

May 19, 2023

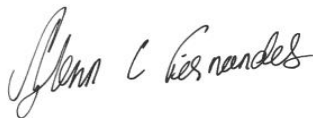
Commissioners & Ms. Holmstrom,

Internal Audit engaged an independent external construction audit firm, HPM, to perform a final cost audit to reconcile Clark Construction's actual costs to the costs billed or committed to the Port during the Project. HPM is a recognized construction audit firm, that has audited Clark on several other large-scale projects. Their audit utilized Clark's books and records to identify improvement opportunities (observations). These observations were sent to Clark, who did not respond. These observations were also discussed during the December 8, 2022, Audit Committee Meeting. The attached report provides key learnings that, if implemented, can help both the Port and future contractors improve in the capital delivery process. Given the current litigation with Clark, it is unlikely that any observations relating to Clark will be responded upon by Clark or addressed.

HPM's work identified the following observations. These opportunities are listed below and are discussed in more detail beginning on page four of the report.

- The Design Builder/Contractor (Clark) should review and verify all subcontractor labor rates for compliance with the contract before approving any change orders. Sufficient and legible support should be provided to the Port for review.
- Although the Port paid labor billings for subcontractors at the approved rates on change orders, the mechanism used to approve the rates did not account for all federal/state/local tax limitations.
- The Port should have project subcontracts and Subcontractor Change Orders (SCOs) on file; it is a "best practice" for owners to maintain subcontracts and SCO data.
- A readiness assessment should be performed to align project documentation controls and Port/contract requirements with the Design Builder or Contractor prior to starting a project. This would help mitigate several observations noted in the report, along with other potential issues impacting contract values and project costs.

We thank HPM and the Port's Construction Management team for their partnership during this audit.



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