

Audit at a glance



Peña Boulevard Improvements Construction Contract

MAY 2022

ABOUT | The Airport Infrastructure Management Division used a “design-build” project delivery method by awarding one contract to Interstate Highway Construction Inc. for both the design and construction work related to making improvements along Peña Boulevard — the main access road to Denver International Airport. Because of the COVID-19 pandemic, the airport reduced the original scope of phase 1. This reduced the cost from \$93.4 million to \$35.3 million.

In the report

FINDING: Denver International Airport Needs Better Oversight of the Peña Boulevard Improvements Construction Project to Ensure the Best Value for the City

- **The airport’s construction contractor, Interstate Highway Construction Inc., was frequently late in submitting invoices and contract change proposals.** The airport also failed to meet its deadlines to review them. Failure to consistently meet deadlines can have multiple impacts on a project. Without ensuring contractors submit the required number of invoices on time, the airport may fail to closely review each invoice and it risks overpaying for work contractors did not do. In addition, the airport may miss project deadlines by not ensuring contractors submit contract change proposals on time.
- **The airport did not correctly document and track issues regarding the contractor’s performance and it did not accurately track the project budget.** “Non-conforming work” refers to when a contractor or subcontractor fails to complete work in compliance with its contract requirements. Staff are supposed to keep an up-to-date log in Unifier that tracks the status of all noncompliant work. Inaccuracies in the log and a lack of complete documentation prevents the airport from ensuring a contractor fixes all issues. Additionally, failure to document whether the airport should assess a monetary penalty could lead to the airport overpaying for the work provided and may lead the contractor to believe there is a lack of accountability.

The airport also did not accurately track the budget for phase 1. The airport paid for all contract changes with the project contingency fund and all change order costs are recorded in Unifier. However, the airport uses a separate tracker to monitor the use of the contingency fund. We assessed the accuracy of the airport’s contingency tracker by comparing it with the source data in Unifier — and we found it did not match.
- **The airport did not provide cost estimate services, and documentation does not fully support increases in both the project schedule and cost.** Performing internal cost estimates for contract changes are important to help limit the risk of overpaying for increases in a project’s cost. The city’s policy for general contract conditions requires contractors to support each requested contract change with a cost proposal. Each proposal must include pricing for labor, materials, and equipment. We determined the

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airport did not perform any cost estimates for contract changes because it lacks specific procedures outlining exactly when — and how — to provide cost estimate services. Overall, we found the documentation the airport does have does not fully support the increases in the project schedule and cost. The contract-change process is one of the highest risks in construction projects because changes may not be justified, or costs could be inflated.

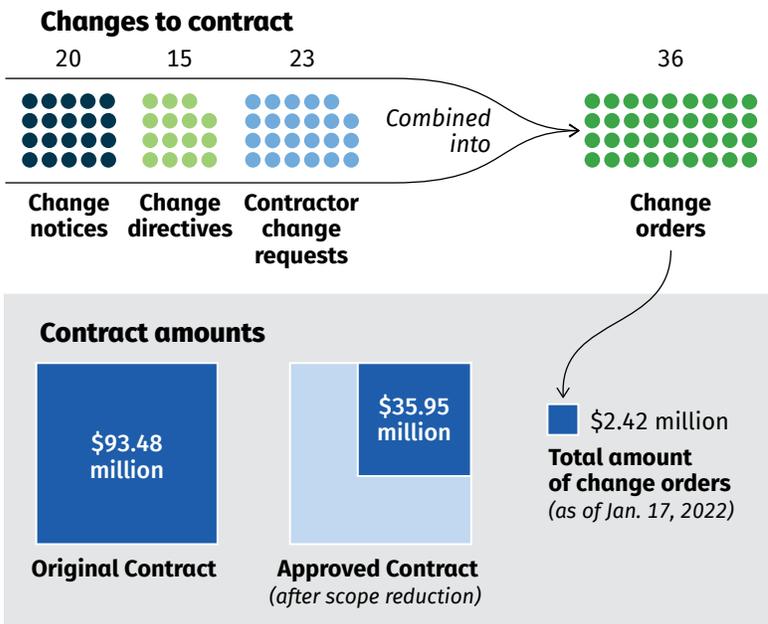
- **The airport did not ensure all invoices supported the amount it paid to Interstate Highway Construction.** In lump-sum contracts, a contractor’s bid for all project costs is used as the basis for the original scope of work. Using the costs set by the contract, project owners make progress payments to the contractor as work is completed. In the case of the Peña Boulevard project, the contract further specifies that the airport should base its progress payments on the percentage of

total work completed for each invoice period. But we found the airport approved invoices without all required documentation and without adjusting all issues identified during the review process. This means the airport could have potentially overpaid for the work Interstate Highway Construction said it completed. However, because the contract follows a lump-sum payment term, possible overpayments for the work completed during each invoice period will only impact the amount paid at that point in time.

- **The airport Infrastructure Management Division did not ensure all subcontractors were vetted and paid.** The contract and city’s general contract conditions outline four requirements to ensure the contractor’s subcontractors are qualified and paid. Following the city’s general contract requirements allows the airport to ensure the contractor has selected the best subcontractors to perform the work. By not ensuring the contractor reported all subcontractor payment information, staff at the city’s Division of Small Business Opportunity could not accurately track compliance with city ordinance requirements. Specifically, the inaccurate payment information prevented staff from verifying the contractor paid its subcontractors on time. Further, staff could not accurately monitor compliance with the contractor’s participation goals for women and minority-owned construction businesses.
- **The airport lacks a process to choose the best project delivery method.** Project delivery defines the roles, responsibilities, and contractual relationship between the project owner, designer, and builder. The airport chose a design-build delivery method for this contract but could not provide documentation of their analysis to justify the selection. Additionally, the airport lacks a formal process to ensure a risk-based approach is both performed and documented. Establishing a procedure to ensure an analysis is conducted and documented decreases the risk that the city selects an inappropriate delivery method for a project. Selecting the wrong method could lead to increased project costs or may increase the chance of project delays.

Peña Boulevard Improvements Construction Contract Changes, as of January 2022.

There are three ways to change a contract. The airport can initiate a change through either a “change notice” or a “change directive,” and the contractor can also ask to change the contract.



Note: The total dollar amount of approved change orders reflects the net increase of the contract amount after the scope was reduced because of the COVID-19 pandemic.

Source: Created by Auditor’s Office staff using information from the Clerk and Recorder’s Office.

