



PDC CONTRACTING FOLLOW-UP:
Contracting concerns addressed
through a centralized procurement structure

A REPORT FROM THE CITY AUDITOR
June 2009



Office of the City Auditor
Portland, Oregon



CITY OF
PORTLAND, OREGON

OFFICE OF THE CITY AUDITOR
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TO: Sam Adams, Mayor
Nick Fish, Commissioner
Amanda Fritz, Commissioner
Randy Leonard, Commissioner
Dan Saltzman, Commissioner
Bruce Warner, Executive Director, Portland Development Commission
Charles A. Wilhoite, Chairman, Portland Development Commission

SUBJECT: Audit – *PDC Contracting Follow-up: Contracting concerns addressed through a centralized procurement structure* (Report #377)

In 2005, a consultant issued an audit on the Portland Development Commission's contracting activities. The attached report contains our audit results following up on the status of the 2005 recommendations. Responses to the follow-up work from Mayor Sam Adams, and Portland Development Commission Executive Director Bruce Warner are included.

Our current work found that Portland Development Commission (PDC) undertook the following actions in response to the original audit:

- PDC established a Centralized Procurement Section,
- PDC issued a comprehensive records management policy and specific rules and guidelines for contract documentation and record-keeping, and
- PDC required that contract administration files contain documentation of performance standards for delivery of work by contractors.

Despite PDC's resolution of the recommendations in the 2005 audit, our current work found some areas where PDC could further clarify or strengthen its new contracting procedures. These areas are described in the final section of our attached report. PDC managers were in the process of revising their Purchasing Manual as we conducted this audit, therefore we do not make any formal recommendations about these items.

We appreciate the cooperation and assistance we received from Portland Development Commission staff as we conducted this audit.

LaVonne Griffin-Valade
City Auditor

Audit Team: Drummond Kahn, Fiona Earle, Doug Norman, Alexandra Fercak, Martha Prinz,
Scott Stewart, Bob MacKay

PDC CONTRACTING FOLLOW-UP:

Contracting concerns addressed through a centralized procurement structure

Summary This report is a follow-up to a consultant's 2005 audit of the Portland Development Commission's (PDC) contracting activities, to see if PDC has implemented the 2005 audit recommendations. We found that PDC has addressed the consultant's three recommendations by:

- establishing a Centralized Procurement Section;
- instituting a comprehensive records management policy and specific guidelines and rules regarding contract documentation and record-keeping; and
- requiring that contract administration files contain documentation of performance standards for delivery of work by contractors.

Overall, the changes PDC made in its contracting procedures to address the 2005 audit recommendations were effective for the sample of contracts we reviewed. We did not find any major exceptions to the general documentation requirements for the contract administration files we reviewed. Most of the contracts that were exempt from competitive solicitation received necessary approvals and authorization for exemption.

We found some areas where PDC could clarify or strengthen its new contracting procedures. These include documentation requirements for sole source and emergency exempt contracts, and flexible services contracts. PDC needs to continue to improve its documentation of contract performance standards. PDC also needs to improve its procedures for ensuring that contractors continue to hold a City business license and Equal Employment Opportunity (EEO) certification for the duration of long contracts.

Background

In September 2005, the certified public accounting firm of Talbot, Korvola & Warwick (TKW) completed a *Performance Audit of PDC Contracting Activities for the Period July 1, 2003, through June 30, 2005*, which was requested by the PDC Board. PDC agreed to implement TKW's three recommendations:

1. Establish a centralized procurement function with more formal authority and responsibility for coordinating/facilitating the contracting process
2. Develop specific performance standards and criteria for each project
3. Institute a comprehensive records management policy and develop specific guidelines and rules requiring all contract information to be combined and centrally located.

From July 1, 2006 through December 31, 2008 PDC signed \$30.9 million of contracts for goods and services, including \$1.2 million of contracts exempt from competitive solicitation.

The PDC Board Audit Committee requested that the City Auditor's Office conduct a follow-up audit on PDC's procurement and contracting activities.

