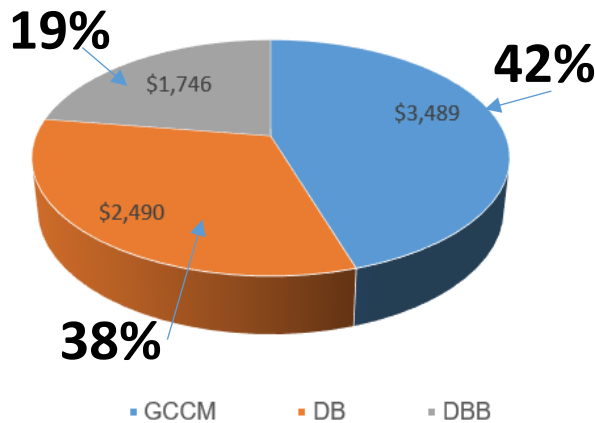
In response to the current recession caused by the COVID-19 global pandemic, Sound Transit (ST or agency) in conjunction with the agency's governing Board of Directors, are working to prioritize capital programs to determine which voter-approved projects will remain on schedule, and which ones will be delayed due to lower revenue projections. Despite the agency's on-going efforts to implement a realignment plan, select agency projects under ST2 and ST3 initiatives are being carefully scrutinized, and processes are being closely monitored in order to ensure the procurement and construction phases are within scope, schedule, and most importantly, budget.

The agency's construction contract procurement process requires a coordinated effort between 'Procurement & Contract' division from the Executive Department, and Contract Owners (e.g. DECM Construction Management). Over the last five years, the agency awarded 26 construction contracts, approximating \$7.7 billion for the agency's system expansion projects. Of those awarded construction contracts, we identified three major types of construction contracts<sup>1</sup>: General Contractor/Construction Manager (GCCM) accounted for 42% (or 11 contracts) followed by Design-Bid-Build (DBB) at 38% (or 10 contracts), and Design Build (DB) at 19% (or 5 contracts). Those three construction contract types encompassed the five major system expansions projects included East Link, Federal Way Link, Lynnwood Link, Northgate Link, and Downtown Redmond Link Extensions.

**Construction Contract Awards from Year 2015 - Year 2019 by contract type  
(Dollars in million)**

Number of contract type from Year 2015-Year 2019	
GCCM	11
DB	5
DBB	10
Total	26

System Extension Projects	Total Contract Award (Dollars in million)
East Link	\$ 1,878
Federal Way Link	\$ 1,291
Lynnwood Link	\$ 1,689
Northgate Link	\$ 956
Downtown Redmond Link	\$ 732
Other	\$ 1,177
Total	\$ 7,722



Source: All Purchase Open Report from the agency reporting portal (from Yr. 2015-Yr. 2019)

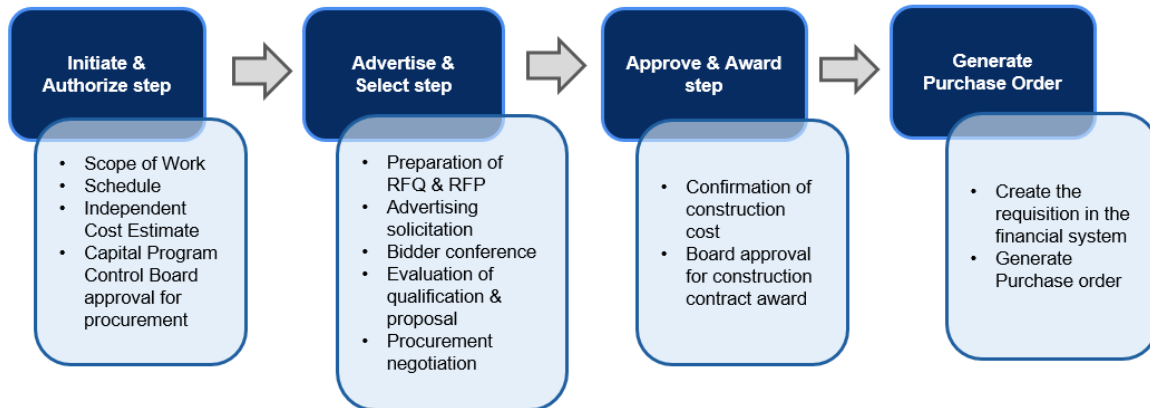
In alignment with Board Policy No. R2018-40 (dated, 09/27/18)<sup>2</sup>, Program Control Policy & Procedures (PCPP)-06 guides the agency's procurement process as it pertains to construction

<sup>1</sup> Major delivery method types and uses:

- Design-Bid-Build (DBB) is the standard public delivery method wherein the agency awards the lowest construction cost bid from the contractor for the construction contract.
- Design Build (DB) – Pursuant to Revised Code of Washington (RCW) 39.10. 300-330, DB is an alternative public work delivery method, in which the agency selects the best-value contractor after the evaluation of qualifications and subsequent proposals for design & construction.
- General Contractor/Construction Manager (GC/CM) – Pursuant to RCW 39.10.340-410, GC/CM is an alternative public work delivery method, in which the agency selects the best-qualified construction contractor early and engages the contractor during the design phase. After the design phase, if maximum allowable construction cost negotiations are successful, the agency will award the construction phase to the same contractor.

