

INTERNAL AUDIT REPORT

Operational - Capital Audit
Parking Garage Elevator Modernization Project



March 2021 – March 2024

Issue Date: May 22, 2024

Report No. 2024-06

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Executive Summary

Internal Audit (IA) completed an audit of the Parking Garage Elevator Modernization Project (Project) for the period March 2021 through March 2024. The audit was performed to provide a systematic and independent examination of the quality of the Port's monitoring of the Project, to determine if best practices were being followed, to verify compliance with contractual requirements, and to identify potential risks that may affect the Project's schedule and budget.

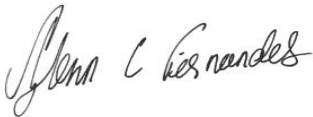
The Port of Seattle (Port) used OAC Services, Inc. to design the elevators. The Project will replace ten elevators serving the Parking Garage Sections B and C elevator cores and replace nine of ten motor drives serving elevators in the Parking Garage Sections D and E elevator cores. Additionally, it will provide new call buttons, lighting, and cab finishes in all 27 elevator cabs within the parking garage (including those in the Parking Garage Section A). The intent of these modifications was to enhance customer experience and maintain operational integrity of the vertical conveyance system within the airport parking garage.

The Project is being performed through a Design-Bid-Build delivery method. The original contract agreement between Osborne Construction Company (Osborne) and the Port was in the amount of \$8.5 million. During the Project, there have been approximately \$4 million in change orders and an additional 166 excusable days added to the schedule, primarily because of a Port error on the bid documents. These errors also resulted in the project being suspended for 638 days.

The challenges encountered in this project can be attributed to several factors, including staff turnover, errors made by the Port, and insufficient coordination among various Port departments, which led to delays in decision making. Our audit identified an opportunity where internal controls and procedures can be enhanced or developed. This opportunity is listed below and discussed in more detail beginning on page six of this report.

(Medium) Removal of important material specifications during the bidding phase resulted in post award change orders that are expected to increase the cost of the contract by \$3.5 million and as a result, the Port will incur additional soft costs of \$284,856.

We would like to extend our gratitude to the Port's Engineering Construction Management team, Central Procurement Office, and Risk Management team for their assistance and expertise during the engagement.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Karen Goon, Deputy Executive Director

Sofia Mayo, Acting Director of Central Procurement Office

Janice Zahn, Director of Engineering- Construction Management

Background

The Airport Parking Garage elevators provide vertical circulation services for millions of airport parking and ground transportation customers every month. Continued and reliable operations of these systems are vitally important to the traveling public, as well as to airport operations.

The project was separated into two phases. The purpose of the first phase was to weatherize the B and C elevator cores, remove trip hazards, and provide a uniform lobby floor finish throughout the parking garage. Phase one's scope of work included:

- Re-roof, patch/seal walls, add awnings, replace roof hatches, and add safety railings to the B and C elevator cores.
- Level the floor between the B and C elevator lobbies and the surrounding 3rd and 4th floor parking garage plaza floors.
- Resurface most elevator lobby floors to make them ADA compliant.

The second phase of the project will replace ten elevators serving the parking garage sections B and C elevator cores and will replace nine of ten motor drives serving elevators in the parking garage sections D and E elevator cores. Additionally, new call buttons, lighting and cab finishes will be provided in all 27 elevator cabs within the parking garage (including those in parking garage section A). These modifications will enhance the customer experience and maintain the operational integrity of the vertical conveyance system within the airport parking garage.

The Agreement total as of May 8, 2024 was \$12.5 million, which included approximately \$4 million in executed change orders. Additionally, there were \$310,728 in Open Trends¹, which will potentially increase the project total to \$12.8 million. Although the project was currently scheduled to end on July 1, 2024, due to errors in Addendum 5, among other reasons, the Project is not anticipated to be completed until March 31, 2026.

Schedule (Per May 8, 2024, Trend Log)	
Original Contract Completion Date	1/17/2024
Approved Time Extension (Calendar Days)	166
Days Project Suspended Due to Addendum Error	638
Port Estimated Completion Date	3/31/2026
Budget (Per May 8, 2024, Trend Log)	
Original Contract Sum	\$8,515,805
Executed Change Orders	\$3,975,042
Potential Risk (Open Trends)	\$310,728
<u>Projected Contract Amount</u>	<u>\$12,801,575</u>

¹ Open Trend: Refers to known or potential cost/schedule risks to the project that have not yet been formally approved or finalized by the Port.

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

In some instances, we used judgmental sampling methods to determine the samples selected for our testing. In those cases, the results of the work may not represent the population as a whole.