PDC has established specific contracting rules based on the State of Oregon's public contracting statutes and adopted as the *PDC Local Contract Review Board (LCRB) Administrative Rules*. These Rules define how contracting is to be performed and are updated periodically based on changes to either state statutes or PDC policy. The LCRB Rules were updated in April 2006, following the issuance of the 2005 audit by TKW.

Objective, Scope and Methodology

Our objective in conducting this review was to determine whether or not PDC implemented the recommendations from TKW's 2005 audit report. To achieve this objective, we reviewed TKW's 2005 audit report and PDC's planned corrective actions as described in PDC's response letter. We reviewed PDC's February 2009 update of its proposed actions, PDC contracting policies and procedures, and related

contracting records. We interviewed PDC managers, contract administrators, and selected project managers.

We also reviewed the contract and solicitation files for a sample of 25 PDC contracts signed between 7/1/2006 to 12/31/2008, to evaluate PDC's implementation of its new contracting procedures. Our sample included 24 randomly selected contracts and one judgmentally selected contract with the highest dollar amount. These contracts came from 21 different competitive solicitations (see Figure 1).

Figure 1 Competitively bid contracts reviewed for this audit
(signed from 7/1/2006 to 12/31/2008)

Contract type	Population	Sample size
Flexible Services	139	15
Other Personal Services	96	5
Construction	35	5
Total Contracts	270	25

Source: Audit Services Division's analysis of PDC contract data

Eleven of the 25 contracts we reviewed had amendments or change orders, and 15 were flexible services contracts coming from 11 solicitations. A flexible services contract is a contract for services, including personal services, that has repetitive requirements on an as-needed basis. These contracts are for PDC-wide use, and are activated by work orders. Each work order serves as a project-specific contract. Five of the 15 flexible services contracts we reviewed had no work orders, and, therefore, had no administrative files. The remaining 10 competitively bid contracts had 54 work orders signed before the end of December 2008. We reviewed the administrative files for 35 of these work orders and for the 10 contracts which were not flexible services contracts.

In addition, we reviewed 28 formal contract files for contracts that were "exempt" from solicitation and competitive bid to evaluate compliance with PDC's exemption requirements. This sample included all

the exempt contracts signed during calendar year 2008, and ranged in dollar amount from \$5,610 to \$80,000.

Although purchase orders were outside the scope of this audit, we reviewed three purchase orders from 2008 that were above \$5,000 and exempt from competitive solicitation. We included them as part of our review of exempt purchases to assess whether there was any abuse of the exemptions by using a purchase order instead of a contract. Other than these three, we did not review purchase orders, nor did we review contracts with the City of Portland or other governmental agencies.

During our testing we found three contracts that did not appear to belong in PDC's procurement system. These contracts involved real property. PDC managers told us the Centralized Procurement Section gave them contract numbers so they could be entered into PDC's accounting system and tracked for expiration dates and budgeting purposes. LCRB Rules, PDC's Purchasing Manual, and the Centralized Procurement Section do not cover acquisitions or disposals of real property or interest in real property. They only relate to the procurement of goods and services under the Oregon Revised Statute 279. While we excluded these contracts from review, two of these contracts involved payment for services that were not competitively solicited because they were tied to a lease agreement. Had the provision of these services not been part of a property transaction, PDC would have had to open these procurements to its normal procurement process.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**2005 Audit
Recommendations
Addressed by PDC**

As shown in Figure 2, PDC has implemented its planned actions for addressing the 2005 audit recommendations.

Figure 2 Status of recommended actions for PDC

	Recommendation	Status	Comment
1	Establish a centralized procurement function with more formal authority and responsibility for coordinating/facilitating the contracting process	Resolved	As of July 1, 2006, PDC established a centralized procurement function to manage all procurements over \$5,000.
2	Develop specific performance standards and criteria for each project	Resolved	PDC's Purchasing Manual, published March 2007, requires specific documents to be kept in the administrative files for each contract type.
3	Institute a comprehensive records management policy and develop specific guidelines and rules requiring all contract information to be combined and centrally located	Resolved	PDC issued a comprehensive records management policy in February 2006. PDC's Purchasing Manual, published March 2007 has rules to combine and centrally locate all contract information. Contract administration files are kept by the department that originated the contract or work order.