<sup>2</sup> Board Policy No. R2018-40: The updated policy delegates up to \$50 million to the standing Board committees for contracts, agreements, up to \$5 million to the Chief Executive Officer (CEO) for the approval of competitively-procured construction

contract procurement activities. More specifically, the contract specialist in 'Procurement & Contract' division works with the contract owner to develop the solicitation documents and ensure all construction contract requirements are included in the proposal documentation (e.g. Request for Qualification (RFQ) & Request for Proposal (RFP)). Depending on the construction contract types, the contract owner evaluates the statement of qualification, and proposals from the prospective contractors to select the best-qualified or best-value construction contractor. Furthermore, GCCM requires the negotiation process to determine the maximum allowable construction cost with the selected contractor.



Source: PCPP-06 (rev.01, 04/23/19).

## Audit Objectives

To determine whether the agency has effective controls in place to ensure:

- Appropriate procedures are in place for soliciting, evaluating, and selecting qualified contractors
- Reasonable processes are in place for determining construction costs in the selection of contractors

## Scope and Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards (GAGAS) and International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

Over the course of the audit, we gained an understanding of construction contract procurement process at the agency and department/division level through documentation reviews, personnel interviews & inquiry, data analysis, and observation. We identified risks in the processes and assessed management controls in place to mitigate those risks. Based on the assessment of management control effectiveness, we focused on controls over the procedure for soliciting, evaluating, and selecting qualified contractors; and the process for determining construction costs in selecting contractors.

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contracts and architectural and engineering services contracts, and up to \$2M to the CEO for the approval of competitively-procured materials, technology, and other services contracts.

The audit reviewed reports, policies and processes for the period of performance as of March 31, 2020. Based on our audit objectives above, we examined the following:

**Objective 1:**

1. To determine whether the agency has effective controls to ensure appropriate procedures for soliciting, evaluating, and selecting qualified contractors, we performed the following:
  - a) Reviewed the following relevant policies & procedures related to construction contract procurement:
    - i. Revised Code Washington (RCW) 39.10 Alternative Public Works Contracting Procedures
    - ii. The agency's Program Control Policy & Procedures (PCPP) – 06 Procurement Control (Revision 1 04/23/19)
    - iii. The agency's Program Control Policy & Procedures (PCPP) – 02 Cost Estimating (Revision 2 02/27/18)
    - iv. The agency's Program Control Policy & Procedures (PCPP) – 09 Capital Program Control Board (Revision 3 04/23/19)
    - v. The agency's Procurement and Contract Administration Manual (Dated 12/2019)
  - b) Selected 4 of 26 (or 37%), ~\$2.8 billion, of the total ~\$7.7 billion construction contract awarded<sup>3</sup> as of March 2020. For all projects selected, reviewed key documentation during each procurement process for completeness and appropriateness:
    - i. Reviewed Capital Program Control Board approval for starting contract procurement, and required information (e.g., scope of work, cost estimate, and schedule)
    - ii. For soliciting: Reviewed Request for Qualification (RFQ), and Request for Proposal (RFP) were sufficiently prepared based on the procedures for advertising solicitation
    - iii. For evaluating of qualification for DB and GCCM construction contracts: Reviewed the evaluation of qualification for the prospective contractors (e.g. evaluation criteria, evaluation memo, scoring, interview memo evaluation for the prospective contractors) performed by the proper evaluation panel to select the final contractor
    - iv. For evaluating of final proposal for DB construction contract: Reviewed the evaluation of final proposal for the prospective contractors (e.g., alternative technical concept, proposal construction cost) performed by the proper evaluation panel to select the final contractor

**Objective 2:**

To determine whether the agency has effective controls to ensure reasonable process for determining construction cost in selecting contractor, we performed the following:

- a) For GCCM construction contract: Reviewed reconciliation documentation between the agency's independent cost estimate (ICE) and the proposal of contractor for negotiation.
- b) For GCCM construction contract: Verified ICE for negotiation of maximum allowable construction cost was reviewed throughout negotiation.

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<sup>3</sup> Selected 4 construction contracts for review to include:

- Design Build (DB):
  - Federal Way Guideway and Station (F200 total contract awarded ~\$1.2 billion)
  - Downtown Redmond Link Extension (R200 total contract awarded ~\$729 million)
- General Contract/Construction Manager (GCCM):
  - Seattle to South Bellevue (E130 total contract awarded ~\$697 million)
- Design Bid Build (DBB):
  - Hilltop Tacoma Link Extension (T100 total contract awarded ~\$113 million)

**Conclusion**

The agency has effective controls in place to ensure soliciting, evaluating, and selecting for qualified contractors; and determining construction costs in selecting contractor and that there are no findings to report.