The period audited was March 2021 through March 2024 and included the following procedures:

Procurement and Bidding Process

- Obtained an understanding of the document approval process for the bid documents.
- Reached out to non-winning bidders to understand if cab finishes were included in their bids.
- Reviewed the procedure of addendum approvals and tested Addendum 5 for the required approvals.

Insurance Test

- Obtained an understanding of what type of insurance coverage was required for this project per the contract.
- Obtained the insurance coverage evidence.
- Compared the evidence of the existing coverage with the contractual requirement.

Pay Application Review Process

- Obtained an understanding of the inspection process of materials on site.
- Reviewed documented inspection procedures outlined by the Port and verified if the inspection procedures aligned with industry best practices.
- Reviewed the Inspection Daily Report (IDR) folder to review if the IDRs were present and were submitted daily.
- Randomly selected samples IDRs and verified if the reports included the details required in the procedures.

Change Orders

- Reviewed Change Orders.
- Interviewed current and former stakeholders.
- Obtained email records from the Records Retention department to review why the cab interiors section in Addendum 5 was crossed out.
- Compared the steps taken by Port staff, with Port policies and best practices.

Schedule of Observations and Recommendations

1) Rating: Medium

Removal of important material specifications during the bidding phase resulted in post award change orders that are expected to increase the cost of the contract by \$3.5 million and as a result, the Port will incur additional soft costs of \$284,856.

During the procurement and bidding phase, the Port issued five addenda. We noted that in Addendum 5, a Port employee erroneously crossed out expected material and pattern specifications in the elevator car finishes, without Port oversight catching the error, prior to the Addendum's release (See **Appendix B**). During construction, the contractor identified this error which resulted in five change orders that will potentially cost the Port \$3.5 million and add an additional 166 days to the project's schedule. The Port has estimated that its daily soft costs to oversee the Project are \$1,716. This will result in an additional \$284,856 in soft costs that the Port will incur. Finally, an error in artwork (photographs) resulted in additional glass and lighting, which led to an avoidable cost of \$191,500.

CPO Procedure *Section 2_Pre Award_2_5_ Advertisement Period* mandates notification to the Construction Manager (CM), Project Manager (PM), and Resident Engineer (RE) for all addenda, but lacks a requirement for their sign-off. Moreover, although the procedure mandates a peer review before posting, it does not specify the responsible party or their qualifications, and it does not mandate documentation and retention of peer review evidence. Furthermore, there was a notable absence of explicit mention of a final review, or approval step before publication. We were unable to obtain evidence of a peer review, or final approval, of Addendum 5 because of personnel turnover and the lack of documentation.

We also noted an additional concern during our review of change orders:

- A Port estimate was not performed for Change Order #1 which was approved on a Not-to-Exceed (NTE) amount of \$74,000. Port Standard Operating Procedures (SOPs) require an estimate for any changes greater than \$50,000.

Recommendations

- 1.1 Revise the CPO procedure to specify required approvers prior to issuing addenda and maintain sufficient documentation.
- 1.2 Port estimates should be performed in accordance with SOPs.

Management Response

- 1.1 CPO agrees with the recommendation and will revise the CPO procedure to specify required approvers prior to issuing addenda and maintain sufficient documentation.
- 1.2 Engineering Construction Management (CM) acknowledges the required estimate was missing from the Not-To-Exceed Change Order (CO) 01 documentation. Per Standard Operating Procedures, CO 01 requires a reconciling change order to execute the final amount for the change. This provides an opportunity for the project team to include an independent estimate in the reconciling change order. Targeted training will also be done with the CM Resident Engineers and CPO Contract Administrators on this topic during our Bi-Monthly training session.

DUE DATE: 07/31/2024

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial/ Operational Impact	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or partial controls	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies, Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention

Appendix B: Addendum 5 Removal of Car Finishes

The screenshot shows the erroneously crossed out expected material and pattern specifications, in the elevator car finishes, without Port oversight catching the error prior to the Addendum's release.

2.02 CAR FINISHES

- A. ~~Stainless Steel: Provide material weights and finish type required.~~
 - 1. ~~Manufacturers~~
 - a. ~~Manufacturers: Subject to compliance with requirements, provide products by one of the following:~~
 - (1) ~~Forms + Surfaces~~
 - (2) ~~Rigidized~~
 - (3) ~~McNichols~~
 - 2. ~~Patterns~~
 - a. ~~The manufacturer listed is for style and appearance only. The Engineer will review products submitted as equal to determine if the pattern is, in the discretion of the Engineer, equal.~~
 - (1) ~~SST-1: Not used.~~
 - (2) ~~SST-2: Forms + Surfaces Seastone; or equal. Provide material thickness as necessary for the required application.~~
 - (3) ~~SST-3: Forms + Surfaces Stippled; or equal.~~