Sources: TKW's 2005 audit report, *Performance Audit of PDC Contracting Activities for the Period July 1, 2003 through June 30, 2005*, PDC's February 2009 update of its proposed actions, and Audit Services' review.

Recommendation #1: Establish a Centralized Procurement Function

As of July 1, 2006, all procurements over \$5,000 are managed by the new Centralized Procurement Section, with formal authority and responsibility to coordinate the contracting process. Among other responsibilities, Centralized Procurement Section personnel check that a vendor has an Equal Employment Opportunity (EEO) Certificate and a Portland Business License when initiating the contract. Responsibility for the development and administration of the flexible services contracts resides with the Professional Services Manager, head of the Centralized Procurement Section. The Centralized Procurement Section was involved in 26 of the 28 procurements that were exempt from competitive solicitation and was involved in all the competitively solicited contracts in the sample of contracts we tested.

Recommendation #2: Develop Specific Performance Standards

PDC's Purchasing Manual requires that contract administration files for personal services, flexible services, and other services contracts over \$100,000 contain performance standards and criteria, as recommended in the 2005 audit report. These include detailed progress reporting, milestone dates, meeting dates and deliverables. For materials contracts, the Purchasing Manual requires the contract administration files to contain packing slips demonstrating product delivery, as well as information on product inspection.

Most of the contracts we reviewed (excluding flexible services contracts) contained the required performance documentation in the contract administration files (see Table 11 in Appendix A for further details). However, PDC's Purchasing Manual does *not* require that performance reviews be documented. We found that performance reviews were sometimes supported by oral evidence and informal reviews rather than by formal documentation in the contract files.

PDC's Purchasing Manual requires construction contract administration files to contain many performance-related documents, such as field notes, progress reports and photographs, and files on delays and defective work (if applicable). The construction contract administration files we reviewed contained most of the required performance-related documentation (see Table 12 in Appendix A for further details).

Responsibility for contract administration for flexible service contract work orders resides with the originator or user of the work order services. The administrative files for the flexible services contract work orders we reviewed often lacked the required documentation to assure that specific performance standards and criteria were met on the contracts (see Table 14 in Appendix A):

- a. Half the work orders did not include the required breakdown of hours and billing rate for each task.
- b. A third of the applicable work orders' administrative files did not have detailed progress reports. In addition, PDC managers told us that detailed progress reporting was not applicable to the realty appraisal business, due to the short timeframe in which appraisal reports are produced.
- c. Most of the flexible services contract work orders' administrative files did not contain evidence that PDC was monitoring the performance of the contractor's obligations.

In the administrative files for the flexible services contract work orders we reviewed we found some areas where PDC could clarify or strengthen contracting procedures. Further work is needed to ensure that PDC's development of the specific performance standards for each project is implemented fully and consistently across all contract administrative files. See the final section in this report regarding the need to further strengthen or clarify some contract procedures.

Recommendation #3: Combine and Centrally Locate Contract Information

PDC instituted a comprehensive records management policy in February 2006, and its Purchasing and Contracting Manual, published March 1, 2007 contains specific guidelines and rules for combining and centrally locating all contract information. The Purchasing Manual contains a list of documents that contract administration files "should contain" and that solicitation record and contract files "will contain" for each contract type.

Formal contract and solicitation files are now located in the Centralized Procurement Section. We found all the formal contract and solicitation files for our sample of 28 exempt and 25 competitively

solicited contracts in the Centralized Procurement Section. In addition, we found the contract administration files for all competitively bid contracts (except the flexible services contracts) in the appropriate originating department at PDC. We also found the administrative files for 35 flexible services contract work orders in the originating departments. However, PDC was unable to readily provide us with administrative files for 13 work orders related to two flexible services contracts for temporary staff, and we were unable to review these files.

**Results from Our
Review of a Sample of
PDC Contracts**

We reviewed a sample of 25 competitively bid contracts plus 28 contracts that were exempt from competitive bid or solicitation. Overall, we found that PDC's new contracting procedures are being followed by administrative staff and working as intended. We identified several areas where PDC could strengthen or clarify its contracting policies and procedures, some of which are already being addressed by PDC as it continues to modify and refine its contracting procedures. Please refer to Appendix A for detailed results from our review of contract files.

Review of 25 Competitively Bid Contracts

Contract files contain most of the significant contract information. In our review of the initial contract documentation, there were only two contracts signed by a PDC director who did not have sufficient expenditure authority (see Table 3 in Appendix A). This was due to confusion about the dates of delegated authority. All contract amendments reviewed were within the expenditure authority limit of the PDC signatory (see Table 4 in Appendix A). There was no pattern of contracts being amended above a solicitation threshold in attempts to avoid PDC's more formal procurement process for contracts above \$100,000.

We found most of the required documentation in the formal contract and solicitation files (see Tables 6 and 7 in Appendix A). The public improvement (construction) contract solicitation files also contained the required documentation (see Table 8 in Appendix A).

We did not find any major exceptions to the general documentation requirements for the administration files of contracts that were not flexible services contracts (see Table 10 in Appendix A). We found most of the specialized documents required for construction contracts in the five construction contract administration files we reviewed (see Table 12 in Appendix A). We did not find any substantial exceptions to the *general* documentation requirements for the 35 work order administration files we reviewed (see Table 13 in Appendix A). The problems we found with the *performance* documentation in the work order administration files are noted above, under Recommendation #2.

Review of 28 Contracts Exempt from Competitive Bid or Solicitation

We reviewed all the contracts signed during calendar year 2008 that were exempt from competitive bid or solicitation. All 28 exempt formal contract files were located in PDC's Centralized Procurement Section. We found that most exempt contracts (11 out of 15) followed the exemption procedures outlined in LCRB Rules, and that most exempt contract files (12 out of 15) contained the documents required by the LCRB Rules for obtaining an exemption from competitive solicitation. This is an improvement over the 2005 audit findings for exempt contracts. However, we did find that the contract files lacked the required procurement request form for seven contracts exempt by class. We found six procurement request forms on which the solicitation process was not certified, including one for an emergency exempt contract.

PDC has four different types of exemption from competitive solicitation for contracts, each with different requirements:

1. Exemption by Executive Director, or his delegate, or by the PDC Board for amounts over \$500,000
2. Exemption by class of contract listed in the LCRB Rules (each class is a group of contracts sharing common attributes, such as advertising contracts and contracts for computer hardware and software licenses and maintenance)
3. Sole Source exemption
4. Emergency exemption

Figure 3 Type of exemption for contracts tested

Type of exemption for contracts tested	Number of contracts reviewed
Exemption by Executive Director	9
Exemption by Executive Director and Class	1
Exemption by Class	13
Sole Source and Exemption by Class	1
Sole Source	2
Emergency Exemption	2
Total Exempt Contracts Reviewed	28

Source: Audit Services Division’s analysis of sample of PDC exempt contracts’ data

We found that although the LCRB Rules have 25 classes of contract that are exempt from competitive solicitation, the Rules have no procedures or required forms to document exemption by contract class. In practice, PDC’s Centralized Procurement Section certifies the solicitation process on the procurement request form, on which the “Exempt Class per LCRB Rules” has been checked as applying.

The procurement request form was missing from 19 of the exempt contract files. PDC managers were in the process of revising the Purchasing Manual as we conducted this audit. They said the revision will specifically exempt sole source and emergency procurements from the need to have a procurement request form. This still leaves seven exempt by class contracts without documentation to show authorization of the exemption.

Figure 4 Summary of testing results for compliance with exemption requirements

	Class exemption	Emergency exemption	Sole source exemption	Exec. Director exemption
Applicable exemption form	Procurement request form	Written findings approved by Exec. Director	Written record by Purchasing Manager	Written finding approved by Exec. Director or personal services solicitation exemption request form
The exempt contract file contains the appropriately authorized exemption form	8 out of 15	2 out of 2	2 out of 3	9 out of 10
The appropriate exemption procedures in the LCRB Rules were followed	No procedures listed in LCRB Rules	2 out of 2	2 out of 3	7 out of 10
The documents required by the LCRB Rules for obtaining an exemption exist in the contract files	No documents required by LCRB Rules	2 out of 2	2 out of 3	8 out of 10

Source: Audit Services Division's test of sample of PDC exempt contracts

Note: Two of the 28 exempt contracts reviewed claimed two different types of exemption each, so we reviewed these contracts for compliance with both types of exemption requirement. This resulted in a total of 30 testing results for the 28 contracts reviewed.

- a. Twenty-one of the 28 exempt contract files contained the appropriately authorized exemption form. The exceptions mainly related to the lack of a procurement request form. See the following section regarding the need to further clarify contract procedures.
- b. Eleven out of 15 contracts followed the appropriate exemption procedures in the LCRB Rules.
- c. Twelve out of 15 contract files contained the documents required by the LCRB Rules for obtaining an exemption.

From our review, we did not find any abuse of the exemptions process by using a purchase order instead of a contract.

Some Contracting Procedures Could be Strengthened or Clarified

From our review of contract files, we found some contracting procedures that could be strengthened or clarified. PDC managers were in the process of revising their Purchasing Manual as we conducted this audit, and had begun incorporating changes to address some of these items as part of this revision. Therefore, we are not making any formal recommendations about these items. Specifically, we found that PDC should:

1. Clarify the procedures for contract exemption from competitive solicitation for classes of contract in the Local Contract Review Board (LCRB) Rules and ensure that procurement request forms are appropriately completed for all exempt by class contracts. There are no procedures for contract exemption by class in the LCRB Rules or the Purchasing Manual. This means that there is often no documentation of certification of the (exempt) solicitation process. Seven contracts exempt by class lacked procurement request forms. Five exempt by class contracts had procurement request forms on file for which the exempt solicitation process was not certified.
2. Complete the revision of its Purchasing Manual which was begun during this audit to specifically exempt sole source and emergency procurements from the need to have a procurement request form. Three of the exempt contract files which lacked a procurement request form were sole source contracts and one was an emergency exemption.
3. Ensure that the procurement request form, or an alternative process used for some contract types which do not use this form, is appropriately completed to certify the solicitation process. PDC also needs to formalize the exception for flexible services contracts regarding the procurement request form. None of the flexible services contracts we reviewed contained a procurement request form, despite a lack of

explicit exception from PDC's policies and procedures. The PDC Purchasing Manual states that any expenditure estimated to be over \$5,000 must begin with a well defined scope of work and completion of the procurement request form. The purpose of this form is to allow the Purchasing Staff to complete the required process per PDC policy and initiate a legally binding Contract in close coordination with the end user. PDC managers informed us that flexible services contracts do not need a procurement request form because the flexible services contracting process is managed by the Centralized Procurement Section staff. However, the procurement request form also serves to document certification of the solicitation process, and this certification is lacking without this form.

4. Clarify the procedures to ensure that **both** Equal Employment Opportunity (EEO) certification and Portland Business Licenses are consistently checked when there is a contract amendment. The Purchasing Manual requires contracting staff to check that EEO certification is current when a contract for personal services or materials is amended. For other services contracts, the Manual requires contracting staff to check that **both** the EEO certification and the Portland Business Licenses are still current. This inconsistency exposes PDC to the risk of amending a contract without ensuring that the vendor still satisfies the EEO or business license requirements. In addition, PDC has no procedure for checking that EEO certification and Portland Business Licenses remain valid throughout a long term contract if it is not amended. It is possible for a contractor to lapse into non-compliance during the term of a contract longer than a year, and this would not be detected by PDC.
5. Address inconsistencies in its Purchasing Manual regarding the solicitation documentation required for flexible services contracts compared to other contract types. The Purchasing Manual does not require flexible services contract files to contain a documented rationale for the award to the selected contractor, although this is required for contracts for personal

services, materials, other services, and public improvement (i.e. construction).

6. Reconsider what specific documentation is required in the contract files to assure that performance standards and criteria are met on contracts. PDC also needs to ensure that all contracts adequately comply with these performance documentation requirements. The administration files for the flexible services contract work orders we reviewed often lacked the required documentation to assure specific performance standards and criteria were met on contracts. Contract administration files for the flexible services contracts should be maintained by the originating department.
7. Clarify the responsibilities of contract administrators for flexible services contract work orders to enable the work order administrative files to be easily located for review. PDC was unable to readily provide us with the administrative files for 13 work orders for temporary staff because filing was tied to each temporary employee's name, but was not linked to the related contract work order number.

APPENDIX A

Results from Test of Sample of Contracts

Figure A-1 Contract file location

	Yes	No = Exceptions	Total Contracts
Official Solicitation Record and Contract file(s) were found in the Centralized Procurement Section	25	0	25
Solicitation Record and Contract file(s) were easy to find	24	1	25
Copy of contract on the Flexible Services Contract database, if applicable	15	0	15

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Figure A-2 Procurement Request Form

	Yes	No = Exceptions	Total Contracts
The original, completed, signed Procurement Request Form was found in the Solicitation Record and Contract file(s) One contract signed after July 1, 2006 began the procurement process before the Procurement Request Form was implemented.	9	15 All Flexible Services contracts	24
Anticipated contract amount is stated	9	0	9
Signed by the appropriate Director/ Ops. Mgr.	8	1	9
Solicitation process certified appropriately by Professional Services Manager	8	1	9

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Figure A-3 Initial Contract Documentation

	Yes	No = Exceptions	Total Contracts
The original, signed contract was found in the Contract file	25	0	25
Initial contract appropriately signed within PDC's expenditure authority limits	23	2	25
Contract on file was dated	25	0	25
Documentation of Portland Business License or verification of license when contract initiated (applicable to businesses grossing \$50,000 or more a year)	23	1	24
Documentation of Equal Employment Opportunity (EEO) Certificate or verification of EEO certification	22	3	25

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Figure A-4 Contract Amendment/Change Order Documentation

	Yes	No = Exceptions	Total Contracts
Contract Amendments/Change Orders if applicable were found in the Contract file	10	1	11
Aggregate Contract Amount is within PDC signatory's expenditure authorization limit	11	0	11
Aggregate Contract Amount is still within upper limit of contract solicitation category	7	1	8
Amendment has a revised Scope of Work	4	2	6
Change Order Amounts are within PDC approver's expenditure authority limits if applicable	5	0	5
Change Orders describe the new work in detail	5	0	5
Field Directives were affirmed through a Contract Change Order (if applicable)	5	0	5

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: All five construction contracts had at least one change order (15 total change orders). Six of the 20 non-construction contracts had contract amendments.

Figure A-5 Flexible Services Contract Files Documentation

	Yes	No = Exceptions	Total Work Orders
Work Orders if applicable were found in the Contract file	53	1	54
	Yes	No = Exceptions	Total Contracts
Work Order Amendments if applicable were found in the Contract file	7	0	7

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Figure A-6 Flexible Services Contract Solicitation Files Documentation

	Yes	No = Exceptions	Total Contracts
Solicitation documents (Request For Qualifications - RFQ's)	11	0	11
Copy of advertisement	7	4	11
A Solicitation Log of responding firms	11	0	11
Solicitation responses – All bids received	10	1	11
Documented rationale for award to selected Contractor	9	2	11

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: The 15 flexible services contracts tested arose from 11 competitive solicitations.

Figure A-7 Flexible Services Contract Solicitation Files Documentation

	Yes	No = Exception	N/A	Total Contracts
Solicitation documents	10	0	0	10
A written outline of the solicitation process utilized	6	2	2	10
Copy of advertisement	4	1	5	10
A Solicitation Log of responding firms	7	2	1	10
Solicitation responses – All bids received	10	0	0	10
Documented rationale for award to selected Contractor	10	0	0	10
Recommendation for award	6	0	4	10

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: We reviewed 10 contracts with individual solicitations, which were not flexible services contracts. The documentation required to be kept in the solicitation files varies by type of contract.

Figure A-8 Public Improvement Contract Solicitation Files Documentation

	Yes	No = Exception	N/A	Total Contracts
List of registered, interested vendors (Plan Holders List)	5	0	0	5
Records of attendance at any mandatory pre-bid meetings	3	0	2	5
Insurance documents	5	0	0	5
Payment & performance bonds	4	0	1	5
Initial approved subcontractor list	2	0	3	5
Notice of Intent to Award (if applicable)	2	1	2	5
Notice of Award	5	0	0	5
Notice to Proceed	5	0	0	5

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: Included in the 10 competitive contracts we reviewed (excluding the flexible services contracts) were five public improvement contracts involving construction, reconstruction, or major renovation on real property.

**Figure A-9 Contract administration file location
(excluding Flexible Services Contracts)**

	Yes	No = Exceptions	Total Contracts
Contract Administration file(s) were found in the originating department	10	0	10
Contract Administration file(s) were easy to find	10	0	10

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Figure A-10 General Documentation in Contract Administration Files (excluding Flexible Services Contracts)

	Yes	No = Exception	N/A	Total Contracts
Copy of the signed Contract	10	0	0	10
Copy of Contract Amendments, if applicable (Original Change Orders for Public Improvement contracts)	7	1	2	10
Copy of completed Procurement Request Form	1	4	5	10
Record of payment requests	9	1	0	10

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: Documentation required to be kept in the administration files varies by type of contract.

Figure A-11 Performance Documentation in Contract Administration Files (excluding Flexible Services Contracts)

	Yes	No = Exception	N/A	Total Contracts
Record of payments made or invoice approvals	9	1	0	10
Detailed progress reporting	8	0	2	10
Milestone dates	8	1	1	10
Meeting dates	2	1	7	10
Deliverables: services or products received	5	0	5	10
Performance reviews	6	4	0	10

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: The 10 contracts we reviewed contained most of the required performance documentation in their contract administration files. The above items were listed in the 2005 TKW Audit Report as components of the standard requirements that should be established for specific performance standards and criteria. However, PDC's Purchasing Manual does not require that performance reviews be documented.

Figure A-12 Specialized Performance Documentation in Public Improvement Contract Administration Files

	Yes	No = Exception	N/A	Total Contracts
Field directives	3	0	2	5
Photo copy of proof of insurance forms and any bonds	4	1	0	5
Approved subcontractor list	2	0	3	5
Original waiver and release documents	4	1	0	5
Record of retainage activity	1	0	4	5
Consent of surety to final payment	2	0	3	5
Field notes, progress reports and photographs	5	0	0	5
Construction work schedule	5	0	0	5
Construction meeting minutes	4	0	1	5
Final approved permits, inspection and testing reports	5	0	0	5
Submittal/substitution log and requests	4	0	1	5
Schedule of values/bid item schedule	5	0	0	5
Delays/defective work/problems	3	0	2	5
Substantial completion document	3	1	1	5
Final Field Work Completion Notice	4	0	1	5
Other required close-out documents (warranties, as-builts, etc.)	3	0	2	5
Final Acceptance Letter	3	1	1	5
Warranty Inspection and Completion Letter	2	0	3	5

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: Included in the 10 competitive contracts we reviewed (excluding the flexible services contracts) were five public improvement contracts. A public improvement contract is a contract for construction, reconstruction or major renovation on real property. The five construction contract administration files contained most of the specialized, required performance-related documentation.

Figure A-13 General Documentation in Flexible Services Contract Administration Files - Maintained by the department using the services

	Yes	No = Exception	N/A	Total Work Orders
Copy of the signed Contract	4	0	31	35
Photo copy of signed Work Order	34	1	0	35
Photo copy of all signed Work Order Amendments (if applicable)	10	2	23	35
Record of payment requests	32	2	1	35

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: We reviewed 35 of the 41 administration files we found for work orders on flexible services contracts.

Figure A-14 Performance Documentation in Flexible Services Contract Administration Files - Maintained by the department using the services

	Yes	No = Exception	N/A	Total Work Orders
Hours for each task and billing rate applied	17	17	1	35
Record of payments made or invoice approvals	33	0	2	35
Detailed progress reporting	14	7	14	35
Milestone dates	32	3	0	35
Meeting dates (if applicable)	9	5	21	35
Deliverables: services or products received	33	2	0	35
Performance reviews	3	31	1	35

Source: Audit Services Division's test of sample of PDC competitively bid contracts

Note: Administration files for the 35 flexible services contracts work orders often lacked the required documentation. Most of the above items were listed in the 2005 TKW Audit Report as components of the standard requirements that should be established for specific performance standards and criteria. However, PDC's Purchasing Manual does not require that performance reviews be documented.

RESPONSES TO THE AUDIT



Office of Mayor Sam Adams

City of Portland

June 22, 2009

Dear Auditor Griffin-Valade:

Thank you for the opportunity to respond to your Contracting Performance Audit report of the Portland Development Commission (PDC).

As the City Council liaison to the PDC, I am particularly interested in ensuring that the agency is operating with fairness and efficiency. As you reported, a 2005 audit revealed opportunities for improvements to the PDC's procurement and contracting policies. I am pleased to concur with your findings that the PDC has taken actions to address and implement the recommendations of that audit.

We also concur with your recommendations to pursue additional improvements to the PDC's contracting procedures. My office will work with the PDC to evaluate and consider implementing your suggestions.

Sincerely,

Sam Adams
Mayor

Charles A. Wilhoite
Commission Chair

June 18, 2009

J. Scott Andrews
Commissioner

Ms. LaVonne Griffin-Valade
City Auditor
City of Portland
1221 SW 4th Avenue, Room 310
Portland, Oregon 97204

Bertha Ferrán
Commissioner

John C. Mohlis
Commissioner

Re: Response to Audit Report – Portland Development Commission Contracting
Follow-Up

Steven Straus
Commissioner

Dear Ms. Griffin-Valade:

Sam Adams
Mayor

Thank you for the opportunity to review and respond to the Contracting Performance
Audit report.

Bruce A. Warner
Executive Director

As you reported, a 2005 audit revealed several needed improvements to Portland
Development Commission's (PDC's) procurement and contracting processes. Since
2005, we have undertaken numerous corrective actions to address the
recommendations of that audit. The PDC Audit Committee requested this follow-up
audit to evaluate the progress made in implementing those improvements.

We concur with your conclusions and findings in this report that verify the extent and
effectiveness of the many improvements PDC has made since 2005. As you also
accurately note, we recognize there are additional improvements to our contracting
procedures that could be made. We will evaluate and consider implementing your
suggestions.



On behalf of the PDC Audit Committee, please extend our appreciation to the Audit
Services staff for their effort and cooperation in undertaking this audit and considering
our feedback during the process.

www.pdc.us

222 Northwest
Fifth Avenue
Portland, OR
97209-3859

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce A. Warner", is written over a horizontal line.

Bruce A. Warner
Executive Director

tel: 503.823.3200

fax: 503.823.3368

TTY: 503.823.3366

BW:DN:tag

Cc: PDC Audit Committee



**Audit Services Division
Office of the City Auditor
1221 SW 4th Avenue, Room 310
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503-823-4005
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PDC Contracting Follow-up: Contracting concerns addressed through a centralized procurement structure

Report #377, June 2009

Audit Team Members: Fiona Earle, Doug Norman, Alexandra Fercak, Martha Prinz, Scott Stewart, Bob MacKay

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandonline.com/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

Public Works Supervisor Overtime: Most recommendations implemented but confusion about revised rule persists (#369B, June 2009)

Utility and Franchise Revenue: Equitable tax and consistent approach needed to improve collections (#375, May 2009)

Overtime Management: Significant City expenditures lack policies and safeguards (#369A, April 2009)

Financial Condition in the City of Portland: 1999-2008 (#372, April 2009)

